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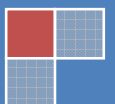
Egypt's International Economic Forum

The G20 Summit

Exceeding expectations, yet falling short

Ashraf Swelam

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The G20: Exceeding expectations, yet falling short

By Ashraf Swelam¹

Preceded by very low expectations and threats of withdrawal, the G20 Summit achieved more than many have anticipated. Reaching agreements that might - if followed through - alter the rules governing the global economy (in the medium to long term), it nevertheless fell short of producing the sort of accord that brings the world any closer to the end of the current economic crisis.

No Global Stimulus

As expected, an agreement on a global stimulus - an action around which there is virtually a consensus in the economic profession - proved impossible to reach. Thanks to German and French opposition, and the U.S. giving in, all leaders could agree on was to pat themselves on the back and to highlight how much had already been pledged (\$5 trillion).

The trans-Atlantic disagreement reflects a deep philosophical divergence over how much government spending is necessary to jumpstart the global economy and to avoid a deep recession.

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Regulatory Reform: The Long Road Ahead

The G20 communiqué recognized the problem of toxic assets, as countries pledged to clean their balance sheets. The summit also agreed to turn the Financial Stability Forum (an international group of regulators established in 1999) into a more proactive global banking watchdog under the new name the Financial Stability Board (FSB). Membership of the Board will be expanded to include all G20 members, Spain and the European Commission.

The Board's job will be to monitor excessive risks taken by banks and other financial institutions, and to report them to national regulators. The FSB, however, seems to lack (so far at least) the teeth to clamp down on companies that overextend themselves. Whether this will change remains to be seen.

The leaders also agreed that countries that refuse to cooperate with foreign tax authorities to help preventing tax evasion will face sanctions.

As the G20 communiqué proclaimed, **"the era of banking secrecy is over"**.

While the G20 commitments are slightly stronger than in previous international statements, they don't go far enough. This is a reason for

What is the G-20?

The Group of Twenty (G-20) Finance Ministers and Central Bank Governors was established in 1999 to bring together systemically important industrialized and developing economies to discuss key issues in the global economy. The inaugural meeting of the G-20 took place in Berlin, on December 15, 1999, hosted by German and Canadian finance ministers.

serious concern, for absent a consistent movement on that front, the credit crunch is likely to persist, if not worsen.

The IMF: At the Margins No More

The G20 agreement arguably brings back the IMF from its relative marginalization of the last few years, characterized by a remarkable and a consistent slow down of demand on its funds, even as the world economy descended into crisis.

The G20 Mandate

The G-20 is an informal forum that promotes open and constructive discussion between industrial and emerging-market countries on key issues related to global economic stability. By contributing to the strengthening of the international financial architecture and providing opportunities for dialogue on national policies, international co-operation, and international financial institutions, the G-20 helps to support growth and development across the globe.

The centerpiece of the G20 communiqué was a striking tripling of the resources available to the Fund, from \$250 billion to \$750 billion (it is to be noted, however, that only half of the increase has been pledged, and most of that was already done before the Summit). The IMF is also to begin selling off some of its gold reserves to establish a new fund to help the developing world. Leaders also agreed to back the IMF in creating an additional \$250 billion by issuing "special drawing rights," the Fund's quasi-currency, which borrowing nations can draw upon when needed.

IMF Managing Director Dominique Strauss-Kahn hailed the results of the G20 Summit. The French national proclaimed that although the \$250

billion did not seem much in a global context, "it's the beginning of increasing the role of the IMF, not only as a lender of last resort, not only as a forecaster, not only as an advisor in economic policy and its old traditional role, but also in providing liquidity to the world, which is the role finally and in the end, of a financial institution like ours."

Others have joined the chorus of elevating the role of the IMF, even before the London meeting started, with China (and Russia) suggesting making it the issuer of a global reserve currency to replace the dollar. (For an excellent rebuttal of the Chinese alternative reserve currency proposal, please read [Paul Krugman in the New York Times](#)).

Beefing up the IMF's coffers, however, remains a necessary but not a sufficient condition to transform the international institution into the "provider of liquidity to the world". For that, a serious reform effort at the international institution is needed, one that also addresses issues of demand. In particular, a serious effort, not only of how the Fund votes its decisions, but also how it lends its money and the conditions it

Membership

The G-20 is made up of the finance ministers and central bank governors of 19 countries, plus the European Union:

 Argentina	 Australia
 Brazil	 Canada
 China	 France
 Germany	 India
 Indonesia	 Italy
 Japan	 Mexico
 Russia	 Saudi
 S. Africa	 S.Korea
 Turkey	 UK
 US	 EU

To ensure that global economic institutions work together, the Managing Director of the International Monetary Fund (IMF) and the President of the World Bank, plus the chairs of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate on an ex-officio basis.

Together, G20 member countries represent around 90 per cent of global gross national product, 80 per cent of world trade, as well as two-thirds of the world's population.

attaches to it, is needed. In addition, the fund needs to find a way to deal with the stigma, both political and market, attached to its very name, one that has driven so many countries away from resorting to the Fund.

Fighting Protectionism: the Proof is at the Border

With the background of a negative world trade growth for the first time in a generation, and serious concerns about the rise of protectionist pressures worldwide, coupled with the withdrawal of trade credit, G20 leaders made all the right commitments on trade; at least on paper.

Quoting mistakes of the past (rise of protectionism during the 1930s that deepened the Great Depression, and eventually contributed to the outbreak of the Second World War), the leaders committed to avoiding the introduction of any new trade barriers (both tariff and non-tariff). They also committed to concluding the Doha round of multilateral trade talks.

If followed to the letter, this would be a significant commitment. However, well-founded skepticism abound. A similar promise in November 2008 wasn't met and since then at least 17 countries have raised trade barriers (according to the World Bank).

Dealing with the trade credit crunch, leaders agreed to provide \$250 billion in new trade credit guarantees, to be offered by the World Bank and other international institutions. However, details of this agreement remain hazy at best.

Emerging Economies, and Rising

Reflecting the growing clout of emerging markets, the G-20 leaders committed to implementing a package of IMF quota and voice reforms approved in April 2008. They further agreed to bring forward another review of quotas by January 2011. The aim of those measures is to make quotas more responsive to world economic realities while enhancing the participation and voice of low-income countries in the IMF's decision making process.

IMF members had agreed to an initial ad hoc quota increases for four countries – China, Korea, Mexico, and Turkey – in September 2006. In April 2008, the Board of Governors approved a package with more far-reaching reforms, including agreement on a new quota formula; a second round of ad hoc quota increases based on the new formula that will give ad hoc quota increases to 54 countries; a tripling of basic votes to increase the voice of low-income countries.

Also in the same direction, is the expansion of the Membership of the FSB to all members of the G20, including China, India, Brazil and the rest of the emerging economies of the Group.

The Global Economic Crisis: Is there an End in Sight?

The IMF is forecasting a recovery in 2010, but only if the right policy actions, including a coordinated fiscal stimulus, are taken.

Only time will tell.

Equally important from our point of view is will the corrective structural actions required be taken to prevent a recurrence of the crisis few years from now, or whether these actions will prove to be too difficult politically so that when the world finally overcomes the current crisis, it would shortly be confronted by another?

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