



# The G-20 and International Economic Cooperation: Background and Implications for Congress

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## Summary

The G-20 is an international forum for discussing and coordinating economic policies. The members of the G-20 include Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States, and the European Union.

**Background:** In the wake of the Asian financial crisis, the G-20 was created to facilitate coordination among major advanced and emerging-market countries. Until 2008, G-20 meetings were held at the finance minister level, and remained a less prominent forum than the G-7, which held meetings at the leader level (summits). With the onset of the global financial crisis, the G-7 leaders decided to convene the G-20 leaders to discuss and coordinate policy responses to the crisis. The G-20 leaders have held five summits to date. At the third G-20 summit, held in Pittsburgh in September 2009, they agreed that, henceforth, the G-20 would be the premier forum for international economic coordination. Previously, this role had implicitly been held by the G-7. The most recent G-20 summit was held in Seoul, South Korea, in November 2010, and the next G-20 summit is to be held in Cannes, France, in November 2011.

**Commitments:** Leaders have made commitments on a variety of issues at the G-20 summits. In the United States, implementing some of these commitments would require legislation. Issues that are likely to influence future policy debates and/or the legislative agenda include a new international framework to monitor and coordinate economic policies, aimed at correcting global imbalances and promoting economic growth; financial regulatory reform and harmonization; commitments for fiscal consolidation; governance reforms at the IMF; increasing funding for the multilateral development banks (MDBs); conclusion of the WTO Doha multilateral trade negotiations; and elimination of fossil fuel subsidies.

**Effectiveness of the G-20:** As the G-20 adapts to its new role as the premier forum for international cooperation, the effectiveness of the G-20 moving forward is being debated. Some anticipate that the G-20 will be an effective steering body in the global economy, pointing to its success in coordinating countries and international organizations at the height of the financial crisis. Others are more pessimistic about the G-20's effectiveness in future summits, arguing that the G-20 as a group is too heterogeneous to achieve real coordination and its agenda too ambitious. Still others suggest a middle ground, that the G-20 will be effective in some instances but not others. For example, they argue the G-20 could be an effective body in times of economic duress, when countries view cooperation as critical, but less effective when economic growth is strong and the need for cooperation feels less pressing. Likewise, it has been suggested that the G-20 will be effective at facilitating economic coordination over some issues, such as monetary policy, where finance ministers largely exercise autonomous control, and not others, such as fiscal policies, where implementation of commitments depends on a number of actors, including national legislatures in many countries.

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## Introduction

The Group of Twenty, or G-20, is a forum for advancing international economic cooperation among 20 major advanced and emerging-market countries.<sup>1</sup> The G-20 was originally established in 1999 to facilitate discussions among the G-20 finance ministers. The prominence of the G-20 increased with the onset of the global financial crisis in the fall of 2008,<sup>2</sup> and the G-20 started meeting at the leader level. In September 2009, the G-20 leaders announced that, henceforth, the G-20 would be the “premier” forum for international economic cooperation. Before this announcement, it was widely accepted that the G-7, a small group of advanced countries, was the lead forum for international economic coordination.<sup>3</sup>

Congressional interest in the G-20 is at least two-fold. First, implementing many of the commitments that the Administration has already made at the G-20 summits to date would require reform of U.S. laws. As a consequence, the agreements reached by the G-20 leaders may influence policy debates and the legislative agenda. Second, Congress may want to exercise oversight of U.S. participation in the G-20, in order to influence the kinds of commitments the Administration is making in this international forum.

This report addresses the following key issues:

- Context on the emergence of the G-20 as the premier forum for international economic coordination;
- Background on how the G-20 operates, including where and when the G-20 meets and how the G-20 reaches decisions;
- Analysis of previous G-20 summits held to date, plus an overview of the agenda for next summit to be held in Cannes, France, in November 2011;
- Analysis of major G-20 commitments that could influence or shape the policy and legislative agenda; and
- Broader debates about the effectiveness of the G-20 moving forward.

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<sup>1</sup> The G-20 includes Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, and the United States, as well as the European Union (EU). Other countries, such as the Netherlands and Spain, have also been invited to participate as observers in some summits. The G-20's website is <http://www.g20.org>. The University of Toronto G-20 Research Group also tracks developments related to the G-20; their website is <http://www.g20.utoronto.ca/>. The G-20 discussed in this report is not the coalition of developing countries in the World Trade Organization (WTO) formed in 2003, a different group of countries that uses the same name.

<sup>2</sup> For more on the global financial crisis, see CRS Report RL34742, *The Global Financial Crisis: Analysis and Policy Implications*, coordinated by Dick K. Nanto.

<sup>3</sup> The G-7 includes Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. Russia has joined the G-7 meetings at the leader level (summits) as a full participant since 1998, forming the Group of Eight (G-8). With a smaller economy than the G-7 members, Russia does not usually participate in international economic discussions, however, which continued primarily at the G-7 level. For example, Russia is not included in the G-7 meetings at the finance minister level.

# **The Rise of the G-20 as the Premier Forum for International Economic Cooperation**

## **Economic Coordination in Formal Institutions and Informal Forums**

Since World War II, governments have created and used formal international institutions and more informal forums to discuss and coordinate economic policies. As economic integration has increased over the past 30 years, however, international economic policy coordination has become even more active and significant. Globalization may bring economic benefits, but it also means that a country's economy is increasingly affected by the economic policy decisions of other governments. These effects are not always positive. For example, if one country devalues its currency or restricts imports in attempt to reverse a trade deficit, another country's exports may decline. Instead of countries unilaterally implementing these "beggar-thy-neighbor" policies, some say they may be better off coordinating to refrain from such negative outcomes. Another reason countries may want to coordinate policies is that some economic policies, like fiscal stimulus, are more effective in open economies when countries implement them together.

Governments use a mix of formal international institutions and international economic forums to coordinate economic policies. Formal institutions, such as the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), the World Bank, and the World Trade Organization (WTO), are typically formed by an official international agreement and have a permanent office with staff performing ongoing tasks.<sup>4</sup> Governments have also relied on more informal forums for economic discussions, such as the G-7, the G-20, and the Paris Club.<sup>5</sup> These economic forums do not have formal rules or a permanent staff.

## **1970s – 1990s: Developed Countries Dominate Financial Discussions**

Prior to the global financial crisis of 2008-2009, international economic discussions at the top leadership level primarily took place among a small group of developed industrialized countries. Beginning in the mid-1970s, leaders from a group of five developed countries—France, Germany, Japan, the United Kingdom, and the United States—began to meet annually to discuss international economic challenges, including the oil shocks and the collapse of the Bretton Woods system of fixed exchange rates. This group, called the Group of Five, or G-5, was broadened to include Canada and Italy, and the Group of Seven, or G-7, formally superseded the G-5 in the mid-1980s. In 1998, Russia also joined, creating the G-8.<sup>6</sup> Russia did not usually participate in

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<sup>4</sup> For more information about formal international institutions, see, for example: CRS Report R40578, *The Global Financial Crisis: Increasing IMF Resources and the Role of Congress*, by Jonathan E. Sanford and Martin A. Weiss and CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

<sup>5</sup> The Paris Club is an informal group of developed countries. It negotiates financial services such as debt restructuring and debt relief to indebted developing countries.

<sup>6</sup> While the EU is not an official member of the G-7 or G-8, the EU has participated in meetings since 1977. The EU is represented by the president of the European Commission and the president of the European Council. The EU does not (continued...)

discussions on international economic policy, which continued to occur mainly at the G-7 level. Meetings among finance ministers and central bank governors typically preceded the summit meetings.

Macroeconomic policies discussed in the G-7 context included exchange rates, balance of payments, globalization, trade, and economic relations with developing countries. One of the most significant agreements reached by the G-7 was at the first summit in Rambouillet, France, in 1975. The G-7 leaders agreed to a new monetary system to replace the system of fixed exchange rates that unraveled in the early 1970s and set the stage for amending the IMF Articles of Agreement to allow floating exchange rates.<sup>7</sup> Examples of other significant agreements reached by the G-7 are the Plaza Agreement in 1985 and the Louvre Accord in 1987. The Plaza Agreement aimed to depreciate the U.S. dollar in relation to German Deutsche mark and the Japanese yen, and the Louvre Accord aimed to halt the continued decline of the U.S. dollar. Over time, the G-7's and, subsequently the G-8's, focus on macroeconomic policy coordination expanded to include a variety of other global and transnational issues, such as the environment, crime, drugs, AIDS, and terrorism.

## **1990s – 2008: Emerging Markets Gain Greater Influence**

Although middle-income countries, or emerging-market countries, became more active in the international economy, particularly in financial markets starting in the early 1990s, this was not reflected in the international financial architecture until the Asian financial crisis in 1997-1998. The Asian financial crisis demonstrated that problems in the financial markets of emerging-market countries can have serious spillover effects on financial markets in developed countries, making emerging markets too important to exclude from discussions on economic and financial issues. The Group of 22, or G-22, was established as a temporary forum for finance ministers and central bank governors from both advanced industrialized and emerging-market countries to discuss the Asian financial crisis.<sup>8</sup> The G-22 met twice in 1998, and was superseded by the Group of 33, or G-33, to discuss international financial stability and the international financial stability forum.<sup>9</sup> The G-33 was also a temporary forum that met twice in 1999.

Including emerging-market countries in economic discussions proved to be fruitful, and the G-20 was established in late 1999 as a permanent international economic forum for developed and emerging-market countries. However, the G-20 was a secondary forum to the G-7 and G-8; the G-20 convened finance ministers and central bank governors, while the G-8 also convened leaders in addition to finance ministers.

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(...continued)

hold leadership positions within the G-8 or host summits.

<sup>7</sup> Nicholas Bayne, "Reforming the International Financial Architecture: The G7 Summit's Successes and Shortcomings," July 2001, <http://www.g8.utoronto.ca/conferences/2001/rome/bayneRev.pdf>.

<sup>8</sup> The members of the G-22 are the G-8 members plus Argentina, Australia, Brazil, China, Hong Kong, India, Indonesia, Malaysia, Mexico, Poland, Singapore, South Africa, South Korea, and Thailand.

<sup>9</sup> The members of the G-33 are the G-8 members plus Argentina, Australia, Belgium, Brazil, Chile, China, Côte d'Ivoire, Egypt, Hong Kong, India, Indonesia, South Korea, Malaysia, Mexico, Morocco, the Netherlands, Poland, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, and Turkey.

Emerging markets were also granted more sway in international economic discussions when the G-8 partly opened its door to them in 2005.<sup>10</sup> The United Kingdom's Prime Minister Tony Blair invited five emerging economies—China, Brazil, India, Mexico, and South Africa—to participate in its discussions but not as full participants (the “G-8 +5”). The presence of emerging-market countries gave them some input in the meetings but they were clearly not treated as full G-8 members. Brazil's finance minister is reported to have complained that developing nations were invited to G-8 meetings “only to take part in the coffee breaks.”<sup>11</sup>

## **2008 – Present: Emerging Markets Get a Seat at the Table**

It is only with the outbreak of the global financial crisis in fall 2008 that emerging markets have been invited as full participants to international economic discussions at the highest (leader) level. There are different explanations for why the shift from the G-7 to the G-20 occurred. Some emphasize a recognition by the leaders of developed countries that emerging markets have become sizable players in the international economy and are simply “too important to bar from the room.”<sup>12</sup>

Others suggest that the transition from the G-7 to the G-20 was driven by the negotiating strategies of European and U.S. leaders. It is reported that France's president, Nicolas Sarkozy, and Britain's prime minister, Gordon Brown, pushed for a G-20 summit, rather than a G-8 summit, to discuss the economic crisis in order to dilute perceived U.S. dominance over the forum, as well as to “show up America and strut their stuff on the international stage.”<sup>13</sup> Likewise, it is reported that President George W. Bush also preferred a G-20 summit in order to balance the strong European presence in the G-8 meetings.<sup>14</sup> Some attribute the G-20's staying power to the political difficulties of reverting back to the G-7 after having convened the G-20 leaders.

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<sup>10</sup> Emerging markets had been sporadically invited to a few G-8 summit dinners and events as early as 1989, but their participation was very minor compared to 2005 onwards. See Peter I. Hajnal, *The G8 System and the G20* (Ashgate, 2007), pp. 47-49.

<sup>11</sup> Jonathan Wheatley, “G20 Calls for Expanded Role to Combat Economic Turmoil,” *Financial Times*, November 10, 2009.

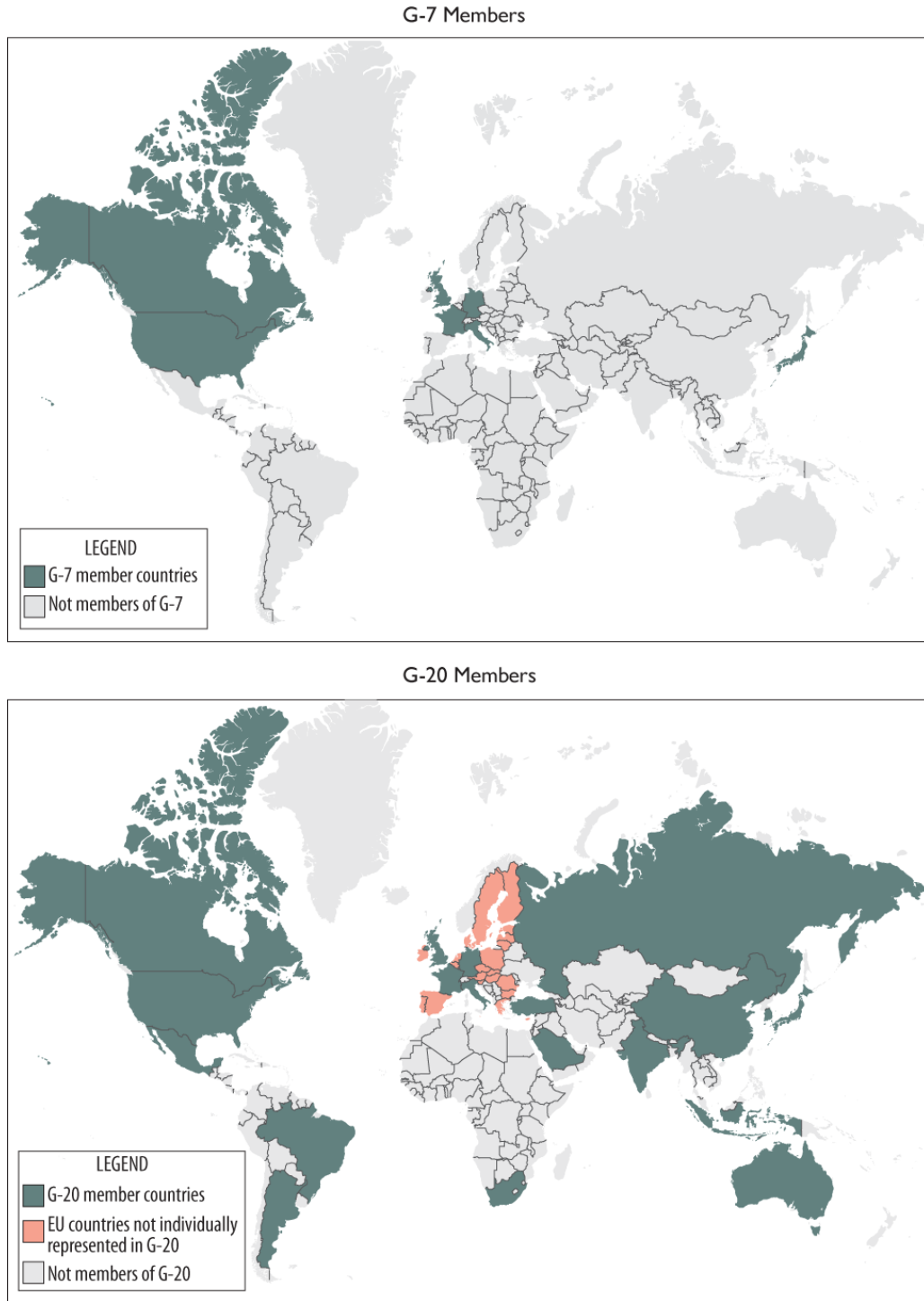
<sup>12</sup> “After the Fall,” *The Economist*, November 15, 2009.

<sup>13</sup> “Not a Bad Weekend's Work,” *The Economist*, November 16, 2008.

<sup>14</sup> *Ibid.*



Figure I. Expansion of the G-7 to the G-20



Source: G-20 website, <http://www.g20.org>

Notes: The European Union (EU) is a member of the G-20. Pink (for color copies) or medium gray (for black-and-white copies) indicate members of the European Union (EU) that are not individually represented in the G-20.

## How the G-20 Operates

### Frequency of Meetings

The G-20 meetings among heads of state, or “summits,” are the focal points of the G-20 discussions. Starting in 2011, the G-20 leaders are expected to convene annually. However, various lower-level officials meet frequently before the summits to begin negotiations and after the summits to discuss the logistical and technical details of implementing the agreements announced at the summits.

Specifically, the G-20 finance ministers and central bank governors meet semi-annually, and other ministers may also be called to meet at the bequest of the G-20 leaders. For example, the G-20 leaders called on the G-20 employment and labor ministers to meet in 2010 to discuss the problem of unemployment. Also, there are meetings among the leaders’ personal representatives, known as “sherpas.”<sup>15</sup> Sherpas meet several times a year to prepare for the forthcoming summit, attend the formal summit meetings with the leaders, and hold several follow-up meetings. The sherpa team for each country typically includes a lead sherpa and two “sous-sherpas”: a finance sous-sherpa and a foreign affairs sous-sherpa.<sup>16</sup> The foreign affairs sous-sherpa covers issues outside the purview of finance, such as trade and the environment.

Overall, the G-20 process has led to the creation of a complex set of interactions among many different levels of G-20 government officials. Some argue that the high frequency of interactions is conducive to forming open communication channels, while others argue that the G-20 process has created undue administrative burden on the national agencies tasked with implanting and managing their countries’ participation in the G-20 process.

### U.S. Representation

Because the G-20 began as a forum for finance ministers and central bank governors, the Treasury Department and the Federal Reserve have traditionally been the primary U.S. agencies involved in the G-20 meetings. As the G-20 has replaced the G-7 on finance issues, the Treasury Department has taken the lead on the G-20 meetings. However, the Treasury Department works closely with other agencies throughout the G-20 process. In addition to the Federal Reserve, the Treasury Department also coordinates with the State Department, the U.S. Agency for International Development, and, increasingly, the Department of Energy to coordinate G-20 issues. The White House, particularly through the National Security Council and the U.S. Trade Representative, is also heavily involved in the G-20 planning process.

The U.S. sherpa for the G-20 is the Deputy National Security Advisor for International Economic Affairs, a position currently held by Mike Froman. The U.S. sous-sherpa for finance issues is the Under Secretary of International Affairs at the Treasury Department, who also represents the U.S.

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<sup>15</sup> The term “sherpa” is a play on words. Typically, sherpas refer to local people, typically men, in Nepal who are employed as guides for mountaineering expeditions in the Himalayas. Recall that meetings held among leaders are called “summits,” which also refers to the highest point of a mountain.

<sup>16</sup> The term “sous-sherpa” is also a play on words. It references the French term “sous-chef,” which means an “under-chef” or an assistant to a master chef.

at G-20 meetings at the level of deputy finance minister. This position is currently held by Lael Brainard. Finally, the U.S. sous-sherpa for foreign affairs issues is the Under Secretary for Economic, Energy, and Agricultural Affairs at the State Department, a position currently held by Robert D. Hormats.

## Location of Meetings and Attendees

Unlike formal international institutions, such as the United Nations and the World Bank, the G-20 does not have a permanent headquarters or staff. Instead, each year, a G-20 member country serves as the chair of the G-20. The chair hosts the highest-level meetings, which before the crisis were among finance ministers but moving forward will be the leaders' summit meetings. The chair also establishes a temporary office that is responsible for the group's secretarial, clerical, and administrative affairs, known as the temporary "secretariat." The secretariat also coordinates the G-20's various meetings for the duration of its term as chair and typically posts details of the G-20's meetings and work program on the G-20's website.<sup>17</sup> France has proposed making a permanent secretariat for the G-20, although there is disagreement among G-20 members about the desirability of doing so.<sup>18</sup>

The chair rotates among members and is selected from a different region each year. **Table 1** lists the previous and current chairs of the G-20, as well as the member country slotted to chair in 2011 (France). The United States has never officially chaired the G-20, although the United States did host two G-20 summits in 2008.

**Table 1. Chairs of the G-20, 1999-2012**

Year	Country
1999-2001	Canada
2002	India
2003	Mexico
2004	Germany
2005	China
2006	Australia
2007	South Africa
2008	Brazil
2009	United Kingdom
2010	South Korea
2011	France
2012	Mexico

**Source:** G-20 website (<http://www.g20.org>); G-20, *The G-20 Toronto Summit Declaration*, June 26-27, 2010, [http://www.g20.org/Documents/g20\\_declaration\\_en.pdf](http://www.g20.org/Documents/g20_declaration_en.pdf).

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<sup>17</sup> <http://www.g20.org>

<sup>18</sup> Daniel Flynn, "France Scales Back G20 Ambitions," *Reuters*, January 14, 2011.

In addition to the G-20 members, some countries attended the G-20 summits at the invitation of the country chairing the G-20. For example, France intends to invite Equatorial Guinea, Ethiopia, Singapore, Spain, and the United Arab Emirates to the summit in Cannes, France, in November 2011.<sup>19</sup> Several regional organizations and international organizations also attend G-20 summits. For example, official participants at the Toronto summit in June 2010 included representatives from the following organizations:

- the European Commission
- the European Council
- the International Labour Organization (ILO)
- the International Monetary Fund (IMF)
- the Organization for Economic Co-operation and Development (OECD)
- the United Nations (UN)
- the World Bank
- the World Trade Organization (WTO)<sup>20</sup>

## **Agreements**

All agreements, comments, recommendations, and policy reforms reached by the G-20 finance ministers, central bankers, and leaders are done so by consensus. There is no formal voting system as in some formal international economic institutions, like the IMF. Participation in the G-20 meetings is restricted to members and invited participants and is not open to the public. After each meeting, however, the G-20 publishes online the agreements reached among members, typically as communiqués or declarations.<sup>21</sup> The G-20 does not have a way to enforce implementation of the agreements reached by the G-20 at the national level; the G-20 has no formal enforcement mechanism and the commitments are non-binding. This contrasts with the World Trade Organization (WTO), for example, which does have formal enforcement mechanisms in place.<sup>22</sup>

## **Overview of the G-20 Summits**

The G-20 has held five summits to date: Washington, DC, in November 2008; London in April 2009; Pittsburgh in September 2009; Toronto in June 2010; and Seoul in November 2011. The types of agreements reached at the G-20 summits have evolved as global economic conditions have changed from fear of economic free-fall to signs of economic recovery, although

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<sup>19</sup> <http://www.g20-g8.com/g8-g20/g20/english/the-2011-summit/invited-countries/the-countries-invited-to-the-cannes-summit.974.html>.

<sup>20</sup> University of Toronto, G20 Research Group, *G20 Toronto Summit Participants*, June 24, 2010, <http://www.g20.utoronto.ca/2010/to-participants.html>.

<sup>21</sup> The G-20 communiqués are posted online at [http://www.g20.org/pub\\_communiques.aspx](http://www.g20.org/pub_communiques.aspx).

<sup>22</sup> E.g., see: CRS Report RS20088, *Dispute Settlement in the World Trade Organization (WTO): An Overview*, by Jeanne J. Grimmett.

unemployment remains high in some advanced economies. The next G-20 summit is scheduled to be held in Cannes, France, in November 2011.

### **Washington, DC, November 2008<sup>23</sup>**

The Washington, DC, summit focused on immediate crisis management. The G-20 pledged to pursue extensive regulatory reforms, including the creation of new international regulatory standards and national level reforms. The G-20 also pledged to use expansionary macroeconomic policies, both fiscal and monetary, to stimulate aggregate demand and encourage economic growth, or at least keep things from getting worse. Finally, the G-20 committed to refrain from protectionist trade policies.

### **London, April 2009<sup>24</sup>**

The London summit occurred several months after the Washington, DC, summit, but the G-20 leaders were still in crisis management mode. The G-20 leaders reiterated many of the commitments from the Washington, DC, summit and also reached agreement on more specific and far-reaching policy responses to the crisis. One of the biggest commitments from the London summit was the pledge to increase funding for the IMF and the MDBs by \$1.1 trillion, including a tripling of the IMF's lending capacity.<sup>25</sup> The G-20 leaders also pledged \$5 trillion in fiscal stimulus spending over the next two years and to create the Financial Stability Board (FSB) as the successor to the Financial Stability Forum (FSF) to coordinate and monitor progress on regulatory reforms. The G-20 emphasized their commitment to concluding the World Trade Organization (WTO) Doha Round of multilateral trade negotiations, which have stalled since 2001, and honoring their foreign aid commitments. Reforming the international financial institutions (IFIs) to increase the representation of emerging-market countries was discussed, but no specific commitments were announced.

### **Pittsburgh, September 2009<sup>26</sup>**

The Pittsburgh summit occurred as the global recession was bottoming out, although unemployment was generally still rising in some advanced economies. The tone of the Pittsburgh communiqué reflects a sense of accomplishment with the G-20's response to address the crisis, while recognizing more work was needed. The G-20 leaders announced the creation of a new framework to coordinate and monitor national economic policies in order to correct the global imbalances and prevent such imbalances from occurring in the future. The G-20 also announced more specific plans to increase the representation of emerging-market countries at the IMF and World Bank, as well as specific commitments on a host of new policy areas, including economic

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<sup>23</sup> The G-20 Washington, DC, declaration is available at [http://www.g20.org/Documents/g20\\_summit\\_declaration.pdf](http://www.g20.org/Documents/g20_summit_declaration.pdf).

<sup>24</sup> The G-20 London communiqué is available at <http://www.g20.org/Documents/final-communique.pdf>. Supplemental documents are available at [http://www.g20.org/Documents/Fin\\_Deps\\_Fin\\_Reg\\_Annex\\_020409\\_-\\_1615\\_final.pdf](http://www.g20.org/Documents/Fin_Deps_Fin_Reg_Annex_020409_-_1615_final.pdf) and [http://www.g20.org/Documents/Fin\\_Deps\\_IFI\\_Annex\\_Draft\\_02\\_04\\_09\\_-\\_1615\\_Clean.pdf](http://www.g20.org/Documents/Fin_Deps_IFI_Annex_Draft_02_04_09_-_1615_Clean.pdf).

<sup>25</sup> For more on the \$1.1 trillion package to increase IFI and MDB resources, and the requisite congressional authorizations, see: CRS Report R40578, *The Global Financial Crisis: Increasing IMF Resources and the Role of Congress*, by Jonathan E. Sanford and Martin A. Weiss.

<sup>26</sup> The G-20 Pittsburgh leader's statement is available at [http://www.g20.org/Documents/pittsburgh\\_summit\\_leaders\\_statement\\_250909.pdf](http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf).

development and the environment. The G-20 leaders also expressed support for the measures developed by the Organization for Economic Cooperation and Development (OECD) to combat money laundering and terrorist financing.<sup>27</sup> Finally, the G-20 leaders announced that henceforth, the G-20 would be the premier forum of international economic cooperation.

### **Toronto, June 2010<sup>28</sup>**

The Toronto summit was the first G-20 summit under the new format of the premier forum for international economic cooperation. The summit was held against a backdrop of growing economic uncertainty as looming sovereign debt crises and growing political instability in a number of European countries unnerved international credit markets. The summit broadly addressed five major areas: (1) growth; (2) the mutual assessment process (aimed largely at correcting global imbalances); (3) financial sector reform; (4) international financial institutions and development; and (5) fighting protectionism while promoting trade and investment. In the lead up to the summit, there was discussion about a G-20 commitment on introducing a bank tax, or levy, but in the end no agreement was reached.

With few exceptions, the discussions in Toronto were a continuation of issues that were discussed in previous G-20 summits in Washington, London, and Pittsburgh. The Toronto summit was viewed by many as a foundational summit that laid the path for more ambitious announcements at the South Korea summit in November 2010.

### **Seoul, November 2010<sup>29</sup>**

The Seoul summit was the first time a country which is not a member of the G-7 hosted a G-20 summit. Despite intensive preparation for the summit by the host country (South Korea), little agreement was reached on the most controversial issues, including currency wars and global imbalances.<sup>30</sup> In particular, the countries did not agree to numerical limits on imbalances, an initiative advocated by the Obama Administration. However, the G-20 leaders also announced a “Seoul Development Consensus,” which emphasizes, among other things, that governments can play a positive role in development and the importance of infrastructure in development. They also endorsed tougher capital standards for banks,<sup>31</sup> discussed global safety nets and the need for further studies on capital controls, and called for a doubling of IMF quotas, which are the primary source of financing for IMF loans. The G-20 leaders also continued discussion of the topics discussed in previous summits, including financial regulation, eliminating fossil fuel subsidies, advancing the Doha round of multilateral trade negotiations, and increasing the representation of emerging markets at the IMF.

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<sup>27</sup> For more information on the OECD’s involvement in combating tax havens, see CRS Report R40114, *The OECD Initiative on Tax Havens*, by James K. Jackson.

<sup>28</sup> The G-20 Toronto declaration is available at [http://www.g20.org/Documents/g20\\_declaration\\_en.pdf](http://www.g20.org/Documents/g20_declaration_en.pdf).

<sup>29</sup> The G-20 leader’s declaration for the Seoul summit is available here: [http://www.g20.org/Documents2010/11/seoulsummit\\_declaration.pdf](http://www.g20.org/Documents2010/11/seoulsummit_declaration.pdf).

<sup>30</sup> E.g., see “G20 Shows How Not to Run the World,” *Financial Times*, November 12, 2010.

<sup>31</sup> Specifically, the G-20 leaders endorsed Basel III, an agreement among countries’ central banks and bank supervisory authorities on the amount of capital banks must hold as a cushion against losses and insolvency. For more information on Basel III, see CRS Report R41467, *The Status of the Basel III Capital Adequacy Accord*, by Walter W. Eubanks.

## **Cannes, November 2011<sup>32</sup>**

French President Nicolas Sarkozy has indicated in public statements that the November 2011 G-20 summit in Cannes will focus on reform of the international monetary system. This is a broad topic that could encompass a number of issues, such as exchange rate volatility, global imbalances, reserve currencies, and foreign exchange reserves. France's website for the Cannes summit also states that the summit will focus on strengthening financial regulation, combating commodity price volatility, supporting employment, fighting corruption, and promoting development.<sup>33</sup> Finally, some news reports have also indicated that the French could push for the creation of a permanent G-20 secretariat to help the G-20 carry out its affairs.

## **Protests at G-20 Summits**

The G-20 summits typically attract protesters from a broad mix of movements, including environmentalists, trade unions, socialist organizations, faith-based groups, anti-war camps, and anarchists.<sup>34</sup> At the Pittsburgh summit, for example, thousands of protesters gathered in the streets, holding signs with slogans such as "We Say No To Corporate Greed" and "G20=Death By Capitalism."<sup>35</sup> The protests have primarily been peaceful, although at times tensions between the police and protesters have escalated. In Pittsburgh, protesters began throwing rocks,<sup>36</sup> police used pepper gas against a group of students,<sup>37</sup> and several protesters were arrested.<sup>38</sup>

## **Major Issues on the Horizon**

G-20 leaders make commitments or initiatives that could shape policy and legislative agendas. Some of the more recent commitments are described and analyzed in greater detail below.

## **G-20 Framework for Addressing Global Imbalances and Promoting Growth**

Some believe that large external deficits, such as in the United States, and large external surpluses, such as in China and Germany, contributed to an unstable imbalance in the world economy. In order to correct this imbalance, and promote compatible national economic policies in the future, the G-20 announced a new "Framework for Strong, Sustainable and Balanced

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<sup>32</sup> France's website for the G-20 November 2011 summit in Cannes is here: <http://www.g20-g8.com/g8-g20/g20/english/home.9.html>.

<sup>33</sup> <http://www.g20-g8.com/g8-g20/g20/english/home.9.html>.

<sup>34</sup> Carl Prine, "An Overview of Protests Expected in Pittsburgh for G-20," *Pittsburgh Tribune-Review*, September 20, 2009.

<sup>35</sup> Michelle Nichols, "Protesters, Police Clash After G20 in Pittsburgh," *Reuters*, September 25, 2009.

<sup>36</sup> Daniel Lovering and Michael Rubinkam, "G-20 March Turns Chaotic as Police, Protesters Clash on Streets of Pittsburgh," *AP Newswire (Government Feed)*, September 24, 2009.

<sup>37</sup> Michelle Nichols, "Protesters, Police Clash After G20 in Pittsburgh," *Reuters*, September 25, 2009.

<sup>38</sup> Dennis B. Roddy and Michael A. Fuoco, "Protests Lead to 19 Arrests Across City," *Pittsburgh Post-Gazette*, September 25, 2009.

Growth” at the Pittsburgh summit.<sup>39</sup> Through this framework, the G-20 members agree on shared policy objectives, assess (with the IMF’s assistance) the collective implications of national policy frameworks for the global economy, and consider and agree to actions that are necessary to meet common objectives.

The peer-review process of economic policies, or the “mutual assessment process” (MAP), is being completed in two phases. The first stage was completed prior to the Toronto summit in June 2010. For this assessment, the IMF collected data from the G-20 countries on their national policy frameworks and assessed the collective consistency of these national policies. The IMF concluded that better policy coordination could increase global output by almost \$4 trillion, create tens of millions of more jobs, lift more people out of poverty, and reduce global imbalances.<sup>40</sup> The IMF recommended key policy actions for countries (i.e., advanced deficit economies, emerging deficit countries, etc.) to help countries reach the “upside” scenario.

The second phase of the mutual assessment process was completed prior to the Seoul summit in November 2010, and focused on country-level analysis. This assessment further refined policy recommendations, which were tailored to individual country circumstances. At the Seoul summit, each G-20 member identified the policy actions it would take to help achieve the goal of strong, sustainable, and balanced growth.<sup>41</sup> The United States, for example, stated a number of policy goals related to fiscal, financial sector, structural reform, development, and monetary and exchange rate policies.<sup>42</sup> Many of the U.S. pledges and commitments reflect policy initiatives that are already in place (for example, maintain a floating exchange rate) or are currently being discussed within the United States (for example, fiscal consolidation).

At the Seoul summit, the G-20 leaders announced that a process for monitoring the implementation of commitments and assessment of progress would be implemented in 2011 under the leadership of the French, who chair the G-20 in that year. However, the G-20 does not have a formal enforcement mechanism for inducing countries to adopt the recommending policy changes. The only tool at the G-20’s disposal is the threat of “naming and shaming.” This has worked to some extent for the G-7 economic process, but it has worked less well in other international contexts, such as IMF surveillance.<sup>43</sup> The IMF has the responsibility of monitoring the international monetary system and the economic and financial policies of individual IMF member countries. In recent years, it has also monitored broader global and regional trends. Under its surveillance programs, the IMF can point to weaknesses in an economy but does not have authority to enforce policy changes to address those weaknesses. Countries that do not need to borrow from the IMF have often shrugged off its advice. It is not clear under the current framework for the G-20 how the mutual assessments will translate into policy actions by participating countries on particular key issues such as correcting global imbalances that may require, for example, increasing savings in the United States or increasing spending in China.

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<sup>39</sup> [http://www.g20.org/Documents/pittsburgh\\_summit\\_leaders\\_statement\\_250909.pdf](http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf).

<sup>40</sup> See Staff of the International Monetary Fund (IMF), *G-20 Mutual Assessment Process—Alternative Policy Scenarios*, June 26-27, 2010, <http://www.imf.org/external/np/g20/pdf/062710a.pdf>.

<sup>41</sup> Country policy commitments are listed in Annex 2 of the Seoul leaders’ declaration: [http://www.g20.org/Documents2010/11/seoulsummit\\_annexes.pdf](http://www.g20.org/Documents2010/11/seoulsummit_annexes.pdf).

<sup>42</sup> *Ibid.*, p. 36-37.

<sup>43</sup> E.g., see Chris Giles, “Three-Stage Plan for Growth,” *Financial Times*, September 26, 2009, and Chris Giles, “Spot the Difference,” *Financial Times*, September 23, 2009.



## **Financial Regulatory Reform**

Some argue that a major cause of the current global financial crisis was the failure of policymakers to adequately regulate financial markets both domestically and globally. Consequently, proposals for regulatory reform have been central components of each of the G-20 summits held to date. The proposals have generally emphasized the need for new international regulatory standards and the implementation of regulatory reforms at the national level. Examples of the reforms proposed include:

- Creating new global accounting standards;
- Expanding the transparency of complex financial instruments;
- Strengthening and harmonizing capital standards;
- Reassessing banker compensation;
- Regulating all systemically important financial institutions;
- Regulating credit rating agencies; and
- Fighting illicit financial activity.

At the Seoul summit, the G-20 leaders also highlighted a number of new financial regulatory issues that warrant further study and/or attention: capital controls to limit capital inflows; regulatory reform issues specific to emerging-market and developing economies; regulation and supervision of the shadow banking system; regulation and supervision of commodity derivative markets; improving market integrity and efficiency; and enhancing consumer protection.

Within the G-20, the United States is generally viewed as a leader in regulatory reform, having passed a major regulatory reform act in July 2010 (P.L. 111-203).<sup>44</sup> The Administration may focus now on making sure that other countries adopt consistent and harmonized regulatory reforms to ensure a “level playing field,” or that capital does not flow out of the United States to countries with looser banking standards. As other G-20 countries move towards regulatory reform and the Financial Stability Board (FSB) assesses the implementation and consistency of national level regulations, regulatory reform is expected to continue to be a major G-20 priority. Some are concerned, though, that regulatory reform efforts may lose steam the further we get from the crisis.

## **Fiscal Austerity vs. Fiscal Stimulus**

During the height of the global financial crisis of 2008-2009, the G-20 leaders made commitments to adopt economic stimulus measures to blunt the economic recession associated with the recent financial crisis. However, as the crisis started to abate, various G-20 leaders have expressed concerns about rising debt levels. The Toronto summit in June 2010 exposed rifts among the developed G-20 countries over, on the one hand, fiscal austerity and deficit reduction, and, on the other hand, the need to provide fiscal stimulus to boost employment and prevent a slide back into recession by the advanced economies. The Obama Administration was one of the

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<sup>44</sup> For more information, see CRS Report R40975, *Financial Regulatory Reform and the 111th Congress*, coordinated by Baird Webel.

proponents in the G-20 for sustained fiscal stimulus until economic recovery and job creation were better secured in the Toronto summit.

In the end, the Toronto summit reflected a compromise between the two sides of the debate. The summit declaration stated that, “while growth is returning, the recovery is uneven and fragile, unemployment in many countries remains at unacceptable levels, and the social impact of the crisis is still widely felt.... recent events highlight the importance of sustainable public finances and the need for our countries to put in place credible, properly phased and growth-friendly plans to deliver fiscal sustainability, differentiated for and tailored to national circumstances.”<sup>45</sup> At the same time, concerns about debt levels in advanced economies were recognized by the G-20 leaders. The G-20 leaders committed at the Toronto summit that advanced countries would halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016. However, these commitments were not featured in the Seoul summit, and it is not clear to what extent these commitments will be implemented or adhered to. For example, in the United States, it is unclear to what extent the U.S. commitments at the G-20 for fiscal consolidation are driving or influencing current budgetary debates.

## **Governance of the International Monetary Fund**

The Seoul summit outlined two major governance reforms for the IMF: increasing representation of emerging markets at the IMF and reforming IMF financial resources. First, there has been frustration among emerging-market countries that international financial institutions, such as the IMF, have not been reformed to reflect their increased weight in the world economy. At the Seoul summit, the G-20 leaders reiterated previous commitments to shift IMF quota share, which impacts voting power, from countries that are over-represented at the IMF to emerging markets and developing countries that are under-represented at the IMF.<sup>46</sup> The current target is a shift of at least 6%, and the G-20 leaders pledge to make this shift by the 2012 World Bank and IMF Annual Meetings. The G-20 leaders also agreed to increase representation for emerging market and developing countries at the IMF Executive Board. The G-20 leaders stated that this is to be accomplished by eliminating two advanced European chairs at the board. So far, there has not been agreement on which countries will gain or lose voting power and/or seats on the IMF Executive Board.

U.S. quota share, and thus voting power, at the IMF is unlikely to be affected in the reforms. It is generally agreed that a country’s share of IMF quotas should broadly reflect its relative size in the world economy.<sup>47</sup> By this metric, the United States is an under-represented country at the IMF, because its economic weight in the global economy is much larger than its share of IMF quotas. This is shown in **Figure 2**, which compares a country’s relative size (GDP, adjusted for purchasing power parity) in the world economy to its IMF quota. The United States has let its quota share at the IMF fall in recent decades. This allowed the United States to lower its financial

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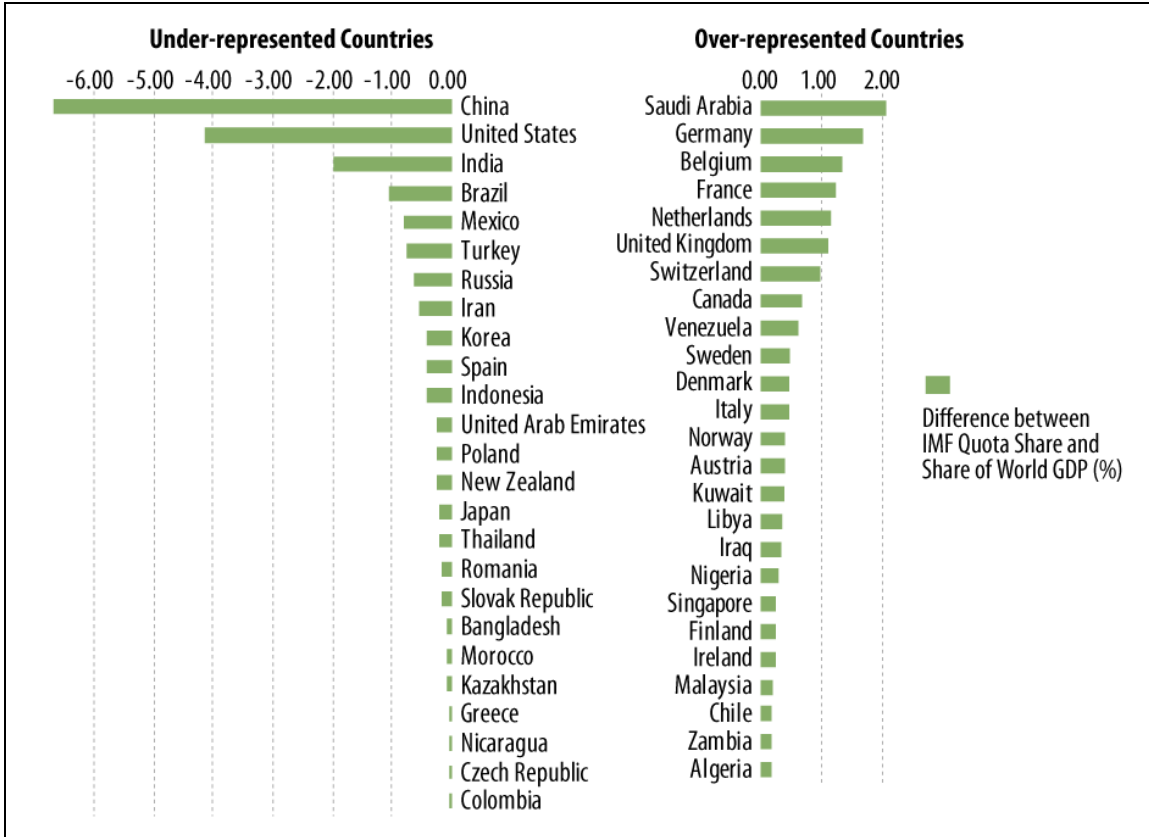
<sup>45</sup> G-20, *The G-20 Toronto Summit Declaration*, June 26-27 2010, [http://www.g20.org/Documents/g20\\_declaration\\_en.pdf](http://www.g20.org/Documents/g20_declaration_en.pdf).

<sup>46</sup> IMF quotas determine a country’s maximum financial commitment to the IMF and its voting power, and has bearing on its access to IMF financing.

<sup>47</sup> E.g., see “IMF Quotas,” International Monetary Fund, October 31, 2009. Available at <http://www.imf.org/external/np/exr/facts/quotas.htm>. Also see “Quota Reform at the G-20,” Reserve Bank of Australia, February 2006. Available at [http://www.treasury.gov.au/documents/1102/HTML/docshell.asp?URL=G20\\_Quota\\_Reform.htm](http://www.treasury.gov.au/documents/1102/HTML/docshell.asp?URL=G20_Quota_Reform.htm).

commitment to the IMF and enabled new countries joining the IMF to gain some voting power at the institution.

**Figure 2. Comparison of Relative Size in the World Economy with IMF Quota Share**



**Source:** Data used in calculations from “Updated IMF Quota Day – September 2009,” International Monetary Fund, September 23, 2009, <http://www.imf.org/external/np/fin/quotas/2009/091509.htm>.

**Notes:** 25 IMF members with the smallest and largest differences between IMF quota share and share of world GDP. GDP is adjusted for purchasing power parity (PPP).

Second, the G-20 leaders also announced a goal of doubling IMF quotas, while rolling back the New Arrangements to Borrow (NAB). IMF quotas are the main financial resources of the IMF that each country commits to upon joining the institution. The IMF does have other sources of funding, including two supplementary funds: the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). The G-20 leaders agreed at the London summit, during the height of the financial crisis, to triple the IMF’s lending capacity, specifically by increasing the resources of the NAB by \$500 billion. The Obama Administration proposed that the United States increase its loan to the NAB by \$100 billion. The authorizing and appropriating legislation was included in the FY2009 Spring Supplemental Appropriations for Overseas Contingency Operations (P.L. 111-32).<sup>48</sup>

<sup>48</sup> For more information on the debate on and legislation for U.S. participation in the NAB increase, see CRS Report R40578, *The Global Financial Crisis: Increasing IMF Resources and the Role of Congress*, by Jonathan E. Sanford and Martin A. Weiss.

NAB resources are only to be used during systemic crises and their use has a more stringent approval process than the approval process for the use of IMF quotas. Rolling back the NAB and increasing IMF quotas gives the IMF greater flexibility to respond to crises, but it also means that member countries have less control over how these resources are used. The IMF also argues that IMF quotas relative to global economic activity have declined in recent decades, and that increasing IMF quotas are necessary to help the IMF respond to the scope of crises possible given the current size of global economic activity and interconnectedness. U.S. participation in an IMF quota increase and corresponding rollback of the NAB would likely require legislation.

## **Increasing Funding of the Multilateral Development Banks**

The multilateral development banks (MDBs) ramped up lending during the global financial crisis of 2008-2009, and at the G-20 summit in Pittsburgh, the G-20 leaders endorsed increasing the lending capacity of the multilateral development banks (MDBs).<sup>49</sup> Specifically, the G-20 leaders called for substantial increases in the banks' capital bases. A general capital increase for any one of the banks is an infrequent occurrence; simultaneous capital increases for all the MDBs is quite unusual and has not happened since the 1970s.<sup>50</sup> The Administration has requested that U.S. contributions to the Asian Development Bank (AsDB) capital increase be included in the FY2011 budget, and capital increases for several other MDBs in the FY2012 budget.

The capital increases for the MDBs may be controversial. Proponents argue that U.S. participation in the GCIs is vital for maintaining U.S. voting power at the institutions, and that if the United States does not participate, other countries, like China, will gain more influence in the institutions. They also argue that the GCIs help safeguard developing countries from the effects of future crises, present a unique opportunity to advance the reform agenda at the banks, and create potential opportunities for U.S. businesses that bid on bank projects. Opponents argue that increasing assistance to developing countries is not an appropriate use of resources in a tough budget environment, that the banks do not have the capacity to effectively increase lending so quickly, and that increasing lending to some middle-income countries with substantial resources, like China, is an inappropriate role for the banks. They also argue that capital flows returned to middle-income countries after the crisis, raising questions about whether middle-income countries need more financial assistance from the MDBs.

## **Concluding the WTO Doha Round of Multilateral Trade Negotiations**

Doha negotiations have been stalled since 2001 due to differences among the United States, the European Union, and developing countries on major issues including agriculture, industrial tariffs, non-tariff barriers, and services.<sup>51</sup> In various summits, the G-20 leaders have pledged to conclude the WTO Doha Round of multilateral trade negotiations. To date, however, there appears to be a disconnect between the pledges of the G-20 leaders and the lack of specific

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<sup>49</sup> For more on the MDBs, see CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by Rebecca M. Nelson.

<sup>50</sup> For more information on the MDB capital increases, see CRS Report R41672, *Multilateral Development Banks: General Capital Increases*, by Martin A. Weiss.

<sup>51</sup> For more on the Doha negotiations, see: CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

negotiations on the ground to meet this goal. It is not evident that WTO members have made progress in resolving the stalemate over the Doha negotiations, and the G-20 pledge to get the Doha Round back on track is viewed by many as unlikely to be met.<sup>52</sup> Confidence might be enhanced if the G-20 discussed the basic controversies deadlocking the Doha negotiations rather than just announcing their intent to reach agreement.

## **Eliminating Fossil Fuel Subsidies**

As the current financial crisis began to stabilize and growth started returning to the world economy, the G-20 leaders turned to other issues, including the environment. At the Pittsburgh summit, the G-20 leaders committed to eliminating fossil fuel subsidies over the medium term, and this commitment has been restated in subsequent summits.

Support for the ban on fossil fuel subsidies came from the Obama Administration, which is reported to have pushed for the G-20 commitment in Pittsburgh.<sup>53</sup> It is estimated that the removal of fossil fuel subsidies by 2020 would reduce greenhouse gas emissions by 10% in 2050, and it is reported that the President views the elimination of fossil fuel subsidies as a “down payment” on the international goal of reducing greenhouse gas emissions by 50% from 1990 levels by 2050.<sup>54</sup>

In addition to the environmental benefits, eliminating fossil fuel subsidies may also even out the large price swings that have characterized the oil markets in recent years.<sup>55</sup> Under-investment in the energy sector may lead to higher energy prices, particularly for oil and electricity, in a few years.<sup>56</sup> Additionally, elimination of fossil fuel subsidies may ease the budget deficit problems of many countries.

However, eliminating fossil fuel subsidies may prove difficult, and little progress appears to have been achieved to date.<sup>57</sup> Governments in low- and middle-income countries, who spend \$310 billion a year on fossil fuel subsidies compared to the \$20 billion-30 billion spent annually by developed countries, may be reluctant for political reasons to eliminate these subsidies.<sup>58</sup> In 2008, cuts in subsidies in Egypt, India, and Indonesia resulted in street protests and political upheaval.<sup>59</sup> Eliminating fossil fuel subsidies in rich countries may also face obstacles. The Environmental Law Institute, a think-tank, estimates that the United States spent \$72 billion on fossil-fuel subsidies between 2002 and 2008.<sup>60</sup> Elimination of fossil fuel subsidies would require congressional approval, and it is expected that the oil industry would strongly oppose such legislation.<sup>61</sup>

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<sup>52</sup> E.g., see “Regaining Their Balance,” *The Economist*, 26 September 2009.

<sup>53</sup> Ben Geman, “White House Wants Fuel Subsidy Cuts on G-20 Agenda,” *Washington Post*, September 16, 2009.

<sup>54</sup> “Fossilised Policy,” *The Economist*, October 1, 2009.

<sup>55</sup> “No Free Lunch: The G-20’s Case Against Fossil-Fuel Subsidies,” *Wall Street Journal*, September 25, 2009.

<sup>56</sup> International Energy Agency, *World Energy Outlook 2009*, November 10, 2009.

<sup>57</sup> E.g., see Alan Beattie, “G20 Countries Accused of Fossil Fuel Inaction,” *Financial Times*, November 7, 2010.

<sup>58</sup> “Fossilised Policy,” *The Economist*, October 1, 2009.

<sup>59</sup> *Ibid.*

<sup>60</sup> Environmental Law Institute, *Estimating U.S. Government Subsidies to Energy Sources: 2002-2008*, September 2009.

<sup>61</sup> “Fossilised Policy,” *The Economist*, October 1, 2009.

## Looking Ahead: Effectiveness of the G-20 Moving Forward

As the G-20 adapts to its new status as the premier forum for international economic cooperation, there has been speculation about how effective the G-20 will be moving forward. Three scenarios have been discussed. Specifically, the G-20 as a coordinating forum will be (1) effective; (2) ineffective; or (3) effective in some instances but not others. These possible scenarios are discussed in greater detail below.

### Scenario 1: Effective

Some believe that the G-20 will be an effective forum for international economic cooperation moving forward. The G-20 will be able to play this role, it is argued, for three reasons. First, the G-20 includes all the major economic players at the table, representing two-thirds of the world's population, 90% of world GDP, and 80% of world trade,<sup>62</sup> but at the same time is small enough to facilitate concrete negotiations. Second, the involvement of national heads of state in the negotiations could serve to facilitate commitments in major policy areas. Third, as the issues discussed by the G-20 leaders expand, the G-20 may be able to facilitate cooperation by enabling trade-offs among major concerns, such as climate change and trade, that are not possible in issue-specific forums and institutions.

G-20 optimists typically point to the G-20's successes at the height of the financial crisis, when the G-20 played a unique, strong, and central role in steering the recovery efforts. The G-20 was the source of major decisions regarding fiscal stimulus, regulatory reform, tripling the IMF's lending capacity, and other response efforts. The G-20 also tasked other international organizations, such as the Bank for International Settlements (BIS), the IMF, the World Bank, and the FSB (which the G-20 strengthened from the FSF), with facilitating, monitoring, or implementing various aspects of the response to the crisis.

### Scenario 2: Ineffective

Others are skeptical that the G-20 will be an effective forum for international cooperation moving forward for at least four reasons. First, the G-20 includes a diverse set of countries with different political and economic philosophies. As economic recovery begins, it is argued that this heterogeneous group with divergent interests will have trouble reaching agreements on global economic issues.

Second, some believe the G-20 does not include the right mix of countries. It is argued that Europeans are over-represented at the G-20 (with Germany, France, Italy, the United Kingdom, and the European Union taking up five of the 20 slots), while some important emerging-market countries are excluded. Poland, Thailand, Egypt, and Pakistan are typically cited as examples (see **Appendix A**).<sup>63</sup> By concentrating European interests while excluding important emerging

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<sup>62</sup> Arvind Panagariya, *The G-20 Summit and Global Trade: Restore Credit and Resist Protectionism*, Brookings, March 14, 2009. Trade data includes intra-EU trade.

<sup>63</sup> "G20 Gains Stature But is Overambitious," *Oxford Analytica*, September 28, 2009.

markets from the negotiating table, it will be difficult, it is argued, to achieve cooperation on economic issues of global scope.

Third, some experts believe that the G-20 will be ineffective because it has no enforcement mechanism beyond “naming and shaming” and with little follow-up will not be able to enforce its commitments. As evidence that the G-20 is an ineffective steering body in the international economy, G-20 skeptics point to the portions of recent G-20 declarations that merely reiterate commitments made by countries in other venues and institutions or at previous G-20 summits. Likewise, some of the declarations identify areas that merit further attention or study, without including concrete policy commitments.

Fourth, some argue that the G-20’s effectiveness since the crisis has diminished because the issues covered by the G-20 have broadened, but there is now little follow-through from one summit to the next. For example, the Toronto summit in June 2010 touted targets for fiscal consolidation among advanced economies. However, these targets received little attention in the subsequent G-20 summit in Seoul in November 2010, where the focus shifted to development, among other issues. Likewise, France’s focus for the November 2011 summit is on the international monetary system, and it is not clear to what extent they will engage on the fiscal consolidation or development themes from the previous summits.

### **Scenario 3: Effective in Some Instances, but Not Others**

A third scenario represents a middle ground between the previous two, namely, that the G-20 will be effective in some instances but not others. It is argued the G-20 could be an effective body in times of economic duress, when countries view cooperation as critical, but less effective when the economy is strong and the need for cooperation feels less pressing. Proponents of this view point to the strong commitments achieved in the London G-20 summit at the height of the crisis compared to what many view as the weaker outcomes of the Toronto summit, when economic recovery was underway (although unemployment remains high in several advanced countries).

Another variant is that the G-20 will prove effective in facilitating cooperation over some issue areas but not others. For example, the G-20 could be effective in coordinating monetary policy across the G-20 countries, by providing a formal structure for finance ministers, central bankers, and leaders to gather and discuss monetary policy issues. In most countries, central banks exercise largely autonomous control over monetary policy issues and would have the authority to implement decisions reached in G-20 discussions. Likewise, the G-20 may be effective at tasking other international organizations, such as the IMF and the FSB, with various functions to perform or reports to write. By contrast, it is argued that the G-20 could find coordination of other policies more difficult. One example may be fiscal policies, because although finance ministers and national leaders undoubtedly can influence fiscal policies at the national level, control over fiscal policies in many countries ultimately lies with national legislatures. It is not clear to what extent national legislatures will feel bound in their policy-making process by decisions reached at the G-20 and thus how effective G-20 coordination on these issues will be.

## Appendix A. World's Largest Countries and Entities

**Table A-1. World's Largest Countries and Entities**  
2010 GDP in current prices, billions of U.S. dollars

Rank	G-20 Member	Non G-20 Member	GDP
1.	European Union		16,452
2.	United States		15,157
3.	China		6,422
4.	Japan		5,683
5.	Germany		3,358
6.	France		2,591
7.	United Kingdom		2,395
8.	Italy		2,055
9.	Brazil		2,193
10.	Canada		1,633
11.	Russia		1,678
12.	India		1,598
13.		Spain	1,366
14.	Australia		1,298
15.	Mexico		1,041
16.	South Korea		1,056
17.		Netherlands	776
18.	Turkey		790
19.	Indonesia		777
20.		Switzerland	544
21.		Belgium	469
22.		Sweden	475
23.		Poland	469
24.	Saudi Arabia		476
25.		Taiwan	455
26.		Norway	425
27.		Austria	366
28.	South Africa		366
29.	Argentina		363
30.		Iran	342

Source: IMF World Economic Outlook, October 2010.



**Notes:** The European Union (EU) includes 27 countries. Some 2010 data are IMF forecasts. Ranking is for illustrative purposes only. Using a different measure of economic size, such as GDP adjusted for purchasing power parity (PPP), would produce a different ranking. Data are IMF forecasts.

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