



# 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 among major advanced and emerging economies. Congress may want to exercise oversight over the Administration's participation in the G-20 process, including the policy commitments that Administration is making in the G-20 and the policies it is encouraging other G-20 countries to pursue.

### Background

The G-20 rose to prominence during the global financial crisis of 2008-2009, when it played an arguably influential role in coordinating international responses to the crisis. Leaders agreed that the G-20 would be the "premier" forum for international economic coordination, a position previously held by a smaller group of advanced economies (the Group of 7, or G-7, which includes Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States).

G-20 leaders have annual meetings ("summits"), and meetings among lower-level officials from the G-20 countries occur more frequently. Meetings primarily focus on international economic and financial issues, although related topics are also discussed, including development, food security, and the environment, among others. Previous summits have, for example, focused on financial regulatory reform, global imbalances, funding for the International Monetary Fund (IMF), voting power of emerging economies in international financial institutions, and fossil fuel subsidies.

### The G-20 in 2013

The G-20 has a rotating presidency, which is held by Russia in 2013. The Russian government has indicated that it will use its presidency to focus on macroeconomic and financial sector issues. In terms of macroeconomics, the focus is on growth, including (1) growth through quality jobs and investment; (2) growth through trust and transparency; and (3) growth through effective regulation. In the financial sector, it has indicated that it will focus on the authority of regulatory bodies, as well as investment financing, lending strategies, and debt management. The 2013 G-20 summit is scheduled to be held in St. Petersburg, Russia, on September 5-6, 2013. Several meetings among lower level officials, including finance and labor ministers among others, are scheduled throughout 2013.

### Effectiveness of the G-20

Some analysts say that while the G-20 was instrumental in coordinating the response to the global financial crisis of 2008-2009, its effectiveness has diminished as the urgency of the crisis has waned. They argue that the G-20 has failed to provide adequate international leadership in key policy areas, including responses to the Eurozone crisis and forging a conclusion to the World Trade Organization (WTO) Doha Round of multilateral trade negotiations. They also maintain that the G-20 as a group is too heterogeneous to achieve real coordination and its agenda is too ambitious. Others argue that the G-20 serves as an important institution in the international economy. They argue that the G-20 is a critical forum for discussing major policy initiatives across major countries and encouraging greater cooperation, even if agreement on policies is not always reached. They also argue that it serves as a useful institution as a steering committee for other international organizations, such as the IMF, and that having the G-20 policy-making infrastructure in place is important for timely international responses to future crises.

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## **Introduction**

The Group of Twenty, or G-20, is a forum for advancing international economic cooperation and coordination among 20 major advanced and emerging-market economies.<sup>1</sup> Originally established in 1999, the G-20 rose to prominence during the global financial crisis of 2008-2009. It is now the lead forum for international economic cooperation, a position held for decades following World War II by a smaller group of advanced economies (the Group of 7, or G-7).<sup>2</sup> The G-20 leaders meet annually, with the next G-20 leader meeting scheduled to be held in St. Petersburg, Russia, in September 2013, and meetings among lower level officials are scheduled to be held throughout the year. The G-20's focus is primarily on financial and economic issues and policies, although related issues have also been discussed, including food security, foreign aid, and the environment, among others.

Congress may want to exercise oversight over the Administration's participation in the G-20, including the policy commitments that the Administration is making in the G-20 and the policies it is encouraging other G-20 countries to pursue. Additionally, legislative action may be required to implement certain commitments made by the Administration in the G-20 process, and commitments made at the G-20 may shape the congressional legislative agenda. In the 112<sup>th</sup> Congress, the Security and International Trade and Finance Subcommittee of the Senate Banking committee held a hearing on the "G-20 and Global Economic and Financial Risks" in October 2011.

This report analyzes: why countries coordinate economic policies and the historical origins of the G-20; how the G-20 operates; major highlights from previous G-20 summits, plus an overview of the agenda for the next G-20 summit; and debates about the effectiveness of the G-20 as a forum for economic cooperation and coordination.

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

### **Motivations for Economic Cooperation**

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 can be affected by the economic policy decisions of other governments. These effects may not always be positive. For example, if one country devalues its currency or restricts imports in an attempt to reverse a trade deficit, another country's exports may decline. Instead of countries unilaterally implementing these "beggar-thy-neighbor" policies,

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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).

<sup>2</sup> The G-7 includes Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

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>3</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>4</sup> These economic forums do not have formal rules or a permanent staff.

## **1970s–1990s: Advanced Economies 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 economies. 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>5</sup> Russia did not usually participate in 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. 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 Economies Gain Greater Influence**

Although emerging economies 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.<sup>6</sup> 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

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<sup>3</sup> For more information about formal international institutions, see, for example: CRS Report R42019, *International Monetary Fund: Background and Issues for Congress*, by Martin A. Weiss and CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

<sup>4</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. For more information, see CRS Report RS21482, *The Paris Club and International Debt Relief*, by Martin A. Weiss.

<sup>5</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 hold leadership positions within the G-8 or host summits.

<sup>6</sup> For more about emerging economies, see CRS Report R41969, *Rising Economic Powers and the Global Economy: Trends and Issues for Congress*, by Raymond J. Ahearn.

exclude from discussions on economic and financial issues. The G-20 was established in late 1999 as a permanent international economic forum for encouraging coordination between advanced and emerging economies. 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 meetings among leaders, in addition to finance ministers.

Emerging markets were also granted more sway in international economic discussions when the G-8 partly opened its door to them in 2005.<sup>7</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>8</sup>

## **2008–Present: Emerging Economies 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>9</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>10</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>11</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>7</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.

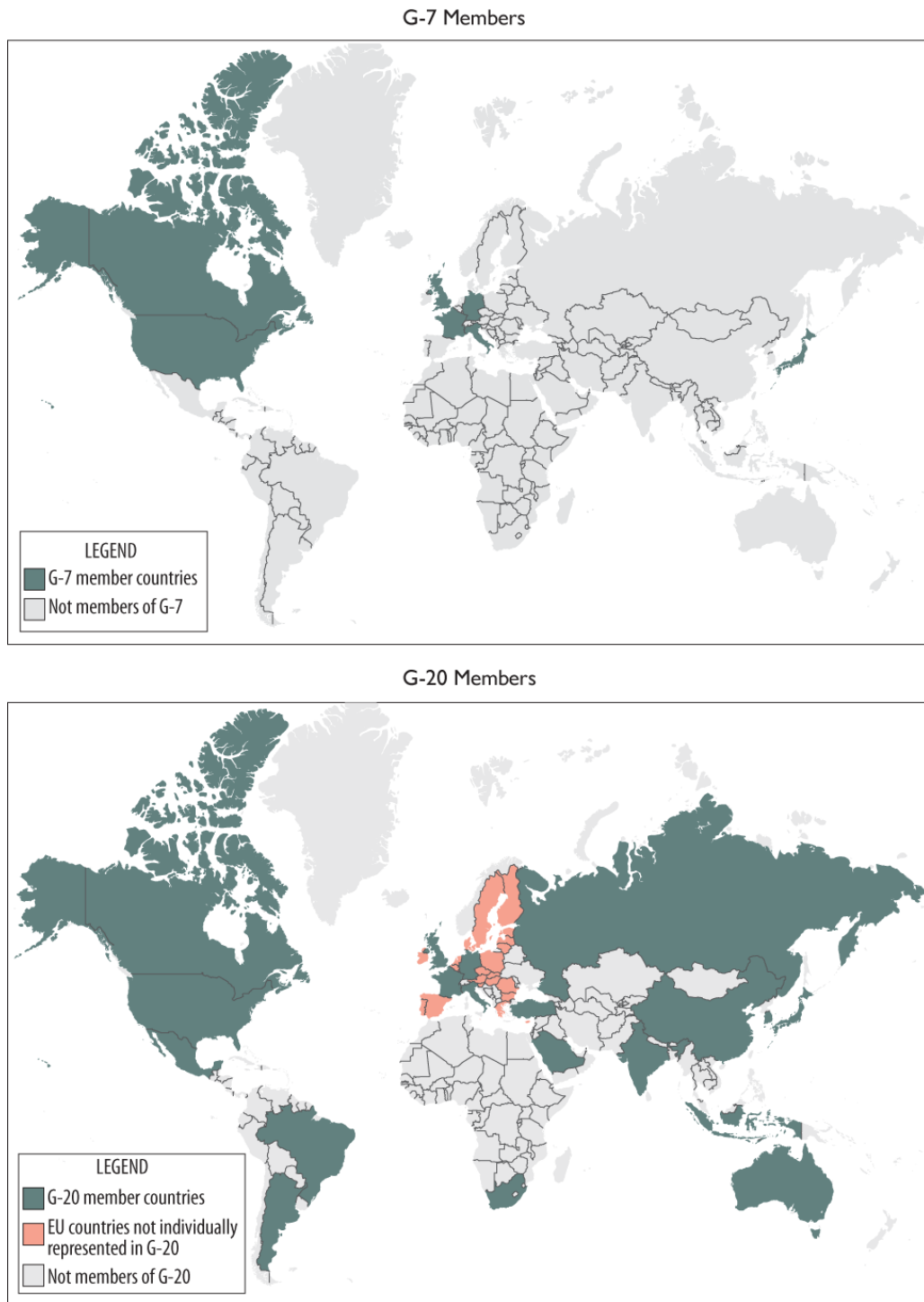
<sup>8</sup> Jonathan Wheatley, “G20 Calls for Expanded Role to Combat Economic Turmoil,” *Financial Times*, November 10, 2009.

<sup>9</sup> “After the Fall,” *The Economist*, November 15, 2009.

<sup>10</sup> “Not a Bad Weekend's Work,” *The Economist*, November 16, 2008.

<sup>11</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 began convening annually, although 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 several times a year, and other ministers may also be called to meet at the request 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>12</sup>

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**

Within the U.S. government, the Treasury Department is the lead agency in coordinating U.S. participation in the G-20 process. However, the G-20 works on a variety of issues, and the Treasury Department works closely with other U.S. agencies in their G-20 work, including the Federal Reserve, the State Department, the U.S. Agency for International Development, and the Department of Energy. 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 is the Deputy National Security Advisor for International Economic Affairs, a position currently held by Mike Froman.

### **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 many of the meetings, and is able to shape the year’s focus or agenda. 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>13</sup>

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<sup>12</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>13</sup> <http://www.g20.org>



The chair rotates among members and is selected from a different region each year. **Table 1** lists the G-20 chairs since 1999, as well as the countries scheduled to chair the G-20 through 2015. The United States has never officially chaired the G-20, although the United States did host G-20 summits in 2008 and 2009 during the height of the global financial crisis.

**Table 1. Chairs of the G-20**

| Year      | Country      | Year | Country        |
|-----------|--------------|------|----------------|
| 1999-2001 | Canada       | 2009 | United Kingdom |
| 2002      | India        | 2010 | South Korea    |
| 2003      | Mexico       | 2011 | France         |
| 2004      | Germany      | 2012 | Mexico         |
| 2005      | China        | 2013 | Russia         |
| 2006      | Australia    | 2014 | Australia      |
| 2007      | South Africa | 2015 | Turkey         |
| 2008      | Brazil       |      |                |

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

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, the French government invited Equatorial Guinea, Ethiopia, Singapore, Spain, and the United Arab Emirates to the summit in Cannes, France, in November 2011.<sup>14</sup> Several regional organizations and international organizations also attend G-20 summits. For example, official participants typically have included representatives from 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; and the World Trade Organization (WTO).

## 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>15</sup> The G-20 does not have a way to enforce implementation of the agreements reached by the G-20 at the national level beyond moral suasion; 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>16</sup>

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<sup>14</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>15</sup> The G-20 communiqués are posted online at [http://www.g20.org/pub\\_communiques.aspx](http://www.g20.org/pub_communiques.aspx).

<sup>16</sup> See, e.g., CRS Report RS20088, *Dispute Settlement in the World Trade Organization (WTO): An Overview*, by (continued...)

## Overview of the G-20 Summits

### Highlights from Previous Summits

The G-20 summits are the key meetings where major G-20 policy announcements tend to be made. The G-20 has held six summits to date: Washington, DC, in November 2008; London in April 2009; Pittsburgh in September 2009; Toronto (Canada) in June 2010; Seoul (South Korea) in November 2011; Cannes (France) in November 2011; and Los Cabos (Mexico) in June 2012. The types of agreements reached at the G-20 summits have evolved as global economic conditions have changed, from the pressing height of the global financial crisis, to signs of recovery amidst high unemployment in some advanced economies, to concerns about the Eurozone crisis. In addition, as the pressing nature of the global financial crisis has abated, the scope of issues covered by the G-20 has expanded to other issues, such as development and the environment. **Table 2** presents information about major highlights from the summits.

**Table 2. G-20 Summits: Context and Major Highlights**

|    | Location                      | Date          | Major Highlights (Selected)  |
|----|-------------------------------|---------------|--|
| 1. | Washington, DC, United States | November 2008 | <ul style="list-style-type: none"><li>• Focused on immediate management of the global financial crisis.</li><li>• Pledges to coordinate financial regulatory reform; focus on expansionary macroeconomic policies, both fiscal and monetary, to support aggregate demand; and refrain from protectionist trade policies.</li></ul>   |
| 2. | London, UK                    | April 2009    | <ul style="list-style-type: none"><li>• Focus continued to be on immediate management of the financial crisis, reiterating many of the commitments from the 2008 summit in Washington, DC regarding crisis management.</li><li>• Pledges to increase funding for the IMF and the MDBs by \$1.1 trillion, including a tripling of the IMF's lending capacity; commitments to coordinate fiscal stimulus; create the Financial Stability Board (FSB) to coordinate and monitor progress on regulatory reforms.</li></ul> |

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(...continued)

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| <b>Location</b>              | <b>Date</b>    | <b>Major Highlights (Selected)</b>   |
|------------------------------|----------------|--|
| 3. Pittsburgh, United States | September 2009 | <ul style="list-style-type: none"><li>• Summit occurred as the financial crisis was bottoming out, although unemployment was generally still rising in some advanced economies.</li><li>• Announcement that, henceforth, the G-20 would be the “premier” forum for international economic cooperation.</li><li>• Announced the creation of a new framework for addressing global imbalances and promoting growth, the “G-20 Framework for Strong, Sustainable, and Balanced Growth.”</li><li>• Pledges to increase the voting power of emerging economies at the international financial institutions, in addition to reiterating pledges made at previous summits, as well as specific development and environmental goals.</li></ul> |
| 4. Toronto, Canada           | June 2010      | <ul style="list-style-type: none"><li>• Summit was held against a backdrop of growing uncertainty about the Eurozone, and was viewed as a foundational summit for more ambitious announcements at the South Korean summit later in 2010.</li><li>• Summit broadly addressed five areas: growth; correcting global imbalances; financial sector reform; international financial institutions and development; and fighting protectionism while promoting trade and investment.</li><li>• Advanced economies announced targets for fiscal consolidation.</li></ul>   |
| 5. Seoul, South Korea        | November 2010  | <ul style="list-style-type: none"><li>• First summit hosted by a country that is not a member of the G-7.</li><li>• Announced a “Seoul Development Consensus,” which emphasized, among other things, that governments can play a positive role in development and the importance of infrastructure in development.</li><li>• Endorsed tougher capital standards for banks, discussed global safety nets and the need for further studies on capital controls, and called for a doubling of IMF quotas (the core source of financing for IMF loans).</li></ul>  |
| 6. Cannes, France            | November 2011  | <ul style="list-style-type: none"><li>• Summit was held during heightened concerns about Eurozone debt crisis, and persisting concerns about high unemployment in some advanced economies.</li><li>• Discussions focused on reforming the international monetary system; fostering employment; food price volatility; functioning of energy markets; the environment; development; and anti-corruption.</li></ul>  |
| 7. Los Cabos, Mexico         | June 2012      | <ul style="list-style-type: none"><li>• First summit hosted by a Latin American country.</li><li>• Attention was focused on the ongoing Eurozone crisis, and European efforts and policies to respond to the crisis, and the need for job creation worldwide. A “Los Cabos Growth and Jobs Action Plan” was announced.</li><li>• Discussions also focused on trade; the international financial architecture; food security and commodity price volatility; development; “green” growth, and anti-corruption measures.</li></ul>   |

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**Source:** G-20 website, <http://www.g20.org>; CRS analysis.

**Notes:** For summit documents (leader statements and declarations), see <http://www.g20.org/en/g20/previous-leaders-summits>.

The policy announcements and commitments that G-20 leaders announce at summits are non-binding, and the record of implementing these commitments is wide ranging. Examples of major G-20 initiatives that have been completed include coordination of fiscal policies during the global financial crisis, a tripling of IMF resources, and strengthening the Financial Stability Board (FSB) to coordinate and monitor international progress on regulatory reforms, among others. However, progress on other G-20 commitments has been much slower, such as correcting global imbalances, concluding the WTO Doha Round of multilateral trade negotiations, increasing the voting share of emerging economies at the IMF, and eliminating fossil fuel subsidies. Tracking progress on G-20 commitments can be complicated, as subsequent summits may extend the timelines for completing policy reforms, reiterate previous commitments, or drop discussion of prior policy pledges.

Previous G-20 summits have typically attracted protesters from a broad mix of movements, including environmentalists, trade unions, socialist organizations, faith-based groups, anti-war camps, and anarchists.<sup>17</sup> At the 2009 summit in Pittsburgh, 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>18</sup> Protests at G-20 meetings are generally peaceful, although at times tensions between the police and protesters have escalated. In Pittsburgh, protesters began throwing rocks,<sup>19</sup> police used pepper gas against a group of students,<sup>20</sup> and several protesters were arrested.<sup>21</sup>

## Russian Presidency in 2013

Russia holds the rotating presidency of the G-20 in 2013, for the first time since the G-20 started meeting at the leader level. The Russian government has identified three overarching priorities, including (1) growth through quality jobs and investment; (2) growth through trust and transparency; and (3) growth through effective regulation.<sup>22</sup> It has stated that these three priorities will serve as a lens for considering and discussing items on the 2013 agenda for the G-20. Its main agenda items for 2013 include the G-20’s “Framework for Strong, Sustainable, and Balanced Growth,” which aims at correcting global imbalances; jobs and employment; international financial architecture reform; strengthening financial regulation; energy sustainability; development for all; enhancing multilateral trade; and fighting corruption.

The 2013 summit is scheduled to be held on September 5-6, 2013. A number of meetings among lower level officials, including finance and labor ministers, as well as the G-20 sherpas, are

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<sup>17</sup> Carl Prine, “An Overview of Protests Expected in Pittsburgh for G-20,” *Pittsburgh Tribune-Review*, September 20, 2009.

<sup>18</sup> Michelle Nichols, “Protesters, Police Clash After G20 in Pittsburgh,” *Reuters*, September 25, 2009.

<sup>19</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>20</sup> Michelle Nichols, “Protesters, Police Clash After G20 in Pittsburgh,” *Reuters*, September 25, 2009.

<sup>21</sup> Dennis B. Roddy and Michael A. Fuoco, “Protests Lead to 19 Arrests Across City,” *Pittsburgh Post-Gazette*, September 25, 2009.

<sup>22</sup> [http://www.g20.org/docs/g20\\_russia/priorities.html](http://www.g20.org/docs/g20_russia/priorities.html).

scheduled to prepare for the September summit, as well as subsequent to the summit to follow-up on major announcements resulting from the summit.

## **Debating the G-20's Effectiveness**

As the urgency of the global financial crisis of 2008-2009 wanes, 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>23</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 Financial Stability Board (FSB), with facilitating, monitoring, or implementing various aspects of the response to the crisis. Finally, G-20 proponents argue that, even if agreement on policies is not always reached, it is a critical forum for discussing major policy initiatives across major countries and encouraging greater cooperation.

### **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 becomes more secure, it is argued that this heterogeneous group with divergent interests will have trouble reaching agreements on global economic issues. Some argue that the G-20 has failed to provide adequate leadership in responding to the Eurozone crisis or in helping forge a conclusion to the Doha negotiations.

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,

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<sup>23</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.

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**).<sup>24</sup> By concentrating European interests while excluding important emerging 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 was on reform of the international monetary system, but it is not clear how much attention will be paid to such issues in the 2012 summit, hosted by Mexico.

### **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 during the height of the crisis compared to what many view as the weaker outcomes of subsequent summits, when the economic recovery was underway (although unemployment remains high in several advanced economies).

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.

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<sup>24</sup> “G20 Gains Stature But is Overambitious,” *Oxford Analytica*, September 28, 2009.

## Appendix. World's Largest Countries and Entities

**Table A-1. World's Largest Countries and Entities**  
(2012 GDP in current prices [forecasts], in billions of U.S. dollars)

| Rank | G-20 Member    | Non G-20 Member | GDP    |
|------|----------------|-----------------|--------|
| 1.   | European Union |                 | 16,414 |
| 2.   | United States  |                 | 15,653 |
| 3.   | China          |                 | 8,250  |
| 4.   | Japan          |                 | 5,984  |
| 5.   | Germany        |                 | 3,367  |
| 6.   | France         |                 | 2,580  |
| 7.   | United Kingdom |                 | 2,434  |
| 8.   | Brazil         |                 | 2,425  |
| 9.   | Italy          |                 | 1,980  |
| 10.  | Russia         |                 | 1,954  |
| 11.  | India          |                 | 1,947  |
| 12.  | Canada         |                 | 1,770  |
| 13.  | Australia      |                 | 1,542  |
| 14.  |                | Spain           | 1,340  |
| 15.  | Mexico         |                 | 1,163  |
| 16.  | South Korea    |                 | 1,151  |
| 17.  | Indonesia      |                 | 895    |
| 18.  | Turkey         |                 | 783    |
| 19.  |                | Netherlands     | 770    |
| 20.  | Saudi Arabia   |                 | 657    |
| 21.  |                | Switzerland     | 623    |
| 22.  |                | Sweden          | 520    |
| 23.  |                | Norway          | 500    |
| 24.  |                | Iran            | 484    |
| 25.  |                | Belgium         | 477    |
| 26.  | Argentina      |                 | 475    |
| 27.  |                | Poland          | 470    |
| 28.  |                | Taiwan          | 466    |
| 29.  |                | Austria         | 391    |
| 30.  | South Africa   |                 | 391    |

**Source:** International Monetary Fund (IMF), *World Economic Outlook*, October 2012.

**Notes:** The European Union (EU) includes 27 countries. Ranking is for illustrative purposes only. Using a different measure of economic size, such as GDP adjusted for differences in prices levels across countries (GDP adjusted for purchasing power parity), would produce a different ranking.

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