

G20-G8 Partnership in Global Economic Governance

Professor John Kirton
Co-director, G20 Research Group; Director, G8 Research Group
University of Toronto
www.g20.utoronto.ca | www.g8.utoronto.ca

Background paper prepared for a presentation at the session on “What Is the Way Forward for the G20?” for a conference on “From the G8 to the G20 and Beyond: Setting a Course for Economic Global Governance,” Chatham House, London, May 9, 2013. Version of May 11.

Introduction

The current conventional wisdom holds that the G20 summit has been in decline since its high-performing, crisis-inspired start in 2008-09 and that the G8 summit is destined to disappear as a consequential global economic governance forum, due to the arrival of the G20 one. However, the evidence shows, in fact, that both the G20 and G8 are effective in addressing global economic issues, are working well together in this regard and would do so more if some feasible institutional, but not organizational reforms were made.

The G20’s Effectiveness and Its Los Cabos Summit Success

The G20 summit has continued to perform well, even as it has taken up bigger, broader, more difficult tasks. It has done so in part because the financial crisis that catalyzed its creation has not gone away, as the succession of Eurocrises in Greece, Ireland, Portugal, Spain and Cyprus show. It is a sign of G20 summit success in economic crisis prevention, rather than just response, that these crises have largely been contained within Europe and not gone global, unlike the Asian one that erupted in 1997 and the Atlantic one that erupted in 2008. They have not spread globally because, since the its 2010 Toronto Summit, the G20 has done just enough, just in time, to fulfill its first core mission of providing financial stability for the world.

The Los Cabos Summit in June 2012 continued this contribution. It effectively encouraged the G20’s European members to go further and faster with their regional reforms. It also helped create a new firewall fund at the International Monetary Fund (IMF) — to which almost all G20 members contributed — to deter, contain and otherwise assist with a new crisis from Europe or anywhere else. This new fund of close to half a trillion dollars is almost double the quarter of a trillion dollars in new money promised to the IMF at the G20’s London Summit in April 2009, when the global financial crisis was its peak. If one follows the money mobilized for the IMF, G20 performance is on the rise.

Los Cabos produced a new G20 summit high of 180 decisional commitments. The preliminary version of the interim compliance report of the G20 Research Group, still subject to stakeholder consultation, suggests that the 17 assessed priority commitments made at Los Cabos have already been complied with well, with four months more to go

before the St. Petersburg Summit arrives. With regard to the first five summits, G20 members complied with their priority commitments at an average of 68%, with the G8 members averaging 80% and the non-G8 ones 58%. But as emerging countries took the chair, their compliance and thus that of the G20 overall began to rise. The G20 Research Group's preliminary interim report on compliance from Los Cabos suggests that this trend remains intact. With the priority commitments made at the Cannes Summit, the highest complying member was the United Kingdom.

With the Los Cabos commitments, at the moment, compliance is very strong on unemployment, investment, development infrastructure and green growth, due strong on macroeconomic policy and climate change. It is weak on domestic financial regulation, trade and food, and poor on crime and corruption.

The G8's Effectiveness and Its Camp David Summit Success

The success of the G20 has by no means eroded the identity or value of the G8, which retains its distinct foundational mission to promote open democracy and individual liberty throughout the world. Indeed, these have been strengthened by the G8's recent successes in the "Arab Spring," the ensuing economic Deauville Partnership and, more recently, in Myanmar where the need for investment looms large. Meanwhile in the hard core of finance and economics, the G7 and its members are still uniquely the effective source of coordinated exchange rate intervention, emergency liquidity provision and now major quantitative easing in monetary policy when the need arises.

The 2012 Camp David Summit saw the G8 routinely return to publicly pronouncing and deciding on economic subjects, after a temporary absence at Muskoka in 2010. Beyond its many political-security accomplishments, the G8 again showed than even in hard times, it could mobilize new money for development priorities, for its New Alliance on Food Security and Nutrition.

Key Themes and Challenges for the G20 and G8: Trust

Today the G20 and G8 are united in their central theme and challenge. It is, in a word, trust — trust in the economy so business will invest to generate growth and jobs, trust in the financial system that banks will not manipulate markets and will loan to small and medium-sized enterprises, start-ups and entrepreneurs, and trust in citizens, multinational corporations and politicians to pay their taxes in a fair and law-abiding way.

That is why the G20 has wisely selected for its St. Petersburg Summit the three overall themes of strengthening growth through quality jobs and investment, trust and transparency, and effective regulation, while also addressing improving multilateral trade and the fight against corruption. In a highly similar fashion the UK host of the G8's Lough Erne Summit selected from the start the highly economic themes of trade, tax and transparency.

Another common challenge is fiscal consolidation or, more broadly, generating growth and jobs in deficit- and debt-controlling ways. In a world where the biggest deficit and

debt challenge comes from G7 countries (along with India), the Russian host of the G20 has appropriately added government borrowing and public debt management as an important agenda item.

A cross-cutting component of the common challenge of creating trust is accountability — ensuring that G20 promises made are promises kept. This is central to keeping faith with the priority issue for the emerging country members of IMF voice and vote reform and that of the advanced country members of domestic financial regulatory reform. And if the G20 could fulfill its Pittsburgh pledge to phase out inefficient fossil fuel subsidies in the medium term, it could simultaneously deliver major gains in fiscal consolidation, combatting corruption, climate change control and the health of mothers and children in the developing world.

G8-G20 Overlap and Complementarity

The current G8-G20 unity in confronting the trust challenge is but the most visible sign of how they are working together well to build a better world. They are doing so to fulfill their shared mission of, for the G8, globally promoting “social advance” and, for the G20, “making globalization work for the benefit of all.”

The G20 recognized the value of the G8’s continuing economic contribution at Pittsburgh when G20 leaders, including all the G8 ones, proclaimed that the now permanent G20 would be their “premium” — not their only forum — to cooperate on economics and finance. Since then their shared core agenda has broadened, as the G8 has overtly returned to financial and economic governance while the G20 has expanded its work in the social, development political and even security domains. Within the G20 today, as in the past, individual G7, G8 and advanced country members are combining with emerging members in coalitions that cut across the old north-south divide and that often win.

Institutionally, G8 members have hosted six of the first eight G20 summits (all but Korea in 2010 and Mexico in 2012). Their privileged place will continue with the strengthening of the troika system for guiding the G20’s work. Coordination between the two and beyond is further increased by Russia’s unique common membership in the G20, G8 and the BRICS grouping of Brazil, Russia, China, India and South Africa and by Vladimir Putin’s four-year sequence of hosting the Asia-Pacific Economic Cooperation forum in 2012, the G20 in 2013, the G8 in 2014 and the BRICS in 2015. With this high degree of compatibility, the annual G8 summit importantly fills a global governance gap, now that G20 leaders have moved from meeting twice to only once a year.

Members’ Desires for Driving the G20 Agenda

Members’ desires for driving the G20 agenda are thus based on a specific country’s interests, individual or political party in charge, and on the compelling global challenges of the moment, more than its advanced or emerging economy status or membership in outside groups. Moreover, there is a high degree of consensus after Los Cabos on the G20’s already big, broad, built-in agenda and the need to prevent any further expansion until its existing work is done. And hosts such as Russia have been outward looking in

setting an agenda, as on public debt management and employment, that is important to others but not a problem for them at home.

Still, at a second level Russia is likely to press for an expansive definition of energy security, including security of demand, given the importance of that sector to its government's budget and economy overall. The United States will press for an expansive definition of terrorist finance, including one that could effectively constrain the nuclear program in Iran. India will press for financing for investment, especially in infrastructure, even with the recent promise to create a BRICS development bank. And Canada will remain committed to its Toronto achievement on fiscal consolidation and Korea to its Seoul ones on development and financial safety nets.

The biggest question concerns China. It is now under new leadership and a candidate to host the G20 in 2016, the same year that Japan is due to host the G8. Given its past record, China is likely to exert increasing leadership, especially on the issues of international financial architectural reform, strengthening financial regulation for countries such as itself, improving multilateral trade and ensuring strong sustainable and balanced growth. It is likely to continue to oppose any effort to expand the G20 agenda beyond the economic core, although it may become more flexible on issues such as climate change.

China, and Russia and Australia before it, could also see advantage in giving greater prominence to three emerging economic issues: improving economic equality to drive growth and jobs, enhancing young entrepreneurship and start-ups to this end, and preventing and controlling the major non-communicable diseases of cancer, heart attacks, diabetes and chronic respiratory disease that drive healthcare costs and fiscal deficits up.

Institutional Improvements in the Offing

What is clear is the fact that there are no organizational solutions in the offing to help the G20 or G8 cope with their formidable shared challenges. Both bodies have done well enough for 7 G20 and 38 G8 summits without a permanent traditional secretariat or centralized office, for the essential reason that leaders know that in the end, success or failure depends on them alone.

Help can and will come from solutions that strengthen their role. For the G20 these include relying more on the troika, cross-appointing individuals from troika and other members to work with the host government each year, improving internal accountability mechanisms, and working more closely with parliamentarians and the academic community, as the leaders at the Seoul Summit promised to do. For the G8 it means returning to its earlier tradition of involving selected non-member countries and multilateral organizations in its summits, and enhancing the involvement of civil society as the G20 has. In particular, it could be useful for the G8 to invite to its summit the leaders hosting the G20 one that year.