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## HEINRICH BÖLL STIFTUNG

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## The growing to-do list of the G20

### Seoul Summit falls short of expectations

**A summary report by Sandro Gianella**

The UN report [World Economic Situation and Prospects 2011](#) sends a strong warning that weaker global growth is expected in 2011 and 2012, and argues that the need for strengthened international policy coordination on financial and economic matters is more urgent than ever; yet, the cooperative spirit that emerged in the G20 in the immediate aftermath of the 2008 crisis has been waning. Governments in major economies have become more focused on domestic policy challenges than on the spillover effects of their actions. Hence, the G20 Summit in Seoul was marked by differences between member-states on the contested issue of global economic imbalances and the reform of the international currency system. While the leaders agreed that these imbalances were an obstacle to global growth and have to be reined in, they deferred the debate on the details of “indicative guidelines” of current-account balances to the French G20 Presidency in 2011. The press pointed their fingers at what looked like a major setback for the G20 and talked about missed opportunities and lack of concrete proposals. Nonetheless, most policy-makers and some analysts pointed out that the G20 might remain a mild success if, [in the words of The Economist](#), it sticks to “boring, pragmatic incrementalism”. Such step-by-step compromises have been reached on issues such as the Basel III rules on banking, a communiqué on anti-corruption, the (widely criticised) development action plan and a shift in IMF quotas towards emerging markets. In addition, Seoul gave what Aldo Caliari describes as a [“timid nod” to the reform of the international monetary system](#).

► for a more detailed outline of the decisions made in Seoul, please [refer to this overview](#).

No matter how much one expects in terms of results from G20 summits, it has become obvious that the group is not the “wunderkind” of global governance. Moreover, the Seoul summit has again failed to provide institutionalized and formal recognition of civil society and instead gave prominent policy-space to the private sector through the G20 Business

Summit. While the Korean government supported the Civil G20 Summit that was held in October, the Chinese government among others has spoken out against this opening-up, hindering the development of a more fundamental civil society dialogue with the G20. Nonetheless, [Lawrence MacDonald from the Center for Global Development](#) argues that “the G20, seeking to assert its legitimacy, has established a precedent for pre-summit dialogue with representatives of civil society who are prepared to ask difficult questions – this seems likely to be one of the few ways the G20 can be at least questioned, if not held accountable, for its decisions.

In many ways similar to the legacy of the Toronto Summit in 2009, Seoul leaves a large to-do list for the upcoming G20 presidency, which in 2011 will be held by France. President Sarkozy has already outlined [an ambitious, if not utterly unrealistic agenda](#) for the summit in Cannes in November 2011 with a focus on: the reform of the international monetary system, controlling volatility in the prices of raw materials and “global governance reform”, which in view of the French would benefit from further institutionalization of the G20 via a formal secretariat.

This edition of the G20 newsletter continues to strike a balance between thematic discussions on specific issues, and a critical institutional analysis of the emerging role of the G20. Nancy Alexander summarises the Summit’s outcome documents, including the [G20’s Multi-Year Action Plan for Development](#). The Plan sparked a contested debate on whether this is a disguised return to Washington Consensus thinking, or marks a shift in global development policy ([Comment by Jeffrey D. Sachs](#)). Dimpho Motsamai, from the pan-African Institute for Security Studies, analyses the Seoul Summit from the perspective of South Africa as an emerging economy and also discusses the problem of African under-representation in the G20. The topic of underrepresentation of small states is also reflected in the must-read section, which includes articles on the so-called Global Governance Group (3G), an UN-based grouping of small non-G20 countries that have called for a more legitimate and transparent G20. In addition to excluding most countries of the world in its decision-making, the G20 has also not significantly opened up to civil society. Sarah Anderson, director of the Global Economy Project of the Institute for Policy Studies reflects on civil society campaigning on the G20

agenda and provides first-hand experience in the challenges NGOs face in trying to influence the G20 process. Finally, Aldo Caliari, director of the Rethinking Bretton Woods Project gives a detailed analysis of the G20s approach to SIFIs (systemically important financial institutions) & global banks.

The Seoul Summit has moved the G20, for better or worse, into policy-fields such as climate finance, development and anti-corruption - while at the same time the body tries to tackle financial and economic policy. These efforts need to be carefully monitored by civil society actors.

The recent disappointments in global climate governance in Cancun again raise questions on whether and how the G20 should get involved in global environmental governance. In an [interview](#), Maude Barlow from the Council of Canadians argues that a number of countries (among others Japan, Canada and Russia) have blocked an extension of the Kyoto accord; according to her these countries want to take the process away from the UN over to the G20 entirely. As can be seen, some observers call for an [increased role of the G20](#) to try to achieve a breakthrough in climate negotiations, while others understandably worry about the implications for both the legitimacy and accountability of such decisions. ([Background article on G20 Climate Governance: From Toronto to Seoul](#)) Jasper Inventor, Greenpeace International climate campaigner [comments on the G20 meeting in Seoul](#) and its call for a successful, balanced result of the climate negotiations in Cancun: “*The G20 climate agreement is meaningless rhetoric unless leaders agree to fund a climate-friendly economy with drastically reduced greenhouse gas emissions – the G20 statement has done nothing to advance the global climate negotiations in Cancun.*” ([G20 Climate Action Checklist by Greenpeace](#)).

It remains unclear how serious of a contender for more established and legitimate multilateral processes the G20 will turn out to be. It certainly would be advisable for the group to put its own house in order, and focus on the pressing questions in financial and economic governance first.



## Seoul G20 Outcome Documents

### Selected Highlights

by [Nancy Alexander](#)

Predictably, the G20 [Seoul Summit Leaders' Declaration](#) and the [Seoul Summit Document](#) call for more financial regulation, stronger tools to cope with financial volatility, job creation, and tools to fight corruption as well as climate change. The Leaders' Declaration calls for the G20's Framework Working Group and the IMF to develop "indicative guidelines" to help assess the extent of global imbalances. In the form of the Seoul Development Consensus, it pledges G20 assistance to developing countries, particularly to address bottlenecks relating to infrastructure deficits, food market volatility and exclusion from financial markets. The Summit Document describes the G20's actions to support its "Framework for Strong, Sustainable and Balanced Growth" (which has a dearth of "green" components). The IMF's remit is expanded to include new types of precautionary lending and assessments of systemic risks and vulnerabilities and as well as spillover and contagion effects. It welcomes progress in shifting over 6% of IMF quota shares to underrepresented countries – however, approximately half of it comes, in the IMF's own recognition - from emerging markets, a large part of them oil-producing countries. (see analysis by [the Bretton Woods Project](#)).

The Summit document endorses the "landmark agreement" on new bank capital and liquidity standards while, at the same time, calling for further progress in addressing the risks of systemically important financial institutions (SIFIs), monitoring progress in regulating and supervising reform of derivatives markets (especially commodity derivatives), forging global accounting standards, and reining in non-cooperative tax jurisdictions. It fails to address weaknesses in capital standards (too little, too late) or call for automatic information exchange needed to rein in non-cooperative jurisdictions.

The G20 assigns different global institutions to track its performance against objectives:

- ▶ The IMF uses the Mutual Assessment Process (MAP) to assess G20 economic performance.
- ▶ The OECD, WTO, and UNCTAD assess their trade and investment policies.

▶ The World Bank tracks the G20's new "Multi-Year Action Plan for Development."

#### **1 - IMF: G20 MAP – IMF Staff Assessment of G20 Policies**

**In a Good Year, Expect Boring, Bumpy, and Below-Par (BBB) <sup>2</sup> Growth?** The MAP notes that, while both *advanced* and *emerging* economies have revised growth projections downward, both have also inexplicably predicted declines in unemployment rates. Moreover, it still views the growth projections as "distinctly optimistic," thereby calling into question the credibility of medium-term fiscal consolidation plans of the "advanced deficit" countries, such as the U.S. But, in light of sagging growth, these plans are too draconian anyway. They commit the advanced G20 economies to at least *halving* fiscal deficits by 2013 and *stabilizing* or *reducing* government debt-to-GDP ratios by 2016.

#### **The Road to Higher Imbalances?**

Clearly, the fortunes of advanced economies and emerging economies are diverging. Competitive currency devaluations are a symptom of the race to capture shrunken markets. The "advanced deficit" countries are losing the race with the MAP predicting the doubling of current account deficit positions between 2009 and 2014" and "increasingly negative contributions to growth" by net exports between 2011 and 2013.

The G20 argues that emerging market economies will fill the gaping "hole" in global demand through a massive expansion in demand despite contrary evidence, such as a projected increase in China's current account surplus from 2011-2015. Higher wages would expand Chinese demand, but the MAP is wrongheaded in calling for lower minimum wages in China and other "emerging surplus" economies.

In this and other ways, the G20 takes actions that flout [recommendations made by Ministers of Labor and Employment](#).

#### **2 - OECD, WTO UNCTAD: REPORTS ON G20 TRADE AND INVESTMENT MEASURES**

**"Dark Clouds" over Trade and Investment.** The report warns of problems including:

▶ Intensifying protectionist pressures as "dark clouds" are driven by "persistent high levels of unemployment in many G20 countries, macroeconomic imbalances between them, and tensions over foreign exchange rates."

▶ Restrictive measures taken in response to the financial crisis pose threats to market competition. As of mid-October, outstanding public commitments under emergency programs – equity, loans and guarantees for financial and non-financial firms – exceeded \$2 trillion.

Fleeing the weaker mature markets, portfolio flows to emerging markets are strong and growing while foreign direct investment (FDI) flows to G20 countries declined sharply by 36% in the second quarter of 2010. The report identifies investment-related measures taken by G20 countries which impact capital flows, such as: Brazil's restrictions on rural land-ownership for foreigners; China's increased threshold for approval of foreign-invested projects; and actions by Brazil, Indonesia and Korea to reduce the volatility of short term capital flows. It also identifies new Bilateral Investment Treaties and International Investment Agreements.

#### **3 - G20: Multi-Year Action Plan for Development (Chart)**

G20 ODA commitments to the Plan can be found [here](#).

The chart on the next two pages sheds light on the **implications of the G20 for global governance. The G20 dictates** the action plans of other global and regional bodies; stipulates lead agencies for its Action Plans; creates a new global body (Global Partnership for Financial Inclusion (GPMI)), and establishes a new multilateral trust fund. The G20 provides the mandate and directions for other governance bodies (e.g., the World Bank Board of Executive Directors; the Executive Board of UNDP), which significantly **dilutes the influence of non-G20 governments in the decision-making of global institutions.**

The Action Plan is remarkable insofar as it almost excludes discussion of its impact on climate change.



## G20 Multi-Year Action Plan for Development

| Pillars & Actions  | Agents, Scope & Deadlines   |
|--|---|
| <b>1. Infrastructure</b>   | Agents: MDBs  |
| <i>Action 1</i> - MDBs to prepare and implement action plans                                       | <ul style="list-style-type: none"> <li>▶ Conduct information and needs assessment; Improve investment climate for infrastructure; Facilitate regional integration; Address transparency and sustainability (e.g., use of environmental safeguards) By February 2011, appoint HLP to review MDB Action Plan; Identify ways to scale up financing, including through financial risk mitigation and intermediation.</li> </ul> Deadlines: Draft and final reports in June and November 2011  |
| <b>2. Human Resource Development</b>   | Agents: WB, ILO, OECD, UNESCO   |
| <i>Action 1</i> - Create Internationally Comparable Skills Indicators                              | <ul style="list-style-type: none"> <li>▶ Produce a cross-country database to assess the development of employment skills in LICs; Match training to employers' needs; Identify gaps in basic employable skills; Identify links between education; health, gender, and skills development. Deadlines: interim report-2011; final report 2012; database-2014</li> </ul>   |
| <b>3. Trade</b>  | Agents: UNCTAD, UNDP, ILO, OECD, MDBs<br>Related Initiatives: UN Global Compact; WB "Doing Business Report"; MDG Call to Action; Investment Climate Facility for Africa   |
| <i>Action</i> - Enhance Trade Capacity and Access to Markets                                       | <ul style="list-style-type: none"> <li>▶ Make progress toward duty-free, quota free market access for the least developed countries (no deadline)</li> <li>▶ Assess the need for and effectiveness of trade finance (February 2011 for meeting of Development Working Group)</li> <li>▶ At least maintain Aid for Trade levels beyond 2011; Increase support for trade facilitation; Strengthen the role for South-South cooperation; Reinforce the role of the private sector (2011 onwards)</li> <li>▶ With leadership from the AfDB, identify barriers to regional trade integration in Africa (2011)</li> </ul>   |
| <b>4. Private Investment and Job Creation</b>  | Agents: UNCTAD, UNDP, ILO, OECD, MDBs<br>Related Initiatives: UN Global Compact; World Bank "Doing Business Report;" MDG Call to Action; Investment Climate Facility for Africa   |
|  | <ul style="list-style-type: none"> <li>▶ Promote the best standards (developmental, social, environmental) for responsible private sector investment in value chains and develop indicators to measure benefits from such investment. Enhance voluntary investor compliance with these standards. Use indicators to attract investment. (June 2011; Prepare indicators by Summer 2012)</li> <li>▶ LICs should develop action plans to strengthen financial markets in order to boost small and medium-sized enterprises (SMEs); improve the business climate; support the regulatory framework for investment; and maximize the value-added of private investment. (June 2012)</li> </ul> |
| <b>5. Food Security</b>  | Agents: FAO, IFAD, IMF, OECD, UNCTAD, WFP, World Bank, WTO, UN Committee of World Food Security.<br>Related Initiatives: L'Aquila Food Security Initiative (AFSI); CGIAR; Global Agriculture and Food Security Program (GAFSP)  |
| <i>Action 1</i> - Enhance Policy Coherence and Cooperation   | <ul style="list-style-type: none"> <li>▶ Recommend: a) innovative results-based mechanisms to strengthen existing agriculture research systems and b) advanced market commitments for enhanced agricultural productivity (FAO and World Bank, by March 2011).</li> <li>▶ Identify ways to increase policy coherence for food security.</li> </ul>   |
| <i>Action 2</i> - Mitigate Risk in Price Volatility and Enhance protection for the Most Vulnerable | <ul style="list-style-type: none"> <li>▶ Develop options for G20 on how to address risks associated with price volatility of food and other agriculture commodities without distorting market behavior. ----Improve information on food stocks and production projections; provide nutrition intervention; and ensure access to humanitarian supplies.</li> <li>▶ Increase procurement from smallholder producers and strengthen their access to markets in line with domestic and regional strategies. (Medium-term)</li> </ul>  |

## G20 Multi-Year Action Plan for Development (continued)

|   |  |
|---|--|
| <b>6. Growth with Resilience</b>  | Agents: UNDP, ILO, MDBs  |
| <i>Action 1</i> - Support Developing Countries to Strengthen and Enhance Social Protection Programs | <ul style="list-style-type: none"> <li>▶ Identify lessons learned from use of social protection mechanisms in developing countries; prepare best practice guidelines for their use; recommend ways to overcome barriers that prevent knowledge-sharing among countries and the replication and expansion of programs; improve poverty data (e.g., through UN Global Pulse Initiative). (Interim report: March 2011; Final report: June 2011)</li> </ul>                  |
| <b>7. Financial Inclusion</b>   | Agents: A newly launched Global Partnership for Financial Inclusion (GPFI), the Alliance for Financial Inclusion, the Consultative Group to Assist the Poorest, and the International Finance Corporation  |
| <i>Action 1</i> - Establish the Global Partnership for Financial Inclusion                          | <ul style="list-style-type: none"> <li>▶ Launch Global Partnership for Financial Inclusion (GPFI) to implement the G20 Financial Inclusion Action Plan. In collaboration with “agents” listed above, it should advance the Principles for Innovative Financial Inclusion through multiple channels; encourage standard-setting bodies to take account of these principles; increase access to private financial services. (November 2011)</li> </ul>                     |
| <i>Action 2</i> - SME Finance Challenge and Framework for Financial Inclusion                       | <ul style="list-style-type: none"> <li>▶ A newly created SME Finance Innovation Fund as well as existing funding mechanisms will scale up successful SME financing models.</li> </ul>  |
| <b>8. Domestic Resource Mobilization</b>  | Agents: OECD Task Force on Tax and Development, UN, IMF, World Bank, regional organizations (e.g., Inter-American Center for Tax Administration and African Tax Administration Forum)  |
| <i>Action 1</i> - Support the Development of More Effective Tax Systems                             | <ul style="list-style-type: none"> <li>▶ Identify capacity needs of developing countries and make recommendations to meet them in the areas of 1) enhancing efficiency and transparency of tax administration; and 2) broadening the tax base and combating tax avoidance and evasion.</li> <li>▶ Identify ways to help developing countries’ tax multinational enterprises through effective transfer pricing. Deadlines: Unless otherwise noted, June 2011.</li> </ul> |
| <i>Action 2</i> - Support Work to Prevent Erosion of Domestic Tax Revenues                          | <ul style="list-style-type: none"> <li>▶ Expand efforts to counter the erosion of developing countries’ tax bases and highlight the adverse impacts of tax evasion by non-cooperating jurisdictions on development. (November 2011)</li> </ul>   |
| <b>9. Knowledge Sharing</b>   | Agents: Task Team on South-South Cooperation, UNDP   |
| Action - Enhance the Effectiveness and Reach of Knowledge Sharing                                   | <ul style="list-style-type: none"> <li>▶ The agents should recommend how knowledge-sharing can be scaled up, including by broadening knowledge sources, improving brokering functions, strengthening the dissemination of best practices and expanding funding options. (June 2011)</li> </ul>   |



### Links - Seoul Summit Documents

**G20:**  
[The G20 Seoul Summit Leader's Declaration \(Communique\)](#)

[The Seoul Summit Document](#)

[Seoul Development Consensus for Shared Growth](#)

[Multi-Year Action Plan on Development](#)

[G20 Anti-Corruption Action Plan](#)

[Policy Commitments by G20 Members](#)

**Financial Stability Board:**  
[Report of the FSB to G20 Leaders](#)

[Letter by FSB Chairman to G20 Leaders on progress of financial regulatory reforms](#)

**IMF:**  
[Mutual Assessment Process \(MAP\) - IMF Staff Assessment of G20 Policies](#)

**World Bank:**  
[Report prepared by Staff of the WB for G20 Growth Framework and Mutual Assessment Process](#)  
**OECD & UNCTAD:**

[Fourth Report of G20 Investment Measures](#)

**WTO:**

[Report on G20 Trade Measures](#)

# Outcomes of the Seoul Summit

## A litmus test for the future of the G20 and the search for “Seoul mates” in Africa

By [Dimpho Motsamai](#)

The Pittsburgh Summit in September 2009, which announced that the G20 will in future replace the G8 “as the premier forum for international economic cooperation”, further cast the spotlight on the Group’s legitimacy and effectiveness as an informal forum. This **shift from the G8 towards the G20 aroused much debate in Africa**, since a large number of select African leaders were continually invited to participate in G8 summits. With South Africa as the only African country in the G20, most of Africa has been genuinely preoccupied with the issue of better representation, particularly against the background of the continent’s diverse socio-economic realities. The **inclusion of development issues in the Seoul Summit agenda intensified the representational legitimacy debate**. It also increased the burden on South Africa to deliver on its promises of representing African concerns and interests at the summit. This is in spite of the fact that, strictly speaking, Africa has arguably remained peripheral to the core interests and mandate of the G20.

Originally established in 1999, as a ministerial meeting in the aftermath of the Asian financial crisis, the G20 was

‘upgraded’ in 2008 into a summit to address the short-term impact of the global financial crisis. Not only has its impact and role during the global financial crises been questioned; its authority and legitimacy has also come under scrutiny, particularly given its status as a ‘loose’ informal forum rather than a formal global governance actor. Although the G20 symbolically reflects the growing recognition of “power shifts” in the global order and also the differing interests, values and visions of a post-Washington consensus world, the symbolic shine it heralded is rapidly waning. A clear manifestation of this could be found in the formal protest lodged with the UN Secretary General earlier in the year against it by the so called Global Governance Group (3G), an alliance of excluded small and medium-sized countries from both the North and South.

Overall, the non-participation of many global actors in the meetings of the G20 and the growing perception that the group is unlikely to cater to their interests has raised questions about the value added by the group, particularly with regard to African countries’ development agenda. Skeptics have argued that the exclusivity of the group may hinder prospects for

alternatives to the power and dominance of the G8 in the global governance architecture. These debates became more intense, after the decision to adopt a development agenda at the Toronto Summit in 2010. The contention is that the Heiligendamm/ L’Aquila process initiated in 2007 by the G8 and G5 already speak to many development issues relevant to developing countries, especially Africa. Against this background, the broadening of focus to development at the Seoul 2010 Summit has been seen variously as: a response to growing criticism and suspicions over the G20’s agenda; a strategy to avoid losing relevance with the fading away of the financial crisis; or a legitimate response to addressing current concerns of developing countries in a more holistic manner.

While the G20’s effectiveness as a crisis-management forum has been debatable, **the outcomes of the Seoul Summit are instrumental to its future**. The summit’s development agenda was launched through the establishment of a Working Group on Development, also intended to coordinate G20 work and that of the UN in achieving the MDGs. The working group was co-chaired by South Africa, further raising hopes for tangible outcomes on African issues. Although members of the G20 have no mandate to represent the views of any country other than theirs, South Africa’s public diplomacy at Seoul, created the unrealistic expectations that it will represent the interests of the rest of the continent. Any failure by South Africa to live up to this could later fuel resentment from SA’s continental constituencies. This is particularly so given that the G20 forum does provide individual countries with opportunities to make important trade-offs to enhance national economic interests which could, at times, be at odds with group/ regional interests.



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South Africa's role in the Financial Stability Board is a case in point where the country cannot speak authoritatively on economic agendas of other countries. Domestic economic recovery was a priority matter, given domestic pressures for service delivery, especially ahead of the local government elections in 2011. Promoting human security back home

**“Since securing legitimacy is highlighted as a priority, what are the mechanisms for reaching out to non-member states in Africa including non-state actors?”**

augurs well for the ANC-led government's support base, as well as its abilities to contribute to the region's development. Nonetheless, in an environment where developed countries and emerging economies do not meet as blocs representing the North and South, finding a balance between solutions to African problems, and domestic interests can be tricky. SA did present the Action plan developed by the Committee of 10, (comprising finance ministers and central bankers from various African countries) with the involvement of the African Development Bank, the Economic Commission for Africa and the African Union Commission. However, these efforts are often not acknowledged. When they are recognized, they largely serve to expose South Africa's position as the sole African country at the forum, subjecting it to further scrutiny. This is arguably more a case of G20's under-performance and incapacity to solve African problems, as opposed to an implicit anti-South African sentiment.

According to the final Summit Declaration, the consensus complements commitments toward the attainment of the Development Goals (MDGs) and also charts implementation measures under the Multi-Year Action Plan on Development. The Communiqué identifies “nine development pillars requiring action” to give more impetus to growth in developing countries. These include

“Infrastructure; human resource development; trade; private investment and job creation; food security; growth with resilience; financial inclusion; domestic resource mobilization; and knowledge sharing.” (See previous article.) Debatably, the foregoing issues are not new; have always received broad global consensus; and have been reflected in previous G20-meetings. In actual fact, the Communiqué reinforces Africa's development challenges that have remained constant on the continent's development agenda. The declarations are unlikely to allay concerns about trade gaps, protectionism and ongoing currency tensions; especially without pragmatic, problem-oriented agendas, with defined implementation strategies.

The test that remains for the G20 is mainly systemic and institutional. Will members be mandated to act collectively or individually in pursuance of the goals? Since securing legitimacy is highlighted as a priority, **what are the mechanisms for reaching out to non-member states in Africa including non-state actors?** The Communiqué is as much impenetrable as it is vague and declaratory. Although it rubber-stamps existing initiatives, substance on specific targets on issues

most pressing to African economies (resuscitating the Doha Development Agenda; reviving dormant initiatives toward increased investment and partnerships; support to climate change adaptation among others) are lacking. Similarly, recommendations for reforming aid, including new proposals for strengthening tax regimes in developing countries, developing ‘infrastructure action plans’ for lower income countries, and measures to stimulate private sector investment, are not country specific. Development cooperation arrangements should be defined, mindful of short-term tactics/targets, which can entrench dependency and underdevelopment. As the saying goes, what you get for free costs too much. How these issues are addressed and articulated in coming months will not only ascertain the usefulness of the Seoul agenda, but also the relevance of the G20 summitry to Africa's needs.

**On the domestic front, the utility of the G20 summitry to South Africa continues to be apparent.**

This is where the tensions of South Africa's position as an emerging-market economy coupled with its own domestic political economy complexities and responsibilities may be attended to. The long-held view by South Africa that G20 membership provides the opportunity to make African voices heard in the debates on global economic equality, and the form that the new international financial architecture should take, should be acknowledged. Of course, the challenge and promises made at informal multilateral tables relate to the inertia inherent in the institutional architecture of multilateral arrangements and the inability to mount collective problem-solving strategies. Realistically however, emerging countries like South Africa are relatively new actors in global economic governance, and their capacities for coordinating mechanisms for regional economic interests are limited. Understandably, consolidating its basis for long term economic competitiveness and political influence, will maintain its influence in the G20. This means



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that South Africa is justified in prioritizing domestic economic and social development issues, as this is required for strengthening its regional and global influences.

Discussions at the G20 do shape national agendas on various policies relating to trade, exchange rates, and financial sector regulation. Because of South Africa's integration into the global economy, strategic decisions on exchange rate regimes, the strength of the Rand and impact on South Africa's strong commodity sectors are crucial in determining responses to external shocks. Despite an improved monetary and fiscal position, increased spending in social services and a significant increase in GDP growth, South Africa continues to face both structural and social challenges. Speaking after his return from the summit, South African Finance Minister Pravin Gordhan, noted some medium-term solutions that would emerge from the Seoul discussion. He however added that South Africa would be seeking to balance its immediate national interests with activities that facilitate stronger partnerships within the southern African region.

**“Discussions at the G20 do shape national agendas on various policies relating to trade, exchange rates, and financial sector regulation.”**

This implies that domestic economic relations, commercial and technical partnerships were foremost priorities in Seoul. At the same time, and consistent with its foreign policy, South Africa was also mindful of facilitating dynamic opportunities for the region's development. The South African Chamber of Commerce and Industry, along with other South African companies participated in the **Seoul G20 Business Summit**, which served as the prelude to the summit. The business summit convened several G20 leaders, along with 120 top business executives from G20 and non-member countries. **The direct outcome was a Seoul G20 Business Summit Joint Statement, which endorsed recommendations on corporate**

**investments in trade and foreign direct investment, green growth and corporate social responsibility.** Arguably this may lead to prospects for collaborations between various South African companies and their counterparts elsewhere.

The momentum generated by G20 summits and the build up to the summit can also push governments to invigorate dormant bilateral agreements and up-scale the stature of strategic diplomatic relations. Prior to the summit, South Korea signed a nuclear power cooperation agreement with South Africa in October, which also encompasses research and development and the exchange of personnel. This was in anticipation of securing lucrative deals for its companies in South Africa's power development projects, including the construction of nuclear plants. Such agreement augurs well for South Africa, as it searches for investments in energy infrastructure and long-term energy development strategies to meet growing energy demands.

Similarly, in May 2010, Japan started negotiations regarding future co-operation on nuclear energy with South Africa. The bilateral engagements additionally explore the potential for expanded and diversified bilateral trade. The reconfiguring of world power, as illustrated by increasing geopolitical influence among the emerging power groupings within the international system led by China also has an impact on trade and commerce relations at state and regional levels. **Countries like China, India, Brazil – with which Pretoria seeks BRIC collaboration – view South Africa as a regional economic and financial services leader; a strategic and crucial commodities trade partner; and a stepping stone to access other African states.** South Africa will pursue bilateral G20 relations strategically to instigate state action in the economy and implement the new economic growth path, intended to facilitate job creation, poverty alleviation and increased private sector development.

Global summitry has become institutionalized, along with the growing appreciation of the value of informality in facilitating discussions and the diplomacy function of summits. Since diplomacy is the main instrument in state interaction, summits like the G20 provide South Africa with opportunities for initiating and consolidating bilateral relations, specific and relevant to its socio-economic challenges. Therefore, summitry diplomacy in the G20 can indeed deepen South Africa's economic and political relations, and also heighten the collective influence of the participating states. Lastly, the value added of the membership raises the profile of South Africa as a capable international partner by increasing opportunities for strategic self-presentation for the country, given its aim to create reputational capital through promotion of political, economic and social interest. Summit diplomacy, as demonstrated at Seoul will go a long way in instilling confidence to the consistent application of South Africa's global ambitions, regional objectives and domestic interests.

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# G20 MUST READS

## Strengthening the Framework for G20 Engagement of Non-Members by the Global Governance Group (3G)

Link: [http://www.un.org/ga/search/view\\_doc.asp?symbol=A/64/706&Lang=E](http://www.un.org/ga/search/view_doc.asp?symbol=A/64/706&Lang=E)

Ever since the creation of the G20, there were three broad sets of reactions among the states of the international community: one accepted it as a positive development; another as negative; and a third simply ignored it. Singapore, on the other hand, assumed a pragmatic position and floated some innovative ideas to “strengthen the G20 process” and bring it within the parameters of the UN. Hence, they led the creation of the Global Governance Group (3G), in a sense a “pressure-group” to render the G20 process **more consultative, inclusive and transparent**. Member-states are, among others, Botswana, Brunei, Chile, Costa Rica, Malaysia, New Zealand, Qatar, Senegal, Singapore, Switzerland and Uruguay.

In this letter to the Secretary-General of the UN, the grouping outlines its purpose and goals. In essence, they believe that for the G20s deliberation to be translated into effective actions, appropriate mechanisms to engage and consult a wider range of countries are needed. For example, they see it as **important that the G20 engages with the UN** through predictable and regular channels, including consultations with the wider membership before G20 summit. In addition, the 3G proposes the use of “variable geometry” configurations to allow non-G20 states to participate in Ministerial gatherings on issues of specific concern to them.

For a more detailed analysis of the 3G, have a look at the Working Paper titled: [▶ The Global Governance Group - Can Small be Significant?](#)

## Did the G20 Lose its Seoul? by the Carnegie Endowment for International Peace

Link: <http://carnegieendowment.org/publications/index.cfm?fa=view&id=41968>

In a surprisingly positive reading of the Seoul Summit, this article provides a very pragmatic view in bringing the expectations of the G20 back to earth. While agreeing that the group has lost much of the cohesion of its early days, the authors make the point that because the G20 involves the large developing countries as equals with the large advanced countries, it remains a large improvement on the anachronistic G8, and an essential forum for forging broadly shared global agendas.

Moreover, they define the lack of concrete and hard targets on current account deficits to handle economic imbalances not as a failure, but in fact one of the Summits most reassuring outcomes. The goal of the G20, they believe, is not to rebalance global demand but rather to promote strong, sustainable, and balanced growth – and end result that can benefit all countries, and of which reduced imbalances may or may not be an ancillary outcome.

The two action plans endorsed by the summit – the Multi-Year Action Plan on Development and the Anti-Corruption Action Plan – expanded the group’s purview from crisis prevention and taking over issues traditionally left to the less-inclusive G8.

To conclude, the authors argue that the G20 is proving to be a fairly effective coordinating mechanism for the world’s major economies and that those observers who expect it to be a short-term change agent will continue to be disappointed, but those who expect it to provide strategic direction to international economic relations over the long term will be reassured.

## The G20 and Global Development: Which Road to Take? by the German Development Institute

By Thomas Fues & Peter Wolff

Link: [http://www.brookings.edu/~media/Files/rc/reports/2010/1109\\_g20\\_summit/g20\\_fues\\_wolff.pdf](http://www.brookings.edu/~media/Files/rc/reports/2010/1109_g20_summit/g20_fues_wolff.pdf)

The authors see the G20 not as a continuation of the G8, but rather heralding a new era in world politics. In order for it to gain a legitimate place in the global governance architecture, the G20 should assume a leadership role in global public policy that takes into account the specific needs of developing countries while striving for universal justice. In addition, Fues and Wolff believe that the G20s fate is yet to be determined and see the remaining member states of the UN, as well as non-state actors from civil society and the corporate sector affecting the design, implementation and outcome of global strategies adopted by the G20.

Compared to the past efforts of the G8 toward low-income countries, particularly Africa, the G20 agenda has so far been conspicuously devoid of ethical underpinnings. The authors argue that the G20 in fact can and should become a relevant actor for global development, but not follow the road of the G8, which has become famous for announcing a myriad of well-intentioned programs without much effort of implementing them. Instead, and in close consultation with relevant bodies at the UN, the new summit architecture should concentrate on a strategic role in designing a global framework for pro-poor growth and sustainability in developing countries.

This article is part of a larger publication by The Brookings Institution: [Think Tank 20: Global Perspectives on the Seoul G20 Summit](#).

# Civil Society Campaigning on the G20 Agenda

By [Sarah Anderson](#)

For a more detailed view on what actions are taken by Civil Society to respond to the Global Financial and Economic Crisis, please have a look at Sarah Anderson's recent paper:

## [Civil Society Responses to the Global Financial and Economic Crisis](#)

It includes case studies on bank accountability, FTT (financial transaction tax) and commodities speculation.

French President Nicolas Sarkozy has vowed to put several issues on the agenda of the G-20 in 2011 that have already been the focus of global civil society campaigns. Two examples: financial transactions taxes (FTT) and commodity speculation.

A wide range of labor, development, climate, global health, financial reform, and other groups have been working together for more than a year to promote the idea of placing a small levy on each trade of stocks, derivatives, currency, and other financial instruments as a way to generate revenues for jobs and other domestic and international needs. Such taxes could also discourage the short-term financial speculation that has little social value but poses high risks to the economy.

In the lead-up to the Seoul G-20 summit, activists organized a [global civil society statement](#) in support of financial speculation taxes that was endorsed by 183 organizations from 42 countries.

The statement cites several examples of how some unexpected sources have recently strengthened the case for an FTT. For example, an [IMF technical paper](#) points out that most G20 countries have already

implemented some form of transaction tax and offers tips on designing the taxes to make them most effective.

Global activists are also coming together to push for an end to excessive speculation in commodities markets. Although a complicated issue, commodity trading affects everyone in direct and personal ways through the price of food and gas.

In 2008, the United States had the highest food inflation rates since 1980. In many of the world's poorest countries, food price spikes sparked rioting. Speculation alone did not cause rising food prices, but excessive speculation in the commodity futures markets dramatically exacerbated the volatility of world food prices.

The U.S. financial reform bill enacted in July made some progress in increasing the transparency of derivatives markets, and U.S. and European activists are working together to help win similar changes in EU laws. But the U.S. reforms did not address the problem of [commodity indexes](#). A surge of investments in these funds by pension funds and endowments is a factor in price volatility.

A coalition of family farm, faith-based, and anti-hunger groups, along with business associations, has initiated a campaign to persuade investors to pull out of commodity index funds. Their first target: CALSTRS, the California teachers' retirement system, which had been considering shifting \$2.5 billion of its portfolios into commodities. In response to the divestment campaign, the [CALSTRS board decided](#) on November 4 to invest no more than \$150 million in commodities for 18



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months, while further studying the potential problems.

Next steps will be to develop university campaigns for students and teachers to pressure their endowments to divest from commodities and to develop appropriate targets in other countries. The first G-20 Agricultural Ministers meeting, to be hosted by France in the spring of 2011, will be another key opportunity to raise awareness of the problems with commodity speculation.

Beyond their immediate goals, these campaigns have proved useful tools for the basic financial education needed to strengthen the capacity of global civil society to engage in the G-20 process.

Sarah Anderson directs the Global Economy Project of the [Institute for Policy Studies](#) and is the author of a new report on Civil Society Responses to the Global Financial Crisis. Her current work includes research, writing and networking on issues related to the impact of international trade, finance, and investment policies on inequality, sustainability, and human rights.

# G20 approach to SIFIs

## Systemically important financial institutions & global banks

By **Aldo Caliarì**

In the wake of the events that triggered the global financial crisis in 2008, many governments confronted a perverse choice. Should they let giant banks fail and be restructured, possibly unleashing a cascade of failures in connected financial firms at home and abroad? Or, did they spend taxpayer money to bailout such giant banks and risk an angry response from the people who saw their taxes being used to rescue the very institutions whose reckless behavior was responsible for massive losses of jobs and services? It is no surprise that, after choosing the latter option, the desirability of keeping large global firms was the subject of intense political debate. What is surprising is how little has been done on the matter after more than two years, especially by the Group of 20 (G20), the main body formed to respond to the emergency.

The Bank of International Settlements saw a threat in downsizing global banks. The BIS warned that “By reducing the need to have lenders located physically near borrowers, international banks facilitate trade in goods and services as well as the cross-border movement of capital.” Several scholars and regulators, on the other hand, took issue with the view that global banks were unqualified blessings. Perhaps the most articulate challenge came from the UK Financial Services Authority. Bank of England’s Andrew Haldane argued that “the maximum efficient scale of banking could be relatively modest. Perhaps it lies below \$100 billion. Experience suggests there is at least a possibility of diseconomies of scale lying in wait beyond that point.”

At their Summit in Seoul in November, G20 leaders were expected to focus on the issue of how to ensure that the large bailouts of global banks, as seen in the 2008-09 financial and economic crisis, were never required again. It is comforting that their statement affirms the principle

that “no firm should be too big or too complicated to fail and that taxpayers should not bear the costs of resolution.”

Nonetheless, one could paraphrase Simon Johnson in stating that, when you have firms that are too big to fail, the assurance that they will not be bailed out is not worth the paper it is written on.

Looking at the menu of measures that the G20 is considering, the idea of mandating banks that are too big to split up has clearly been discarded. There is no mention of caps on bank size. Indeed, as these measures have been excluded from the financial reform passed in the US—and they are nowhere in sight in the European legislative reform debate—it is unlikely that they could have been adopted. Not just as a matter of political will, but because these are the jurisdictions that are home to most of the large global financial firms. The recently-passed Dodd–Frank legislation settles for a mandate for a newly-created council of financial regulators (the Financial Stability Oversight Council) to break up financial firms that pose a grave threat to the financial stability of the US. Observers argue such action is unlikely to ever be taken. Given that there is hard evidence that some firms are definitely too big to fail already, reducing the size of those firms would have been a good place to start and where a direct ruling from Congress would have been warranted. Instead, an amendment introduced by US lawmakers that would have limited

banks’ size to 2 % of GDP, was voted down.

A practical – and easy to verify-- reflection of the status of financial institutions that are “too big to fail” is the rating subsidy that they enjoy. In other words, rating agencies give a boost to the rating of these firms because they assume the government will be forced to back them up with public funding in case of turmoil. Ratings for the biggest banks remain unchanged after the passage of the financial reform in the US. The rating subsidy is having immediate impacts on the diversity of the banking sector. It was recently reported that, as the list of bank failures in the US continues to increase, the average size of failing banks is falling – a sign that the banks that fail tend to be of smaller size. Smaller banks are also suffering most of the burden of the credit-quality problems and because of their weak financial position they will likely not be able to attract much-needed fresh capital from investors and depositors. Therefore, the concentration in the banking sector is increasing. In this dynamic, the improved credit ratings enjoyed by big banks are not without consequence.

The G20 endorses the proposals of the Financial Stability Board, which include: “A resolution framework ... to ensure that all financial institutions can be resolved safely, quickly and without destabilizing the financial system and exposing the taxpayers to the risk of loss.”

There are reasons to be skeptical that this can be done in a single jurisdiction, let alone on a global basis. For one, the US financial reform does not, in the eyes of several critics, ensure that a large institution can be resolved. The steps to do so are too cumbersome and do not suit the rapid timelines of the market in these situations. Market sentiment “turned on a





dime” during the discussions about bailouts of AIG and Bear Sterns. If quick resolution is difficult to imagine in a single jurisdiction, then for the banks with global reach and operating across borders—precisely the ones for which a resolution framework would be most needed — the task is daunting to the point of impossibility. Indeed, this was the opinion expressed by several regulators themselves in the lead up to the Seoul Summit.

**“When you have firms that are too big to fail, the assurance they will not be bailed out is not worth the paper it is written on.”**

The G20 supported the requirement that “SIFIs and initially in particular financial institutions that act globally (G-SIFIs) should have higher loss absorbency capacity to reflect the greater risk that the failure of these firms poses to the global financial system;” In this context, the G20 encouraged “further progress on the feasibility of contingent capital and other instruments”.

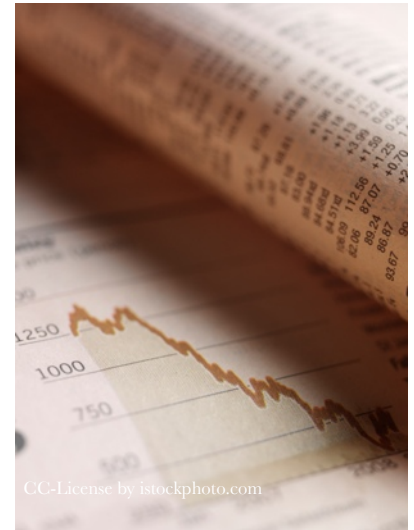
This is a reflection of the thinking that prevailed before the crisis: capital requirements for banks will insure against a financial meltdown. The main elements of a Basel III agreement were approved earlier this year. It has tripled the percentage of capital that banks are required to hold in the form of common equity – the form of capital with the highest capacity to absorb losses. It also establishes a leverage ratio that is measured as a ratio to total assets, so banks will not be able to play games with the risk weightings of their assets. But because Basel III leaves intact the system that relies on banks’ own systems for risk assessments, detecting emerging problems with the structure of capital will be difficult even for the finest of regulators. What complicates the story in the case of large banks operating globally is that they can report capital requirements in the aggregate and arbitrage across each jurisdiction requirements. Some policy-makers have dubbed this as an advantage. In the words of the IMF Head, Mr. Dominique Strauss Kahn, “If banks have to lock up pools of liquidity in every national jurisdiction, their capacity for intermediating capital

across borders could fall, and their charges for doing so rise, to the detriment of the world economy.” But the recent experience has shown just how ephemeral that advantage can be in a situation of crisis, as banks will quickly retrench to their home jurisdictions becoming, in the process, factors of contagion.

The Basel Committee on Banking Supervision announced that stricter capital requirements would be implemented for “systemically important financial institutions.” But agreements on this, expected for Seoul, have now been postponed into next year. The approach will be difficult to achieve. Reports from last year indicate the BCBS holds a draft list of 30 to 40 institutions that fit this category. This is a small portion of globally operating institutions. However, it is unclear how the BCBS will determine whether an institution belongs into this category, especially as the factors that may trigger systemic risk fluctuate over time. In addition, it is becoming increasingly clear that if there are stricter requirements, banks will be allowed to comply with them via so-called contingent capital instruments. These are hybrid instruments that would, upon determination by the regulator, convert debtholders’ stakes in a bank into loss-absorbing capital. Other proposals include “more intensive supervisory oversight” and “robust core financial market infrastructure to reduce contagion risk from individual failures.”

But saying that supervisors should exert more intense oversight of certain firms is not the same as making it happen. Not only political, but also technical constraints run against allowing regulators to adequately monitor what is happening in large banks, especially if they engage in a broad range of activities across many legal and supervisory jurisdictions.

The reform of market infrastructure is, actually, a condition for the resolution frameworks mentioned above to work. In the absence of such reform, the opacity of derivative markets would make large firms into such a web of cross-exposure that resolution becomes a threat to the system. Unfortunately,



the debate around the US legislation proves that, short of a prohibition on all OTC derivatives, there will always be a portion of the market – possibly a significant portion -- that cannot be brought onto exchanges. This dashes hopes for greater transparency related to major systemic risks. One can take measures to mitigate such risks – for instance, non-cleared trades are subject to higher margin requirements in the US legislation—but never to eliminate it.

Getting clarity on the web of potential interconnections among financial firms will be impossible as long as there is no decisive action to tackle the so-called “shadow banking system.” This latter actually rivals the banking system in size (See <http://www.imf.org/external/pubs/ft/bop/2010/10-23.pdf>)

Financial crisis will, undoubtedly, continue to happen. The objective of a financial reform is not that they will be avoided, but to reduce their number, scope, impacts and contagion, and to ensure their distributional consequences are fair. Against these parameters, the absence of significant global action against too-big-to-fail is just too bad. Policy-makers across the world will continue to be in the unenviable position of choosing between rewarding misjudgments in risk-taking by those who profited in good times, or letting whole economies be ravaged.

Aldo Caliari is the director of the Rethinking Bretton Woods Project at the [Center of Concern](#).

# G20 Database & E-Mail Group

## Stay informed

### Database

If you would like to read more on the G20, recent changes in Global Governance and what it means for specific regions or issues, the G20 Database of the Heinrich Böll Foundation is the right place to go. It is subdivided into the following folders, so you can easily access the analysis and information that is of interest to you:

| Folder Structure of the Database |                             |
|----------------------------------|-----------------------------|
| 1 -                              | Background                  |
| 2 -                              | Summits                     |
| 3 -                              | Issues                      |
| 3.1 -                            | Finance                     |
| 3.2 -                            | Climate Change              |
| 3.3 -                            | Development                 |
| 3.4 -                            | Energy                      |
| 3.5 -                            | Trade                       |
| 4 -                              | Country Specific            |
| 5 -                              | Power Dynamics              |
| 5.1 -                            | Within the G20              |
| 5.2 -                            | G20 to non-members          |
| 5.3 -                            | International Organizations |
| 6 -                              | Civil Society               |

In addition, every folder contains both a Word and PDF document with annotations of the documents included in the folder.

The database is designed in a way that every member can add documents himself, which are then instantly synchronized so that everyone can access it. This is a great way to share information and build up institutional capacity.

If you would like to know more about the Database or sign up for access please send an Email to Sandro Gianella at [gianella@boell.de](mailto:gianella@boell.de). To get started right away, here are the 3 easy steps to install the Database on your computer:

1. Install the Programm "Dropbox" from <https://www.dropbox.com/install>
2. Write to [Sandro Gianella](mailto:Sandro Gianella), who will send you an Email invite to share the G20 Database folder.
3. Accept the invite and you should be able to access the database through a Dropbox icon on your Desktop.

### E-mail Group

In addition, the Heinrich Böll Foundation is part of an international network of NGOs and policy-analysts, which have set up a G20-related E-mail Group.

To subscribe, send email to: [alternative-g20+subscribe@googlegroups.com](mailto:alternative-g20+subscribe@googlegroups.com)

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To customize your subscription, go to <http://groups.google.com/group/alternative-g20> (but you need to create a Google account, if you do not have one)

Replies automatically go the whole group. To minimize email traffic, please do only reply to the whole group if necessary. There is no moderation.

The G20 Database is meant as a way for the Heinrich Böll Foundation and its partners to share and collect information surrounding the G20 and related issues.

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