

From the G8 to the G20: reforming the global economic governance system

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ABSTRACT

The paper reviews the thematic and institutional developments in the context of the G8 and G20 summits from November 2008 until the end of 2009. It first analyses the topics and results of the four summits at leaders' level in Washington, London, L'Aquila and Pittsburgh. Subsequently, the paper examines three possible scenarios for the future relationship between the G8 and the G20 under the labels competition, cooperation or co-existence. It concludes that the G8 will not be abolished as a consequence of the newly-upgraded G20, but will instead become a more informal coordination forum ahead of the G20. The G8 will most likely focus on foreign and security issues, while the main financial and economic questions will be discussed within the new G20.

Keywords: G8 · G20 · Institutional Reform · Global Financial Architecture · Financial Crisis · Financial Regulatory Reform · IMF · Financial Stability Forum · G8-Outreach · International Trade · Global Imbalances

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A. INTRODUCTION: WHAT A DIFFERENCE A YEAR CAN MAKE

The recent financial crisis has depicted a critical juncture in economic and financial policy-making, triggering profound changes in the system of global governance – particularly in the area of G group summity. Over the course of the crisis, formal and informal international coordination venues and fora have proliferated. Yet the most far-reaching development in 2008 and 2009 has been the establishment and permanent institutionalisation of the leaders' G20 forum: The group that started as a ministers' round on financial stability roughly ten years before has made a remarkable career over the past twelve months.⁵

The chapter reviews the thematic and institutional developments in the context of the G summits from November 2008 until the end of 2009. It first traces the four summits at leaders' level before portraying possible scenarios for the future relationship of the G8 and the G20. The last section provides an outlook and concludes the paper.

B. SUMMIT HOPPING 2008 & 2009

Over the review period, the world saw a proliferation of G summits at leaders' level⁶: In November 2008, the G20 gathered in Washington. In 2009, the G20 met in London in April and in Pittsburgh in September, while the G8 convened in L'Aquila, Italy, in July.

I. First G20 summit in Washington at leaders' level, November 2008

As the world was hit by a rapidly-deepening financial crisis in the wake of the Lehman Brothers' bankruptcy in September 2008, then-US President George W. Bush called a "Summit on Financial Markets and the World Economy" in Washington, DC, on 15 and 16 November. The meeting, at which the representatives of the world's twenty leading countries and of relevant international organisations were present, was aimed at understanding the

⁵The original finance ministers' G20 consists of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi-Arabia, South Africa, South Korea, Turkey, the UK, and the US. The 20th member is the EU, which is represented by the rotating Council presidency and the European Central Bank. In addition, the IMF, the World Bank and the chairs of the International Monetary and Financial Committee (IMF) and Development Committee (World Bank) also participate. Several other countries took part in the G20 leader's summits of 2008 and 2009: The Czech Republic and Sweden (as European Presidency representatives in Washington 2008 and London 2009; and Pittsburgh 2009, respectively); Spain (all three summits); the Netherlands (all three summits), Ethiopia and Thailand (as representatives of NEPAD and ASEAN in London 2009). However, given the group's informality and recency, membership is not fixed and can be changed by the individual presidency.

⁶Even more meetings took place at ministers' or official level. The paper focuses on the leaders' summits that structure the ongoing work of the international summit community and receive the highest public attention.

causes and cures for the crisis; at reaffirming the commitment to an open global economy and the fight against protectionism; and at rebuilding confidence in the global financial markets by demonstrating international political unitedness and cooperation.⁷

Discussions included *inter alia* better regulation of all financial service providers, markets and products (including hedge funds); an enhanced supervision of rating agencies; an increase in consumer protection in financial products; the curbing of tax havens; a reform of international financial institutions in favour of emerging countries' representation; and adjustments to managers' remuneration policies. Above all, the meeting was intended to identify broad principles for reforming the financial and regulatory system rather than to spell out concrete policy recommendations. The leaders developed an action plan with 47 short- and medium-term action points to be elaborated and implemented subsequently.

The meeting can be considered historical not for the results achieved, but for the change in international governance structures that it heralded: Instead of convening an additional G8 meeting in autumn 2008, it was decided that the old forum was not the appropriate venue to discuss the global financial crisis' causes and solutions. The Washington summit lifted the G20 – a group that until then had only existed at the level of finance ministers and central bankers – to the leaders' level, laying the institutional foundation for a revised membership structure of the summits in the following months.

II. Second G20 summit in London, April 2009

On 2 April 2009, the heads of states of the G20 met in London for the second time in order to continue coordinating their crisis management and to "restore confidence, growth, and jobs."⁸ As a measure to dampen the financial crisis' repercussion, G20 countries pledged 1.1 trillion USD for the International Monetary Fund (IMF) and other multilateral organisations, consisting of 750 billion USD of direct aid and 250 billion USD in special drawing rights (SDR) for the IMF, as well as 100 billion USD for multilateral development banks to increase lending.

⁷Declaration, Summit on Financial Markets and the World Economy, Washington, DC, 15/11/2008, http://www.g20.org/Documents/g20_summit_declaration.pdf (last accessed 13/11/2009).

⁸G20, The Global Plan for Recovery and Reform, London, 2/4/2009, <http://www.g20.utoronto.ca/2009/2009communique0402.pdf> (last accessed 28/10/2009).

Furthermore, UK Prime Minister Gordon Brown announced in his role as G20 president the establishment of a “new world economic order”: Most importantly, the G20 leaders agreed to create a Financial Stability Board (FSB), replacing and expanding the former Financial Stability Forum.⁹ Together with the IMF, the newly-established FSB was to be designed as part of an early-warning system to identify and address international macroeconomic and financial risks. With regard to global financial regulatory reform, the G20 agreed among other issues on the following measures in form of the “Declaration on Strengthening the Financial System”¹⁰: an increase of capital buffers in good times and the enhancement of the quality of capital; a gradual adoption of the Basel II framework for all G20 countries – including the United States; the registration of hedge fund managers; the standardisation of the credit derivatives markets; and the development of global accounting standards. In addition, the G20 decided that compensation practices had to be consistent with the long-term goals of banks and companies and should support prudent risk taking.

A further key issue at London was the abolishment of tax havens. On the basis of the previously-published OECD list of non-cooperative jurisdictions (black and grey list),¹¹ the targeted countries increased their commitment to implement international standards for the exchange of tax information. The G20 pushed for greater action against countries that continued to be unwilling to cooperate and promised in the final document: “The era of banking secrecy is over.”

III. G8 summit in L’Aquila, July 2009

The topic that received most attention at the G8 leaders’ summit in L’Aquila, which took place from 8 to 10 July 2009, was climate change. Further discussions centred on security issues; development policy – especially with a view to Africa; and trade. The summit took place in the face of the ongoing global financial and economic crisis. Yet, while many references were made to the economic situation of the previous months, hardly any concrete steps or decisions were taken in this area. In fact, especially the US administration conceived

⁹The new FSB includes all G20 members, Spain, Hong Kong, the Netherlands, Switzerland, as well as representatives from the BIS, OECD, ECB and the European Commission, the IMF, The World Bank and some further standard-setting bodies. See FSB, Members, <http://www.financialstabilityboard.org/members/links.htm> (last accessed 11/11/2009).

¹⁰G20, Declaration on Strengthening the Financial System – London Summit, 2/4/2009, <http://www.g20.utoronto.ca/2009/2009ifi.pdf> (last accessed 24/11/2009).

¹¹OECD, A Progress Report on the Jurisdiction Surveyed By the OECD Global Forum in Implementing the Internationally Agreed Tax Standard, Original Report of 2/4/2009, <http://www.oecd.org/dataoecd/38/14/42497950.pdf> (last accessed 11/11/2009).

of the 2009 G8 summit in L'Aquila rather as an intermediate step with regard to questions of world economic and financial order.¹²

1. Climate Change

Similar to past years' summits, the leaders' G8 meeting in 2009 was dominated by the debate over global warming. In the run-up to the UN Climate Change Conference (COP15) in Copenhagen at the end of 2009, the L'Aquila summit intended to send a signal of the industrialised states' willingness to come to an agreement and to encourage emerging countries to offer further emission reductions themselves. For the first time, the leaders of both the G8 and big emerging countries agreed within the framework of the Major Economies Forum (MEF)¹³, which took place on the second day of the summit, that climate change must be restricted to two degrees. In order to achieve this goal, the industrialised states committed to reducing their emissions by 80% or more until 2050. However, no target was formulated for the period until 2020, the reference time horizon of the UN discussions. Furthermore, no concrete steps were taken to finance the necessary emission reductions and climate mitigation schemes.

2. Africa

Another recurring topic of G8 summits is developing aid, particularly towards Africa. In order to counter the heightened risk following the volatile food prices of the months prior to the L'Aquila summit, the leaders agreed that local food markets should be made more profitable and competitive instead of continuing with the policy of direct food aid. To this end, the G8 committed to provide 20 billion USD in aid over the coming three years and established a special fund for local agricultural development (L'Aquila Food Security Initiative).¹⁴ Furthermore, the G8 reaffirmed their previous development commitments – despite Italy and other members having come under heavy criticism for cutting its promised G8 aid payments substantially.

¹²See, e.g., Mike Froman, US G8 Sherpa in Baker/Donadio, Group of 8 is Not Enough, Say Outsiders Wanting In, New York Times, 10/7/2009, p. 13; see also Andrews, Group of 20 nations will replace elite G-7, The International Herald Tribune, 26/9/2009, p. 4.

¹³The 17 major economies participating in the Major Economies Forum are: Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, South Africa, the United Kingdom, and the United States. Denmark, in its capacity as the President of the December 2009 Conference of the Parties to the UN Framework Convention on Climate Change, and the UN were also invited to participate in the discussions. See US Department of State, Major Economies Forum on Energy and Climate, <http://www.state.gov/r/pa/prs/ps/2009/04/122097.htm> (last accessed 13/11/2009).

¹⁴Under the aegis of the United States and Japan, financing means will be provided to increase the quality of cropping methods and to deepen local markets. This initiative marks a shift especially for US development policy which focused on direct food support previously.

3. Security policy

Leaders deplored post-electoral violence in Iran and committed to closely observe further developments especially with regard to Iran's nuclear programme.¹⁵ In contrast to previous discussions, Russia's President Dmitri Medvedev agreed to toughen the tone on Iran together with the other G8 members. Further security-related discussions at L'Aquila included the fight against piracy; North Korea and non-proliferation; the Middle East; and the war in Afghanistan. Obama used the L'Aquila gathering to announce its intention to convene a nuclear security summit in early 2010 in Washington.

4. Trade and the Doha Round

As a reaction to the economic downturn following the recent financial crisis, global free trade has come under pressure. To curb protectionist developments, the leaders reiterated their commitment in L'Aquila to reopen the flagging multilateral trade negotiations at the WTO and to finish the Doha round in 2010.

5. The Heiligendamm-L'Aquila Process and variable summit geometry

It was decided at the 2007 Heiligendamm summit to establish a structured Outreach dialogue with five big emerging countries ("O5": Brazil, China, India, Mexico, and South Africa). The "Heiligendamm Process" was established for an initial period of two years. A final report of the first phase was issued at L'Aquila, and it was decided to continue the Process – now coined Heiligendamm-L'Aquila Process (HAP) – for at least another two years, albeit in a more flexible format than before.¹⁶

However, the HAP was not the only Outreach format at the G8 Leaders' summit in L'Aquila. In fact, the summit stands out for its very flexibility in terms of country groupings: Leaders from around 40 countries and international organisations met in seven different constellations over the course of the three days, leading to a proliferation of documents and statements adopted in L'Aquila.¹⁷ While the G8 met on its own on the first day, discussions took place in a range of different formats from the second day onwards, depending on the subject under

¹⁵G8, Political Issues, L'Aquila, 8/7/2009, <http://www.g8.utoronto.ca/summit/2009laquila/2009-political.pdf> (last accessed 21/10/2009).

¹⁶G8, The Agenda of the Heiligendamm-L'Aquila Process, L'Aquila, 9/7/2009, http://www.g8italia2009.it/static/G8_Allegato/06_Annex_2_Concept_Note_on_HAP.pdf (last accessed 5/10/2009).

¹⁷See G8 Chair's Summary, L'Aquila, 10/7/2009, <http://www.g8.utoronto.ca/summit/2009laquila/2009-summary.pdf> (last accessed 22/10/2009).

discussion. This included *inter alia* meetings of the G8 with the O5 and Egypt, with international organisations, and with African leaders.¹⁸ Furthermore, US President Barack Obama convened a MEF meeting of around twenty countries to discuss global warming on top of the G8 talks.¹⁹ As a consequence, the G8 has effectively transformed into a network of overlapping circles of countries, and it is unlikely that it will return to the small summit format in the future.

IV. Third G20 summit in Pittsburgh, September 2009

The London G20 summit had mainly dealt with economic recovery from the financial crisis. The Pittsburgh summit, which took place on 24 and 25 September 2009 against the background of a gradually improving global economic outlook, focused instead more on financial regulatory reform and macroeconomic imbalances. Further important topics included the reform of compensation practices (bonuses) and IMF reform.

1. Global imbalances

At the Pittsburgh summit, the United States in particular pushed for greater international cooperation to counter global macroeconomic imbalances: Over the past years, countries such as the US have accumulated a large budget and current account deficit, whereas countries like China, Japan or Germany have experienced export surpluses. The resulting sizable capital flows pose a destabilizing risk to the global economy. President Obama therefore asked the leading export countries in Pittsburgh to increase domestic demand in order to fill the gap left by US consumers. In addition, the US committed itself to increase its savings rate, and to reduce its trade and budget deficit.

In this context, a new “Framework for Strong, Sustainable and Balanced Growth” was initiated. From now on, G20 members will meet periodically to review each others’ national economic policies. The IMF was mandated to supervise the framework: It will prepare technical analyses on the consistency of the individual G20 members’ economic policies and their support of a more sustainable and balanced growth for the global economy. Enforcement mechanisms, such as penalties or sanctions, were left out of the agreement. This was a

¹⁸ See, e.g., Ehrlich, Experimente auf dem Gipfel [Experiments at the summit], Financial Times Deutschland, 10/7/2009, p. 27; Baker/Donadio, Group of 8 is Not Enough, Say Outsiders Wanting in, New York Times 10/7/2009, p. 13.

¹⁹ Lee, Financial Crisis, Los Angeles Times, 8/7/2009, p. 1.

necessary precondition to gain the consent of large emerging countries such as China, India and Brazil and of industrialised countries (Germany and Japan). The main coordinating instrument is now a process of mutual assessment and peer pressure – obviously a much weaker force to adjust.

At their meeting in St. Andrews (UK) in November 2009, the G20 finance ministers added a timeframe to the Pittsburgh agreement: They decided to prepare and present national policy frameworks until the end of January 2010; to conclude the first mutual assessment by April 2010; to prepare policy options for the next summit meeting in June 2010 in Canada; and to establish concrete policy recommendations for the G20 summit in Korea in November 2010.

2. Financial Regulation

On international financial regulation, the G20 agreed on a broad reform agenda, which included increased capital requirements for banks; the establishment of leverage or liquidity ratios; better insolvency proceedings for large banks; and a standardisation of accounting practices. Definite time frames were approved. Furthermore, the leaders came to the agreement that inadequate and pro-cyclical banking regulation was the main cause for the outbreak of the financial crisis.

The United States in particular promoted the issue of better capital requirements for banks: The leaders finally agreed to establish international rules by the end of 2010 to improve the quantity and quality of capital. These rules should be implemented by the end of 2012 – when it is believed that the current crisis will be overcome. The aim of the decision is to force banks to raise capital in good times as buffers against potential losses in bad times. In addition, the G20 agreed on higher capital standards for large banks that are systematically interlinked with other finance institutions and, therefore, pose a greater threat to the system if they fail. The G20 rules were based on proposals launched by the Basel committee of banking regulators at the beginning of September 2009. All major financial centres were also asked to adopt the Basel II capital standards by 2011.

The G20 further agreed to introduce leverage and liquidity ratios for banks. However, this issue was rather sensitive because of huge differences in European and US accounting standards. The G20 therefore called on the International Accounting Standards Board (IASB)

to complete accounting convergence by June 2011 to prevent possible disadvantages for banks regarding the amount of required capital.

3. Compensation practices

Compensation practices were subject to a heated debate between the G20 member states in the run-up to and during the summit. Countries such as Germany and France had been adamant ahead of Pittsburgh that strict rules and restrictions on bonuses were a necessary requirement for the summit's success. However, due to heavy opposition by the US and the United Kingdom, the G20 did not agree on an outright cap on bonus payments for managers.

Nevertheless, tough guidelines regarding bonuses were established in Pittsburgh – to be implemented no later than March 2010: The G20 leaders decided that bonuses would have to be paid in shares rather than cash in the future; between a half and two thirds of the bonuses would be deferred for three years so that they could be withheld in case of unsatisfactory performance; and bonuses had to be based on the performance of a bank. In case of a breach, national supervisors were allowed impose sanctions such as higher capital requirements for individual banks in the future.

4. IMF reform

In the opinion of large emerging countries such as China, India and Brazil, one of the most important issues of the summit was the reform of the IMF. While some of the big emerging countries were also heavily affected by the aftermath of the financial crisis and the subsequent global economic downturn, they were less pre-occupied with the immediate disruptions in the financial markets and the burden on public budgets. To them, the main focus at the summit lay instead on their stronger integration into and representation in international financial institutions. After drawn-out discussions in other fora, the G20 finally agreed on a transfer of 5% of voting shares from the industrialised countries to the emerging economies at the IMF. While the deal did not match the emerging countries' demand of a 7% increase to fully even out the voting power asymmetry between industrialised and emerging countries, it showed that the G20 could agree on concrete figures – a first step in the right direction. Detailed negotiations on this issue were scheduled to be held at the IMF in the months following the summit and are due to be concluded by January 2011.

The US has been pursuing plans to reduce the number of IMF board seats from 24 to 20. As it stands, Europe holds one third of the executive director positions and would bound to lose some in the case of a reshuffle. Therefore, any debate on IMF governance reform was prevented by European countries at the Pittsburgh summit – particularly by the French and British governments who were afraid of losing relative influence at the IMF.

5. Exit strategies

Since the outbreak of the financial crisis, countries have, altogether, pledged 5 trillion USD in fiscal stimulus to restore recovery. At the G20 summit in Pittsburgh, especially Germany emphasised the need for a coordinated exit strategy from stimulus programmes. However, Chancellor Angela Merkel received heavy opposition from the US und the United Kingdom: As a result, the G20 agreed in their communiqué that it was “premature” to start withdrawing from public spending programmes. Furthermore, the G20 came to the common conclusion that, “the scale, timing, and sequencing of actions will vary across countries or regions and across the type of policy measures”.²⁰

6. Climate Change and Doha Round

Originally, the newly institutionalised G20 made it its business to focus exclusively on global financial issues; the summit in Pittsburgh added climate change and trade to the agenda, which had so far been discussed at the level of the G8 only. However, the outcome on climate change fell far behind the hopes of the G20 and outside commentators. Especially China and India were adamantly opposed to discuss global warming in this forum. In their view, the United Nations or the MEF are more appropriate venues for this matter. The US was also unable to make concessions on climate change, as the US Senate had deferred the cap-and-trade bill to the following year.

Another aim of the Pittsburgh summit was the support of the successful conclusion of the Doha Round. However, similar to the language passed in L’Aquila, the G20 leaders only reiterated that the Doha Round should be concluded in 2010 and that the necessary steps should be taken to accomplish this goal.

²⁰G20, Leaders Statement: The Pittsburgh Summit, Pittsburgh, 25/9/2009,
<http://www.g20.utoronto.ca/2009/2009communique0925.html> (last accessed 28/9/2009).

7. A permanent upgrade of the G20

In terms of institutional reform, the most far-reaching decision taken at the Pittsburgh summit was the G20's upgrading to a permanent leaders' forum with an annually-rotating chairmanship. The preamble of the Pittsburgh communiqué established: "We designated the G20 to be the premier forum for our international economic cooperation."²¹ The G20 has thus come a long way from its origins, founded in 1999 after the Asian financial crisis to bring together finance ministers and heads of central banks. At the first meeting in Washington, upgrading the G20 had mainly served a symbolic function. Over the course of the three summits, it became an official policy stance: The G20 has transformed itself into leading economic forum where heads of states meet to deal with problems of the world economy. The next meeting will take place alongside the G8 summit in Canada in June 2010. The official 2010 G20 summit will take place in November 2010 in South Korea, which holds the 2010 G20 presidency.

C. ASSESSMENT: THE G8 AND G20 – COMPETING, CO-EXISTING OR CO-OPERATING?²²

With the permanent establishment of the leaders' G20 in September 2009, a clear shift in governance structure has taken place within the system of informal, plurilateral G summit meetings. The following section analyses three different scenarios of how the future relationship between G8 and G20 may develop. The three options – competition, co-existence and co-operation – depict analytical ideal-types and can exist in a mix, containing elements of some or all variants.

I. Competition: Take-over of the G8 by the G20

In the first scenario, the G8 and the G20 would compete with each other on issues, overall relevance and legitimacy. It is very unlikely that the G8 would regain the position of the leading forum. Therefore, under competition, the G8 would effectively cease to play an important role – even if it managed to remain in existence in the formal sense – or disappear

²¹G20, Leaders Statement: The Pittsburgh Summit, Pittsburgh, 25/9/2009

<http://www.g20.utoronto.ca/2009/2009communique0925.html> (last accessed 28/9/2009).

²²Quoting John Kirton in Qiao, From G8 to G20, coexistence, cooperation, competition are rules to play, Canadian experts say, China View, 7/10/ 2009, <http://www.cigionline.org/articles/2009/10/g8-g20-coexistence-cooperation-competition-are-rules-play-canadian-experts-say> (last accessed 11/11/2009).

as a format altogether. The G20 would then widen its agenda beyond its present focus on economic issues and emerge as the “summit of summits”.²³

Large emerging countries such as India, Brazil and China, which are not part of the G8, but are equal members of the G20, have stressed that the G8 has lost its effectiveness and legitimacy to the G20 and should be abandoned as a format. The Brazilian Foreign Minister Celso Amorim declared that “the G8 is over as a political decision group”²⁴. And the Indian Finance Minister, referring to the G7 as the G8’s sub-group concerned with financial issues, stated: “The G7 has recognized belatedly that they alone don’t have the solutions to all the problems. The G20 has come to stay as the single most important forum to address the financial and economic issues of the world. The G20 is a much better forum than the G7.”²⁵ Even Peter Mandelson, trade minister of the one of the core-G8 countries – the UK – stated before the London summit in March 2009 that the “era of the G8 is over”.²⁶

At first sight, this scenario seems the most appropriate to characterise the relationship of the G8 and G20 over the review period and the best guiding principle of the G groups’ future relationship. For example, the US White House commented: “Dramatic changes in the world economy have not always been reflected in the global architecture for economic cooperation. This all started to change today. The G20 leaders reached a historic agreement to put the G-20 at the centre of their efforts to work together to build a durable recovery while avoiding the financial fragilities that led to the crisis.”²⁷ The G20 has already taken over one of the most important points of the G8 agenda – international economic cooperation. As such, the G20 agreed on new financial regulations and proved to be a catalyst for the reform of other international financial institutions, such as the FSB and the IMF. And although the G8 summit in L’Aquila showed a high degree of flexibility regarding the format, the G8 has clearly lost

²³Cooper, Competing Gs?: G20, G8 and Crisis Management, Paper Prepared for the 2009 Pre-G8 Summit Conference on “Global Financial Crises: national Economic Solutions, Geopolitical Impacts”, Rome, 30/6/2009, p.7-8, <http://www.g8.utoronto.ca/conferences/2009/unicredit-cooper.pdf> (last accessed 13/11/2009).

²⁴Celso Amorim quoted in Baker/Donadio, Group of 8 is Not Enough, Say Outsiders Wanting In, New York Times, 10/7/2009, p. 13.

²⁵Mathuros, G20 replaces G7 as the most important global forum on economic issues, says Indian finance chief, World Economic Forum, 18/11/2008,

http://www.weforum.org/en/media/Latest%20Press%20Releases/PR_IES08_G20G7 (last accessed 17/11/2009).

²⁶British trade minister: Era of G8 is over, <http://www.topnews.in/british-trade-minister-era-g8-over-2144363> (last accessed 17/11/2009).

²⁷Statement by the US White House, The Pittsburgh Summit: Creating a 21st Century International Economic architecture, http://www.whitehouse.gov/files/documents/g20/Architecture_Fact_Sheet.pdf (last accessed 24/11/2009).

legitimacy and public attention in relation to the G20, which together represent around 90% of global GDP, 80% of world trade and two thirds of the world's population.²⁸

II. Co-existence: A division of labour between G8 and G20

A possible alternative is a co-existence between the two groups, each with its distinct group dynamic, agenda and time table – and a clear division of preparatory work and topics discussed. Under this scenario, summits would remain distinctive, and the different presidencies would ensure that the two formats will co-exist at least in the medium-term. Accordingly, topics and functions would be divided according to the membership structure and capabilities of the groups. For example, it is conceivable that while the G7 of finance ministers that form a sub-group of the G8 at ministers' level would be permanently replaced by the G20 as a global forum for economic policies, the G8 could nevertheless meaningfully deal with non-economic issues, such as development, energy and security policy.

A first analysis of the summits in 2009 suggests that some division of labour in terms of topics has indeed taken place: The G8 summit focused mainly on non-economic issues such as climate change, as well as on development and security issues, including non-proliferation and Afghanistan. Other (non-economic) topics included health, food security and energy.²⁹ The “traditional” G8 issue of international economic policy was mostly sidelined at the G8 summit in L’Aquila – despite constant reference to the current economic crisis and the need to enhance global economic governance. Substantive discussion on these issues was shifted to the G20 and the summit in Pittsburgh: The leaders’ G20 meetings dealt mainly with financial stability, macroeconomic imbalances and policies, financial regulation and supervision.

At least in 2010, elements of co-existence will be present given the different presidencies of the G8 (Canada) and the G20 (South Korea), which will both hold their own summits and drive forward their agendas. Canada’s Prime Minister Stephen Harper has already announced that the two summits will remain distinctive: “We are not replacing the G8.”³⁰

²⁸See, e.g., German Federal Finance Ministry, Glossary, http://www.bundesfinanzministerium.de/nn_39824/DE/BMF_Startseite/Service/Glossar/G/011_G20.html (last accessed 23/11/2009).

²⁹See, e.g., Grice, Brown claims victory after G20 agrees to curb bonuses, The Independent, 26/9/2009, p. 6. See also Andrews, Group of 20 nations will replace elite G-7, International Herald Tribune, 26/9/2009, p. 4.

³⁰Quoted in CBC News, Broad Consensus as G20 supplants G8, <http://www.cbc.ca/world/story/2009/09/25/g20-pittsburgh-economy314.html> (last accessed 24/22/2009).

III. Co-operation: The G8 as a caucus group of the G20

A third option emphasises the two groups' complementarity: The G8 and G20 would closely interact on all topics of global relevance; fora would overlap with each other in terms of topics and preparatory personnel involved; and the G8 and G20 would coordinate their agendas and time tables – and possibly even synchronise their presidencies. Under this scenario, the groups do not necessarily have to be on par with each other: It is likely that the smaller forum would take the role of a caucus group within the broader framework of the G20. Thus, in a sense, the G8 would become more like a dinner club rather than the foremost agenda-setter and (rival) decision-making body, serving as a preparatory group of like-minded countries nested within the G20 that sits at the apex of the G summit community.³¹

Apart from US President Obama, Germany's Chancellor Angela Merkel is supportive of this model. This is all the more telling as she was the driving force behind establishing the Heiligendamm Process to prevent the G8 from formally enlarging in 2007. According to Merkel, the G8 summit is not sufficient anymore and should be rather used as a venue for preliminary discussions.³² Her recent shift in opinion stands for a larger change of view among the original G8 members.

Elements of such thematic overlap of the two groupings and a two-tiered system could be observed in the review period. For example, the issue of climate change that was discussed both in L'Aquila and Pittsburgh – in preparation of the COP15 meeting. Similarly, trade policy and the successful conclusion of the Doha Round were put on both the G8 and G20 agenda.³³ Furthermore, while the G8 summits in July 2009 touched on the traditional core G8 topics of international economic policy, the issues were mainly referred to the Pittsburgh gathering two months later. Thus, L'Aquila can be conceived as a preparatory midpoint between the G20 summits in London and Pittsburgh.

³¹See Baker, Deliberative International Financial Governance and Apex Policy Forums: Where we are and where we should be headed, in: Underhill/Blom/Mügge, Financial Integration Thirty Years On, Cambridge University Press, forthcoming.

³²Merkel, Regierungserklärung von Bundeskanzlerin Merkel zum G8-Gipfel im Juli [Government declaration of Chancellor Angela Merkel on the G8 summit in July], 2/7/2009,

http://www.bundesregierung.de/nr_1502/Content/DE/Regierungserklaerung/2009/2009-07-02-merkel-regerk-g8.html (last accessed 23/10/2009). US President Obama quoted in Andrews, Group of 20 nations will replace elite G-7, International Herald Tribune, 26/9/2009, p. 4. It is noteworthy that, in December 2009, the German government shifted its preparation of all G summits to the Chancellery, lifting the previous distinction between G8 and G20 sherpas (based at the Economics Ministry and at the Chancellery, respectively).

³³In fact, those topics were only pre-discussed at the G summits, as they are ultimately negotiated and decided at the UN and the WTO.

D. OUTLOOK G8 AND G20: OF CHANCES AND CHALLENGES

It is too early to tell which model will dominate the relations between the G8 and G20 over the coming months and years, and the previous assessments of the first twelve months of the G20 only depict an initial (speculative) outlook of what may come. Given the dramatic developments in international economic governance of the past months, one is quick to point to the first option – competition – as most appropriate framework both to assess the governance changes of the past months and to guide the future potential path of the G groups. Yet, a closer look shows that elements of the second and third scenario – co-existence and cooperation – and have also been observable over the review period and are likely to continue to characterise the relationship between the G8 and G20 – at least in the medium-term.

Thus, the most probable scenario is that the G8 will not be abolished, but that it will become a more informal coordinating meeting ahead of the G20 where the leaders of the large industrialised countries will meet. The G8 will most likely focus more on foreign and security issues, while the main financial and economic questions will be discussed within the G20. However, issues such as climate change or trade will be on the agenda of both groups. As such, the G8 will be both a small G group focusing more and more on foreign and security issues, as well as a preparatory body for issues of global concern.

Such assessment of the G8's relative survival – albeit in a different shape than in the past – should not belittle the stellar rise of the G20 over the review period: The three successful G20 meetings at the highest political level in 2008 and 2009 have elevated the newly-upgraded group to a leading international agenda-setting body in record speed, supplanting to some extent the smaller G8 that has been dominated by Western industrialised countries. While the creation of the G20 at leaders' level was partly accidental and owed much to the political momentum of the financial crisis, the change is nevertheless indicative of a more long-term underlying consensus within the international community that economic global governance has been in dire need of change for some time. The newly institutionalised leaders' G20 are thus a reflection of the changing international economic realities in the twenty-first century: It was long overdue that the large emerging countries such as China, India and Brazil received a seat at the table when global problems such as the world economy, climate change or trade are discussed.

However, in the long-run, the legitimacy of the G20 will crucially depend on its success, and the newly-founded forum is not without problems: Even though the group is more representative than the G8, the EU is still overrepresented – while African countries are largely not present (South Africa is an exception is often not considered as being a representative African country). In addition, the new G20 lacks the intimacy of the G8, and membership is more heterogeneous. Thus, the greater number of players with more diverse interests and political priorities will make negotiations more drawn-out and agreement more difficult. It could already be observed that different conceptions of the crisis and its solution existed among by the main players (EU, US, China).³⁴ Moreover, the agenda so far has been dominated by the EU and the US (financial regulation),³⁵ while topics such as trade protection or IMF reform, which are of interest to the large emerging countries, have had a lower priority. In the future, these different interests and priorities will have to be adjusted mutually – a process, which can be painful and slow.

The G20 as a format is still in flux. Membership, topical focus and the rate of reform will depend in the following years on the next host countries of the G20 summits. Starting in 2010, Canada and South Korea – a newly-industrialised country–will have to show leadership and political acumen in navigating the G8 and the G20 through the rough waters of governance transition.

List of abbreviations

IMF	International Monetary Fund
SDR	Special Drawing Rights
FSB	Financial Stability Board
COP15	UN Climate Change Conference, Copenhagen 2009
MEF	Major Economies Forum
HAP	Heiligendamm-L'Aquila Process
IASB	International Accounting Standards Board

³⁴See, e.g., Pettis, The G20 Meetings: No Common Framework, No Consensus, Carnegie Endowment for International Peace Policy Brief 79, May 2009, p. 3,

http://www.carnegieendowment.org/files/g20_consensus.pdf (last accessed 13/11/2009).

³⁵See, e.g., Pisani-Ferry/Bénassy-Quéré/Kumar, The G20 is not just a G7 with extra chairs, Bruegel Policy Contribution 2009/10, September 2009, <http://www.bruegel.org/nc/publications/show/publication/the-g20-is-not-just-a-g7-with-extra-chairs.html> (last accessed 19/11/2009).