The Role of the Emerging Countries in the G20: Agenda-setter, Veto Player or Spectator?

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Abstract

In 2008, the G20 convened for the first time at leaders' level, making emerging countries such as China, India and Brazil permanent members of an informal gathering at the highest political level. The aim of this paper is to refine previous assessments on the role of these emerging countries in the new G20. We first analyse the preferences of the United States and European members as a proxy for G8 positions and then juxtapose them with the preferences of China, India and Brazil as representatives of the emerging countries within the G20. We find that the latter share in particular the concern for more voice in global economic governance but – due to often heterogeneous preferences – do not generally act as a bloc. Moreover, by comparing their preferences with G20 outcomes, the paper investigates to what extent the emerging countries have agenda-setting or veto power, or whether they are taking a back-seat role among the G20 countries. We show that they are not mere spectators but have a certain agenda-setting power, especially when they are able to forge coalitions or hold the presidency.

The stellar rise of the G20

Sometimes it takes a crisis to change. The upgrade of the G20[1] to the level of the heads of state and government was one of the major institutional outcomes of the recent global financial and economic crisis. The development depicts a dramatic turnaround: in 2007, the G8 invited large emerging countries within the 'Heiligendamm Process' to its summits only on a restricted number of topics. A year later, the G20 convened for the first time at leaders' level, making emerging countries such as China, India and Brazil permanent members of an informal gathering at the highest political level.[2] In 2009, its members established the G20 as the "premier forum for international economic cooperation",[3] and South Korea was the first emerging country holding the presidency for a G20 leaders' meeting in 2010.

With the fading of the immediate crisis experience, the G20 finds itself at a crucial stage in its development from a temporary crisis management mechanism to a long-term global economic steering committee. If the forum does not want to fall into oblivion, it is important to ensure a high level of commitment by all its members. For that it is important to develop a common agenda that bridges fault lines among the different G20 countries' interests and priorities and to meaningfully incorporate emerging countries into the forum that now stands at the apex of global economic governance.

So far, there is little consensus on the role of emerging countries in the newly upgraded G20. The forum is still new, and practices and preferences have not fully developed on all aspects of the forum's work.[4] More importantly, the debate on the role of emerging countries has up to now been dominated by generalisations that cloud the underlying factors shaping the role of individual emerging countries: on the one hand, commentators cite the hopes and goals of the G20 to systematically include newly emerged economies into global governance structures to better

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1 The G20 members are 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 European Union.

2 They were previously only members of the 'Finance G20' that met since 1999 outside the public limelight at the level of finance ministers and central bank governors.

3 G20, 'Leaders Statement: The Pittsburgh Summit', 24.-25.9.2009.

4 Assessments of emerging countries' role in and towards the G8 are more advanced; see, for instance, Andrew Cooper and Agata Antkiewicz (eds.), *Emerging Powers in Global Governance: Lessons from the Heiligendamm Process*, Waterloo, Centre for International Governance Innovation, 2008.

reflect the shift of power in the world economy.[5] For instance, the new G20 summits are seen as an “opportunity of a less western-centred view of the difficulties of the world economy” in a forum in which emerging countries outnumber the G8 members by a margin of 2:1.[6] Other authors have been more pessimistic on the emerging countries’ role in the G20, arguing that the numerical advantage and the shift in rhetoric towards emerging countries do not translate into actual policy outcomes. It has been criticised that the G20 agenda so far was still dominated by the G8-members’ preferences, and emerging countries were merely spectators in the negotiations, thus rubber-stamping genuine G8 policies and thereby giving them a broader basis of legitimacy and support.[7]

The aim of the paper is to refine previous cursory assessments on the role of emerging countries in the new G20 by systematically assessing the preferences of G20 members based on official statements, press coverage and interviews and comparing them with G20 outcomes. The paper identifies a number of key themes of the upgraded G20 and summarises their outcomes in past summit meetings. In a second step, we analyse the preferences of the United States and European member states as a proxy for G8 positions,[8] which are juxtaposed with preferences of China, India and Brazil as representatives of emerging countries within the G20. In a last step, the paper assesses the role of the emerging countries in the G20, analysing whether they have agenda-setting or veto power, or whether they take a back-seat role among the G20 countries, being a spectator at the sidelines of the discussions.

We argue that all the emerging countries are interested in participating as equal and permanent members in the G20 as the premier forum for international economic governance. However, due to often heterogeneous preferences, they do

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5 See ‘After the G20’, *Financial Times*, 13.11.2010, p. 16. See also Haibing Zhang, ‘G20 and Global Governance: Challenges and Impacts’, in Thomas Fues and Peter Wolff (eds.), *G20 and Global Development: How Can the New Summit Architecture Promote Pro-poor Growth and Sustainability*, Bonn, German Development Institute, 2010, p. 63.

6 Mark Malloch-Brown, ‘How the G20 glasshouse is under attack’, *Financial Times*, 12.11.2010, p. 11.

7 For a similar assessment of developing countries in the Finance G20, see Leonardo Martinez-Diaz, ‘The G20 after Eight Years: How Effective a Vehicle for Developing-Country Influence?’, *Brookings Global Economy and Development Working Paper*, no. 12, Washington, DC, The Brookings Institutions, October 2007; Jean Pisani-Ferry, ‘The G20 agenda sounds a lot like that of the G7’, *The Economist*, 29.6.2010.

8 We use the term G8 as a proxy for industrialised countries. While technically being a member of the G8 group of countries, Russia is left out of the present analysis, as it is not a full member of the group in questions of economic and financial policy. It is acknowledged that G8 members can also differ in their positions and strategies. Disagreements among them are highlighted in the description of policy stances below.

not generally act as a bloc in the G20 discussions. When comparing the preferences of the emerging countries with the outcomes of the G20 summits, the paper finds that they are not mere spectators. Instead they have certain agenda-setting power when they are able to forge coalitions (e.g. regarding the reform of international financial institutions such as the IMF) or hold the presidency (as was the case with South Korea in 2010).

Key G20 issues: mapping outcomes and preferences

Being an informal forum, the upgraded G20 does not have a clear-cut remit or agenda. The G20 at leaders' level was initially established to achieve an internationally coordinated response to the global financial crisis: at the first G20 summits in 2008 and 2009, the main focus was on crisis management. Subsequent G20 summits in 2010 have, furthermore, dealt with issues of global financial regulation and macroeconomic policy more broadly, as well as with the reform of important international financial institutions. Korea added development to the G20's agenda.

Early G20 initiatives: crisis management and first rescue packages

At the G20 summit in London in April 2009, the G20 countries pledged 1.1 trillion US-Dollar (USD) for the IMF and other multilateral organisations, consisting of 750 billion USD in direct aid and 250 billion USD in special drawing rights for the IMF, as well as 100 billion USD for multilateral development banks to increase lending. The aim was to dampen the immediate repercussions of the financial crisis. Furthermore, the IMF created two new credit lines for countries that were affected by the financial crisis: the so-called Flexible Credit Line (FCL) was introduced in 2009 for high-performing countries to strengthen their economic position. In 2010, the Precautionary Credit Line (PCL) was established for countries facing moderate vulnerabilities not (yet) meeting the high FCL qualification standards. The new credit lines were part of the G20's vision for an improved "global financial safety net" – a network of insurance and loan instruments that countries could draw on to cope with volatility and contagion in the face of a crisis.[9]

Moreover, many countries around the world introduced national stimulus packages in response to the crisis. Almost 90% of the global measures originated in G20

[9] Manuela Goretti and Bikas Joshi, 'A Step Closer to a Stronger Global Financial Safety Net', *IMF Survey Magazine*, 30.8.2010.

countries and were introduced after the first G20 summits in Washington, DC, in November 2008 and in London in April 2009. Most of the stimuli were a mix of tax breaks, guarantees and actual spending. The biggest rescue packages (relative to GDP) were initiated by China, Saudi Arabia and the United States: in 2009, the US introduced the American Recovery and Reinvestment Act (ARRA) worth 800 billion USD. In addition, the Troubled Asset Relief Program (TARP) of 700 billion USD was established to support the troubled US banking sector. Germany introduced two stimuli packages in 2008 and 2009, which amounted to 82 billion USD (1.6% of GDP). On the part of the emerging countries under investigation, China initiated a 586 billion USD (13.9% of GDP) stimulus package to boost domestic demand. Measures included spending on infrastructure, health care in rural areas and low-rent housing. Furthermore, nine specific industries received direct tax cuts. India introduced a fiscal stimulus package worth 4.1 billion USD in December 2008 (0.3 % of GDP). The programme focused on labour-intensive and export-oriented sectors. Lastly, Brazil set up a fiscal rescue package of 3.6 billion USD (0.2% of GDP), which focused specifically on the automobile sector that accounts for 5% of Brazil's economy.[10]

The first G20 leaders' summits dealing with the immediate effects of the financial crisis saw a largely unified front of industrialised and emerging countries. All members supported the increased funding for international financial institutions and believed in the need for national stimuli packages. While some G20 members – most prominently Germany – were reluctant to introduce more flexible credit for fear of provoking moral hazard, emerging countries were in favour of the new IMF credit lines.[11] The G20 agreed – under the chairmanship of South Korea – on the extension of the PCL and the FCL at the summit in Seoul.

Paying for the crisis: financial levies and taxes

The debate before the June 2010 summit in Toronto was dominated by the question of how the financial sector could adequately share the costs of the financial crisis. Several measures were discussed at the G20 level, including the introduction of an international bank levy or a financial tax (either in form of a financial transaction tax

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10 Sameer Khatiwada, 'Stimulus Packages to Counter Global Economic Crisis: A Review', *Discussion Paper*, no. 196, International Institute for Labour Studies, Geneva, 2009, pp. 10 and 27-32; Jiemian Yang, 'Country Fact Sheet – China', in Christoph Pohlmann, Stephan Reichert and Hubert René Schillinger (eds.), *The G-20: a "Global Economic Government" in the Making?*, International Policy Analysis, Friedrich Ebert Foundation, June 2010, p. 22.

11 See, for instance, BRIC countries joint communiqué, 14.3.2009.

or a financial activity tax[12]). The G20 members did not reach a consensus at the leaders' meeting in Toronto beyond a vague statement on a "fair and substantial contribution" on the part of the financial sector.[13] While the declaration gave green light to G20 countries wanting to implement a bank levy unilaterally, it made clear that not all of the G20 countries needed to pursue the same approach. Following the Toronto statement, bank levies were no longer part of the G20 discussions at Seoul. Instead, the supporters of the bank levy pursued individual tracks.[14] Similarly, the introduction of a financial tax proved too contentious and did not even find its way onto the final agenda of Toronto. It was subsequently ignored altogether at Seoul.

Whereas the European G20 members (Germany, France and the United Kingdom), Japan and the United States supported a levy,[15] other industrialised countries and emerging economies opposed it: at the G20 summit in Toronto, host Canada stressed that its banking sector was already sufficiently regulated and that it had survived the financial crisis relatively unharmed. Large emerging countries such as China, India, Brazil and G20 chair South Korea were also critical: China and India stressed that their banks had not been at the root of the financial crisis and should therefore not be "punished". Their financial sectors were rather seen as a source for future growth that should not be burdened unnecessarily. Brazil aligned with the Canadian position that there had not been a need to bail out its banks during the financial crisis and that there was therefore no need to impose a levy.[16] Opposition towards a financial tax proved to be even stronger and there was not even a majority among the industrialised G20 members in favour of it: while Germany, France and the United Kingdom supported the financial tax, the US – who had supported a G20 bank levy – and Canada vehemently opposed it. Large emerging countries were also very critical: India and Brazil were against the proposals which they saw mainly as a means for the heavily indebted EU countries to increase the tax revenue.

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12 Often also referred to as 'Tobin tax' in the public debate on curtailing short-term international financial transactions.

13 G20, 'The G-20 Toronto Summit Declaration', 26.-27.6.2010, p. 5.

14 Germany, France, and the United Kingdom pushed for an EU-wide bank levy. US President Obama initiated a national bank levy for lenders with assets exceeding 50 billion USD. Obama eventually gave up the levy in return for Congress support for the Dodd Bill on financial regulation.

15 The introduction of a coordinated levy was also endorsed by IMF Managing Director Dominique Strauss-Kahn at the 2010 spring meeting of the IMF and the World Bank.

16 'India cold to global bank tax proposal as G20 meet', *Financial Express*, 27.6.2010; Huw Jones, 'G20 waffles on bank tax', *The Globe and Mail*, 3.6.2010.

Given the unanimity requirement in the G20, an issue is pushed off the agenda if there is a considerable opposition in form of several G20 members forming an issue-specific coalition. In the case of the financial levies and taxes, no coalition was able to dominate the agenda and therefore put a joint measure through despite being in the interest of a number of G8 members. The example shows that in their unanimous opposition and their alliance with some G8 countries, emerging countries were able to veto the issues at the G20.

Making the financial system more robust: financial regulation and Basel III

Since the G20 was upgraded to the leaders' level, international financial regulatory reform has been another key topic of the forum. At the London summit in April 2009, the heads of states and governments announced that no financial market, product or actor should remain unregulated in the future. In Toronto, stricter financial regulation was high on the political agenda – although the leaders merely took stock of the progress of the Basel Committee of Banking Supervision (BCBS). The BCBS was mandated to present its proposals until the Seoul summit in November 2010 at which the G20 unanimously endorsed the reform package.[17] "Basel III" includes a stronger definition of key capital (core tier one). In addition, the new key capital ratio will rise from 2% (Basel II) up to 7%, including a new capital buffer of 2.5%. Basel III also introduces a new leverage ratio for banks. G20 members were tasked to gradually phase in the new rules, starting in January 2013 until January 2019.

Especially the US and the EU were strong supporters of regulatory reforms given their internationally connected banking sector: for example, US Treasury Secretary Timothy Geithner called Basel III a "major milestone in the process of global financial reform": raising the capital requirement reduced the risk of future crisis significantly.[18] And Michel Barnier, EU Commissioner for Internal Markets and Services, stressed: "We are learning the lessons of the crisis in requiring better capitalisation for our banks and larger liquidity cushions, two essential elements for stronger stability in our financial system."[19]

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[17] G20, 'The Seoul Summit Leaders' Declaration', 11.-12.11.2010.

[18] Timothy Geithner, 'Written Testimony', House Financial Services Committee, Washington, DC, 22.9.2010.

[19] Barnier cited in 'EU welcomes Basel III global banking rules', *Business & Leadership*, 13.9.2010.

All G20 member states – including China, India and Brazil who had also been admitted to the BCBS[20] – agreed on the proposed regulations by the Basel Banking Committee and subsequently endorsed them at the G20 summit. The Chinese government supported the idea that risky speculations with futures trading had to be backed up with more and better capital as required by Basel III. However, China stressed that the new capital standards would have a limited impact on Chinese banks, as the average key capital ratio was already at 9% and core capital accounted for 80% of the total capital.[21] Similarly, India supported the idea of Basel III but stressed that its banks fulfilled much of the higher capital ratios: in June 2010, the average capital to risk-weighted assets ratio of Indian banks was 13.4% and core tier one capital accounted for 9%.[22] Lastly, Brazil also strongly supported Basel III, as it had already implemented most of the issues.

Stronger financial regulation was largely undisputed among the G20 countries – even though the push for reform came mainly from G8 countries given their large international financial sectors. Particularly the US and the EU were engaged in the discussions at the BCBS to find a common language on regulatory reform. China, India, Brazil and the other emerging countries did not attach the same priority to the issue – their main concern being solid economic growth instead of financial regulation.[23] Yet, they went along with the proposals, as they were not strongly affected by it.

Subsequent concerns: framework for growth and macro-economic imbalances

At the 2009 Pittsburgh summit, the G20 launched the “Framework for Strong, Sustainable, and Balanced Growth”. Initially, the framework served to coordinate countries’ exit strategies out of their economic stimulus measures. G20 countries agreed to the Canadian proposal according to which industrialised countries would halve their fiscal deficits by 2013 and stabilise or reduce their debt-to-GDP ratios by

20 In addition to China, India and Brazil, Australia, Korea, Mexico and Russia were invited to join the BCBS in March 2009.

21 Yang Ning and Wang Bo, ‘CBRS sees little impact from Basel III on bank’, *China Daily*, 19.9.2010.

22 Beatrice Gorawantschy et al., ‘G20-Gipfel in Toronto: Im Zeichen wachsenden Selbstbewusstseins – Indien’, *KAS Länderbericht*, Konrad Adenauer Foundation, p. 3; Neelasri Barman and Parnika Sokhi, ‘Proposed Basel III rules not to impact Indian banks much’, *Daily News & Analysis*, 8.9.2010.

23 Daisy Ku and Rachel Armstrong, ‘Asia regulators say G20 reform driven by U.S., Europe’, *Reuters*, 29.11.2010.

2016.[24] In a further step, the IMF was tasked with assisting the "Mutual Assessment Process" in the form of providing analysis on coherence, consistency and mutual compatibility of G20 members' policy frameworks and with issuing policy recommendations.[25] In February 2011, the G20 finance ministers finally agreed on a set of indicators to help identify global imbalances: public debt and fiscal deficits; private savings rate and private debt; and the external imbalance composed of the trade balance and net investment income flows and transfers, taking consideration of exchange rate, fiscal, monetary and other policies.[26] Seven systemic G20 countries[27] will now be assessed according to these indicators.

The coordination of individual growth strategies became more controversial among the G20 over the course of 2010, as countries' recovery paths and economic strengths diverged more and more: Germany and China have been seeing considerable economic growth and a constant increase in current account surpluses, while countries like the US have continuously registered high budget and trade deficits with relatively low growth rates. In the run-up to the Seoul summit, the two sides clashed over the viability of strengthening domestic demand in export countries as a solution to the imbalances. Furthermore, at the G20 ministerial meeting in Gyeongju in October 2010, Timothy Geithner's call to restrict current account surpluses and deficits (to a maximum of 4% of GDP) ran into heavy criticism by export countries such as China (4.7% projected current account surplus for 2010), but also Germany (6.1%) and Japan.[28] The German government rejected the US's calls as flawed approach and denounced them as a step towards a planned economy. In contrast, Germany was adamant that large national public debts posed a severe problem for the international community and that exit from the stimuli programmes was to be preferred to publicly boosting domestic demand through further debt.

China has supported the G20 Framework for Strong, Sustainable and Balanced Growth. Yet, "global imbalances" are understood to be an issue of uneven global

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24 G20, 'The G-20 Toronto Summit Declaration', 26.-27.6.2010.

25 International Monetary Fund, *The G-20 Mutual Assessment Process and the Role of the Fund*, 2.12.2009.

26 G20, 'Meeting of Finance Ministers and Central Bank Governors', Communiqué, Paris, 18-19.2.2011.

27 These countries will be: United States, China, Germany, France, United Kingdom, Japan and India.

28 Sewell Chan, 'Nations Agree on Need to Shrink Trade Imbalances', *New York Times*, 22.10.2010.

development, rather than merely a problem of trade deficits and surpluses.[29] Similarly, the most important issue for India in the context of the Framework has been to secure global economic growth. India has sided with the US in rejecting an early exit from the stimuli programmes for fear of a double dip recession. According to Prime Minister Manmohan Singh, the recovery was still too fragile – especially in the Eurozone – and that industrialised countries still needed to strengthen domestic demand.[30] With respect to global imbalances, India has opposed strict caps on individual countries' current account balances. Similarly, Brazil has been opposed to terminating the economic stimulus measures swiftly at the expense of growth: the Brazilian Minister of Finance Guido Mantega stated that emerging countries should not be burdened by the global recovery, and advanced exporting countries should not make a severe, "draconian, exaggerated fiscal adjustment" at the expense of emerging countries.[31]

The latest conflict over the pertinence of countries' exchange-rate and monetary policy stance also falls within the context of global imbalances. In the run-up to the 2010 summit in Seoul, the frustration over the low external value of the renminbi grew within the US administration: according to the US' view, China's exchange-rate policy increased the costs of American exports and prevented a fast recovery – and thus a reduction of the trade deficits – of the US economy. Even though China's currency re-valued faster in the weeks prior to the summit, the Chinese government cautioned against too high expectations of a swift currency revaluation. China considered its monetary policy as a domestic affair and did not want the G20 to infringe on its sovereignty on this issue. In particular, it rejected pressures (especially by the US) to be bound by nominal targets within the G20 framework or to revaluate quickly against the USD, citing internal reasons for a slow pace of revaluation.[32] In turn, China and other emerging countries blamed the United States for its loose monetary policy, which was leading to large capital inflows and to upward pressures

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29 See Lan Xue and Yanbing Zhang, 'National Perspectives on Global Leadership: China', *NPGL Soundings,* November 2010, 17.11.2010, Waterloo, CIGI.

30 Manini Chatterjee, 'PM economy lesson for G20 leaders', *The Telegraph*, 28.6.2010; 'India to oppose cap on current a/c balances-source', *Reuters*, 21.10.2010.

31 Mantega cited in George Landau, 'National Perspectives on Global Leadership: Brazil', Waterloo, CIGI.

32 Martin-Maurice Böhme et al., 'G20-Gipfel in Toronto: Im Zeichen wachsenden Selbstbewusstseins', *KAS Länderbericht*, Konrad Adenauer Foundation, p. 5; see also Jiemian Yang, 'Country Fact Sheet – China', in Christoph Pohlmann, Stephan Reichert and Hubert René Schillinger (eds.), *The G-20: a "Global Economic Government" in the Making?, International Policy Analysis*, Friedrich Ebert Foundation, June 2010, p. 23.

on their local currencies. Germany joined the critics of the US' loose monetary policy[33]: the Federal Reserve Bank's buying of bonds worth 600 billion USD (quantitative easing or "QE2") was perceived as holding the dollar artificially down. In September 2010, the Brazilian finance minister Guido Mantega coined the term "currency war" before imposing controls on foreign portfolio investments, citing upward pressures on the real as main reason.[34]

What began as a bilateral dispute on adequate exchange-rate policies between the US and China developed over the course of 2010 into a larger question on global capital flows and appropriate growth strategies, in which the G20 countries stood at odds with each other in a complex set-up of interests and alliances. Especially on currency policy, emerging countries such as China – but also Brazil – were vocal in their opposition to US' demands. Whereas Germany actively opposed the US-proposed cap on current account deficits and surpluses together with China, the alliance between "surplus" and "deficit" countries within the G20 was rather circumstantial and uneasy: German Chancellor Angela Merkel made clear that "the German surplus is different from the Chinese one in the sense that it is due to the quality and competitiveness of German products not on currency manipulation."[35] In sum, whereas emerging countries were not able to shift the agenda to focus on uneven global development, they could successfully veto proposals by industrialised countries – in this case the US's call for quantitative caps – in the context of the G20, especially as G8 members did not present a united front.

Emerging countries' main concern: reform of international financial institutions

One of the upgraded G20's main objectives was to reform international financial institutions – in particular the IMF – to acknowledge and reflect the change in the international economic balance of power in favour of emerging countries. A first round of quota reforms was initiated in 2008. With a procedural ploy to block the election of the new Executive Board, the US administration jump-started the reform discussions at the IMF in August 2010: the US maintained that if there was no compromise on reshuffling seats in favour of emerging countries, the practice of having twenty-four members on the IMF Executive Board – four more than provided

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33 For example, 'Brüderle: Lockere Geldpolitik der USA ist falsch', *Reuters*, 23.10.2010.
34 Jonathan Wheatley and Joe Leahy, 'Trade war looming, warns Brazil', *Financial Times*, 9.1.2011.
35 Cited in Jacques Mistral, 'National Perspectives on Global Leadership: France', *NPGL Soundings*, November 2010.

for in the IMF's Articles of Agreement – would be discontinued. This would hurt precisely some of the big emerging countries such as Brazil or Argentina whose presence and influence should be strengthened within the framework of multilateral financial institutions.

In October 2010, the G20 finance ministers agreed under the South Korean chairmanship in Gyeongju on a reform package that was subsequently endorsed at the leaders' summit in Seoul and at the IMF Executive Board. At the centre of the IMF reform package stands a quota shift by more than 6% in favour of large emerging countries. China will become the third-largest shareholder after the US and Japan. It will relegate Germany – which reduced its quota share to just under 6% – to the fourth position among the ten most powerful shareholders at the IMF that now also include Russia, India, and Brazil. Furthermore, the Fund's capital stock was doubled to 755.7 billion USD at current exchange rates.[36] Most remarkably, the G20 agreed on reforming the composition of the IMF Executive Board. In the future, advanced European countries will give up two of their currently eight seats. The Board's size was kept at twenty-four seats (in contrast to the US's preference to reduce it to its regular size of twenty members).

The United States argued that by holding on to all of its seats, Europe was denying emerging countries the opportunity to play a bigger role in the IMF.[37] Having been close to political exodus before the financial crisis, fundamental governance reform was seen as vital for the Fund's effectiveness and legitimacy, as it would help ensure that emerging countries – especially China – would not abandon the Fund for alternative regional or national arrangements in the future. In addition, the US hoped that by supporting emerging countries' demands, it would receive greater support on several vital policy issues at the IMF in the future. All emerging countries strongly supported the reform of the international financial institutions. For China, the issue of IMF reform held the highest priority on the G20's agenda: China required a fast implementation of the voting rights reform as a first step of overall reform and more

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36 Each IMF member country is assigned a quota, based broadly on its relative position in the world economy. The quota determines its maximum financial commitment to the IMF, its access to IMF financing, and its voting power in the Fund. See also Meeting of Finance Ministers and Central Bank Governors, Communiqué, Gyeongju, 23.10.2010; IMF, 'IMF Executive Board Approves Major Overhaul of Quotas and Governance', Press Release, no. 10/418, 5.11.2010.

37 While many commentators and policy-makers outside the US also made this argument, the US was a clear driver in the recent reform process.

senior management posts for staff members from emerging countries.[38] Similarly, India voiced the need to quickly progress IMF reforms on many occasions in the context of G20 preparations.[39] Brazil had previously criticised the lack of emerging countries' influence over the IMF's lending decisions in the face of unequal voting power.[40] The three emerging countries under investigation have used the G20 forum to call for a stronger voice in international institutions.[41]

Thus, advanced European countries were confronted with an alliance of policymakers from the US, emerging countries and the IMF itself to reduce their presence at the Executive Board. And while European member states did not fully embrace the reform process for fear of losing influence, they eventually acknowledged the changing tides and agreed to institutional reforms of the Fund. The fact that emerging countries got a seat the G20 table made parallel reform in the IMF more necessary in the medium term. In the short run, however, the US' veto power and its strategy to use the blocking power to advance the reform momentum were vital elements to spur reforms of the Executive Board.

Expanding the agenda: development concerns

The Seoul summit 2010 under the South Korean presidency saw a stronger focus on global development of the official agenda than the first leaders' summits and the previous G20 ministerial meetings.[42] In contrast to the G8, where the issue of development has mainly consisted in a pledging exercise, the South Korean G20 presidency shifted the focus on principles of development, mainly in the areas of growth, investment in infrastructure, trade and human resource development. The Seoul summit agreed on a "Development Consensus for Shared Growth", stating that there was no single formula for development success.

The shift toward development was strongly supported by emerging and developing countries. While it has not been China's primary concern, the country has called for

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[38] For example, Lan Xue and Yanbing Zhang, 'National Perspectives on Global Leadership: China', *NPGL Soundings,* November 2010, Waterloo, CIGI.

[39] Lee Tae-hoon, 'G20 urged to speed up IMF reform', *Korea Times*, 1.9.2010.

[40] Paulo Nogueira Batista, 'Europe must make way for a modern IMF', *Financial Times*, 23.9.2010.

[41] For instance, 'BRIC countries joint communiqué', 14.3.2009.

[42] Milena Elsinger and Katharina Gnath, 'G8 und G20: Eine neue Agenda für Sicherheit und Entwicklung', in Josef Braml et al. (eds.), *Einsatz für den Frieden: Sicherheit und Entwicklung in Räumen begrenzter Staatlichkeit*, Jahrbuch International Politik, vol. 28, Oldenbourg Verlag, 2010, pp. 344-350.

more attention for the developing world and for promoting global development in the context of the G20.[43] Out of the three emerging countries under investigation, India has been keenest on shifting the G20's agenda towards development, both as an individual agenda item, as well as through a refocusing of existing topics. For example, Prime Minister Singh advised that macroeconomic imbalances and the challenge of inter-country divergences "become an opportunity to deal with a more fundamental imbalance which is the development gap between the rich and poor countries".[44] While the emerging countries were able to introduce a developmental perspective into some of the key issues, it was due to the 2010 host South Korea – who saw itself as a bridge between the industrialised and the developing world – that development was included as individual item on the official agenda. Given the informality of the forum with no fixed topical mandate, the role of the presidency can thus be a powerful tool to refocus the agenda towards non-G8 concerns. Other emerging countries will have the chance in the years to come, with Mexico following France at the helm in 2012.

Conclusion: assessing the role of the emerging countries

The paper has examined the role of the emerging countries in the new G20 – with a particular focus on the question whether they have acted as agenda-setters, veto players or mere spectators.

The G8 countries were hit hardest by the financial crisis measured in terms of output loss. In contrast, emerging and developing countries were not immediately affected by the global disruptions that followed the collapse of Lehman Brothers in 2008. They felt the medium-term effects of the economic crisis, but their banking systems remained largely stable.[45] As such, China and India managed to sustain a considerable growth rate – though lower than before the crisis. Similarly, Brazil was comparatively well prepared to counter the crisis having stabilised economic

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43 Lan Xue and Yanbing Zhang, 'National Perspectives on Global Leadership: China', *NPGL Soundings,* November 2010, 17.11.2010; see also Jiemian Yang, 'Country Fact Sheet – China', in Christoph Pohlmann, Stephan Reichert and Hubert René Schillinger (eds.), *The G-20: a "Global Economic Government" in the Making?*, International Policy Analysis, Friedrich Ebert Foundation, June 2010, p. 23.

44 Singh cited in Subhomoy Bhattachariee, 'PM claims "some credit" for development focus', *Financial Express*, 14.11.2010.

45 Avinash Persaud, 'The locus of financial regulation: home versus host', New Delhi, ICRIER, May 2010.

fundamentals (such as the inflation rate, foreign debt repayment and foreign reserves) in the wake of the previous crisis. Moreover, its financial sector was relatively stable, with low liabilities abroad. Emerging countries have also come out of the crisis as growth motors: this trend has been strengthened in 2010, with growth figures for high-income countries at 3.0%, whereas the emerging countries of the G20 and the developing countries have grown at 7.1% – Asian emerging countries even at 9.3%.[46]

The establishment of the G20 and its initial key objective to prevent a disintegration of the international economy was therefore mainly in the interest of the G8 countries that dominated the agenda of the past G20 summits. The emerging countries were altogether less affected by the financial crisis and showed thus different priorities and preferences: their interest has focused less on regulatory change and more on a reform of the international institutions. China's willingness to go along with the initial G20 agenda was underpinned by its interest in consolidating the G20 as an alternative forum to the G8 in order to secure influence for emerging countries in global economic governance. As such, it did not want to be seen as blocking major decisions: besides its dispute with the US over its currency policy, the country has taken a back seat in the G20 discussions. Similar to China, India's participation in the G20 did not arise from its direct concerns with the immediate crisis but is rather seen as a means to be present at a key global forum. However, India still sees the UN as the major forum for international cooperation.[47] Therefore, India has not been a strong proponent of any particular position – with the exception of IMF reform. Brazil was one of the earliest advocates of an upgrade for the G20 of Finance Ministers, with a view to diminishing the influence of the G8 and abolishing the unpopular 'Heiligendamm Process'. However, Brazil distanced itself from the process and did not participate in the Gyeongju ministerial meeting.

While the emerging countries share some general preferences – especially with regard to their increased voice in global economic governance –, a joint stance in the G20 is difficult to achieve: given their different economic policy traditions and the diverse economic challenges they face, emerging countries vary considerably in their preferences on a range of G20 policies (e.g. on exchange-rate policy or

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[46] International Monetary Fund, *World Economic Outlook Update*, 25.1.2011.

[47] See Ranjiv Kumar, 'Country Fact Sheet – India', in Christoph Pohlmann, Stephan Reichert and Hubert René Schillinger (eds.), *The G-20: a "Global Economic Government" in the Making?, International Policy Analysis*, Friedrich Ebert Foundation, June 2010, p. 34.

financial supervision) – much more so than the European countries or the G8 members within the G20.

Summing up, the analysis of the summit outcomes and members' preferences suggests that emerging countries have not been able to influence (and shift) the formal agenda of the leaders' G20 single-handedly. However, while the United States and the European G20 members – as proxies for industrialised countries – have dominated the agenda of the first G20 summits, the G8 members have not necessary acted in concert. The "cacophony" of G8 voices has given emerging countries room to manoeuvre at the G20. Big emerging countries have not been mere spectators at the G20. Their leeway to shape outcomes has so far largely depended on the ability to strike coalitions among each other and with G8 countries, such as with IMF reform or financial taxes and levies.

The key question for the leaders' G20 is whether it can deliver on its pledge to become the premier forum for international economic cooperation in the long run. The G20 is per definition (and volition) a more heterogeneous forum than the G8. However, for the survival and legitimacy of the G20 it is important that the forum does not slide into empty promises and vague compromises. This will only be possible if the newly-involved emerging countries remain engaged in the process and the G20 does not develop hard fault lines along the G8/emerging country divide.[48] Including agenda items that are of immediate relevance for emerging countries will ensure their continued interest in the forum. This could include topics such as development or commodity markets. It is therefore important for future presidencies to strike the right balance of topics for G20 countries – whether they are industrialised or emerging.

48 It is encouraging that such fault lines have not hardened among the G20 members so far.

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