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Ahead of the St. Petersburg Summit: The G-20 Should Focus on its Core Functions

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On September 5-6, the heads of state and government of the G-20 will meet in St. Petersburg. The authors take stock of what this group can really achieve five years into its existence. Their conclusion: Only the G-20 can offer an informal forum for dialogue among industrial nations and emerging economies, and only the G-20 can direct global attention toward specific issues. The G-20 should focus more on these core functions—and also emphasize them more clearly beyond the yearly summits. Only in this way can the group ensure a prominent role for itself among international economic institutions. For the coming summit in Russia to be a success, the G-20 must also manage its agenda more actively. To do so, it must either define its new focus on “financing for investment” more clearly—or eliminate it from its agenda.

The G-20: A Forum for Dialogue and an Agenda Setter, not an Executive Institution

Following the successful first summits in Washington and London in 2008 and 2009, in which the industrial countries and emerging economies were able to rapidly develop a common response to the financial crisis, the original enthusiasm—and media attention—has waned considerably. The last G-20 summits were not generally considered successes.

Criticism of the G-20 has centered mainly on two fundamental problems: the G-20 is not capable of asserting itself sufficiently, and it is too ambitious. First of all, the industrial and emerging countries, as well as the industrial nations among themselves, have not been able to agree upon the central themes of the G-20 agenda. Controversial issues include, among other things, growth strategies and debt ceilings. In the last five years, member states' commitment has diminished overall, and the implementation of decisions has decreased. Implementation is made all the more difficult by the fact that the G-20, as an informal body, has no way of effectively enforcing its decisions, since they are not legally binding. The group's clout therefore rests primarily on pressure from member states and the public. The second problem—“agenda creep”—relates to the fact that the G-20 agenda has clearly become overloaded in the last five years. Thus at its Los Cabos summit, the G-20 dealt, among other things, with climate change and

development aid, while in Toronto, maternal health was on the agenda. In addition, the presidents, who rotate annually, often attempt to place their own national interests on the agenda. Because of the G20's broad thematic range, individual topics can only be dealt with very superficially. In short, the G-20 is frittering away its energy.

The G-20 is certainly facing these problems. However, it would be wrong to reduce it to these points of criticism and write it off as a useless body. The G-20 still addresses a range of important tasks. In order to place the expectations surrounding the group's ability to make and implement decisions on a more realistic footing, an assessment of the G-20 should concentrate on what it can really achieve as an informal group and on what value it adds as an actor in the global economic order. Otherwise, the negative perceptions of the forum threaten to become a self-fulfilling prophecy, and the leaders' summit would lose its relevance.

The four main roles of the G-20 can be described as follows:

Forum for informal dialogue

The G-20's most important function is to offer a central forum for dialogue to the heads of state and government and finance ministers of the twenty “systemically important” member states. Debates on global challenges have value in themselves; through the regular G-20 meetings, trust

and understanding develop among sometimes very different members. The flexible and informal character of the group aids in the development of common basic understandings of difficult issues but also sheds light on the political constraints and views of individual states. This is the first step toward cooperation and consensus building. The group's informal governance expands opportunities for innovative forms of cooperation at the international level. These aspects are necessary in a multi-polar, heterogeneous world.

In addition, regular dialogue can lead to long-term changes in policy that may be difficult to measure in the short term. An example is China's exchange rate policy. This has been discussed as a problem at numerous G-20 summits. As a result, China has allowed the renminbi to fluctuate within a narrow corridor of ± 1 percent and experimented in Hong Kong with so-called "dim sum bonds." The discussions at the G-20 contributed to this change.

The G-20 must bring the idea of dialogue and networking more to the fore, moving beyond summit diplomacy. Thus the work before and after the summits, at all levels of the G-20 network, is particularly significant, while the summit represents merely the tip of the iceberg. The formation of permanent working groups at the operative level is therefore a welcome step, and should be expanded upon.

Networked agenda setter

Because of their high-level participants, the G-20 summits can significantly affect the international economic policy agenda; the summits bring together heads of state and government and finance ministers to discuss central economic issues, break political deadlocks, and provide impulses for reform (for example, the governance reform of the International Monetary Fund, IMF). Because of the G-20's informal character and the high political levels involved, it is possible to address problems early on, link them to other issues, and lend them political weight. The group can thus steer attention to important issues and influence debates at the national level and in international organiza-

tions. In this way, the G-20 provides a meaningful counterweight to the silo mentality of politics in a networked world.

Rapid crisis forum and crisis financier

The G-20 makes it possible for governments to come together quickly in times of crisis and develop coordinated solutions. It can respond with relative rapidity, as it is able to take direct advantage of existing open channels of communication at all levels. The G-20 can thus act flexibly and mobilize funds from its member states at short notice—in financial crises, as demonstrated by the first summits in Washington and London. In comparison to other international organizations characterized by protracted or even blocked decision-making processes and few capital resources, the G-20 is at an advantage.

Unique platform for industrial and emerging countries

The G-20 is one of the few forums in which industrial and emerging nations work together on an equal footing. This is especially important against the background of the continuing debates about the status of emerging market economies in the IMF and World Bank. Only through cooperation between these two groups can global problems be effectively addressed.

To counter the impression that the G-20 meetings are expensive summits with few concrete results, these four central activities—and advantages—of the G-20 must be built upon and explained more clearly to the public. It would also be expedient to communicate more effectively the process by which its decisions are implemented over the long term.

The G-20 Agenda Must be Managed More Actively

In order to prevent "agenda creep," the G-20 states must also more effectively manage their priorities. The G-20 now meets once a year at the level

of heads of state and government. This political capital must be used sparingly so that the summit does not become just another international ritual valued by none of the participants. It is important to consider more seriously and with a view to the long term which issues should be placed on the G-20 agenda for treatment at the highest political level. This could be done, for example, within the troika (an association of current, past, and future G-20 presidents).

We advocate active agenda management in line with a recent study by Barry Carin and David Shorr of the Canadian think-tank CIGI.¹ In choosing G-20 issues, we consider the following criteria to be crucial:

- **Complementarity:** The issue strengthens the assigned role of international organizations rather than weakening it. The G-20 should promote rather than impede the work of existing institutions, such as the IMF and World Trade Organization (WTO).

This agenda management could be usefully reinforced by so-called sunset clauses, which would require regular review to determine whether the issue should remain on the G-20 agenda or be passed on to a suitable international organization and/or to national institutions with the necessary authority and instruments. In this way, the G-20 could avoid overloading its agenda.

The priorities of the Russian G-20 presidency²

The Russian presidency has identified three overarching goals through which the G-20 themes are filtered. These goals are each assigned subthemes, most of which have already been part of the G-20 agenda for some time:

- **Growth through effective regulation**

This includes strengthening financial market regulation, enhancing multilateral trade, and energy sustainability.

- **Growth through quality jobs and investment**

The heading “Jobs and Investment” includes the Framework for Strong, Sustainable, and Balanced Growth, the new Russian focus “financing for investment,” jobs, and development for all.

- **Growth through trust and transparency**

This includes issues such as international financial architecture reform and the fight against corruption.

- **Governance Gap:** The problem must be internationally prominent, and a gap in governance must exist. That is, there should be no other existing international forum or organization that has the technical and organizational capacity or decision-making ability to adequately address the issue.
- **Subsidiarity:** A solution to the issue must demand attention at the highest political level. Issues that can be resolved on the technical level in existing international organizations or at the national or regional level need not be dealt with by the G-20.

St. Petersburg: How Sensible is the Russian Agenda?

In 2013, Russia holds the presidency of the G-20. The last summit in Mexico in June 2012 was judged negatively in part because the agenda was laden with new issues put there by domestic political interests. What does the agenda look like under Russia’s presidency? Is Russia doing justice to the role of the G-20 as an effective agenda setter?

In the section that follows we will examine the four central themes put forward by the Russian presidency for discussion at the coming G-20 summit.

These include 1) strengthening financial regulation and 2) the Framework on Strong, Sustainable and Balanced Growth, which lie at the heart of G-20 activities and have been on its agenda since the beginning. In addition, we analyze two new topics added to the agenda by Russia: 3) the issue of energy sustainability and 4) financing for investment. Using the criteria presented above for effective international agenda management, we examine whether the problem is predominant and involves a gap in governance, whether heads of state and government at the highest political levels must address it, and whether it strengthens the role of existing international organizations.

Strengthening financial market regulation

The Russian G-20 presidency continues to work on strengthening regulation of international financial markets. The Financial Stability Board (FSB) has been asked to address the following issues on behalf of the G-20: implementation of the Basel III rules, regulation of so-called D-Sifis (domestic systemically important financial institutions) and shadow banking, and completion of reform of derivative trading. The FSB will present the results of its work during the St. Petersburg summit in September.³

Reforming financial market regulation has dominated the G-20 agenda from the start. Overly lax regulation of the financial sector is considered a main cause of the financial crisis, to which the G-20 immediately responded. No other forum and no other organization was capable of adequately addressing this issue. While it was necessary to agree at the highest political level to strengthen the regulation of financial markets, the drafting of detailed regulations was delegated to the FSB. The G-20 thus gave a clear mandate to existing organizations. The strengthening of financial market regulation was therefore rightly placed on the G-20 agenda and is justifiably being pursued by the Russian presidency. The focus—as with the recent presidencies of France and Mexico—is on implementing agreed-upon regulations.

The Framework for Strong, Sustainable and Balanced Growth

Because the global upturn continues to bear risks, the issue of economic growth is still a central element on the G-20 agenda. The item is connected to the problem of macroeconomic imbalances, which rose dramatically before the financial crisis and are considered a major risk to the stability of the global financial system.⁴ In its multilateral consultations, the IMF was not able to gain control of this problem. Therefore, in 2009 the G-20 adopted the Framework for Strong, Sustainable and Balanced Growth, with the goal of reducing macroeconomic imbalances and promoting sustainable growth. Since then, the issue has been addressed by the G-20 at the highest political level. The Russian presidency now wants to revise the country-specific medium- and long-term public debt targets. The planned outcome is the adoption of a new G-20 St. Petersburg Action Plan.⁵

The theme of growth has previously led to serious conflicts among the G-20 states regarding clearly defined debt targets with temporal deadlines (as those demanded mainly by Germany), compared with the necessity of stimulus measures to stabilize growth (mainly the United States). Russia tends toward further weakening the existing G-20 debt targets (Toronto targets), which provided that the national deficits of the G-20 states had to be cut in half by 2013 and debt levels stabilized by 2016.

To reach agreement or convergence of views on these differing positions, the conflict over growth strategies and macroeconomic imbalances must be dealt with at the highest political level. Only the heads of state and government have the authority to make decisions on the many policy areas that influence these imbalances. In the process, the G-20 states are analyzing the so-called spillover effects of each country's national policies on other states in order to promote sustainable, strong, and balanced global growth. The necessity of such an analysis became clear as a result of the financial crisis, and has now been implemented by the G-20 for the first time. This examination was not delegated to other institutions; instead, the attempt has been made to achieve progress through a

self-determined process (Mutual Assessment Process). The IMF has acted in an advisory role, with the scope clearly set by the G-20. Although there has still been little progress on this issue, it fulfills the criteria for inclusion on the G-20 agenda and should play an important role in St. Petersburg and beyond.

Energy sustainability

During Russia's presidency, the working group on energy sustainability (ESWG) is looking at the issues of transparency on commodity markets, energy efficiency, and green growth, regulation of energy infrastructure, and protection of the marine environment. Here Russia has combined earlier G-20 activities, such as the working groups on clean energy and energy efficiency and the Global Marine Environment Protection Initiative.⁶

Sustainable energy supply is of central importance to all G-20 states in a time of dwindling resources. Suppliers and consumer states meet in the G-20, so that it makes sense to deal with this issue at the highest political level. Only in this way can compromises and action plans be agreed upon. It is also useful to combine existing working groups and initiatives. In addition, competencies are not entirely clear at the international level. Numerous organizations and forums deal with the themes of energy/renewable energy and protection of the oceans, including the International Energy Forum (IEF), the Organization for Economic Cooperation and Development (OECD), the International Energy Agency (IEA), the "Joint Organizations Data Initiative" (JODI), and the International Organization for Renewable Energy (IRENA). The G-20 can structure global governance in this area and bring together the various interests. This issue, too, is thus reasonably on the Russian G-20 agenda.

Financing for investment

The area of investment financing is an important example of agenda setting by the Russian presidency. Russia believes that investments have visibly declined as a result of the global economic and financial crisis. It wants the G-20 to address the question of availability of finance for long-term

investment, including major infrastructure projects. The emerging countries in particular are very interested in this issue. The mandate is broadly defined: The working group (chaired by Germany and Indonesia) is expected to consider how the amounts and effectiveness of investment financing can be improved and what obstacles exist to this. It will examine the role of public-private partnerships (PPP) and opportunities for finance through credit and capital markets or direct investments (FDI). In addition, it will consider improvements in refinancing opportunities for small and medium enterprises. Recommendations will be made on how to increase the lending capacity of banks and multilateral development banks.⁷

The agenda item "financing for investment" is very broad and vaguely defined. Its main goals are unclear, as is the added value that the G-20 can provide. The theme of investment (in infrastructure) is already addressed by other international organizations, above all the World Bank, so that it does not seem very useful for the heads of state and government in the G-20 to address it as well. The G-20 already decided in London to increase the capital of multilateral development banks, and this has not yet been completed. Investment financing does not belong on the G-20 agenda, according to the criteria set out above. Nevertheless, Australia is interested in pursuing this issue during its presidency in 2014. Negotiations on a Framework for Strong, Sustainable and Balanced Growth have proven very difficult, so that Australia would like to focus on the area of investment financing on the "finance track" of the G-20. If the issue remains on the agenda of the G-20 summits, it must, however, be more clearly focused.

Conclusion

The G-20 is important for strengthening dialogue among the industrial and emerging states. It offers a platform for developing intersectoral solutions to global problems. In addition, it is a crisis manager and it is responsible for setting the international agenda in the network of international economic institutions and fora. These advantages must be understood more clearly as the group's unique sell-

ing points and more efficiently communicated. This is necessary to counter the increasing criticisms of this informal forum, which could lead in the long run to its loss of attractiveness and ultimate insignificance.

Furthermore, to effectively exercise its role as an agenda setter, it is important that the G-20 states not overburden the group—and that they steer the agenda more actively. The Russian presidency has focused the agenda for St. Petersburg heavily on economic themes. In the main, this means further pursuing and implementing existing G-20 issues. This is to be welcomed. However, the Russian presidency has placed additional issues on the agenda, including energy sustainability, and investment financing. While it is useful to discuss energy problems among the G-20 states, the subject of investment financing remains diffuse. It is not clear

why this theme should be discussed at the highest political level. The issue must be more clearly focused and distinguished from existing initiatives if it is to remain on the G-20 agenda. Australia has taken a step in the right direction by concentrating the issue, within the framework of its presidency in 2014, on improving the investment climate and providing a cost-benefit analysis of infrastructure projects. After the meeting in St. Petersburg, attention will quickly shift to the next summit in Brisbane in 2014, at which many hope real progress will be made on the G-20 agenda.

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Notes

- 1 Barry Carin/David Shorr, The G20 as a Lever for Progress, CIGI G20 Papers 7/2013, <http://www.cigionline.org/sites/default/files/G20No7_0.pdf> (accessed 7/10/2013).
- 2 The Russian Presidency of the G20, Priorities of Russia's G20 Presidency in 2013, <http://www.g20.org/docs/g20_russia/priorities.html>; The Russian Presidency of the G20, <http://en.g20russia.ru/docs/g20_russia/outline> (accessed 7/10/2013).
- 3 The Russian Presidency of the G20, Outline, op.cit. (note 2).
- 4 See Olivier Blanchard/Gian Maria Milesi-Ferretti, (Why) Should Current Account Balances be Reduced? (IMF Staff Discussion Note), Washington, DC, 3/1/2011, <<http://www.imf.org/external/pubs/ft/sdn/2011/sdn1103.pdf>> (accessed 7/14/2013).
- 5 The Russian Presidency of the G20, Outline, op.cit. (note 2).
- 6 The Russian Presidency of the G20: Outline, op.cit. (note 2); G20, Energy Sustainability Working Group Meeting, February 19-20, 2013, <http://www.g20.org/events_sherpas_track/20130219/781041430.html> (accessed 8/5/2013); G20, Energy Sustainability Working Group Meeting, July 9-10, 2013, <http://www.g20.org/events_sherpas_track/20130709/781044822.html> (accessed 8/5/2013).
- 7 The Russian Presidency of the G20: Outline, op.cit. (note 2); Sergey Drobyshevsky, The G20's Initiative on “Financing for Investment” in Infrastructure, in: Heinrich Böll Foundation, G20 Update, 16, Berlin, May 2013, pp. 13–15, <http://www.boell.de/downloads/internationalepolitik/G20_Update_16_Final.pdf> (accessed 8/8/2013).

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