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Making Change Happen at the Global Level

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TABLE OF CONTENTS

Preface………………………………………………………… Page 2

Introduction…………………………………………………… Page 3

The G7 and G8 Record………………………………………… Page 8

Uruguay Round…………………………………………………… Page 9
Debt Relief………………………………………………………… Page 10
Money Laundering………………………………………………… Page 12

Unlikely Developments………………………………………… Page 13
The Euro…………………………………………………………… Page 14
Association of Southeast Asian Nations (ASEAN)……………... Page 15

Meeting Global Challenges…………………………………… Page 16
Trade Negotiations………………………………………………... Page 17
Climate Change…………………………………………………... Page 20
Financial Issues…………………………………………………… Page 22

G20 at Leaders' Level………………………………………… Page 24
Membership……………………………………………………….. Page 24
Machinery…………………………………………………………. Page 27

How to Get There……………………………………………… Page 29

Preface

This paper is intended to stimulate the preparation of papers for the CIGI/CFGS February Conference on the Future of the G20. The intent is to examine the potential evolution and promise of the G20 through the eyes of authors from different cultures and points of view.

The October 26-27 discussion at the Centre for International Governance Innovation is intended to provide guidance on the concerns and questions of Paul Martin. Mr. Martin, as future Prime Minister of Canada, will be in a position to feed innovative ideas into the appropriate official channels for debate and decision.

Introduction

During the last decade there have been increasing protests against globalization. These protests have generally taken place at the time of major international meetings. The World Trade Organization, the G7 and G8 Summit meetings, and the Bretton Woods institutions – the International Monetary Fund (IMF) and the World Bank (WB) – have been the primary targets. Protests have also been directed against European Union meetings as well as against Free Trade for the Americas meetings.

The protesters are an international coalition of people and organizations with quite divergent interests. Nowhere is this more obvious than in the side-by-side presence of union leaders from developed countries seeking protection for their members and protesters from the South who want to see increased access for their goods to the developed world. Then there are those with an anarchical bent. But for the "thoughtful" protesters, what unites them is opposition to the way globalization is unfolding.

In 2000 at the United Nations there was the largest assemblage of leaders ever in one place for the Millennium Summit. It is interesting and important to note that none of them called for the process of globalization to be arrested. Indeed those from the South expressed the conviction that it was through more trade and investment that the vicious circle of poverty could be broken. The Secretary-General of the UN, Kofi Annan, has on many occasions described what is needed as "shaping" globalization. While globalization has a dynamic of its own, he and other leaders from the South are arguing that it should be managed so as to ensure that the benefits are more broadly shared. "Laissez faire" globalization leaves too many losers in its wake.

We agree with the thesis that globalization needs to be "shaped" so that more countries and peoples share in the benefits. The question is how to do it. In our view it is clear this will only happen with leadership coming from the highest political level – Presidents and Prime Ministers. These leaders need a mechanism, however, and it is less clear what that mechanism should be.

There are four potential routes to this desirable future of a more equitable process of globalization. First, existing international organizations, such as the IMF, the WB, and the World Trade Organization (WTO), could take or infer direction from their executives, reform and evolve so as to shape globalization more fairly. Second, sustained external pressure from civil society on existing organizations could result in dramatically progressive policies eventually becoming the routine convention. Third, new more representative and legitimate organizations could be established. Fourth and we feel the most promising of the potential routes, the existing G7/8 and G20 could be transformed in such a way that would provide the requisite leadership.

Could multilateral organizations reform their bylaws, becoming more representative, legitimate, and more effective? We conclude that internally generated reform is an unlikely possibility. Witness the gridlock facing reform of IMF governance – increasing Special Drawing Rights (SDRs) or the, one might think, "no brainer" proposal for a second Executive Board seat for sub-Saharan Africa. It is as impractical to substantively change the IMF Articles of Agreement, as it is to reform the UN Security Council from within.

A second approach is consistent pressure over time focused on existing organizations by civil society. One example was the external pressure on the IMF to focus on poverty alleviation. The official stance of the IMF has evolved substantially over the last 10 years with respect to its emphasis on poverty issues, thanks largely to the continuing hammering of civil society advocates. While we believe networked civil society can and will have a beneficial effect on issues of international concern and on changing the priorities of governments and international organizations, the forging of intergovernmental consensus, required for the resolution of many apparently intractable problems, can only be affected by governments.

A third alternative route to a more desirable future is an end run of existing sclerotic organizations. Could new and effective multilateral organizations be established to fill needs not met by existing organizations? To fill the needs for collective management and the reconciliation of the tensions induced by globalization, new multilateral regimes or international organizations are clearly needed in areas such as international taxation and anti-trust/competition. It would also be desirable to have an international bankruptcy "court" for sovereign states. Many have argued for a Global Environment Organization (GEO) to consolidate the uncoordinated hodgepodge of environmental organizations and convention Secretariats. Again, we dismiss the creation of powerful new international organizations as an improbable possibility. Witness the U.S. reaction to the International Criminal Court, or the implications for a GEO of the American response to the Kyoto Protocol.

Anne-Marie Slaughter has identified the growing importance of trans-national networks – associations, more or less formal, of government officials with similar responsibilities, who meet periodically. While these meetings might simply seem like discussions comparing experiences in different jurisdictions, they are in fact part of an evolving global governance. Slaughter notes that more and more often reasons for decisions cite those of other jurisdictions. An example is decisions by human rights commissioners. This process of extra-national citation, to some degree, represents "best practices", but in fact it is something more. Ideas held in common emerge. People rely on international norms and practice to come to conclusions about the best way ahead.

One advantage of the trans-national networks approach is that it avoids building up supra-national institutions, organizations that can and do take on a life of their own. At the global level there is even less direct accountability for these networks than for international organizations, and nor is there likely to be for a very long time. The most accountable people are democratically elected national governments. It therefore makes sense to build on them to the maximum degree possible as the world develops better ways of managing our increasing global interdependence.

We argue below that the G7/8 has achieved results. It certainly is the highest profile trans-national network. Indeed its visibility contrasts with meetings, for example, of human rights commissioners which few know about – this lack of visibility could become an increasing problem but is not an issue we address here. The relative success of the G7/8 does not come from a position of formal authority; it does not have "authority". Rather it comes from the engagement of political leaders in a forum that facilitates compromise and consensus to coordinate efforts in other fora.

If the reform and growth of existing international organizations is paralyzed, and if the creation of effective new international organizations is problematic, then a transformation of the G8 is the best route to realize the needed political leadership for collective management and reconciliation of the tensions of globalization. The evolution of existing informal intergovernmental processes is much more likely than the comprehensive reform of existing organizations or the creation of new effective institutions. Growing the G8 into a leaders' level G20 is the best bet to attain a more desirable future.

There are articulate detractors of the G8 and the G20. Gerry Helleiner is perhaps the sharpest. He indicts the G20 on several counts:

- its unilateral creation by the G7 totally ignored the continued efforts of developing countries to speak collectively through their G24;
- there is no representation either from the poorest and smallest developing countries or from the Nordics or Dutch who might be expected periodically to speak on their behalf;
- there is no mechanisms for reporting or for accountability to the international community; and
- there are no provisions for non-governmental inputs or transparency, both of which are required for its credibility and legitimacy, as well as its effectiveness.

The critique related the end run of the G24 by unilaterally creating the G20 is valid – but it is an issue of paternity, not substance. If the G8 were to confer with the G24, a G32 would emerge. This is too large to be effective, so some new "executive committee" would result – probably not much different than the G20. Over time, the G20 may institute some sort of "constituency" system to ensure *full* reporting and a sense of ownership for non-members. In time, the G20 may make discussion papers, documents and reports publicly available. We agree with Helleiner when he calls for the G20 to "significantly expand its agenda to address the full range of problems and issues in the international and monetary and financial system".[1]

In the text below, we first examine the G7/8 record, and conclude that leaders meeting on a sustained basis can move issues that officials and ministers cannot. We then analyze the salient characteristics of two significant international developments that seemed unlikely long shots – the formation of ASEAN, and the agreement on the Euro. The paper then reviews the prospects for successful progress in meeting three long-term global challenges (a Trade Round which ends agricultural subsidies, a climate change agreement with worldwide buy in, and a single world currency). The prospects for progress are reviewed in two alternative futures – one where the G8 leaders' Summit and G20 Finance Ministers have morphed into an energetic G20 leaders' Summit process, and one future where there is no new institution or process where the G8 leaders meet leaders of emerging economies and the South in a collegial forum outside the UN.

The paper then proceeds with conjectures on the membership of the future G20 and on its machinery. The paper concludes with some views on the likely route to realizing an effective, legitimate G20.

The G7 and G8 Record

The G7 leaders have made a constructive difference addressing intransigent issues.

There are innumerable examples of international meetings of ministers and officials reaching consensus on what needs to be done, drafting an elegant communiqué and then nothing happens. A "do nothing" focus on defining problems and avoiding action in fact also can happen at the leaders' level. But leaders have a greater capacity to move beyond rhetoric and agree on what needs to be done, and then ensure it happens.

Leaders' Summit meeting are not completely choreographed by "sherpas", the term that refers to their personal representatives. Leaders do get personally involved and are not mere symbolic talking heads. In our experience of five Summits, on each occasion the leaders had at least one major discussion that was not planned, nor prepared by the sherpas. Generally there is more than one. Often these are about the latest international crisis, for example conflict in the Balkans. Other times they are about major global challenges, either on the international agenda, for example climate change in the lead-up to Kyoto, and other times about major issues of the day that leaders felt were not being adequately handled, for example infectious disease and transnational organized crime. Typically the Summit meeting underlines the utility of leaders acting in common, and facilitates coming to agreement on what should be done.

We review below the G7 contribution with respect to the stalled Uruguay Round in 1993 and the money laundering and debt relief issues.

Uruguay Round

The 1993 G7 summit held in Japan was very productive in breaking the final deadlock in the Uruguay round negotiations and leading to the creation of the World Trade Organization (WTO). In early 1993, the negotiations in the Uruguay Round were at a standstill. Despite the "Blair House" agriculture agreement in 1992 between the U.S. and EU, there were wide divisions on tariff and services issues. The G7 meeting in Tokyo could not afford failure; there was a clear imperative to re energize the Round. Quad (U.S., UK, EU, and Canadian trade) ministers were summoned to the Tokyo Summit site and in an unprecedented pressure session, achieved the required market access agreement. The Tokyo G7 Communiqué announced:

> …significant progress made towards a large market access package in goods and services as a major step to the immediate resumption of multilateral negotiations in Geneva. This progress must be matched by comparable market opening measures by other participants. We urge all our trading partners to negotiate constructively on all subjects, recognizing that nothing is agreed until everything is agreed. There remain important issues to be resolved. We renew our determination to resolve them and to

> achieve with all our partners a global and balanced agreement before the end of the year.

Most other countries agreed to the critical market access package by December 1993, and the Uruguay Round agreements were signed in Marrakech in April 1994. The Tokyo G7 Summit was a unique instance of the collective power of leaders to drive their ministers to reach a consensus.

Debt relief

In international affairs, timing is critical. Some argue that Summit timing works in favor of influencing contentious international finance issues – the late June/early July G7/8 summit falls between the IMF's Spring Interim Committee and its autumn Annual Meeting. It therefore provides a good occasion for giving an impetus to proposals launched over the previous year and intended for conclusion at the autumn meeting. An example is the 1988 Toronto summit, which was the first to push debt relief proposals for the poorest countries, resulting in what came to be known as the "Toronto Terms". At the IMF 1989 spring meetings, the American Treasury Secretary then launched the highly contentious "Brady Plan", promoting relief for countries heavily indebted to commercial banks. Differences were resolved by the Paris summit. Brady terms were adopted by the IMF in the fall of 1989.

A tradition of Summits is that participants afford the host country the courtesy of supporting an initiative favored by the host. There is an implicit understanding that precious agenda time and support will be given to an idea designed and promoted by the host country. Kananaskis in 2002 provided Canada the opportunity to press NEPAD (the New Economic Partnership for Economic Development) and Africa. John Major, as host of the 1991 London Summit, championed "Trinidad Term" – an enhanced package he had originally proposed at the 1990 Commonwealth Finance Ministers' meeting. The London summit encouraged the Paris Club of creditor governments to work for prompt implementation of measures going well beyond Toronto terms.

Debt and development issues were raised again at Halifax and Naples. Finance Ministry officials still strongly held the position that "all Sovereign debts are collectable". The 1995 Halifax Summit agreed to pursue the development of a comprehensive approach to address the special problems of the poorest heavily indebted countries. Flexible application of existing instruments and the creation of new mechanisms for debt relief, to help those poorest heavily indebted countries that have demonstrated a track record of sustained good policy performance, were encouraged at the World Bank and IMF. The 1996 IMF/World Bank Annual Meetings then endorsed a new debt initiative for Highly Indebted Poorest Countries (HIPC).

The NGO Jubilee 2000 campaign to deal with crippling debt levels for poor countries is an excellent example of the effectiveness of a sustained effort. However, a sort of "force majeure" was necessary to deal with counterarguments such as moral hazard implications, and to navigate the constricted process of the Paris Club and the IMF and World Bank. This "force majeure" was politically decisive and could only be provided by prime ministers and presidents.

Money Laundering

As a consequence of growing concern over money laundering, the Financial Action Task Force on Money Laundering (FATF) was established by the G7 Summit in Paris in 1989. The G7 Heads and the President of the European Commission convened the Task Force from the G7 member States, the European Commission, and eight other countries. It has been very successful in combating money laundering. In April 1990, less than one year after its creation, the FATF issued a report containing a set of "Forty Recommendations" which provided and provide to this day in an updated form, a comprehensive plan of action needed to fight against money laundering. There is a complete set of counter-measures against money laundering covering the criminal justice system and law enforcement, the financial system and its regulation, and international co-operation. Compliance is monitored on a mutual assessment basis, rather like that used by the Organization for Economic Co-operation and Development. The recommendations have been recognized, endorsed, or adopted by many international bodies.

In 1991 and 1992, the FATF expanded its initial membership from 16 to 28. After the attack on the U.S. of September 11th, 2001, the development of standards in the fight against terrorist financing was added to the mission of the FATF. New international standards for combating terrorist financing were issued – the "Eight Special Recommendations" – and all countries were called on to adopt and implement them. Implementing these Special Recommendations deny access for terrorists and their supporters to the international financial system.

The FATF is a clear success story. Objectives were set and results achieved. Those involved extended beyond the initial proponents. Commitments are followed up and performance assessed.

Unlikely Developments

We all suffer from the presumption that the status quo will not change. Despite overwhelming historical evidence to the contrary, it is difficult to foresee that old political entities will die, that some unions will dissolve and new federations, communities and unions will be formed. Despite the history of business cycles and innovation, it is difficult to foresee the disappearance of powerful multinational corporations and the decline of formerly important economic sectors.

Despite the accepted fact that we are living in an environment of constant and accelerating change, we cannot believe that certain desirable (in the sense of the global interest) economic and political change will come. There are cases when we should suspend disbelief. Necessary, but not necessarily sufficient, ingredients to catalyze change include a coherent vision of a better option, a champion to articulate and promote the vision, and venue of scheduled meetings to develop and nurture strategy to realize the vision. Perhaps the most necessary condition is incrementality – change is accomplished by a series of steps towards the vision. Two examples are the Euro currency and the formation of ASEAN.

The Euro

The founders of the European Community realized as long as fifty years ago that the creation of a common market would one day necessitate a common economic and monetary policy.[2] In 1969 the Heads of State officially launched the initiative for economic and monetary union (EMU). Luxembourg Prime Minister and Finance Minister Pierre Werner chaired a committee that mapped out a timetable for the project, outlining a three-stage plan, which by 1980 would fuse national instruments for economic and monetary control into Community instruments to be used for common ends. The oil crisis, divergence in national economic policies and a weak U.S. dollar scuttled the second stage of the Werner plan in 1974.

In 1979, the European Monetary System (EMS) was created, involving an unprecedented transfer of monetary autonomy. The EMS created a stable, adjustable mechanism for exchange rates by defining central rates in relation to a new "basket" currency – the ECU. Exchange rate fluctuations were greatly reduced, ushering in a new era of economic stability between Member States. As inflation rates fell and converged in the mid-1980s, it became clear that the time was right for a new push toward EMU.

In 1988, a committee was established under the then President of the European Commission, Jacques Delors, to make the proposals for the legal and economic arrangements required for the completion of EMU. Mr. Delors recommended a three-stage plan to greater coordination of economic and monetary policies with the intention of creating a European single currency under the stewardship of a European Central Bank. After the first stage of the Delors plan began in 1990. The European Council was convened at Maastricht in 1991. It was there that the Heads of State signed the Maastricht Treaty, which set out the tough economic convergence criteria that had to be met to qualify for the single currency. The third and final stage of EMU started January 1, 1999. The new single currency was born.

Who, even as late as 1985, would have believed that the German mark, the French franc and the Italian lira would disappear? It happened 40 years after Mundell, generated by an articulate vision, effective champions, a host organization where the principals met repeatedly, and a series of calibrated steps.

Association of Southeast Asian Nations (ASEAN)

When the Bangkok Declaration established ASEAN in 1967, Southeast Asia was badly divided by ideological conflict and war. Internal insurgencies and economic hardship forced Indonesia, Malaysia, the Philippines, Singapore and Thailand in the region to waste significant budgetary resources on defense and to depend on external powers for security and aid. The Sabah dispute between Malaysia and the Philippines led to the early demise in 1962 of the Association of Southeast Asia, which these two countries had formed with Thailand just one year earlier. Diplomatic ties between Kuala Lumpur and Manila were severed from 1962 to 1966. There was the "Confrontasi" between Indonesia and Malaysia; the separation of Singapore from Malaysia in August 1965; the escalating war in Vietnam and the Cultural Revolution in China where Chinese leaders openly espoused a policy to export revolutions to Southeast Asia.

In 1967, despite territorial disputes and racial tensions that caused recurring irritation and aggravated distrust, the Thai drafters of the Bangkok Declaration set out a bold vision of all countries in Southeast Asia cooperating actively towards the goal of peace, stability, progress and prosperity in the region. Against all odds, ASEAN was founded to provide a framework and mechanism for regional cooperation.

S. Rajaratnam of Singapore expressed the vision. "We want to ensure," he said, "a stable Southeast Asia, not a balkanized Southeast Asia. And those countries who are interested, genuinely interested, in the stability of Southeast Asia, the prosperity of Southeast Asia, and better economic and social conditions, will welcome small countries getting together to pool their collective resources and their collective wisdom to contribute to the peace of the world". From a community of five, ASEAN expanded over time to welcome Brunei in 1984, then Vietnam in 1995, Laos in 1997, and Cambodia and Myanmar in 1999.

Imagine the South China Sea dispute today, without the positive influence of regular ASEAN leaders' Summits the "ASEAN way", where informality and golf games have replaced bellicose posturing as the foundation of communication and discourse.

Meeting Global Challenges

What is needed? What current issues are representative of the kind of problems G20 leaders could address over the next 15 years? What are the prospects of G20 meetings at leaders' level helping to resolve challenging global problems, for example, in the areas of trade, financial issues and climate change? Our premise is that certain problems will fester and remain unresolved unless leaders intervene. These intractable problems are characterized by strong entrenched interest groups defending their minority interests counter to the national interest. "On the one hand…, on the other hand...," economists thrive on global problems – there are always at least two sides to issues, with winners and losers created by any policy initiative that changes the status quo. Furthermore, the complexity of global problems entails that the interests of developing countries or of emerging economies are not homogeneous – there are different interests among and within these countries – just as the interests of OECD countries are not homogeneous. Deadlocks based on these complexities can only be broken by the intervention of leaders making common cause.

Trade Negotiations

Let us examine whether progress in dealing with agriculture is more or less likely with an effective G20 meeting regularly at leaders' level. The WTO is making progress in trade negotiations in agriculture at a glacial rate; this is being written as the reports from

Cancun are in. The enormous subsidies paid by the EU and the U.S. to their farmers, which keeps developing countries products out of Northern markets and undercuts their own farmers at home, is the one big issue that could deadlock the Doha Round. OECD countries spend $310 billion per year on agricultural support (U.S. – $106 Billion, EU – (U.S.) $95 billion, Japan – (U.S.) $59 billion). For OECD countries the agricultural markets are among the most heavily protected – the average bound tariff is 60% (the rate for industrial products is 5%).[3] The EU has always had a relatively defensive position on agriculture. They are unlikely to agree to dismantle the Common Agriculture Policy. For Europeans, agriculture is different – intimately tied up with how they run their rural economy, and rural society. It is an issue of culture and national identity. U.S. agricultural interests are no less powerful than Europeans.

The redistributive complexity of agricultural subsidies is illustrated when defenders of the status quo point out that agricultural trade liberalization would induce significant prices increases for most commodities. The consequence is that there will be detrimental effects for some countries via lost preferential trade agreements and higher prices on net consumers of commodities. A World Bank study during the 1986-93 Uruguay Round showed that sub-Saharan African countries would in fact be losers from agricultural free trade – the main beneficiaries would be middle-income emerging economies. Given the complexity of specific issues in agriculture, as well as the North-South and South-South dimensions of distortions and the distributive consequences, "a global solution would be required to liberalize these markets. Rather than being self-contained, agricultural trade negotiations should involve concessions on other sectors and issues (services, IPRs) to identify overall reform packages palatable to all parties".[4]

The Doha Development Round is as dead as the Dodo if the Australian Trade Minister Mark Vaile was correct in assessing the outcome of the 2003 Montreal Informal Ministerial Meeting of 25 Ministers from a range of developed and developing countries. He reported that Ministers "agreed that before we can move ahead with non-agricultural market access, before we can get to a point of negotiating the four elements of the Singapore issues, or talk about rules, we must have the agriculture pieces of the jigsaw puzzle put in place". Then according to Vaile, the "EU made a small, but positive, step towards engagement in the negotiations with the announcement that they will make an offer on reducing domestic support, and have undertaken to engage in negotiations to reduce export subsidies. The current EU offer still falls short of meeting the commitments made by Ministers at the Doha Ministerial for progress across all three pillars of the agriculture negotiations: market access, domestic support and export subsidies".[5]

An optimist might wonder whether we might take heart from the recent agreement on exceptions to the Intellectual Property rules for patented drugs for poor countries. Unfortunately, the employment, economic and financial stakes in the agriculture sector are huge relative to the pharmaceutical sector. For drugs, there is the humanitarian argument of millions of African lives saved versus further profits of pharmaceutical companies in the U.S. and a few European countries, which are already perceived to be "fat cats". The pharmaceutical companies have a poor image relative to those protected by agricultural subsidies, not helped by the characterization in John Le Carre's bestseller *The Constant Gardener*. There is little downside to the drug deal – the losses involved are profits from potential future sales of patented drugs. Poor Africans were not going to provide a significant market or market priced patented drugs.

There is a massive downside to ending agricultural subsidies. The "losers" have great political power in U.S. and all European countries. Even free trade proponents such as Canada have difficult political problems, especially in dairy and grains. Given that it took years to resolve the pharmaceutical problem – which in effect was an interpretation problem of a provision of the original WTO TRIPS agreement – the agricultural subsidies problem will never be resolved by Trade Ministers and WTO officials.

The only way to break the deadlock on agricultural subsidies and repair the Cancun failure is for leaders to get involved in a systematic and sustained way. Trade negotiators will never be given the authority. Agricultural ministers do not speak for finance ministers. Only leaders can mobilize the political muscle and capital to communicate that in dismantling agricultural subsidies the increases the "national pie". Only leaders can mandate the crafting of domestic policy packages to compensate the losers in the agricultural sector. Only leaders can mobilize the international financial resources to compensate those disadvantaged by agricultural trade liberalization in developing countries. Only with a series of meetings, on an annual or semi-annual basis, with agriculture as one of a limited number of agenda items, will this nut be cracked.

Climate Change

The scientific evidence that the climate is changing is clear; there are few doubters left. The level of certainty is almost as high that a significant, if not the only, source of change is in the increasing level of greenhouse gases in the atmosphere. Climate change will create major challenges (and a few opportunities) during this century. The changes are perhaps less evident in the immediate run, although if one looks at the Arctic the impact of dramatically warmer temperatures important on the ice cap and the tundra is already clear.

The most important sources of Green House Gas (GHG) emissions are in the industrialized world; the burning of fossil fuels is the major contributor. The United States is the clear leader in the production of these gases, although on a per capita basis Canada is ahead of even the U.S. It is clear that, as industrialization and the number of automobiles increase, the future emissions from China and India in particular will be substantial.

After a lengthy series of meetings, which culminated in Kyoto, an agreement was reached on the principles for responding to the critical global challenges. More meetings were required before the details could be hammered out in Marrakech. Yet these agreements, if respected, would make only a marginal difference in the accumulated GHG s in this century. Nonetheless the developing world is unwilling to make commitments which they feel could stunt their economic growth (if fossil fuels were OK for your development, why are they not OK for us as we try to catch up?) and the U.S. believes the economic impact on it would be too costly for it to ratify. The U.S. is also concerned at the windfall transfer of resources that would likely take place to Russia and the Ukraine, as a result of the reduction in economic activity from the arbitrary 1990 baselines and the consequent availability of emission transfer credits.

Over the longer term, dealing with climate change is not just a matter of reducing emissions. What are required are different growth strategies with a clear focus on sustainable development. And these strategies must be linked to poverty alleviation and reducing the growing gaps between rich and poor in the world. Moreover there can be no successful attack on the challenge of climate change without the involvement of the United States.

In short what is required is a grand political bargain. The U.S. needs to be brought back in the tent, something that will not happen by trying to push American acceptance of the Kyoto framework. The developing world must be included, above all China and India. For that to happen there must be incentives in terms of growth potential for those countries. There are ways to make this happen. There are approaches which go beyond the emissions controlling method that is now the focus of implementation, although their detail is not a matter for this paper.[6]

One needs a means of affecting such a grand political bargain. It will not happen in the General Assembly of the United Nations. Nor will the G8 be able to bring it about. Strong political leadership is required, a leadership which bridges North and South. The trade-offs and amounts of money at stake are enormous. The issues involve not just energy policy, but also industrial and tax policy. There are major distribution questions at stake, both in and between countries. For progress on climate change, the U.S., China, India, and the EU must be on the same page, with a similar vision of the outlines of the grand political bargain, with a venue that allows for a regular series of well prepared meetings at the highest level. The mechanism to foster such a dynamic is not now available.

Financial Issues

This section examines the apparently hallucinogenic question of a global currency.

What are the prospects for a global currency – say in 2040? The benefits of a hypothetical single global currency are undeniable. The factor of foreign exchange rate risk would be eliminated. Asset values in all participating countries would increase in value due to the decrease in foreign exchange risk. Billions of dollars, yen and euros of exchange transaction costs would be eliminated. While there would be very substantial benefits for OECD countries, there would be extraordinary benefits for the developing world. Political and intellectual energy would not be invested defending the illusion of independent monetary policy. Interest rates would simply reflect the real credit risk of borrowers. Authorities would not have interest rates held hostage to defend exchange rates. No longer would entire economies have to be damaged by high interest rates in order to save them.

The net benefits of the hypothetical world currency are unquestioned. The problem is "you cannot get there from here". The debate in the UK on the Euro supplanting Sterling illustrates the point. A global currency would be have to be managed by an international central bank or monetary authority, and would require rules for fiscal discipline for the governments of member countries. This new institution would require "Articles of Agreement". The hurdles are many and difficult. Gridlock on issues such as

SDRs, IMF Executive Board seats and amending the Articles of Agreement was noted above.

The prospects of moving towards a single global currency, with a target date of say 2030, would be higher at a G20 table than a G8 table. The G7 debate in the mid-1990s on replacing IMF Gold Reserves with interest bearing assets was not a high water mark. The proposals to increase global liquidity by issuing SDRs on a grant or concessional loan basis for development financing came to nothing. We believe these debates would have had a different outcome among a series of G20 leaders' meetings. Northern leaders may have been divided – the ghost of past hyperinflation still haunts Germans. The Japanese cannot comprehend why their G7 partners advocate grants instead of loans – in their society they cannot imagine how grants can engender the necessary ownership and commitment from the beneficiaries. Southern leaders would likely be united, given that they have the most to gain.

Summits have an overriding requirement for tangible agreements and success. This requirement provides effective pressure to reach consensus, especially if the minority view is one or two out of twenty, instead of one or two out of eight. (It almost goes without saying that if the U.S. is not one of the active proponents of an idea, than its chances are very poor). It is much more likely, at some point in five or so years, for the G20 than the G8 to mandate a study of the issues involved in moving towards a single global currency. Should a study be commissioned, and should it be relatively favorable, a dynamic would be unleashed that would result in incremental, albeit gradual, progress.

G20 at Leaders' Level

Membership

What is the ideal membership? The number should be as large as possible for reasons of inclusion and legitimacy. Anyone not there will cry foul. On the other hand, it can be argued the number should be as few as possible. The fewer the number around the table, the greater will be the chance for real debate, discussion, understanding and consensus.

Nicholas Bayne recommends that leaders should maintain the practice, begun at Okinawa 2000, of inviting a group of leaders from developing countries to meet them before the summit proper. He argues that the admission of new members to the G8 itself, however, should be approached with caution. He characterizes the G8's great merit as "it is small and compact enough for the leaders to have a direct exchange around the table. This quality would be lost if extra members were added in the interest of making the G8 more widely representative".

In nuanced contrast, in a November 18, 2001 interview Paul Martin argued,

> the great strength of the G7 was that they were not only powerful economies but they were few enough that they were able to basically argue back and forth across the table. The big problem with most international meetings is people come in and they read set pieces. They just simply read them and there isn't much interchange. The great advantage of the G7 is that there is that interchange. Now, what we sought to duplicate on a much larger level with the G20 was exactly…that's why it's restricted to 20 countries…was that kind of interchange. But it is from that kind of interchange as long as the countries are big and powerful enough, that in fact those deliberations lead to real decisions. Best example: it was at deliberation of the G20 that essentially meant that …when the IMF had its meeting that in fact the action plan against terrorism simply was taken right into the IMFC and was adopted. So that it isn't simply, let's discuss, it's, let's discuss and make a decision and implement it. And the G20 was able to do that in this particular case. I think you're going to see more and more of that. I think that the G20… its ability to implement its decisions is now becoming clear. Its ability to set the agenda is now becoming clear.

The current membership of the G20 is Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, México, Russia, Saudi Arabia, South Africa, Korea, Turkey, the United Kingdom, the United States and the European Union. The Managing Director of the IMF and the President of the World Bank, as well as the Chairpersons of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank participate fully in the discussions.

There is much to be said for proceeding with the current membership. It is already quite large, it is difficult to drop anyone from such a group and there will never be complete agreement on the "right" list. On the other hand, there is an argument for including Egypt and Nigeria, both of whom were discussed as members when the original G20 was established. This would correct a weakness in Mid-East and African representation. It would lead to twenty-two members. There is also a case for inviting the Secretary-General of the UN to attend in the same way as other international officials participate.

How many are too many? We know summits of eight countries work; actually there are nine or ten at the table of the G8 when one includes the Presidency of the European Union and the President of the European Commission. We also know that UN Summits do not really produce discussion, so there is some maximum number. We would argue that Commonwealth and Francophone Summits are also too large for the kind of discussion that is needed in the G20. They have 54 and 50 countries as members respectively.

The European Union has had 15 members but now has 25. NATO has 19 members and is enlarging as well. Both seemed to permit the kind of relatively informal but results oriented discussion that the G20 would need to have at the level of leaders, but it is not clear that will be the case with enlargement. The experience of national Cabinets of Ministers would suggest that somewhere in the 20 to 30 regions there is a maximum for effective discussion. This would argue for moving slowly, adding in the first instance Egypt and Nigeria, then reconsidering after a few years.

At some point the world is going to ask why international meetings have the trans-European institutions – the President of the Council as well as the President of the Commission – as well as four member states. This poses questions of balance, logic and fairness. Indeed with the focus of the G20 being economic, and the delegation of authority in trade matters to the Commission and the creation of the Euro and the European Central Bank, one could logically argue one seat at the table should be sufficient. We would argue that goes too far and that it would be appropriate for both the President of the inter-governmental processes and the President of the integrated processes to be present. If the political courage was mustered to take on this issue, it could free up three seats, two of which could go to Egypt and Nigeria. Perhaps Bangladesh could receive a seat, given its large population, as a representative of very poor countries.

Some might suggest the G20 should rotate "constituency" seats, rather like the Security Council of the United Nations. That may pose difficulties for achieving the informal rapport that is essential for results oriented meetings. However, if the European Union can be represented by its Presidency and Commission, then perhaps the 10 nations of ASEAN can be treated in the same way. This deals with the problem of keeping the number of seats down without choosing among Indonesia, Thailand, Malaysia, and Singapore.

Machinery

Machinery should be based on a common law template, building up institutional practice over time. In many dimensions it is not necessary to reinvent the wheel. The rotating chair system for the G7/8 and G20 works well and should be retained. It is important not to build up international bureaucratic machinery with a life of its own, one more step removed from direct political accountability.

Summit meetings should take place over a forty eight hour period, beginning with a dinner on the first evening and ending two days later. The recent experience of compressing the length of G8 meetings has not been positive, and would be even more dubious with the larger membership of the future G20. There is a need for preparatory meetings of personal representatives of the leaders. The very existence of forthcoming Summit meetings changes the dynamics of negotiations and consensus building. Trade Rounds are a good example – big trade offs do not get made in a continuous negotiating process at an official level, without the guillotine effect of forthcoming political meetings.

There is a case for more than one meeting a year. We believe G20 Summits will start with one at leaders' level, with finance ministers still meeting twice. Then, based on perceived needs and results achieved, it will quickly move to twice per year – similar to the Quad Trade ministers and the Bank Fund Meetings. With the size of the group at 20 or more, collegiality and comfort levels will increase with the frequency of meetings. One of the reasons we believe that APEC Summits have not delivered to the maximum is the fact that they are only once a year. The very fact of meeting every six months will increase cordiality, maintain focus on the agenda, and heighten interest on action on the commitments.

There will be an agreed process to track on a regular basis commitments made. This is essential for the credibility of the institution. The G20 will have no choice. The current fascination with reporting on results and performance measurement will lead to an industry analyzing the communiqués. Leaders will initiate a virtuous circle where the publicizing of their commitments will increase the political pressure on their own administrations to deliver the required actions.

Each leader will appoint a personal representative or s*herpa* as they have become known in G7 and APEC processes. For leaders to be effective, they must be prepared well by their s*herpa*, who in turn can be effective only if they truly have a personal connection. They may come from political or public service backgrounds, but they have to be at one with their leader's mind for the preparatory process to work. A series of perhaps three meetings in the months prior to the G20 Summit is essential in preparing the terrain for the discussions of leaders. Then, when the leaders meet, the key compromises can be struck. Officials are not capable of doing these deals on their own, but nor can leaders without the proper preparation.

Communiqués will be kept brief, limited to the two or three topics actually discussed, debated, and negotiated, and issued perhaps as chairman's statements. Long communiqués erode credibility. No one believes leaders actually discuss dozens of items in long communiqués.

How to get there

This leaves the question of how best to arrive at the desired destination. One possibility is to transform the G7/8 directly into the G20. Such an initiative would have to be carefully prepared both amongst existing G8 membership and the other G20 countries, including prospective ones, and those important countries would not be invited to join. The European representation question should be postponed for five or ten years; taking this issue on earlier would clearly be impractical. The essential characteristic of this scenario is slow evolution with incremental calibrated steps, pushing the envelope of political tolerance.

The transformation of the G7 into the G8 and the establishment of the G20 indicate the way forward. With support from the U.S., Mikhail Gorbachev was invited to make a cameo appearance at the 1991 London Summit. In subsequent years, Boris Yeltsin was gradually given more time, until Halifax in 1995 and Naples in 1996 where there were one day G7 meetings followed by one day G8 meetings. Eventually, Russia was accepted as a full member of the G8, and the term "G7" was dropped.

It could be argued that the process of enlargement has already been started. An NGO provided a trenchant observation of the 2003 summit: "Evian should consign the old G8 to a watery grave". World Development Movement Director Barry Coates pronounced "the attendance of twelve developing country heads of state shows that the G8 themselves recognize…that no institution made up entirely of rich countries can solve the world's problems".[7] Leaders from Algeria, Brazil, China, Egypt, India, Malaysia, Mexico, Nigeria, Saudi Arabia, Senegal, and South Africa attended a session at Evian.

This incremental approach points the way to the desirable future. The Canadian Prime Minister could provide advice to President Bush, host of the 2004 G8 Summit, based on his experience with the G20, and G7 summits going back to 1994. The bold decision would be to invite the G20 leaders for one full day. There is no downside and it would cement Bush's place in history. A more cautious way forward is to invite the leaders of Brazil, China, and India for one full day. This will still secure President Bush's legacy as the person who brought legitimacy to this gathering of agenda setting leaders. By the time Canada is host again, in 2009 or 2010, if it has not already happened, the full complement of G20 leaders could be invited.

There is an alternative scenario. Effective pressure can come from the top, as well as from "activists beyond borders".[8] The incremental scenario may not be acceptable to impatient leaders with finite time horizons. They may not believe an illegitimate, increasingly dysfunctional G8 can be the platform transformed into a legitimate well functioning G20. For the G20, pressure from above can also provide the catalyst. Presidents Lula and Mbeki could join with some G8 leaders to provide the initial inspiration. One potential catalyst is that the Canadian and British Prime Ministers, in concert with Mbeki and Lula, quietly offer that they strongly support President Bush's idea to scrap the G8 and invite all G20 leaders to Sea Island, Georgia, in June 2004.[9]

As the G20 becomes established at leaders' level, the G8 would logically disappear. There is a danger, however, with respect to the meetings at Finance Ministers' level. The danger for Canada is that the U.S., the EU and Japan decide they cannot hold all their meetings at 20 and instead establish more or less formally a G3.

The G8 now has a profusion of ministerial meetings. There is little question about the effectiveness of the Finance Ministers meetings (at 7). Equally, the meetings of Foreign Ministers at 8 are useful in terms of co-ordination. Much less certain, however, is the utility of ministerial meetings in other sectors. The G8 leaders do not take much notice (except where they have specifically mandated a meeting).

We would suggest caution about formalizing any relationship with civil society. This would give more formality to the G20 and create a host of problems – who should be invited, for how long, etc. More useful are meetings of national authorities with civil society representatives. We do, however, believe that it would be desirable to create a network of G20 "think tanks". They would develop capacity in the South and ensure a broader interest in some of the main issues on the agenda of managing increasing global interdependence.

To underline that the new G20 is distinct from the G8, and to distance the G20 from criticisms of the G8, some early wins are called for. There are candidates for early wins in the financial area, in trade and in the environment. In the financial area, leaders could break the logjam with respect to the governance of the IMF – specifically Board seats and the allocation of votes. The G20 leaders simply commission a dialogue among a cross-section of the IMF membership, "to identify the key aspects of the challenge of developing country representation, to seek consensus and to identify areas in which progress may be able to be made; and to make recommendations to advance the issue". The leaders ask for a report for their subsequent meeting. There are feasible solutions that improve representation, yet maintain the creditors' majority and the U.S. and EU veto.

The trade area is more difficult (yes, even more difficult than moving an issue in Finance Ministries' area of responsibility). No "big bang" solution will be possible, but reform is possible all the same. The way forward is to agree to apply gradual phase-outs of agricultural subsidies over lengthy periods of time, such as the ten-year period agreed for textiles at the conclusion of the Uruguay Round. G20 leaders could instruct their Trade Ministers to report back at their next meeting with a list of options for the phase out period.[10]

A third example where G20 leaders could realistically take action, without threat of political defeat or revolution, is climate change. Led by the U.S., the G20 leaders could commission an updated report to lay out the latest results and consensus scenarios on the science. They could further commission a consensus policy options paper on potential G20 initiatives, based on the latest science.

The objective is more representative and legitimate leadership, through a redefined G20, to effectively shape globalization. We can get there from here.

[1] Gerry Helleiner, "Developing Countries, Global Financial Governance and The Group of Twenty: A Note Prepared for the Governance Working Group of the Global Financial Governance Initiative of IDRC", University of Toronto, March 2001.

[2] In 1961, Robert Mundell raised the then bizarre question: "When would it be advantageous for nations to give up monetary sovereignty in favor of a common currency?" His Nobel Prize was awarded for a body of work, which included the 1973 chapter "A Plan for a European Currency" in *The Economics of Common Currencies*, (ed.) H. Johnson and A. Swoboda, (London: George Allen & Unwin Ltd, 1973).

[3] www.wto.org/english/tratop_e/dda_e/symp03_melrose.ppt

[4] John C. Beghin and Ataman Aksoy, "Agricultural Trade and the Doha Round, Lessons from Commodity Studies", Paper prepared for the Annual Bank Conference on Development Economics-Europe, Paris, May 2003.

[5] http://www.dfat.gov.au/trade/negotiations/wto_bulletin/wto_bulletin_030801.html

[6] See, for example, the chapter by Gordon Smith and David Victor in forthcoming book to be published this fall.

[7] "G8 Meets Low Expectations" June 2, 2003.
http://www.wdm.org.uk/presrel/current/g8lowexpect.htm

[8] "Activists Beyond Borders" is the title of the Grawemeyer Award winning book by Keck and Sikkink on the rise of transnational networks.

[9] With respect to the birth of the G20, in the November 18, 2001 interview Paul Martin recalled a conversation with the U.S. Secretary of the Treasury. Martin said, "You know, nobody's going to follow a G7 dictate. They've got to be at the table and be part of the solution. As a result of that conversation, the Americans agreed and the G20 was formed".

[10] This report to G20 leaders will have to address more than the length of the phase out period. OECD countries conformed to the letter of the agreement, but violated its spirit by back ending the phase out of high value textile quotas to the point that they made no real concessions for the first few years of the phase out period.