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ANALYSIS

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STRENGTHENING THE CORE OF THE G20: CLEARER OBJECTIVES, BETTER COMMUNICATION, GREATER TRANSPARENCY AND ACCOUNTABILITY

It is vital for the global economy that the G20 is as effective as possible. The forum has achieved much but faces many challenges. To improve its effectiveness, G20 members have to be clearer about their shared objectives given that it is a large and heterogeneous grouping. It must better explain to the public how all its activities are directed towards achieving these objectives, because they often involve difficult domestic decisions. To strengthen its legitimacy, it must be more transparent with its operations and how members are accountable for their commitments.

To strengthen these key elements, the Framework for Strong, Sustainable and Balanced Growth should be the core of the G20. It should be the basis for clarifying members' shared objectives and priorities, the means for providing a coherent narrative, and the foundation for better transparency and accountability. But to do so, the Framework has to be elevated and strengthened. Importantly, it has to be seen and presented as an exercise embracing the entire G20 process and not confined to macroeconomic policy. Australia should establish a road-map for achieving these outcomes when it chairs the G20 in 2014.

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To be effective, international economic forums need to have clear objectives and a coherent plan for achieving them. They also need to be able to explain the importance of these objectives and have robust processes to assess whether they are being achieved. The G20 falls short on all of these core elements. There was clarity of purpose when G20 leaders first met in November 2008 – the aim was to stop the world economy falling into a deeper recession and to lay the basis for future growth. But since then the sense of common resolve has waned. More attention is being directed at the differences between members rather than their shared goals. The G20's agenda has expanded significantly and now includes many items that appear unrelated to each other or the forum's key objectives and are not prioritised. Public communication has been poor, transparency is lacking, and accountability processes need to be more effective.

If the G20 is truly to be the premier forum for international economic cooperation it must be clearer about its objectives and more transparent about its processes, and members need to be more accountable for their commitments. Fortunately the forum does not need to start from scratch. The Framework for Strong, Sustainable and Balanced Growth, agreed by leaders at the 2009 Pittsburgh Summit, provides an overarching mechanism that focuses and links the actions of G20 members toward achieving their shared objectives, and provides a process through which members are held accountable for their performance. The Framework should form the core and backbone of the G20.

The importance of shared objectives

Clear objectives are necessary for any forum to be effective, but given the size and diversity of the G20's membership, it is particularly important that members are clear about their goals and the benefits from collective action. Being a large and heterogeneous grouping, the focus has to be on what members have in common rather than the areas where they differ.

The G20's diversity is both a strength and a challenge. It is a strength because by including emerging market and developing countries, the G20 is more representative of the changes taking place in the global economy compared to forums such as the G7. In 1980, G7 economies contributed 56 per cent of global GDP (on a PPP basis).¹ In 2012 they contributed 38 per cent. The contribution to global GDP by emerging markets and developing economies rose from 31 per cent in 1980 to 50 per cent in 2012.² Since the global financial crisis in 2008, the emerging markets and developing economies have been the main driver of global growth. The health of the global economy will increasingly be linked to how well the developing world is doing. The US National Intelligence Council predicts that by 2030, the continuing strong growth of China and India will result in Asia surpassing North America and Europe combined in terms of global power based upon GDP, population size, military spending and technological investment.³

There are now many more major players on the world stage, and they need to be accommodated in global economic decision-making if that decision-making is to be effective

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and relevant. The global economy is now too large, diverse and complex to be led by any one country or by a small group of like-minded countries, such as the G7. The rise of the G20 reflects this changing international order.

The breadth of the G20's membership is, however, also a challenge. When the G7 was formed it represented the dominant powers of the day, but its members also shared the additional characteristics of being democratic, largely 'Atlantic -oriented' and militarily allied to the United States.⁴ By contrast, the G20 is not only a significantly larger forum, it is a mix of differing political systems, economic structures and conditions, and cultural backgrounds. In addition, every G20 leader does not have the same depth of relationships with other leaders compared with G7 leaders.

The diversity of interests among G20 members is frequently cited as a reason why the forum is struggling to provide effective global economic leadership. Moisés Naím claims that as the number and interests of those sitting at the negotiating table have increased, the opportunities for consensus and concerted action have shrunk.⁵ He argues that 'when all these disparate and often conflicting interests need to be incorporated into any agreement, the resulting solutions fall short of what is needed to solve the problem.'⁶ Jörg Asmussen, who before joining the Board of the European Central Bank was the G20 finance deputy for Germany, noted:

'the shift from the G7 to the G20 has increased representativeness of the leading forum for international cooperation at the cost of increasing diversity of values and interest expressed at the negotiating table.

Differences in views on issues like the Doha trade talks or climate change are such that they are rarely tabled for discussion in G20 meetings anymore, because chances for progress are thin.'⁷

This diversity of membership should not preclude concerted action by G20 members on key global economic issues. Agreements may be harder to obtain, but international economic cooperation remains vital.

Moreover, despite differences in their political, cultural, and economic structures, there is much G20 members have in common, particularly because their economies are closely integrated and interdependent. Improvements in the technology of transport and communications, the reduction in protectionist barriers, and the liberalisation of capital markets have all been driving forces behind this increasing interdependence. There has been strong growth in global trade in goods and services, but global capital flows have increased considerably faster. The result is not only closer integration, but potentially greater volatility, as demonstrated by the global financial crisis in 2008 and its aftermath.

When G20 leaders first met in Washington in November 2008, they demonstrated a common resolve to respond to the global financial crisis. Building on this shared commitment to restore growth, at the leaders' summit in London in April 2009 they agreed on a \$1.1 trillion package to increase the resources of the international financial institutions and a combined fiscal expansion of over \$5 trillion. Since then, the varied pace of recovery across members has taken its toll on consensus building and economic cooperation. Yet while

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the policy priorities facing members may vary depending on the strength of their recoveries, G20 economies are no less integrated than they were in 2008. The international financial spillovers arising from the effect of monetary policy easing in advanced economies is one clear manifestation of the interlinkages between economies; as was the impact of developments in the eurozone crisis on equity markets and confidence worldwide. The International Monetary Fund (IMF) observed in their 2012 spillover report that the high correlation of asset price movements across countries suggested shared uncertainties over global economic prospects, sourced in particular from the impact of euro area stresses.⁸

Of course, the mere existence of economic interlinkages and the interdependent nature of the global economy will not inevitably lead to closer cooperation. The importance of cooperation needs to be constantly reinforced. This is the key role of the G20, but it will require commitment and leadership. Given the diversity of G20 members, a particular effort needs to be directed towards identifying and emphasising shared objectives and priorities as well as the mutual gains from collective action. This will help the G20 take more focused and more concerted action to deal with global economic challenges, and help address concerns that the forum is being handicapped by a poorly focused agenda. Clearly articulated objectives and priorities will help ensure that any proposed addition to the agenda is assessed in terms of its relevance to the G20's shared goals.

The need for a clear narrative

Communication has been another key weakness of the G20. It is not enough for the forum to have clear objectives. It must be able to explain them in a way that domestic constituencies can understand. As Asmussen points out, however, G20 decisions are often difficult to convey and explain at the domestic level, and the forum appears distant and irrelevant to many citizens of its member states. This undermines the legitimacy and effectiveness of the G20.⁹

The domestic politics of international economic cooperation will always be difficult. Leaders may commit to policies at international summits, but implementation will often involve tough and unpopular domestic decisions for what may appear to be unclear benefits. To win the domestic political battles, it is essential that the reasons for the policy action are clearly explained. It is rare to find a domestic constituency prepared to support economic pain at home for the sake of the overall health of the global economy, even if the latter ultimately benefits the home economy as well. The challenge for the G20 is summed up well by Thomas Mann:

'The widespread public scepticism of global governance combined with the inevitable opposition of interests within member countries to difficult G20 agreements puts the burden on the summitters to think carefully about how best to package and market those agreements to their domestic publics. The difficulty lies in constructing narratives that are both true ... simple, understandable, and appealing to domestic audiences.'¹⁰

STRENGTHENING THE CORE OF THE G20**Improving transparency and strengthening accountability**

The G20 is a club where the only specified membership criterion is that a country is 'systemically important.' What constitutes systemic importance has never been made clear. The legitimacy and representativeness of the G20 has often been criticised, especially by those countries that have been excluded. While the best way to answer these critics is for the forum to be effective in its goal of promoting global economic growth, the G20 could also enhance its legitimacy – including amongst a sometime sceptical public in member countries – by being more transparent about its operations and decision-making.

Terra Lawson-Remer argues that the G20 is 'widely perceived by the public as transnational elites hatching plans behind closed doors in insulated centres of power.'¹¹ G20 chairs engage in active outreach with non-members, but little clarity is offered about how the results of this outreach are shared with other G20 members or fed into decision-making processes. Civil society representatives (C20) have also called for greater transparency and accountability within the G20, particularly in terms of the operation of the various working groups.¹²

Closely related to complaints about the G20's lack of transparency have been criticisms of the processes used to assess whether the commitments made by members are implemented. Transparency and accountability are the twin pillars of democratic governance, for the more transparent governments are, the greater the capacity for citizens to hold their governing institutions to account. Hence

greater transparency regarding the processes and decision-making structure of the G20 will inevitably strengthen its accountability.

The need for G20 members to be accountable for their commitments has repeatedly been acknowledged in leaders' communiqués. The first summit in Washington in November 2008 stated that strengthening transparency and accountability were among the common principles that needed to underline the implementation of policies. Leaders emphasised the importance of implementing commitments, and outlined targets and timetables for financial regulatory reform. At the London summit, leaders emphasised the importance of translating their words into action and agreed that they would review progress towards meeting their commitments at their next meeting. At the Pittsburgh summit in September 2009, a progress report by members on the status of actions agreed at the previous summits was released. Similar reports were released at subsequent summits.

Notwithstanding these progress reports, the G20 has been criticised for failing to produce a rigorous accountability mechanism, including a baseline set of standards, accurate and consistent shared information, and an agreed set of consequences for non-compliance.¹³

At the Los Cabos summit in June 2012, leaders agreed on an Accountability Assessment Framework to accompany the Growth and Jobs Action Plan.¹⁴ The guiding principles outlined for the accountability assessments were that they would be country-owned and country-led, based on each member's assessment of their performance in meeting policy commitments, with the input of independent third-party

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evaluations (by the IMF and other international organisations). There was also reference to a ‘peer-review process informed by third-party assessments.’ The accountability assessment report released as part of the Los Cabos Summit was prepared by members. The peer-review process within the G20 is, however, still a work in progress.

The response: The Framework for Strong, Sustainable and Balanced Growth

The Framework for Strong, Sustainable and Balanced Growth provides the basis for clarifying the objectives and priorities of the G20, pulling the forum’s work into a coherent story, and improving transparency and accountability. It should be the backbone of the G20’s processes and agenda, but to achieve such an outcome, the operation of the Framework has to be improved. Importantly, it has to be broadened from being a technocratic exercise focused largely on macroeconomic policy to a process that embraces the entire G20 agenda.

The Framework is a ‘compact’ where G20 members agree on shared policy objectives, set out medium-term policy measures, and review progress in meeting these objectives and the need for additional policy action based on a Mutual Assessment Process (MAP). It is an ambitious and potentially historic exercise. It recognises that while each G20 member bears primary responsibility for the sound management of their own economy, they also have a responsibility ‘to the community of nations to assure the overall health of the global economy.’¹⁵

The strength of the Framework is that it is a country-led exercise based on mutual assessments as to whether the policy measures taken by G20 members are consistent with the forum’s shared objectives. This approach differs in important ways from IMF surveillance. The IMF provides policy advice which is either accepted or ignored by individual countries. A constant challenge facing the IMF is to get ‘policy traction’ with its surveillance of large advanced countries. An earlier attempt at macroeconomic policy coordination overseen by the IMF was not successful. The multilateral consultations launched by the IMF in 2006 involved the United States, the Euro area, China, Japan and Saudi Arabia. The objective was to outline the policy measures that should be undertaken by each of the countries in order to reduce global current account imbalances. The plans were presented by the IMF, but countries were not willing to commit and the consultations were a failure. A key reason they failed was because the process was driven by the IMF and there was limited political ownership by the countries involved. In the case of the Framework and the MAP, however, the IMF only provides technical assistance as required. The exercise is led by the member states themselves.

Prior to its launch at the Pittsburgh Summit in 2009, there was little elaboration of how the Framework would operate. Immediately following its launch, there were debates as to what ‘strong, sustainable and balanced’ growth involved and whether each component had an equal weight. To perform their assigned task and assess whether members’ policies were consistent in meeting this objective, the IMF interpreted *strong* as ‘above potential,’ *sustainable* as ‘increasingly led by the private

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sector' and *balanced* as 'broad-based across G20 members.'¹⁶

Work on the Framework and MAP has been advanced by a G20 working group of officials chaired by Canada and India. The exercise involves countries sharing policy plans and forecasts and projections in advance of the leaders and ministerial meetings. These are then aggregated by the IMF, which advises whether the policies are consistent with the growth objectives. The IMF also provides advice on an 'upside scenario' based on additional collaborative policy actions. The outcome of this work is fed into the growth and jobs action plans released at the various summits. Progress reports on the implementation of commitments are also released and at the Los Cabos summit leaders agreed on a more robust Accountability Framework.

Improving the operation of the Framework

When the Framework was first launched, leaders said that as part of the mutual assessment process, G20 members would agree on shared policy objectives and that these objectives would be updated as conditions evolved. The Framework's overarching objective of achieving 'strong, sustainable and balanced' growth was never defined, but has been repeated to the point where it is now seen as jargon and has lost its impact. With the wisdom of hindsight, it would have been preferable if, at the time the Framework was launched, more attention had been paid to what was envisaged by this phrase. It is particularly concerning that there is a growing tendency to give a narrow interpretation of 'strong, sustainable and balanced' growth and

to view it as focusing solely on the issue of external imbalances (current account imbalances). Balanced growth should also be seen as more than broad-based growth across members, as currently interpreted by the IMF. It should involve narrowing the development gap between all countries as well as improving income equality within countries.

In terms of specifying a clearer objective for the G20, Russia has said that as chair in 2013 it will prioritise achieving growth and creating jobs. This is a goal that is more readily understood by the public. However, achieving growth and creating jobs are high-order objectives. For each year's summit, more specific shared objectives need to be identified. The speech by President Vladimir Putin to G20 finance ministers and central bank governors on 16 February 2013 made a start when he stated Russia's priorities would be to 'encourage investment, increase transparency, and make regulation more effective.'¹⁷ The Russian approach is welcome. However, it should be extended and, rather than the current approach of the rotating chair outlining their own priorities for the G20, the focus should be on identifying the common priorities of members.

The Framework envisages that the objectives of the G20 be updated as conditions evolve. This should be put into practice in a more rigorous fashion. At the start of each year, G20 members should agree on specific priorities in terms of achieving economic and jobs growth. This would help reinforce the sense that members have common and agreed objectives. In doing so, G20 members should emphasise that their economies are interconnected and

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that greater gains can come from collective action.

Extending the Framework to the entire G20 agenda

The Framework should be seen as applying to everything on the G20 agenda and not just macroeconomic issues. The current tendency is for the agenda items to be considered as self-contained issues that are largely advanced through separate working groups and processes. This contributes to the sense that the agenda is too long and disparate. Having the Framework form the overarching mechanism for considering the G20’s activities would lead to a greater focus on assessing how the items are collectively contributing to achieving the G20’s objectives. Currently, the G20’s discussion of the Framework is confined to an agenda item dealing with the global economy, with the work and preparation of the summit action plans undertaken by the Framework Working Group.

President Putin noted in his speech to G20 finance ministers in February 2013 that ‘... all the issues on the agenda we have proposed are closely interlinked and complement each other. For example, creating a good environment for investment growth automatically includes adjusting financial instruments, carrying out structural reform and fighting corruption.’¹⁸ Similar points can be made about the way that trade liberalisation helps to generate jobs globally or how the advancement of developing economies provides an important source of global growth and helps reduce development gaps between countries.

The complementarities between all agenda items need to be highlighted, but it is also essential that the G20 agenda be appropriately focused and prioritised. To the extent that the work of the G20 is approached as a comprehensive package under the umbrella of the Framework, this could have the added benefit of imposing discipline on the agenda. All new items would have to pass tests of how they fit into the overall narrative, and how they are contributing to achieving the G20’s shared objectives.

Demonstrating the linkages between the items on the G20 agenda will assist in explaining to the public in a more coherent fashion what G20 members are seeking to achieve and why. As Alan Beattie notes:

‘It is much easier for a reporter to tell her or his news desk in a single sentence that the G20 has achieved one particular goal than it is to have to explain what incremental changes have been made in discussions on macroeconomic assessments, fiscal policy, financial regulation, the Basel accords and capital requirements, bank taxes, governance of the International monetary fund, and a raft of other equally arcane topics.’¹⁹

But even if the Framework is used to tie together the G20 agenda into a cohesive narrative it will still require a more concerted effort by politicians and officials in all countries to explain more coherently what the G20 is trying to achieve and why.

As part of ensuring that the Framework forms the core of the G20 and provides the basis for demonstrating that the objectives and policy

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measures of members are consistent, it will be essential to reverse the current tendency for it to be seen as a technical exercise. One step towards this is to no longer have a Framework Working Group in the G20. The Framework, and the task of achieving economic growth and creating jobs, should embrace all working groups as well as the activities of sherpas, ministers and leaders. The current Framework Working Group could be renamed the Economic Policy Working Group.

Strengthening G20 accountability and transparency

Greater clarity about the shared priorities of G20 members at the start of each year will assist in improving the forum's accountability in terms of assessing whether specific objectives have been achieved. But greater transparency as to how G20 members are assessing progress in meeting their commitments will also help strengthen the accountability process. Currently, work on the new Accountability Framework is being advanced through the Framework Working Group and an accountability report is expected to be released at the St Petersburg summit. More accessible public information about the development and operation of the Accountability Framework will remove the impression that it is a 'black box' exercise. This would allow those outside government – such as academics, think tanks, civil society groups – to comment on the appropriateness of the assessments and the veracity of the accountability reports. Currently, public information on the MAP is very limited, with the main source being material released by the IMF. Greater

transparency will help to strengthen accountability.

In terms of independent G20 accountability assessments, the G20 Research Group at the University of Toronto and the National Research University Higher School of Economics in Moscow jointly prepare a report attempting to gauge whether G20 members keep their promises. These reports analyse a selection of the many commitments made in summit declarations and related material. The methodology uses a scale ranging from -1 to +1, where +1 indicates full compliance with the stated commitment, -1 indicates failure to comply and 0 indicates partial compliance or work in progress. The scores are aggregated to provide an overall assessment of G20 progress in implementing commitments. The report explicitly states that it 'is focused on the implementation of decisions and does not attempt to estimate the impact or effectiveness of the G20 actions.'²⁰

There are a number of issues raised by this assessment methodology. For example, the scorecard approach does not provide any indication of compliance when there is not full implementation and there is work in progress. In addition, the arbitrary and judgemental assessments blunt the impact of the reports, although they may be beneficial in starting a conversation over the implementation of G20 commitments. The value of focusing solely on progress by G20 members in implementing detailed commitments and not assessing whether broader objectives are being achieved is also questionable. For example, it is one thing to concentrate on compliance with the timetable for the introduction of new bank capital standards, but the most important

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assessments should be progress in establishing a stable and efficient financial system that facilitates economic growth.

The Centre for International Governance Innovation (CIGI) has advocated that the G20 should introduce a more robust and transparent peer-review mechanism similar to the OECD process.²¹ They suggest annual accountability reports in which a random three-country reviewer group be established for each member. To enhance the analytical resources of the G20, CIGI has also proposed establishing an Economic Research Hub that would ‘coordinate research across different institutions, organize conferences, identify projects for further research, work to give voice to previously marginalized viewpoints and dispense G20-funded grants aimed at key theoretical and analytical issues.’²²

The G20 does not have the resource base to fully replicate the OECD peer-review process, where the report on countries’ economic performance, which is the basis of the peer review, is prepared by the OECD secretariat. The idea of the G20 establishing its own ‘research hub’ to undertake such a task would duplicate the work of other international organisations. It would also be tantamount to establishing a G20 secretariat which could see a reduction in capital-based involvement in the exercise.

The ‘member-led’ nature of the Accountability Framework is fundamental to its effectiveness. But there are challenges in introducing a peer-review process in the G20. The Bank of Canada considers that the current peer review does not work well because the G20 is so heterogeneous that it makes mutual assessment difficult.²³

However, the difficulty in establishing a robust mutual assessment process is not because of the differences in the views and priorities of the members, but because there is still concern over the even-handedness of any new process. It will take time to build confidence in peer review. The premature introduction of a ‘finger pointing’ exercise into the G20 would be divisive and detract from efforts towards greater cooperation.

The challenge is to make G20 members feel accountable for their commitments. They will do so if they take the forum seriously, and there is likely to be domestic political backlash from any failure to implement their commitments, and more importantly, achieve results. Better public communication is an important part of this process. The G20 should focus more on promoting ‘mutual accountability,’ where members feel individually and collectively responsible for implementing their commitments, rather than ‘mutual assessment,’ with exposure and peer pressure seen as the main tools to encourage compliance.

To strengthen accountability, including through increasing transparency and the involvement of the public, the G20 chair should hold a major accountability conference a few months before the annual G20 leaders’ summit. The focus of the public event would be on progress in implementing commitments made and achieving objectives set in previous summits. A significant amount of preparation would be required. Preceding the conference, the IMF, OECD, World Bank and Financial Stability Board should publish reports tracking G20 members’ compliance with commitments and progress in achieving objectives. This should be followed by all G20 members preparing, and

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publishing, succinct reports on how they assess progress in meeting their commitments. Civil society groups, business representatives, think tanks and academics should then be invited to comment on the accountability of G20 members, drawing on the reports produced by the international organisations and the associated country responses. This topic could be advanced through meetings of business representatives (B20), civil society (C20) and think tanks (T20) in advance of the conference. All these reports would be public and would provide the background material for the conference. The G20 chair should be seeking very senior representation from G20 members, such as sherpas and preferably some ministers. Speakers would be drawn from officials, academics, business, civil society, think tanks, and the press. The results of this annual G20 accountability conference would be fed into the leaders' summit, for such a conference would inevitably cover what more needs to be done for the G20 to meet its commitments.

What Australia should do in 2014 – a road-map

One of Australia's aims when it chairs the G20 in 2014 should be to strengthen the forum and make it more effective. Towards this end, Australia should place the Framework at the centre of the G20 and use it as the basis to strengthen the shared objectives, narrative, transparency and accountability of the G20.

Drawing on the points made in this paper and the proposals outlined in *Relaunching the G20*,²⁴ Australia should introduce the following approach to chairing the forum in 2014:

- Propose to G20 members that achieving sustainable economic and jobs growth, along with reducing inequity, must remain the overarching objective of the G20.
- Establish that the Framework for Strong, Sustainable and Balanced Growth is the core of the G20 and all items on the G20 agenda should be prioritised in terms of their contribution to achieving economic and jobs growth. To reinforce that the implementation of the Framework is the responsibility of the entire G20 process and is not assigned to a single working group, the 'Framework Working Group' would be renamed the 'Economic Policy Working Group.'
- Emphasise the agreed specific shared priorities of all members for the G20 in 2014 rather than focus on what are Australia's priorities as chair. Agreement on shared priorities should be reached at the first sherpa meeting under the Australian chair and thereafter the reference should always be to the 'G20's priorities' and not 'Australia's priorities.'
- Articulate and publicise the linkages between agenda items to be advanced by the G20 in 2014 in a manner that can be understood by the public.
- Request accountability reports from international organisations, responses from G20 members, and an assessment by think tanks, academics, civil society, and business for consideration at a high-level accountability conference in 2014.
- Release all the accountability reports to the public in advance of the conference and report the results from the conference to leaders at their summit in November 2014.

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Conclusion

There is a pressing need to improve core elements of the G20's operations: clarity over the shared objectives of members; the quality of communications with the public; transparency of its operations; and the rigour of assessments as to whether members are meeting their commitments. All of these elements reinforce each other. If members are clear as to the G20's priorities, and how agenda items are contributing to achieving shared objectives, then there is the greater prospect of clearer and more coherent messaging. Greater clarity over objectives will also facilitate better assessments of performance. And the more transparent the process of assessing members' compliance with commitments, the more likely members will take their commitments seriously.

The challenge for Australia when it chairs the G20 in 2014 is to make the forum more effective. This will depend in on how it prepares for the meetings, how it sets agendas, and the processes and procedures that it introduces. In all these areas Australia should be aiming to strengthen the core elements of the forum – shared objectives, communication, transparency, and accountability. In doing so, Australia should set a standard that future G20 chairs will want to follow. This would represent an ongoing contribution to improving the G20.

NOTES

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