The G20 was elevated to a leaders-level forum in November 2008. It had initial successes in coordinating an international response to the economic and financial crisis, and there were high hopes that it could evolve from a crisis committee to a central forum for steering the world economy in more normal times – the ‘premier forum for international economic cooperation’.

Since those early days the G20 has struggled to emulate those achievements, both on its core economic and financial issues, and across the broader range of issues that successive summits have added to the agenda.

This paper argues that the G20 currently faces a number of structural problems, both specifically related to its core economic mandate and more generally. It also argues that unless these can be addressed, the G20 will find it increasingly difficult to maintain its current relevance, let alone realise its full potential as a central forum for active international economic cooperation. The next couple of years will be key in determining whether the G20 has a long-term future, or whether countries will increasingly turn to other organisations and fora to achieve the level of cooperation they desire in an increasingly integrated global economy.

**Former successes and current failings**

The G20’s early achievements in helping to deal with the global financial and economic crisis have been well-documented, including: the provision of coordinated liquidity, and international resources for crisis countries; well-orchestrated fiscal stimulus measures; and an action plan to address failures in financial regulation.

The Pittsburgh summit also put in place a G20 structure to address economic imbalances and spillovers between countries. The Mutual Assessment Process (MAP), which underpins the G20’s Framework for Strong, Sustainable and Balanced Growth, was intended to be a forum for mutual assessment, evaluation, discussion and coordination of national economic policies in order to deliver better global outcomes.
In the subsequent summits, communiqués continued to refer to progress on these core economic issues. But, in addition, greater attention was paid to wider issues, including development; trade; climate change; energy security and commodity markets; corruption, tax havens, money laundering and terrorist financing; the marine environment; and financing for investment.

The G20 also has a mixed record in implementing leaders’ agreements. The G20 Research Group published a comprehensive study of the implementation of G20 summit commitments in December 2012, which concluded that overall implementation was partial.2

Implementation has generally been more successful where an existing technical body has been tasked by the G20, and empowered to drive through reforms agreed by the G20 leaders at a political level. Financial sector reform is one example of this, where the Financial Stability Board (FSB) was strengthened to effectively become an instrument of the G20, formulating detailed plans to action political agreements, and overseeing implementation. National implementation of some financial reforms has been patchy, but overall progress on the financial reform agenda since 2009 has been impressive. Major reforms have been put in place: capital buffers and leverage ratios; oversight of systemically important financial institutions (SIFIs); recovery and resolution planning; over-the-counter (OTC) derivatives; shadow banking; and so on.

There are a number of ‘environmental’ reasons for this decline in the G20’s performance: the overriding sense of urgency has fallen away as the crisis has abated; some of the problems facing the G20 are now more national or regional, rather than truly international; and as the ‘quick wins’ were banked, the issues have become harder to solve.

**Structural flaws**

But there are other factors connected to the structure of the G20 that have hampered its effectiveness as a decision-making body. The need for consensus tends to result in ‘lowest common denominator’ agreements. Also the ‘rotating presidency’ format, while it encourages ownership, works against effective leadership and strategic direction. The reluctance to drop issues from its agenda has led to a lack of focus. And implementation of joint decisions has been hampered by an unwillingness to sanction members that fail to comply.

These issues apply to the full range of the G20 agenda. But they are particularly relevant in the core economic sphere, which was the original *raison d’être* for the G20.

The MAP itself has evolved over time, and the issues it focused on have changed. At the outset, the MAP was intended to help countries shift the balance of demand, both internally
and externally,\(^3\) so that deficit and surplus countries could adjust imbalances relatively smoothly and avoid a ‘hole in demand’ globally. But as the crisis abated, the priority shifted to managing medium-term fiscal consolidation weakened by the crisis without jeopardising economic recovery. The euro area crisis flared up in 2011, but the MAP did not adequately address this. Instead, subsequent summits have focused on longer-term structural reforms.\(^4\)

Given the changing nature of the economic problems facing the global economy over the last five years, it was appropriate that the MAP responded to new issues as they became more prominent. But, in common with the wider G20 agenda, the MAP has found it difficult to reprioritise, instead adding new issues without deprioritising others. As a result, the MAP agenda has grown, so that it now covers the entire range of fiscal, monetary, financial and structural policies.\(^5\)

To some extent, the G20 economic agenda has also been hijacked by wider presidency priorities. For example, the Cannes summit was dominated by the euro area crisis. But the Los Cabos summit shifted the main focus onto development issues. And the St Petersburg summit was overshadowed by the Syrian crisis.

The overriding need for consensus has also been a feature of the MAP from the outset. For instance, as the list of MAP indicators was being developed, there was great reluctance by emerging markets to include the current account position of countries in the list, for fear that it would be used to attack the build-up of large surpluses.

The MAP has, of course, had its strengths. Compared to previous attempts at international policy coordination, the MAP has been:

- ‘owned’ by the G20 countries, since they primarily drive the process
- able to access high-quality inputs and technical expertise, in particular from the IMF, the OECD and the World Bank
- involving the finance ministries and central banks of all the major economic players, and
- fully transparent on both inputs to and outputs from the process.

It also has the potential to become a more effective process by which countries can critique each others’ policies and catalyse efforts to minimise negative spillovers between countries.

But this will not happen without changes. The MAP has no enforcement mechanism, other than public embarrassment. And the need for consensus has resulted in relatively modest policy commitments by countries, in many cases going no further than previously announced
policies. Also, it is not clear that it is possible to have detailed and comprehensive negotiations with 40-plus institutions represented in the room.

**Generic suggestions for G20 processes**

Some of the ways in which the G20 can address these flaws and improve its processes are:

- setting strict time limits and sunset clauses for issues, and limiting the presidency’s discretion for adding new issues
- allowing subsets of G20 countries to move ahead on issues that are particularly important to them (while avoiding this opening up rifts with other G20 members)
- establishing more common ownership of each year’s agenda by reducing the discretion of the presidency (through a permanent secretariat, or improved ‘troika’ processes, for example)
- setting out clear timelines and accountabilities for implementation of decisions, preferably tasking relevant institutions with taking them forward, and requiring regular progress reports.

**Some modest MAP-specific proposals**

But changes also need to be made to the MAP, to make it more relevant in the future and establish it as a key component of international economic policy cooperation. A change in mindset and approach by countries is required, but changes to its structure and processes can also help.

Three areas for improvement are particularly important:

- focusing on the right issues
- developing better processes to deal with difficult issues
- maximising buy-in at the highest political levels.

Given the proliferation of the MAP agenda, it is important to find ways to bring emerging issues to the table, but also to prioritise issues. Two specific suggestions are that:

- the G20 should adopt a work program for the coming year, based on the highest priority issues raised in the latest IMF World Economic Outlook (WEO). (So, for example, the IMF’s October 2013 WEO and Managing Director’s priority agenda highlight three main issues: the speed of fiscal adjustment; completing the process of
repairing financial institutions’ balance sheets; and managing the volatility of capital flows.)

- Finance Ministers and Governors should be tasked with presenting to leaders at the summit a set of concrete proposals for actions to address each of these priority issues.

The MAP is already in some ways over-engineered, and because of this, it is less likely that contentious issues will be dealt with. It will obviously be less comfortable for countries to be forced to confront difficult issues; and if ministers and governors (supported by the work of their officials) are required to present proposals to leaders, this will highlight where agreement in advance of the summit is impossible. But continuing to avoid these issues simply ensures that they remain unresolved. Possible ways to correct this bias are to:

- publish at the start of each presidency the MAP program and its priorities for the coming year
- invite contributions from external experts on these issues (or set up an advisory panel), and ensure that their views are discussed by the MAP working groups and the meetings of ministers and governors.

Finally, the issue of ownership remains the most difficult one. It besets all forms of surveillance, and countries will always tend to try to avoid public criticism of their established policies and positions. But the G20 needs to have the ability to apply peer pressure, instead of peer protection.

The G20 is perhaps uniquely placed to use the MAP to apply this peer pressure because the process is controlled, and to a large extent implemented, by the member countries. So countries cannot dismiss the MAP conclusions as simply the views of an external body (such as the IMF or the OECD). But the MAP is not currently realising this potential for influence. To do so will require a change of mindset. This would have to be sanctioned by leaders, who face a clear choice: either to determine that summits should discuss the most important economic issues of the day, even when this could present them with uncomfortable choices; or to continue to discuss only ‘lowest common denominator’ issues, where agreement can be reached before they are brought to the summit.

If leaders are prepared to go down this route, ways to embed it would be for them to:

- explicitly endorse the MAP work program and task their ministers, governors and officials with bringing specific proposals to the summit, and
• sanction publication of the MAP reports in advance of the summit, so that they can be externally reviewed before leaders discuss them.

An agenda for 2014

The flaws in the current MAP cannot be eliminated in one year, or under a single presidency. But a start can and should be made next year, on Australia’s watch.

Specific actions that Australia could adopt are to:

1. incorporate the priority issues identified in the October 2013 WEO into the agenda for its presidency
2. set up an advisory panel of external economic experts to advise on these issues, and
3. ensure that these priority issues are on the agenda for each meeting of ministers and governors under its presidency.

Also, the Australian presidency should start the longer-term process of change, and initiate discussion of the more difficult issues by:

4. commissioning a report at the Brisbane summit (along the lines of the ‘Cameron report’ for the Cannes summit) into how the G20 can fulfil its role as ‘the premier forum for international economic cooperation’.

Notes

1. Senior Research Fellow, Chatham House.
2. The study concluded that some countries were significantly better than others at implementing commitments – Canada was best, and Argentina worst. And some areas saw better implementation than others: the G20 did reasonably well on international financial institution (IFI) reform and fiscal consolidation, but less well on structural reforms and protectionism.
3. The Pittsburgh, Toronto and Seoul summits all focused on current account imbalances.
4. The Cannes summit added social security and unemployment issues to the MAP agenda. Los Cabos put more attention on strengthening global demand. And St Petersburg launched an action plan on growth and jobs, which mainly consisted of policy commitments previously made by G20 members.
5. For example, the St Petersburg action plan lists eight ‘main challenges’ to the global economy: weak growth and high unemployment; financial fragmentation; slow emerging market economy (EME) growth; insufficient private investment; high public debt; volatile capital flows; unbalanced global demand; and fiscal policy uncertainties.
6. Including those arising as the United States and other advanced economies exit from unconventional monetary policies.