Out with the G8, In with the G20

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Thirty years after the G7 summits of key industrial countries began and ten years after Russia joined this exclusive club to make it the G8 it's time to rethink this venerable institution.

When the G7 was founded in 1975, the major world economies consisted of six North Atlantic nations—Canada, France, Germany, Italy, the United Kingdom, and the United States—along with Japan. With most of the world's wealth, trade, and capital flows centered on these economies, decisions by this group of countries were seen as the key to financial stability and longer-term growth of the world economy. However, as the last decade has shown (and as extrapolations of recent economic trends into the future show even more clearly), this dominance can no longer be taken for granted.

Over the last ten years emerging market economies (EMEs) had growth rates substantially higher than those of the G7/8 members. Five EMEs now rank among the ten largest economies in the world. China is the fourth largest economy after the United States, Europe, and Japan. Major international financial crises threatening the stability of the world economy in recent years have originated in Argentina, Korea, Indonesia, Mexico, Russia, and Turkey. An emerging misalignment of global exchange rates in recent months has been blamed in part on an undervalued Chinese exchange rate. The failure of the World Trade Organization's Cancun trade talks resulted in large part from the unwillingness of the developing-country negotiators to back down in the face of what they deemed unreasonable positions by industrial countries. And the recent but persistent rise in world energy and other commodity prices has be traced back in part to the economic boom experienced by China and India.

Looking toward the future, over the next fifty years the world's population is expected to increase by half, from 6 billion to 9 billion. All of the increase will be concentrated in the developing world, while the number of people living in industrial countries will remain constant at about 1 billion. And since higher economic growth rates will likely continue in the developing world, the economic balance between "North" and "South" or "East" and "West" will continue to shift away from the transatlantic industrial economies making up the traditional core of the G7/8. By 2015 China's economy can be expected to be about the size of the European Union economy, and only about 15 percent below that of the United

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States. India's economy will be about the size of Japan's, according to CIA projections. Two energy producers, Russia and Saudi Arabia, will largely determine the supply side of the world's energy balance, while the rapid growth of energy consumption in the emerging market economies will continue to put pressure on the demand side and will be a major factor in determining the long-term environmental challenges the world faces. The main sources of world prosperity and the main potential threats to the stability of the world economy, whether to its overall growth, to trade, to financial or energy markets, or to environmental quality, will almost certainly lie mostly outside the countries of the current G7/8.

This year's G8 Summit on Sea Island, Georgia, illustrated the problem: none of the principal issues under discussion—Middle East reform, banned weapons, terrorism, the United Nations resolution on Iraq and development in Africa—are issues for the G8 alone. In particular, it was not surprising that the United States-led Broader Middle East Initiative received a predictably negative response from many Middle Eastern leaders in the run-up to the summit.

This is not to deny that economic relations among the G7/8 today still constitute the majority of the world trade and financial flows and that effective management of the transatlantic and transpacific relations is important. But contrary to occasional alarmist statements by politicians and experts about impending trade wars across the Atlantic, this threat can be regarded as relatively minor. Most of the issues that need to be resolved are technical in nature, relating to how countries regulate their domestic and international trade, their banking institutions and capital markets, and their corporate governance.

These issues must often be addressed in bilateral negotiations—increasingly between the United States and the European Union—or in specialized fora, such as the Basle II agreements at the Bank for International Settlement, or the discussions about how to combat money laundering at the Financial Action Task Force on Money Laundering. Apart from a few exceptions—as when joint United States-French efforts provided the impetus for an intensified international effort to combat money laundering—negotiations on these issues generally cannot be promoted effectively through the G7/8.

G8 Ineffectiveness

Critics charge the G7/8 not only with irrelevance, but also with ineffectiveness. The so-called "Shadow G8"—an informal group of distinguished former senior officials and finance experts chaired by Fred Bergsten, head of the Institute for International Economics, and Thierry de Montbrial, head of the French Institute of International Relations—concluded in 2003 that "the effectiveness of the G5/7/8 has declined sharply since the group was originally created." Because the members of the group have stopped providing serious peer review of their own economic policy requirements and have taken instead to lecturing outsiders about their shortcomings, the group has lost in effectiveness and legitimacy. And according to Fred Bergsten and Caio Koch-Weser, State Secretary in the German Finance Ministry, "the G7/8 summits often lack substance and have become political rather than economic conclaves."

In sum, the G7/8 suffers from major weaknesses, both as a forum for addressing global economic issues and for dealing with economic relations among the main industrial economies. Bergsten and Koch-Weser have recently proposed that "the European Union and the United States constitute an informal but far-reaching 'G2 caucus' to function as an informal steering committee to manage their own economic relationship and to provide leadership to the world economy." This is a useful proposal for rejuvenating the consultative and decision-making processes for improved transatlantic relations. And many of the ten issues that Fred Bergsten and Caio Koch-Weser want to place on the agenda—trade; competition policy; regulatory policy, including corporate governance; macroeconomic policy; international monetary policy; international financial markets; energy; the environment; migration; and global poverty—are indeed of key importance.

However, in implementing this idea it would be important to address the following questions:

– How would the G2 differ from the regular European Union-United States summits of the past? And how would they avoid the apparent weakness both of those summits and of the G7/8?
– How would the existing instruments of transatlantic dialog, with its many formal and informal consultative procedures, be related with the G2?
– How would a unified voice emerge for Europe? So far the European Commission does not have a unified voice on many of the issues on the agenda.
– How could the G2 summits be brought to focus less on disputes and conflicts, and more on the constructive steps needed to eliminate remaining barriers in the transatlantic market,to find solutions for the difficult domestic reforms that each side has to make, and to address pressing global economic issues?
– How would the G2 relate to the rest of the world in economic leadership?

The last question is particularly important. Since one of the key weaknesses of the G7/8 is that it does not include the rapidly-growing emerging market economies, creating a G2 system might well be understood as increasing exclusivity rather than enhancing inclusiveness.

G20 Virtues

In view of the weaknesses of the G7/8 and of the rapidly increasing multipolarity, integration, and intercultural diversity in the world economy, the authors of this essay have recently proposed that the G7/8 be replaced by the G20, strengthened and elevated to heads-of-state level.

The G20 was founded in 1999 at the initiative of G7 finance ministers and first hosted by German Finance Minister Hans Eichel as a forum for economic discussions among the finance ministers and central bank governors of major world economies. It is composed of ten industrial countries (the G7 countries, plus Australia, Russia, and the European Union president) and ten emerging market economies (Argentina, Brazil, China, India, Indonesia, the Republic of Korea, Mexico, Saudi Arabia, South Africa, and Turkey).

In contrast to the G7/8, the G20 represents a diverse group of nations, with four Asian countries, three Islamic countries, three Latin American countries, and a leading African country. The G20 has already demonstrated that it can play an important role in international negotiations, as shown in the follow-on to the failed trade negotiations in Cancun.

Elevating the G20 meeting to annual summits at heads-of-state level to replace the G7/8 annual summits would be the logical next step in the evolution of global economic governance. This would in fact build on recent efforts to make the G8 meetings more inclusive by inviting the heads of principal international institutions and the heads of state of certain developing countries to some of the G8 meetings.

Economic Governance

The focus of the new G20 forum would be on global economic governance, broadly construed to include trade, finance, health, environment, education, human security, poverty reduction, and conflict resolution, thereby extending the topics under discussion beyond the realm of ministers of finance. The summits would also allow for face-to-face interactions among the heads of state, but would be geared toward decision-making rather than mere exchanges of views and pleasantries, as is now often the case in the G7/8. The G20 would provide guidance to the panoply of international organizations working on these issues, creating linkages between issues and institutions, facilitating coordination and a division of labor, creating more vision and strategic direction, and helping to settle conflicts (such as those on trade that led to the breakdown in the Cancun meeting).

G20 meetings at the ministerial level could continue to meet twice a year, and ministers with different portfolios could rotate in, depending on the pressing issues of the moment. These semi-annual ministerial level meetings could prepare the agenda for the annual G20 heads-of-state meeting.

This sequence would build on the experience and the success of the G20 in the past five years and would provide new energy, a more representative structure, and greater legitimacy to global governance at the highest political level.

Many specific questions would have to be resolved, including rotation of the presidency and possible establishment of a permanent secretariat. There might also be difficulties and disadvantages associated with shifting from the G7/8 annual summits to G20 head-of-state meetings. The most obvious of these is that the size of the G20 might hamper discussion and decision-making.

However, wide consultation and good substantive preparation could go a long way toward mitigating the problems associated with larger size. G20 working groups on specific issues at sub-ministerial levels have already been effective forums for working through policy options and honing issues for G20 finance ministers. The European Union has demonstrated how fifteen (and now 25) governments and heads of state can make progress on policy actions when there is a strong agenda and good preparation.

The great advantage of our proposal over many others that seek to improve the balance of international economic relations between North and South is that it does not require arduous, complex, and controversial changes in the statutes of international bodies, does not add to the existing plethora of international fora and organizations, but rather builds on one existing structure (the G20) while eliminating another (the G7/8) that has become increasingly unrepresentative and ineffective.

With a strengthened G20, developing-country members—and with them the developing world at large—would advance from the current token representation that many resent to gain a real voice and a sense of inclusion in global decision-making. For the G7/8 countries, the apparent loss in exclusivity would be more than offset by the increased relevance and effectiveness of their efforts to address crucial global and national issues.