Prime Minister Justin Trudeau and US President Barack Obama with UN Secretary General Ban Ki-moon at the G20 Summit in Turkey last November. What's the future for the G20, looking ahead to the next summit in China, and beyond? Adam Scotti photo

Will the G20 Remain Relevant?

Thomas Bernes and Domenico Lombardi

The G20's golden moment as a heads-of-government forum came in its concerted and effective response to the 2008 global financial crisis. Since then, in the absence of crystallizing crises of similar scale, the G20 has lost its traction and been adrift in its response to the fundamental challenges of growth and employment exposed and exacerbated by the meltdown. IMF veterans Bernes and Lombardi write that what has become the world's pre-eminent economic action forum finds itself at an inflection point.

The G20 first met at leaders level in 2008 in response to the unfolding global economic crisis. However, the G20 first came into being in 1999 at the level of finance ministers when Canada's Paul Martin convinced his fellow G7 finance ministers, in the aftermath of the Asian financial crisis, that a larger grouping was needed to further global economic leadership and cooperation. The G7 no longer encompassed sufficient economic weight within the global economy. To underline that point, today China is the largest economy in the world (as measured by PPP—purchasing power parity), while the G7 now accounts for less than 50, of global GDP. In recent years, moreover, most global growth has come from the emerging markets.

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When the global financial crisis hit with such force and potentially devastating consequences in 2008, the G20, (encompassing countries making up 85 per cent of global GDP, 80 per cent of world trade and 75 per cent of the world's population) was the logical forum to consider and coordinate responses. And so the G20 Leaders' Summit was born. In the space of less than a year in 2008-09, three summits (Washington, DC, London, Pittsburgh) were held to respond to the crisis. Many observers see this period as a golden moment for the G20.

Faced with a crisis that threatened to spin totally out of control, leaders took a number of rapid and important decisions. Agreement was reached on a 47-point Action Plan including a large fiscal and monetary stimulus package; comprehensive support for the financial sector; establishment of the Financial Stability Board (FSB); US$850 billion of resources to support emerging markets and developing countries; commitments to resist protectionist measures; and reform of the international financial system. It was this collective and effective response by members of the G20 that mitigated the impact of the crisis and allowed confidence to be restored faster than many analysts had predicted.

By the fall of 2009, with confidence being restored, leaders declaring victory said the G20 would be "the premier forum for our economic cooperation" and turned their focus from the crisis to the medium term through establishing a Framework for Strong, Sustainable and Balanced Growth. At their next meeting in Canada in June 2010, under the chairmanship of Canada's then-Prime Minister Stephen Harper (supported strongly by Chancellor Merkel and the IMF), the G20 (despite US reluctance) shifted their stance from fiscal and monetary expansion to fiscal consolidation—a judgment which, in hindsight, was clearly premature.

Countries operate with differing political timetables and priorities and in the absence of an overriding crisis, it is difficult to maintain a clear focus in global fora such as the G20. Through the subsequent four summits (South Korea, France, Mexico and Russia), the agenda broadened, engagement groups expanded, the communiqués lengthened but a sense was developing among observers that the G20 was adrift. To be fair, the FSB continued to make progress on its agenda to strengthen rules and oversight for the global financial system and to bring more countries into its ambit; the International Monetary Fund (IMF) refreshed and strengthened its monitoring activities while supporting those emerging markets and developing countries that needed assistance in responding to the crisis; governance reforms at the IMF were agreed (if only implemented in 2016), but growth remained low and unemployment high.

During its chairmanship in 2014, Australia sought to refocus G20 activities on its economic mandate for cooperation, to scale back the communiqué and to have G20 members agree on a specific objective of increasing global growth by 2 per cent over the IMF's 2013 global economic forecast, thereby creating millions of new jobs. At the end of the summit, the Brisbane Action Plan, with 1,000 structural measures developed by member countries, was announced together with an accountability framework whereby the IMF and the OECD would monitor progress and changes and additional measures would be implemented if necessary to keep the action plan on track.

What has happened since then? Unfortunately, far too little. Because overall growth has continued to slow over the last two years, the measures of 2014 would now have to be doubled to achieve the Brisbane objective. Furthermore, the largest economies (with the exception of China) have failed to implement their measures, which means the objective is now far off-course. The G20 has neither acknowledged this nor proposed remedial plans. So much for accountability, which, so far, has been rhetorical and misleading.

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The IMF has expressed its concern with global slow growth and has called for countries to make maximum use of fiscal, monetary and structural measures, depending upon country circumstances. Canada, with its shift to a deficit to support infrastructure spending, has become the new poster boy for the IMF. Japan is expected to embrace more fiscal expansion. France is wrestling with politically unpopular labour reforms. China is wending a difficult road as it works to reorient its economy away from its export thrust and is making progress, although major challenges remain, including important fragilities in the financial sector. The other BRICS (Brazil, South Africa and Russia) are facing enormous headwinds while India is currently outperforming the others.

These are not easy policy challenges and we live in unusual times. But as the IMF said in its recent World Economic Outlook, "Too slow for too long", our economies and perhaps our democracies are paying a price for our inability to achieve strong robust growth. Recent and ongoing elections have demonstrated the frustration of too many citizens with growing inequality and high levels of unemployment. This has led to an increasing sense that governments are unable to respond and the growing disenchantment with institutions spills over to international fora. The G20, like its individual leaders, faces the same challenge to demonstrate that it is acting responsibly on people's concerns and is being accountable.

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In September, China will host this year's G20 Summit. The backdrop is not propitious. Slow growth and increasing risks are the reality. The emerging markets are not providing the growth that they have in recent years. Japan and Europe face extraordinarily weak growth. The US, while performing better than most, is going through a difficult election where globalization and freer trade have been under attack. As President Obama will be in the final months of his tenure, he will not be in a position to commit the United States to any dramatic new course of action. In the circumstances, it is unlikely that the Chinese summit will offer many breakthroughs. The best prospect may be if China is able to leverage its regional initiative "One Belt, One Road" into a major initiative benefiting China, Asia and beyond.

If the G20 is able to get through current challenges, how does it remain relevant in the future? There are many temptations to call for the G20 to take up a whole multitude of issues where inadequate progress is being made. Given the G20's challenge in showing progress on its central objective—economic cooperation—it should be careful in taking on new tasks.

Certainly, there are a number of issues with a significant economic element that would fit nicely with the G20 remit over the medium term. Responding to climate change can be seen in economic terms as we struggle to refashion our system of incentives/disincentives to achieve greater green investment. Refugees are a huge issue likely to grow in significance. They hold the potential of large costs to resettle them but they also hold the possibility of contributing strongly to economic growth, particularly in Europe, which is aging rapidly.

A number of the recently endorsed Sustainable Development Goals have economics at their centre and the G20 efforts focused on these could prove effective. Pandemics risk catastrophe for the world—economic and otherwise. Ensuring an adequate global response is as much an economic as a health issue.

Finally, an issue that remains unresolved is the need for an international framework for the management of sovereign debt crises. The IMF has shown that past responses have tended to offer too little assistance too late. Agreement among members of the G20 is a prerequisite for moving forward on this. And finally, particularly given headwinds being witnessed in the US election and elsewhere, efforts to strengthen the global trading system are likely to require impetus from the G20.

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