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The London G20 Summit – What has it entailed for the developing countries?

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The London G20 Summit – What has it entailed for the developing countries?

Bonn, 6 April 2009. The mixture of symbolic politics and substantive accords characteristic not only of the declarations issued on the occasion of the most recent G20 summit makes it difficult to discern clearly what was actually achieved in London. The first important aspect for the heads of government attending a summit is to be able to offer, for domestic consumption, results for which they have come out publicly at home. It was above all German Chancellor Angela Merkel who, in the run-up to the London summit, made perfectly clear that she sees the main task of the G20 process more in reform of the international financial architecture than in efforts to address the current crisis by means of coordinated stimulation of international demand. Indeed, it may perhaps even be said that, in the end, the German chancellor had her own way on this issue. For despite Gordon Brown's remarkable skill in conjuring numbers, no tangible agreements were reached on a coordinated stimulus package, no concrete results were presented on the measures needed to recapitalise and restructure the banking system, and no more than a few well-meant words were pronounced on the need to contain the risk of protecttionism. What finally prevailed, counter to the inclinations of the confraternities of Anglo-Saxon politicians, journalists, and economists, was an attitude that seemed to say: Following years of irrational exuberance, it is only natural that the lean years are now before the door, a scenario that no "stimulus," and be it as intelligent and well-crafted as it may, will be able to avert. (The misbegotten "car-scrapping premium" recently adopted by the German government is best passed over in silence…)

While the volume of the agreements reached on financial aid for the developing countries is not negligible, it is certainly not sufficient, either:

- The increase in the financial resources of IMF, World Bank, and regional development banks by US$ 850 billion in an effort to compensate, at least in part, for the decline in capital flows to the developing countries is at once necessary and correct. Thus far, though, no emerging economies – save a small number of eastern European nations – have had recourse to the funds available from the IMF's flexible, i.e. largely unconditioned, facility. At the summit Mexico declared its willingness to lead the way here – a signal intended to encourage other countries to following suit in making use of these funds. (It is not known what Argentine President Kichner and Indonesian President Yudhoyono had to say about the matter at the summit round…)
- The bulk of these funds will be raised on the basis of credits provided to the international financial institutions by the industrialised countries (including, word has it, a Chinese contribution of US$ 40 billion) as well through US$ 250 billion in Special Drawing Rights (SDRs) set to be issued by the IMF.
- In addition, the export credit agencies of the industrialised countries are set to make available US$ 250 billion in trade credits, again mainly for the emerging economies.
- No more than US$ 50 billion is to be allotted for the poor developing countries. And it is unclear how much of this consists of new commitments. The lion's share is to be raised in the form of voluntary contributions from bilateral donors that have already been pledged in the past, mainly at the 2005 G8 Summit in Gleneagles. Since these funds have been pledged not in absolute terms but as a share of the gross domestic product (GDP) of the donors concerned (Germany: 0.51 of GDP by 2010), GDP figures for 2009,

generally in decline across the board, will mean that the volume of the funding actually mobilised will be lower than originally provided for.

- The only new commitment made for the poorest developing countries is to be financed by selling off some of the IMF's gold reserves (US$ 6 billion in the coming 2-3 years).

All this is a clear indication that the G20 countries were faced with major challenges in mobilising additional budget resources for developing countries. A proposal advanced by World Bank President Zoellick that a small share of the stimulus packages adopted by the OECD countries should be spent in the poor developing countries largely fell on barren ground. All that was reached in this connection is a reaffirmation of the pledges made before the crisis emerged.

However, the agreements reached on reform of the international financial architecture are worthy of note:

This goes in particular for the projected new oversight and regulation architecture, which is to be based on a Financial Stability Board enlarged to include the G20 countries and the IMF as its two pillars and rooted in the principle that no financial institutions, instruments, or markets will be exempt from scrutiny. On the other hand, though, the statement: "The era of banking secrecy has come to an end" bears more the marks of inflated heroism. The struggle to put an end to tax avoidance and illegal capital transfers out of developing countries is, in other words, far from over.

The agreements reached on the role and mandate of the international financial institutions, IMF, World Bank, and regional development banks, are at once important and new in character. Prior to the summit, it was not at all clear whether the emerging economies would consent to measures to strengthen these institutions. They have consented, though, and at the same time succeeded in negotiating a paradigm shift concerning the governance and mandate of – first and foremost – the IMF:

- The OECD countries have agreed to accept IMF oversight of their own economic policies and financial sectors and the impacts they have on the global economy. The fact that they had long been unwilling to accept any such oversight must be seen as one important reason for the IMF's credibility deficit.
- The next revision of the IMF's quota system will be brought forward to January 2011, and this is more than likely to mean more weight in the Fund for the developing countries.
- Zoellick and IMF chief Strauss-Kahn will be the last heads of their institutions to be appointed on the sole basis of their nationality.
- The reform commissions being set up for IMF and World Bank, which are headed, respectively, by a Mexican (Ernesto Zedillo) and a South African (Trevor Manuel), are expected to table, at the next G20 summit in late 2009, a set of further proposals on approaches suited to bolstering the legitimacy and credibility of the international financial institutions.

Finally, Chancellor Merkel succeeded in getting her proposal adopted that a "Charter for Sustainable Economic Activity" be formulated as the basis for the future global economic order. The proposal is set to be deliberated at the next G20 summit.

This, it is to be hoped, will mean according greater attention to two aspects that were mentioned in the London Declaration only in a few meagre sentences: The one is the issue of climate change as a risk to the global system, which is obviously closely linked with the issue of “sustainable economic activity.” The second is the issue of future global governance: The G20 speaks for a total of 20 major economies, and some representatives of regional organisations were also welcomed at the bargaining table (EU, African Union, Asean). A total of 170 countries were not represented at all, and the summit declaration mentions the UN only in passing. What this tells us in effect is that no response has yet been found to the question of the G20’s legitimacy

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