



Meet & Greet

Can The G-20 Survive The G-20?

Brian Wingfield, 04.01.09, 11:32 AM ET

WASHINGTON, D.C. -WASHINGTON, D.C. -- The leaders of the world's largest economies have descended on London to face an impossible task: fix the world's broken economy and retool its warped financial systems.

Truthfully, the summit itself is little more than a grand photo op, important primarily because having no meeting would create the impression that countries are not cooperating to solve the economic crisis, undermining confidence. But that doesn't mean the G-20 isn't critical. It is.

First, there will be some action. They'll likely increase funding for the International Monetary Fund to lend, perhaps by as much as \$500 billion and expand the Financial Stability Forum, a roundtable to discuss the world's financial architecture, to include all G-20 members. And chieftains will talk. Wednesday, U.S. President Barack Obama met with British Prime Minister Gordon Brown, as well as leaders from Russia and China.

Most important, though, is how the G-20 handles being the G-20. Following a similar gathering in Washington last November, this summit establishes this group, not the elite G-7, as *the* forum for global discussions. Cracks have already surfaced. The U.S. and Japan are at odds with several European Union nations, notably Germany, over the need for fiscal stimulus. French President Nicolas Sarkozy has threatened to walk out if no progress was made on global financial regulation. China has publicly taken issue with the U.S. dollar's de facto status as the world's currency (despite being the single largest holder of dollar reserves).

A public airing of these complaints could derail the image of international cooperation. "Any kind of spat could be very bad," says Simon Johnson, a senior fellow at the Peterson Institute for International Economics and a former IMF official. During these events, "it's all about appearances." There are reasons for worry:

Two-Faced Protectionism

Despite a pledge at their last meeting in November to avoid protectionism, 17 of the G-20 countries have since enacted policies "that restrict trade at the expense of other countries," according to the World Bank. Among them: \$17.4 billion in U.S. subsidies for General Motors and Chrysler.

Protectionism is a chief concern of the G-20 leaders, and once again, they will pledge to prevent it. According to a draft communique of the summit, which first appeared in the Financial Times, the G-20 will ask the World Trade Organization, IMF and others to provide quarterly reports on protectionist policies. Sounds great, but if this "name and shame" approach exacerbates trade disputes instead of simply shining a light on violations, there could be protectionist backlash.

The Developing World

Expect the G-20 also to focus on aid for developing countries by boosting funding levels for multilateral development banks. Last month, the group's finance ministers granted the Asian Development Bank an additional \$100 billion.

But if world leaders don't keep their eyes on this issue, it could snowball quickly. In a recent paper, Homi Kharas, a former World Bank economist who's now at the Brookings Institution, has argued that the economic crisis could lead to problems with growth, children's health and civil war, which "will be much more expensive to manage than the cost of preventive aid now." He's also pointed out that developing countries typically don't enjoy the "bounceback" that industrialized nations see when recovery finally kicks in.

Financial Regulation

One of the chief aims of the United States is to focus attention on international financial regulation. That includes expanding oversight of hedge funds and other firms considered to be systemically important, taking a harder line

with offshore tax havens and examining capital requirements for banks. Such items are expected to be included in the G-20's final communique.

Careful there, warns Brookings scholar and Cornell University professor Eswar Prasad. Too much focus on new financial rules is "putting the cart before the horse," he says. "Until we can get financial systems unstuck, there isn't much of a system to regulate." Moreover, he's argued, too much government backing for financial institutions is a welcome mat for moral hazard.

Developing Cliques

Following last month's summit of G-20 finance ministers, the so-called BRIC countries--Brazil, Russia, India and China--for the first time issued their own communique, establishing a solidarity of these emerging powerhouses on the world stage. The world's richest economies, the G-7 members, also have their own club within the club. Many observers say the most important group anyway is the G-2: the United States and China.

Despite its inclusiveness, there are obvious problems with the size of the G-20. "The more countries you add, the more muddled and watered down you get," says Steven Schrage, who holds the international business chair at the Center for Strategic and International Studies. He thinks that a core group might need to emerge to make some real headway on trade and financial regulation.

This issue will likely become more pronounced as the group continues to meet. If not handled carefully, managing the G-20 could become the G-20's most arduous task.