The G20 - Overestimated and Underperforming

Drawing a balance of the G20 achievements - four years after the crash

Discussion Paper

EED- discussion paper written by Peter Wahl (WEED, Germany)

Edited by Peter Lanzet, Church Development Service (EED, Germany)

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SUMMARY

This paper draws a balance of the performance of the G20 since the Pittsburgh summit. Although there were some realistic perceptions and proposals going into the right direction, the G20 lost considerably momentum. The high expectations from the beginning were not met. Some of the reasons for the poor performance are analyzed. Financial reforms were not going deep enough, came too slow and too late and were ineffective. Another factor is the geo-political reconfiguration of the international system, which is limiting considerably the impact of the G20. The relative weakening of the US, the decline of the EU and the rise of new powers make the G20 an arena in the struggle over status in the global power hierarchy. Several emerging countries seek for alternatives or complementary structures to the G20, such as the BRICS or the 'Shanghai Cooperation Organisation.' The paper discusses the question, whether the mandate of the G20 should be restricted to economic issues or be expanded for instance to environment and development. One chapter deals with the stagnation of the attempts to increase the representativeness and legitimacy of the G20. The final chapter raises questions to civil society and advocates for a stronger global cooperation. There are two annexes: one on the agenda and the structure of the Mexican summit and an overview of the G20 in figures.

1. Introduction

The emergence of the G20 as the "*premier forum*" for global economic cooperation[1] was a result of the financial crisis. It was one of the last initiatives of the Bush administration to promote the already 10 years old body of G20 finance ministers, supervisors and central bankers to become the regular summit meeting of heads of states.

It is an irony of history that initially the G20 had been established after the Asian financial crisis of 1997/98 as a kind of educational project - officially called *dialogue* – for emerging countries by the G7. However, the worst international financial crisis since the Great Depression had its epicentre in the US, and it turned out that the self nominated "teachers" were at least as ignorant than their supposed "students." Bankers, the State Secretary of Finance, the Reserve Bank President, thousands of Harvard economists - who had behaved like the masters of the universe, realized they did not control the system they were running and legitimising, when Goldman Sachs started to speculate against its on clients, the system of collateralisation started to unravel and the real estate bubble burst. All of a sudden they stood there in the *Emperor's New Clothes*.

It is important to understand that the starting point of the G20 as a summit of 19 heads of states and the EU is linked to a hard blow to the Western elites, which had adopted financialisation, liberalisation and deregulation with the idea this would be the frontier of human progress.

One of the few representatives of the elites who admitted major errors in public was Dominique Strauss-Kahn in one of his last speeches as IMF president, when he said that the crisis also "*devastated the intellectual foundations of the global economic order of the last quarter century.*" He criticized the Washington consensus as a

[1] Pittsburgh G20 summit *Leaders Declaration*

"*number of basic mantras. Deregulation and privatization would unleash growth and prosperity. Financial markets would channel resources to the most productive areas and police themselves effectively. And the rising tide of globalization would lift all boats. This all came down with the crashing crisis."* [2]

Many an analysis of the G20 from Western authors tends to leave out this aspect. But both in the perception of the elites and the people in those parts of the world, who had been colonized, oppressed, exploited, dominated and humiliated for centuries by Europeans and their North American offspring this crisis had a very important psychological and political effect: it broke the ban of feelings of inferiority, which had persisted for hundreds of years especially in emerging economies but also in other developing countries. In that sense the crisis confirms, what always is attributed to crises: they serve as a catalyst for change, although, this time the new developments might have been nor expected and neither welcomed by the West.

From that perspective, the G20 is more than just a new structure in the system of global governance. It is a symbol for a historic turn, which marks the beginning of the end of 500 years of Western dominance.

2. Hopes and high expectations

Under the impression of the crisis the first three summits in Washington, London and Pittsburgh had some realistic understanding of the reasons of the crash. In particular the Pittsburgh summit (September 2009), which was the first to be prepared by the then new Obama administration, bringing in some new language, giving up much of the neo-liberal talk, which had dominated G8 summits since the eighties of the twentieth century. This gave rise to hopes and expectations, that the G20 might in fact represent a new quality of global governance.

The summits set impulses for the management of the financial crisis in its first stage 2008-2009, which after all was to a certain extent successful. Because unlike in the Great Depression of the 1929 there was a concerted anti-cyclical reaction, which used two main instruments: rescue packages for the banking sector and stimulus programmes for the real economy.

Many details of these measures can be criticised. They were not enough and were primarily serving the interests of the financial industry and investors. Often they were socially unbalanced or gave away the chance for structural changes as in the case of the old-fashioned stimulus programmes for the automobile industry. But they did not make the fundamental mistake of 1929, to leave the solution of the crisis to the markets. This made a fast recovery in the emerging economies possible and gave positive impulses to the world economy.

But already at the Toronto summit (June 2010) and in Seoul in November 2010 the momentum was slowing down. The illusion emerged, that the crisis would be over and the world could return to business as usual. The Seoul summit was in addition characterised by strong controversies about the exit strategies with regard to the rescue and stimulus policies and how to deal with the global imbalances. The Euro-crisis which had broken out in March before with an almost default of Greece had been completely underestimated.

[2] Strauss-Kahn, Dominique (2011): Address at George Washington University, April4, 2011. Washington DC. www.imf.org/external/np/speeches/2011/040411.htm

In Cannes (November 2011) the crisis was fully back and the case of Greece was absorbing the agenda. But again the controversy over the strategy for the EU crisis continued to remain unresolved. The G20 was not able to find a consensus.

The Mexican summit in *Los Cabos* (18/19 June 2012) will even be more absorbed by the Euro crisis, which saw a dramatic sharpening in spring 2012. The underestimation of the Euro-crisis now fully falls back on the G20.

3. Roots of the public debt crisis – a blind spot in the G20 agenda

One of the blind spots of the analysis of the financial crisis by the G20 were the links between private and public finance and the contagion of the latter by the crash. The contagion has three main channels:

- The decision to save most banks in order to prevent the total collapse of the economy was very costly and inflated the public debt. All in all 4,8 trillion Euro have been spent for this purpose.[3] This was approx. 10% of global GDP in 2010.[4]
- The measures to mitigate the effects of the crash onto the real economy were also a heavy burden for public budgets and amounted to another 2,2 trillion Euros.[5]
- There is a structural dependency of public finance from financial markets, which exists independently from whether there is a crisis, or not. As a result from globalisation of finance governments can borrow money from investors from all over the world. The reverse side however is, that the vulnerability of public finance has increased considerably. The free flow of capital makes countries hence more prone to the volatility of the markets, to speculative operations and the rating of rating agencies. In addition deregulation has allowed institutional investors to develop new tools for speculation such as credit default swaps[6], which played a very negative role both in the financial crash of 2008 and in the EU crisis.

The European political mainstream would like it to appear, that the dramatic increase of public debt since 2008 is the result of a lack of fiscal discipline. Quite to the contrary it is the combined effect of the costs of the crisis and its systemic roots in finance capitalism. The financial crisis of 2008 has been transformed into a multiple crisis of public finance, into a permanent banking crisis, a crisis of real economy, a social crisis and a crisis of democracy and a governance. All these dimensions are intertwined with each other and resemble the proverbial Gordian knot.

The G20 has kept silent over the depth and range of the crises and limited its discussions to complaints that the problems of the Euro-zone might spill over to the entire world economy. In particular the Obama administration does not want to see a deepening of the crisis – at least not before the presidential elections in November 2012. As unemployment in the US is already high and growth very moderate, an external shock from the Euro-zone would put US President Obama's re-election at stake. But of course, a re-emergence of the crisis would affect also all other regions o the world as well and again developing countries would suffer considerably.

[3] Handelsblatt 18/19/20 May 2012, p.63
4 IMF (2012): Global Financial Stability Report 2012. Statistical annex clxxvii
[5] ibid.
6 highly leveraged financial products built on debt based collateral

This is why already the Cannes summit in 2011 was more or less occupied by the Euro-crisis, but could not even find a common position on the right strategy to overcome it. While there was still a majority in the EU, led by Germany and the so called Troika (IMF, European Central Bank, European Commission), in favour of a strict austerity program as it is known from the text-book of the IMF for structural adjustment, the US and several emerging countries such as Brazil and China had spoken out for stimulus programmes to boost the economy.

Here is an interesting parallel between the G20 and the EU: just like the contradictions inside the EU lead to a permanent muddling through instead to a forceful solution of the problems, the heterogeneity of the interests in the G20 is a limitation to its impact.

Before the Mexico summit, the balance of power might finally shift in favour of support for growth, as there is a dramatic sharpening of the Euro-crisis. The conventional crisis management has failed. Austerity does not work. In the fourth year after the Lehman default the EU has not only a problem with Greece, but also the Euro-zone as a whole has entered again into recession 2012. The situation of the Spanish banking system turns out to be a time bomb ticking away, while unemployment is exploding. The situation of Italy, the third biggest economy in the Euro-zone, is characterised by structural and deeply rooted problems and stagnation. Cyprus is at the brink of default. Even France has lost is triple A rating and is under pressure from the markets. This situation is unsustainable and will affect earlier or later also economies, which by now considered themselves to be fortresses of stability like Germany.

It cannot be excluded that Greece will leave the Euro or that the entire Euro-zone might break apart. But even if the worst-case scenario could be prevented, the devastating effects of the wrong strategy have reached a point, where recovery is only possible under heavy sacrifices and after years.

Even the German government begins to weigh its options afresh. The newly elected French president, François Hollande, has already announced that he would like to see a turn in crisis management, and even the conservative government in the UK, which is implementing an austerity programme, which is as harsh as those on the continent, is asking for a stimulus programme for growth.

But for the G20 in Mexico all this will mean that the agenda will again be dominated by the crisis in Europe and its possible global consequences.

4. Financial reforms: too modest, too slow and too ineffective

The reform of the international financial architecture has been the driving motivation to set up the G20 as a summit platform. In particular the Pittsburgh summit discussed a large package of financial reforms. Some really important deficits of the financial sector were addressed, such as:

- poor supervision,
- insufficient capital requirements,
- shadow banking such as over the counter-trade,
- risky instruments such as derivatives,
- the flaws of the rating agencies.

The US, the EU and several individual countries started reform processes. However the result is very meagre as of now. These reforms:

- are not ambitious enough from the beginning,
- are too slow and come too late,
- are watered down by the lobby of the financial sector,
- are blocked by political opponents as the Republicans in the US, which have become the political arm of Wall Street or in the EU where the City of London tries to block any meaningful change,
- prove to be inefficient, as soon as they have to pass the test of reality.

For instance the reform of supervision has been one of the first steps in the reform process, and for good reasons. The EU has established three new supervisory agencies and a coordinating body.[7] The directive has been implemented in 2011 and the institutions have started to work. One of their first activities was to organise a stress test for European banks and surprisingly some banks did not pass the test. But the new bodies did not recognise that the entire banking sector in Spain was insolvent. In May 2012 it turned out that the biggest Spanish savings bank *Bankia*, which had passed the stress test, would collapse if it were not rescued by the state. *Bankia* revealed it needed some 23 billion Euros. All in all Spanish banks hold sluggish credits worth over € 260 bn.

A similar case happened in the US, where after passing the Dodd/Frank-Act a new structure of the supervisory system was set up. Here also, stress tests were made. On 11th of May 2012 *J.P. Morgan Chase* had to confess to a loss of two billion USD.[8] The supervisors had not realized anything. One week later, the bank announced the loss of another billion USD. What had happened? Within one week Hedge Funds had successfully speculated towards a further deterioration of the bank's position. All in all the losses are now estimated at 5,9 bn. USD.[9] The conclusion is: Nor the regulation of Hedge Funds neither the reform of supervision had been efficient.

Although there is a broad consensus, that an improvement of the capital requirements is a core element of financial reforms the respective regulation, the so called *Basle III agreement*, is - four years after Lehman - still not finalised. Although the cornerstones of the agreement were presented at the Seoul summit, the publication of the chapter on the *Systemically Important Financial Institutions (SIFIs)*, which addresses the problem of *too big to fail* is expected only in autumn 2012. Basle agreements are recommendations only, they need to be translated into national legislation. Thus implementation can at the earliest be expected in 2014 if parliaments agree. In addition, the regulation grants grace periods until 2018. Here again the conclusion is: The reform is too slow and comes too late.

An example for the lack of ambition is the EU reform of rating agencies. The crucial problem with the rating agencies is the pro-cyclicality of their ratings. EU countries have felt this painfully in the last two years. When they come under stress, the agencies are downgrading their rating. As a result the interest rates for government bonds go up. This increases their debt ratio, which then again leads to downgrading, despite the fundamentals of the economy might be positive. A downward spiral

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[7] European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOP), European Securities and Markets Authority (ESMA), European Systemic Risk Board (ESRB)

[8] FAZ online. http://www.faz.net/aktuell/wirtschaft/jp-morgan-der-zwei-milliarden-dollar-flop-11747931.html

[9] SPIEGEL online. http://www.spiegel.de/wirtschaft/unternehmen/jp-morgan-mit-neuen-verlusten-nach-spekulation-am-kreditmarkt-a-833660.html

emerges often in interplay with speculative attacks. Therefore the commissioner for the internal market, Michel Barnier, had proposed to ban ratings of governments in crisis. But under the pressure of the finance lobby and some governments he withdrew his proposal. The result is a regulation, which focuses on minor problems, such as transparency of the algorithms of the ratings and conflicts of interests, for instance when agencies are working as consultants for the same clients for which they make ratings.

All in all the attempts to police the markets have not led to a substantial change by now, and after its first impulse from Pittsburgh the G20 was not able to do much about it.[10]

Some personalities at the helm of financial governance begin to understand that. For instance the German minister of finance said in 2011: "*With regard what has to be implemented … we have not even made it half way.*"[11] Yet still, Mr.Schäuble remains overoptimistic.

The basic problem of the dominant reform approach is however, that it remains in qualitative terms far below what is required by the dramatic situation. The reform is limited to re-establish financial stability without really touching the markets. Of course, financial stability is a public good and deserves support also from civil society. But how can it be achieved? What is at stake is the whole system of financialisation, or what Keynes called the *casino system*, i.e. the dominance of speculation and the rule of finance over the real economy. The world does not need safe betting conditions for the casinos, but there closing.

In spite of some steps into the right direction, the G-20 has not understood the fundamental reasons for the crisis. It is therefore not surprising, that the problems are still not under control.

Yet, it would be inappropriate to attribute the poor results of financial reforms to the G20 alone. The body is an informal platform for consultation, not the government of the world. It can only provide recommendations, which are not binding for the member states. It can try to play the role of an opinion leader, which influences the discursive balance of power. Although the spectacular staging of the summits[12] tries to give the impression that the leaders have the problems under control, as if the G20 could save the world

The critiques often fall into the same trap by blaming the G20 for something, which is outside of their competencies. The financial reforms like all other recommendations of the G20 have to be implemented by nation states. They are the only ones to have the legal rights and executive power to do so.

But even as an informal platform with discursive power the G20 has its limitation. And this has very much to do with the tectonic shift in the international system, which we are witnessing these days.

5. The return of geo-politics

10 See for instance Singh, Kavaljit (2011): Fixing Global Finance. A Developing Country Perspective on Global Financial Reforms. Hyderabad or: Wahl, Peter (2011): Fighting Fire with Buckets. A Guide to European Regulation of Financial Markets. Berlin.

[11] Schäuble in an Interview June 18th 2011. http://www.bundesfinanzministerium.de/nn_82/DE/Presse/Reden-und-Interviews/20110618-Boersenzeitung.html?__nnn=true

[12] The Seoul summit, for instance, was presented to he Korean people almost like Olympic Games.

As mentioned above, the emergence of the G20 symbolises an important historic turn. The short period of unipolar dominance of the US after the Cold War is over. China is rising to a superpower. Economically it is today already the second biggest player and will probably get ahead of the US by 2030.[13]

India is still far behind but has also the potential to become a superpower in the long run. Already today the role of the country in the international arena is increasing considerably. The same is for Brazil. Also Russia is trying to play a big power role again. With its tremendous potential of natural resources and its still important nuclear military power it is an actor to count with in the future.

On the other hand we witness a relative weakening of the US position in the world. Although the country is still n°1 – and will remain it for the foreseeable future - in terms of economic, military and political power, its position is eroding: the wars in Iraq and Afghanistan were a failure, the financial crash has discredited the Anglo-Saxon development model internationally, and the continuing economic crisis with the enormous public debt will further be a heavy burden for the US.

The decline is even more visible in the case of the EU. While the establishment of the single market in 1992 and of the single currency ten years later were meant as steps towards the "United States of Europe," the EU is in an existential crisis today. The end is not yet in sight and at present it seems, that the worst is still to come. The Euro-zone is at a crossroads: either there will be a considerable deepening of integration with substantial transfer of sovereign rights to Brussels through Eurobonds, common fiscal policies, common deposit guarantees, supranational supervision etc. or it will further disintegrate. In any case, the dream of the EU elites, to play in the global champions league of big powers or even in the "G3" (US, China, EU) remains an illusion for the foreseeable future.[14]

All these changes are still at the beginning and surprises are not excluded. But it is clear, that the world is heading towards a multi-polar international system. On the way towards such a system the old powers tend to defend with all force their status, whereas the rising powers want to reach at any price the top level. Geo-politics, as we know it from the 19th and the 20th century return. Seen against the background of a growing shortage of strategic natural resources such as oil, food etc. competition and conflict will increase.

Part and parcel of the competition are the global imbalances in the world economy, with the trade deficit of the US at its core and its counterpart: the surplus of China, Germany and Japan as the most important cases.[15]

As the world economy is a zero sum game, surpluses of one country lead inevitably to deficits of another. If such imbalances continue to persist over time they lead to current account deficits and indebtedness of the deficit country and finally into a financial and economic crisis.

However, the US is a special case: as the US-Dollar is not only the national means of payment in the US but also the global lead currency, the US can live with its deficit

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[13] Goldman Sachs (2007): BRICS and Beyond. http://www.goldmansachs.com/our-thinking/brics/brics-and-beyond-book-pdfs/brics-full-book.pdf

[14] For the peoples of Europe, this must not automatically mean a disadvantage. Looking at the rankings of the countries, where welfare for he people and satisfaction with their life is highest, we always find - in terms of power - insignificant countries on top, such as the Nordic countries, Switzerland, Canada, New Zealand etc..

15 There are different categories of imbalances, for instance the imbalance between rich and poor both inside societies and between countries and regions. But in the economic discourse talking about imbalances normally means trade and current account imbalances.

for a long time, because the US-Central Bank can print the money, which is absorbed by the entire world economy and at the same time as the leading reserve currency without risking inflation at home.

Similar imbalances exist inside the Euro-zone, where Germany (and to a lesser extent the Netherlands and Austria) has a large surplus over the Mediterranean countries including France. However, unlike the US, the European deficit countries have no own currency, but have to abide to the monetary policies of Euro-zone, which are controlled by the ECB. Therefore, they cannot use the instrument of depreciating their currency to reduce their trade deficit in times of crises. These intra-European imbalances are a major reason for the Euro-zone crisis.

At the Seoul summit, the issue came up, but neither side was prepared to commit changes in the own policies.

Another important dimension of competition among the G20 countries is the regulation of the financial sector. For emerging economies the financial sector is key for their development strategy and their attempt to improve their competitive position on the world markets. On the one hand they often face negative effects from liberalisation and deregulation of finance. For instance, before the crisis *carry trade*[16] has lead to heavy inflows into Brazil. But after the Lehman crash there was an abrupt reversal of the flows and the outflows had a destabilising effect on the country. In the Asian crisis 1997/97 similar problems occurred. This is why, unlike the US and the EU, most emerging countries advocate capital controls.

On the other hand emerging countries fear that stricter rules at global level might restrict the competitiveness of their expanding financial services industries and hamper their catching up with the industrialised countries. This explains for instance why China is blocking stricter language on the regulation of fiscal paradises in the G20 declarations with regard to the rapidly growing financial offshore centre of *Macao* and why India has spoken out publicly against the Financial Transaction Tax. All in all these complex conflicts of interest create a configuration of contradictions – in some cases across the traditional front lines - which makes consensus very difficult.

All these dynamics constitute a structural limitation to multilateral cooperation. The reconfiguration of the international system means for the G20, that it is not only about cooperation, but also an arena for the struggle over the position of its members in the hierarchy of powers.

6. BRICS – not free of contradictions and rivalries

Apart from the heterogeneity of the G20, the impact of the body is further limited through the emergence of new plurilateral structures of informal or formal cooperation between emerging countries and sub-groups such as the *Shanghai Cooperation Organisation* (SCO),[17] or the most prominent of them, the BRICS (Brazil, India, China, Russia, South Africa). The BRICS represent 43% of world population and a quarter of global GDP. They have started to coordinate their policies in the G20 and

16 *Carry trade* is kind of arbitrage between interest rate differentials or differences of asset prices in different countries. If, for instance, the interest rate in Japan is 0,5%, whereas in Brazil it is 12%, it is a profitable deal to borrow money in Japan at 0,5% and to lend it in Brazil for 12%.

17 The SCO is a formal international organisation with regional character. The most import members are China and Russia. Other members are Kazakhstan, Kirgizstan, Tadzhikistan and Uzbekistan, while India, Pakistan, Mongolia, Afghanistan and Iran have observer status. Their geo-political objective is the containment of US influence in central Asia through economic and other cooperation.

beyond. In their summit in New Delhi in March 2012 they decided to set up a common development bank as an alternative to the Bretton Woods Institutions.

The future will show, whether these new structures will be able to really play the role, which their initiators want them to play. Doubts are permitted because among their members exist similar contradictions and rivalries as in the traditional organisations. India and China for instance have a border conflict in Cashmere and North East India, which still is unresolved.

But by setting up these structures, the emerging countries demonstrate their basic resentment vis a vis the “old” system of the G8.. This might explain, why the role of China, India and some other emerging countries in the G20 remains quite opaque. It seems to indicate, that their strategy might be to participate, but to keep a low profile in order not to give too much impact to an institution, which after all has been initiated by and still very much dominated by the West. They do not want the G20 to have a monopolistic position in the overall system of global governance.

7. Focus on the economy or broadening the agenda?

The promotion of the G20 to a leaders summit is the result of the financial crash in 2008. The consequences of the crisis and proposals to manage them have been at the centre stage of the summits and in Pittsburgh the group defined itself mandate as *premier forum of economic cooperation*.

Nevertheless, there is an increasing number of other issues that have been brought up, such as “development” in Seoul or “*green growth and fight against climate change*” by the Mexican presidency. Also corruption, tourism and trade have been put on the agenda already in former summits. Of course a strong motive behind such moves is the interest of host governments to distinguish themselves and to draw attention on their country.

But there is not only the one side, which tries to expand its outreach, but also other actors try to link their special interests to the G20. As a result there is now a *Business Summit*, and *Labour Summit* for the dialogue with trade unions. In Mexico also a *think20* (academia, think tanks and specialised research centres) was held, as well as G20 YES (Young Entrepreneurs Summit), Civil Society dialogue[18] and a T20 (on tourism).[19]

These trends reflect the unanswered question, whether it makes sense to broaden the agenda of the G20 beyond economic issues. The problem has different dimensions. In the case of green growth and climate change, this is a clear invective against the UN and the Rio+20 conference, which starts just one day after the end of the G20. The concept of *Green Growth* is openly competing with the concept of *Green Economy*, which is in the centre of the debate in the Rio process. While the *Green Economy* leaves in all its vagueness at least some space to interpret it in a variety of perspectives (including putting into question the traditional concept of growth), *Green Growth* wants to fix growth as an unchangeable fundament. The intention of green washing of capitalism is very obvious here. This is more than quarrelling over language. The fight over such basic concepts is part of the political struggle over opinion leadership.

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18 This is a different event than the Alternative G20 summits of civil society, which are organised autonomously from the official, meeting, normally consisting of a conference and protest actions in the streets.

[19] Business and labour have a privileged position, as their summits take place parallel to the official summit and both are offered the opportunity to speak with high-ranking officials. The other „summits“ take place before the official summit and have to content themselves with at maximum a Sherpa. For further details see the official homepage of the Mexican residency:

Together with the fact, that several leaders of Western countries are not attending the Rio summit, among them President Obama, Chancellor Merkel and Prime Minister Cameron, launching *Green Growth* is meant to weaken the UN.

This is why it is ambiguous, if civil society tries to push themselves for environment and their other concerns to be included in the G20 agenda. It might reflect the belief, that the G20 could make a difference for their case, but there is also the risk of hijacking an issue for vested interests, which are not the ones of civil society. This risk also exists in the case for development in the G20.

8. The case of development

At the initiative of the Korean government, the Seoul summit has adopted development as an issue on its agenda. A working group was established and an action plan prepared. Under the impression of this move the development community, including many NGOs, have started to engage with the G20 development agenda.

The Seoul action plan focuses on two priorities: infrastructure and food security. Of course, both are very important issues for development. However, the illusion that growth would be the magic bullet to automatically end poverty is running through the whole document. The approach ignores the increasing polarisation of income and wealth worldwide and keeps silent over the key role of distribution for development. Instead, the plan is putting much emphasis on the private sector as the dominant player to generate development.[20].

But apart from the highly questionable orientation of the Development Working Group (DWG), there are other pitfalls, too:

- The DWG is competing with other organisations, in particular with the UN-system and the new *Global Partnership for Effective Development Cooperation,* that grew out of the development effectiveness debate. It enjoys legitimacy because of its broad representation of all stakeholders. There was no need to create another body. So, why had it been created, whereas at the same time there is normally a strong reluctance to create new institutions and even attempts to cut back institutions, as it was recently the case with UNCTAD, when the West tried to limit the mandate of the organisation?[21]
- The agenda behind the DWG is to influence the emerging countries through dialogue, in this case to adopt the Western standards of development cooperation. Germany e.g. cooperates with Saud Arabia and India on the question of the role of the private sector. But the actors don't agree on the responsibility of the private sector to maintain social and environmental standards as part of their investments. Emerging economies do not want to accept such limitations on their investors. So it is very doubtful that China or India would play the game. Some of them, like Brazil and China have considerable success in poverty reduction. Of course, there are certain aspects of their cooperation with developing countries (for instance land

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[20] Alexander, Nancy (2011): The G20: Maestro of the Development Finance World? Washington. http://www.boell.org/web/index-793.html

[21] In the forefield of UNCTAD XIII conference in April2012 some Western countries wanted UNCTAD to be silent on finance with the argument, that there were already other organisations like the IMF and the FSB working on it. The background is obvious: unlike the IMF the World Bank, the WTO etc. UNCTAD had already before the crash been critical towards finance capitalism and continues to be so. However, the attack against UNCTAD could be fought back.

grabbing), which are very questionable. In addition it is doubtful, whether countries like China will commit to what the DWG is proposing.

- Development on the G20 agenda has also the purpose to mitigate the critique of the legitimacy gap of the G20. As some 150 developing countries are not represented in the G20 they can say: "Look, your interest are dealt with by us." The phenomenon is known from the G8, when the group wanted to get rid of the image to be the "club of the rich" at the Gleneagles summit.

9. Promises to improve representativeness not kept

One of the most prominent points of critique of the G20 is its lack of representativeness. It is true, that the G20 – although representing 65% of the world population is a group, which had been selected by the Bush administration in a top down procedure. In so far and particularly compared to the UN, the G20 has a democratic deficit.

On the other hand, the issue should not be overestimated. As an informal body the G20 is not liable to meet the same requirements as a formal system. Moreover, as we have tried to show, the influence and scope of the G20 at present is less than it appears to be.

Nevertheless proposals are on the table to improve the representativeness, for instance through allowing for a continuous participation on equal footing of representative organisations such as UNCTAD, the OAU, ALBA and others, which might bring the interests of the poor countries.

There is also the prerogative of the host country. It can invite five governments, which are not part of the club. Mexico invited Benin, Ethiopia, Cambodia, Chile, and Columbia. In addition Spain has the status of permanent guest.[22]

At least for the Latin American invitees one could have expected, that there would have been an attempt to reflect the diversity of the sub-continent. But although Chile and Colombia are the only two conservative governments among the majority of centre-left or left governments in the region they had been invited both.

Also, there was no coordination with Argentina and Brazil, the two other Latin American members of the G20. The summit in *Los Cabos* ends in the same week, when the Rio+20 summit is starting. Some coordination with Brazil could have been expected, in particular as the Mexican presidency has put "*Green Growth*" as one of its five priorities on the agenda (see chapter 8).

All in all there is no progress in improving the representativeness and legitimacy of the G20.

10. Civil society and the G-20

The emergence of the G20 confronts civil society with new challenges. Whereas the relative homogeneity of the G-7 and its common neo-liberal policies in the last decades made it easy to confront the group as a whole, the situation with the G20 is not the same. Although being emerging markets and in the case of China also a super power in the making, several of the non-G7 member countries are at the same time still developing countries.

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[22] It was former French president Sarkozy, who had introduced this privilege with the help of a trick: When France held the EU presidency in 2008, Sarkozy attended the summit as EU-president and offered Spain to take the seat of France.

China for instance, had impressive success in poverty reduction, the economy is strictly regulated by the state and finance has to serve the real economy. There are elements in the Chinese economic model, which are considered to be attractive by many developing countries.

On the other hand, the situation of human rights and democracy in China contradicts the values civil society is striving for and the increasing engagement of China in developing countries, particularly in Africa, has problematic dimensions. Land grabbing for instance is one of them. Moreover, Brazil has made considerable progress in poverty alleviation. On the other hand the Brazilian development model is under heavy criticism from civil society, for not sufficiently taking environmental problems into account, in particularly in the Amazon region, which is of planetary importance.

While in principle the G20 would have a much larger potential, in reality the argument is correct, that the impact of the G20 remains limited because of its heterogeneity and internal contradictions. Therefore the question is, how much attention it should be given by civil society.

Another crucial issue is the UN. The only real universal organisation is further marginalized by the G-20. There are no signs that the emerging countries inside the G-20 would particularly care for the UN, or the solidarity with the poor countries. In some cases it even seems as if they would be very much flattered to belong to the club of the rich and powerful.

Simple answers or black and white approaches to the new challenges are inadequate. There are open questions and it might be premature to answer them. But one thing seems to be clear already today: The need to strengthen cooperation of civil society in order to develop a common strategy towards the G-20.

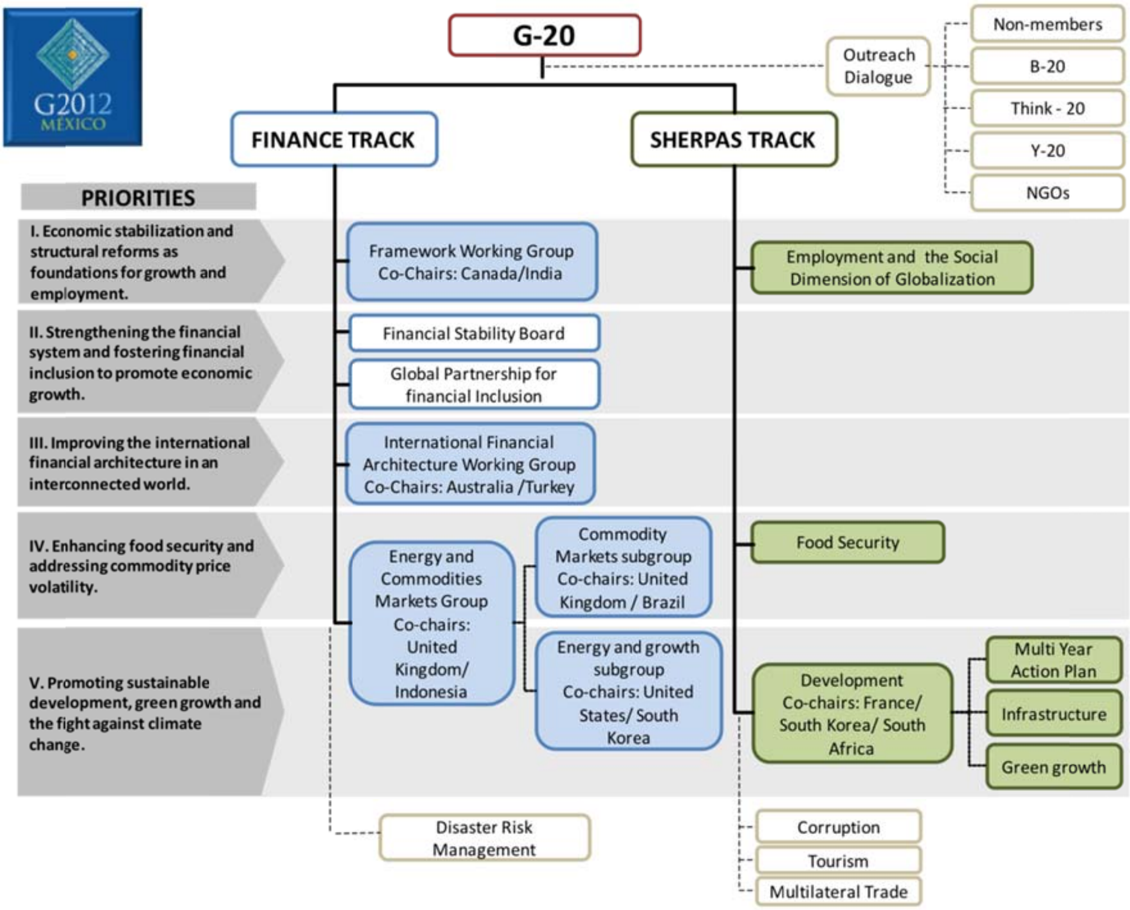
There is an interesting tradition of shadowing the G-7 through alternative summits from below and in several cases of strong mass protest against the G-7, as for example at the Genoa summit in July 2001. Civil society in the G-7 countries has developed routines to deal with the summits. But the alternative events, as spectacular they might be, are only one element in a civil society strategy. What counts as much is the capability to influence continuously the political position of a country from inside.

It is time to involve civil society in all member states of the G-20 to engage in monitoring their governments' policies and to communicate the results internationally and to coordinate strategies.

Hopefully the alternative summit in Mexico City and in Pa Paz, capital of Baja California, will contribute to it.

Berlin, June 12th 2012

Annex 1: Agenda and structure of the Mexican Summit



Source: Discussion Paper Mexico's Presidency of the G20: http://www.g20mexico.org/images/pdfs/disceng.pdf

Annex 2: The G-20 in figures

	Population 2010 (Mio)[1]	GNI absolute nominal 2009 (bn. USD)[1]	GNI per capita 2009 (USD)[1]	Foreign trade turnover 2009 (bn. USD)[1]		Military expenditure 2009[2]		Relative poverty	
Country				Exports	Imports	absolute constant figures (2009) USDm	% of GDP	60% of median income (mid-2000s)[3]	Share of population below national poverty line (2004-2010)[4]
Argentina	40,4	297,6	7580	65,6	49,1	3179	1	--	--
Australia	22,3	900,7	43590			19799	1,9	20,3	--
Brazil	195	1562,4	8090	177,3	178,2	28096	2	--	21,4
China	1338,3	5034,5	3650	1333,3	1113,2	114300	2,2	--	2,8
Germany	81,7	3377	42410	1359,7	1195,1	46848	1,4	17,2	--
European Union (27)	502,1	16294,6	34152	6008,9	5860,9	--	--	16[5]	--
France	64,9	2671,2	42610	610,7	662,1	61285	2,5	14,1	--
UK	62,2	2203,9	41080	601,6	653,1	57424	2,7	15,5	--
India	1170,9	1372,6	1220	270,4	331,7	34816	2,8	--	27,5
Indonesia	239,9	520,4	2160	130,3	115,2	6009	0,9	--	13,3
Italy	60,5	2079,4	35130	506,4	514,8	38198	1,8	19,7	--
Japan	127,4	5171,1	37520	636,1	620,8	51420	1	20,8	--
Canada	34,1	1317,3	41950	383,6	406,5	20164	1,5	19	--
Mexico	113,2	867,9	8680	243,6	256,2	4859	0,5	25,3	--
Russia	141,7	1181,8	9290	341,6	250,9	52586	4,3	--	11,1
Saudi Arabia	27,4	381,2	16190	201,9	160,6	42917	11,2	--	--
South Africa	50	276,4	5730	77,5	79,9	3735	1,3	--	23
South Korea	48,1[6]	836,9[7]	17315[7]	363,5[7]	323,1[7]	24270	2,9	20,8	--
Turkey	72,8	696,4	9060	142,8	150	15634	2,7	24,3	18,4
USA	309,1	14011	46330	1578,4	1964,7	687105	4,7	23,9	--

1 Source: World Bank Data (http://data.worldbank.org/)
2 Source: SIPRI (http://www.sipri.org/)
3 Source: OECD Data (http://stats.oecd.org/index.aspx)
4 Source: United Nations Data (http://data.un.org/)
5 Source: Eurostat (http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/)
6 Source: Population in 2010, UN Data (http://data.un.org/)
7 Source: UN Data for 2009 (http://data.un.org/)