G 20 - A STEPPING STONE TOWARDS A NEW WORLD ORDER?

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Abstract

The paper examines the main decisions made at the 24 - 25 September 2009 Pittsburg Summit of G20 and their implications on the design and implementation of a new world order. The analysis reflects the long term trends and changes in the world economy that have led to the necessity of significant changes in the institutions and procedures that govern international economic relations.

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JEL Classification: F02, G01, P16

The simple fact is that the idea of a new world order is not new, nor it refers to a specific period in time. In the context of this analysis we use as an operational definition of world order the Georg Sorensen's one: world order represent a governing arrangement among states, meeting the current demand for order in major areas of concern[1].

A new world order emerged after all major crises in all known history and therefore it is more appropriate to say that once in a while, not too often, the world balance of power changes, new actors emerge or the relative position of existing actors changes substantially.

The world balance of power changes when enough tensions and existing crises accumulates beyond a certain point and the change is objectively necessary. The point here is that in majority of cases the actors react because they have to rather than because they want to. A world order is a solution found after a change took place, much less a theoretical project to be imposed upon reality (even if some attempts were known but they all failed).

The world order existing after the second world war changed in 1990 but only in a transitory way because it was not simply changing from bi-polar to mono-polar world but rather to a multi-polar world in becoming. Moving beyond the national

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[1] Georg Sørensen, What kind of world order? The international system in the new millennium, American Political Science Association Annual Meeting, Chicago September 2-5, 2004.

scope, the developments and trends which manifested in the world economy after 1990 have made less clear the division between developed and developing countries. After November 2001 when Goldman Sachs coined the term a new group of countries started to be mentioned more and more as a future pole of economic growth and power – BRIC (Brazil, Russia, India, China)[2]. The BRICs exceeded Goldman Sachs's original expectations: . the investment bank predicted that the four economies would comprise more than 10% of the global output by the end of the decade; they have already reached 15%.

Therefore, the apparent demise of G7/ G8 of today is not a result of the economic crisis of 2008 - 2009, after all the current economic power of China is built on political decisions made 30 years ago. As well, the growing disequilibria between deficit and surplus economies in the world economy is also decades old. At the same time the replacement of G8 by G20 solves in a way a problem of representativity in the sense that G20 reunites countries that generate 90 % of world output and represent two thirds of world population.

It is true that this replacement of G8 by G20 solves the old dichotomy between Western or developed countries and the South or developing ones. At the same time, after the announcement that G20 will establish a new system of economic cooperation designed to minimize unbalanced growth in the world economy there were voices to protest against this position. Countries like Switzerland, Singapore or Qatar and even United Nations expressed concern regarding the legitimacy of a body that include 20 members but is prepared to issue decisions referring to all countries of the world.

From a different stand point we can say that what the current economic crisis did was to reveal a situation that already existed, to put it in the limelight. Simply put the world economic crisis showed in a dramatic way who has the economic power and financial resources to do significant things and who doesn't.

Accepting this reality the discussions among G20 members led to a number of important decisions at the meeting of April 2009 which took place in London.

With that occasion the members agreed on six main topics:

- G8 leaders recognized the need to make G20 a permanent forum;

- Specific actions were taken towards the Millennium Development Goals, such as increasing the resources of IMF and adopting new facilities such as the Flexible Credit Line;

- The commitment to change the mechanism for selecting leaders of international institutions such as World Bank and IMF;

[2] Dreaming with BRICS: The path to 2050, Global Economics Paper no. 99.

- The strong commitment against protectionism and competitive currency devaluations by member nations;
- New financial regulatory framework that balances political desires, and issues such as tax secrecy;
- International trade and development commitments and national spending commitments in excess of $ 5000 billion.

As result of this considerable foundation put by the G20 meeting in London the blueprint of a new world order was presented explicitly in Pittsburg in September 2009 and has determined **three institutional consequences** which mark an important shift in international macroeconomic policy:

- one is the fact that G20 was consecrated as the world's primary economic coordinating body;
- the second refers to recognition of a need for a change in quota and voting rights within the IMF in the sense of giving greater voice to emerging powers. According to these proposals the governance structure of the IMF will change, with "under-represented" (mostly developing) countries getting at least 5% more of the voting rights by 2011. In this context, part of the voting power will be relocated most likely from European countries to China, India and Brazil3.
- the third refers to the ascension of the Financial Stability Board (FSB), a club of central bankers and financial regulators, which has also been broadened to include the big developing countries. From now on the Financial Stability Board will take a lead role in co-ordinating and monitoring tougher financial regulations and serve (along with the IMF) as an early-warning system for emerging risks. The role of FSB seems so important that Tim Geithner, America's treasury secretary, consideres it to be the "fourth pillar" of the modern global economy, along with the IMF, the World Bank and the World Trade Organisation[4].

Another consequence which derives from the proposed new institutional architecture of the world economy refers to a new mechanism to be implemented called "peer review". The proposed mechanism will require the G20 members to present their economic policies to "peer review", that is to expose their economic policies to broad scrutiny. Under the proposal the G20 leaders will annually agree on outline objectives for growth, and then ask the IMF to carry out a form of assessment or peer review to ensure member states compliance with plan objectives.

Such a "peer review" will give international oversight over sovereign economic policy making and aims at avoiding further exposure of the world economy to the

[3] Daniel McDowell, Pittsburg G 20 summit favor "the Rest" over the West, World Politics Review, 29 September 2009.

[4] Regaining their balance:A new chapter for the world economy, maybe; The Economist, September 26, 2009.

potential harmful consequences of decisions of individual countries[5]. In a perfect world such a mechanism would have as result a sort of world "macroeconomic policy" based on consultations which could make China to boost its consumer demand, the United States to cut its borrowing from overseas, and the European States to encourage investment.

An interesting question deriving from the above may be if a functional and successful "peer review" mechanism carried out by IMF or other institution would pave the way to a future world government.

The feeling of a world government in the making is also determined by the objectives stated in the preamble of the leaders' statement of the Pittsburg meeting:, "we pledge to adopt the policies needed to lay the foundation for strong, sustained and balanced growth in the 21st century….. We want growth without cycles of boom and bust and markets that foster responsibility not recklessness"[6].

Growth without cycles means intervention and to do that effectively at a global scale requires a powerful world institution which can only be imagined today.

On a more immediate agenda of G20 there are however issues like employment (and in a broader perspective educations – new skills for new jobs) and achieving sustainable growth particularly through innovation (and solving in the process also difficult issues like climate change, new energy sources and being able to compete at a global scale). On a more immediate front there are the issues of tax transparency at a global level, promoting trade and investment and food security[7].

These items on the global agenda are practically pushing the West towards a sometimes reluctant acceptance of the emerging economic powers not only because of the need of their financial resources but also because the above mentioned key issues cannot be solved or kept under control without the participation of all key players.

One thing that is clear is that if immediate, even partial, solutions are to be found for things like strengthening international financial institutions, tackling excessive risk-taking and tax havens, reform financial regulation and supervision, developing exit strategies from stimulus measures that have been put in place to fight the economic crisis then all significant economic powers have to participate.

In retrospect, the G 20 Summit in Pittsburg gave arguments for an apparent trend in the world economy towards the increase of the role for countries not for integration organizations. The world economy seems to make moves towards a global integration through increased consultation among main countries rather than towards the increase of the role of organizations of regional integration. If this

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5 Eduard Helmore, 'Peer review' breakthrough expected from G20,

6 Leaders' Statement: The Pittsburgh Summit, September 24 – 25, 2009

trend will prove to be true then European Union as we know it may belong to the past while the future may be represented by a federation of European regions.

Anyway, during the Pittsburg summit the European countries (also members of the European Union) had a number of diverging aims: France and Germany supported the implementation of legally binding cap on bankers' bonuses while Great Britain opposed that; Great Britain supported the appeal to surplus countries to limit their trade surpluses while Germany did not. At the same time, the European countries as a whole could not prevent the discussion on reducing the size of the International Monetary Fund's (IMF) executive board, an issue which may affect some of them in the near future[8].

As a conclusion we can say that the crisis is redrawing the world map of economic power as the influence of US consumer spending declines and major emerging markets like China and India take the lead. Recent forecasts show that China and India are helping to pull the global economy out of recession. Therefore a multipolar economy less reliant on the US consumer will be a more stable world economy. These statements are based on the data presented at the IMF-World Bank Board of Governors annual meeting in İstanbul which took place on October 6-7, 2009. According to the IMF forecast emerging and developing economies would grow 5.1 % in 2010, in contrast with just 1.3 % in advanced economies. At the same time China's economy was projected to grow by 9.0 % in 2010 and India's by 6.4 %, far ahead of 1.5 % expansion in the US economy[9].

Based on these economic realities the broad ideas and concepts of a new world order are already available and even if G20 and the new IMF are far from a fully functional mechanism they give a perspective of the global economy of tomorrow.

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[7] OECD and the Pittsburgh G20 Summit - boosting jobs, reshaping the global economy

[8] Jim Brunsden, Pittsburgh: consolidation, but no revolution at G20 summit, 27 September 2009.

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