



## The London G20 Summit: Outcomes and Analysis

## Overview

Coming at the end of a further quarter of steep falls in demand and trade and rapidly rising unemployment, the London G20 summit needed to deliver concrete, believable actions and a sense of unity that would help to arrest further declines in market and public confidence.

As host, the British prime minister, Gordon Brown, was ambitious from the outset of summit planning; and his senior trade minister Lord (Peter) Mandelson publicly wondered if he was not “excessively” so. Brown, famous domestically for setting “five tests,” announced that the G20 in London should address the following:

- tougher and more transparent supervision of banks, hedge funds and off-balance sheet vehicles
- coordinated action to bring about a resumption of global growth
- greater international economic cooperation and stronger international economic institutions
- a clear rejection of protectionism and kick-starting global trade
- help for the world's poorest by meeting the Millennium Development Goals and keeping pledges on aid

The G20's challenge in finding consensus is that countries are at different stages in their economic and political cycles, making an agreement containing hard numbers and specific promises difficult. The major area of debate in the run-up to the summit was the possibility of a larger stimulus package, which was being primarily advocated by the United Kingdom and the United States with support from Japan. This was resisted strongly by Germany and France which preferred the focus to be on stronger financial regulation, including a crackdown on tax havens. Indeed, on the summit's eve, France threatened to walk out if further specific stimulus commitments were included or if the deal on financial regulation was “too vague.” By contrast, China was deeply skeptical about a tax haven “black list” while seeking an outcome that would contribute to recovery in U.S. demand, and also advance its long-term ambition, supported by Russia, for an alternative international reserve currency to replace the U.S. dollar.

The final communiqué achieves the primary objectives of the main players apart from specificity on further fiscal stimulus measures which is nevertheless not ruled out. The summit's real achievement is the large step made towards a global financial regulatory and supervisory system, and the willingness to inject a collective \$1 trillion into the world economy through IMF and trade finance facilities. The size and scope of the G20 agenda –

and indeed the speed with which they have worked – since September 2008 together with the London outcomes have entrenched the G20 as the premier political group managing the global economic crisis and, therefore, at least on this issue, it has probably eclipsed the G8. It is being reported that the next G20 leaders' summit will be held in New York in September, during or after the UN General Assembly.

At the conclusion of the summit, several of the participant heads of government expressed their cautious optimism that the meeting and its results will prove a turning point.

*Gordon Brown:* “This is the day that the world came together to fight back against the global recession, not with words but with a plan for global recovery and reform and with a clear timetable.”

*Barack Obama:* “A turning point in our pursuit of global economic recovery” that agreed an “unprecedented set of comprehensive and co-ordinated actions.”

*Manmohan Singh:* (on the \$1.1 trillion package) “This is a very substantial amount and will help to alleviate the worst effects of the global crisis on the developing and poorest countries.”

*Angela Merkel:* “A very, very good, almost historic, compromise” which will give the world a “clearer financial market architecture.”

*Taro Aso:* (on fiscal policy and financial regulation) “This second G20 summit has sent a very robust message.”

*Dmitry Medvedev:* “Of course we could not solve all the issues, but such a goal wasn't on the agenda.”

*Nicolas Sarkozy:* An “historic” outcome ending “the madness of this time of total deregulation” which would not have happened without “pressure from France and Germany.”

*Kgalema Motlanthe:* “Quite pleased with what came out of this summit” on commitments to support developing countries.

*Kevin Rudd:* “Today's agreement begins to crack down on the cowboys in global financial markets.”

## Global growth

### Outcomes

The G20 leaders have asserted that current fiscal expansions will save or create millions of jobs. They estimate that, by the end of 2010, this will amount to a \$5 trillion expansion, will raise output by 4 percent, and will accelerate the transition to the green economy. Central banks have pledged expansionary policies for “as long as necessary” and to use the full range of monetary policy instruments consistent with price stability. These actions will be accompanied by the restoration of domestic lending and international capital flows. The main stimulus agreed is to provide \$1.1 trillion in additional funding for the IMF and trade finance facilities. The IMF has been called upon to regularly assess policy actions and further measures that may be required. The G20 committed to ensure long-term fiscal sustainability and price stability, and to put in place “exit strategies” from measures being taken now to support the financial sector and restore global demand.

### Analysis

All the members of the G20 can find something in this section of the communiqué to support their present domestic fiscal policies. The United States, the United Kingdom and Japan favoured further coordinated stimulus announcements now, but this was strenuously resisted by France and Germany in particular. On no other issue were the summiteers so divided in the lead-up. Once the idea of specific numerical commitments was dropped, it became easier to find language that accommodated the various approaches –be it direct budgetary stimulus or the automatic welfare spending of countries with extensive social welfare systems (which already do much of what the Obama administration is proposing to achieve through fiscal stimulus). We will probably have to wait until the next summit in New York in September or a future summit in South Korea in 2010 before a collective view is possible as to whether fiscal expansion is already “overdone,” as Germany fears, or underestimates the depth of the global problem, as Japan contended.

## World trade

### Outcomes

The London communiqué pledges at least \$250 billion over two years to support trade finance through export credit and investment agencies and multilateral development agencies. It reaffirms the Washington G20 commitment to refrain from raising new barriers to trade and investment; pledges to rectify any such measures; and extends the pledge through 2010. It adds a pledge to minimise any negative impact on trade and investment from domestic policy actions to support the financial sector, and to not retreat into financial protectionism. It agrees to notify the WTO on any such measures and for the WTO and other international bodies to produce quarterly public reports on adherence. The G20 leaders also emphasised their ongoing commitment to reach an ambitious and balanced conclusion to the WTO Doha Round, by building on progress already made; and giving renewed attention to “this critical issue” in their “continuing work and all relevant international meetings.”

### Analysis

Among the key topics, this set of commitments is disappointing, notwithstanding the welcome specificity of the funding pledge on trade finance and the expansion of the pledge to refrain from protectionism. (Although the inviolability of that pledge is perhaps slightly undermined by the accompanying pledge to notify the WTO if any protectionist measures are introduced).

The real, and serious, gap is on trade liberalisation intentions – on which the communiqué is utterly silent. And, unlike the Washington G20 November 2008 communiqué, no timetable goals are set for the WTO Doha Round. Sources indicate this was at the insistence of the United States and to a lesser extent India. (The November G20 communiqué agreed to strive for agreement by the end of 2008 on modalities for concluding the Doha Round, which did not prove possible, due mainly to inflexibility by India ahead of its national elections this spring). While in November, the incoming Obama administration was willing to let the outgoing Bush administration try to reach a Doha deal, it is already apparent that the new administration is in no hurry to use capital with the Congress on trade agreements that it needs for other major battles this year, including the president’s budget plan, financial regulatory reform and the U.S. negotiating position for the Copenhagen climate change negotiations. Therefore, the main signal on trade liberalisation from the G20 London communiqué is that there is unlikely to be any for some time.

## Financial regulation and cooperation

### Outcomes

The G20 have pledged to restore trust in the international financial system by strengthening financial regulation and supervision internationally and domestically. A new Financial Stability Board (FSB) will succeed the Financial Stability Forum (FSF) and will collaborate with the IMF in providing early warnings of macroeconomic and financial risks. Oversight and regulation will be extended to all systemically important financial institutions, instruments and markets, including large hedge funds. The regulation of credit ratings agencies will also be strengthened. . The G20 endorsed the FSF's new principles on financial sector pay and compensation which the FSB will now oversee. The G20 pledged action against non-cooperative jurisdictions (tax havens) and urged faster action to produce a single set of high-quality global accounting standards.

### Analysis

Action on tax havens was always likely to emerge from the London summit because of the degree of consensus about lost tax revenues amongst the big economic powers. As the OECD secretary-general, Angel Gurría, said this week, "More progress has been achieved in the fight against tax havens in the last few weeks than over the past decade. At a time when governments need every tax dollar legally due to combat the world recession, such practices can no longer be tolerated." On the campaign trail last year, Barack Obama cited a single building in the Cayman Islands which notionally houses 18,000 corporations but employs just 241 people: "That's either the biggest building or the biggest tax scam on record." In the last six months, according to the OECD, the number of countries with no bilateral tax information exchange agreements – complete banking secrecy – has fallen from over 40 to around 15. Although the London communiqué talks of the G20 countries being "ready to deploy sanctions," enforcement will be key.

The crack-down on tax havens and the \$1.1 trillion package for the IMF and trade finance facilities (see next section) will dominate the headlines, but the G20 London agreement on strengthening financial supervision and regulation is equally far-reaching and historic in shaping "systemic international regulatory cooperation" – or a new international financial regulatory architecture in all but name. The speed and scope of the progress on this agenda since last October will be claimed as a victory by the United States and Europe alike, but depended for its achievement in London on the U.S. initiatives put forward last week by

Treasury Secretary Geithner. As Gordon Brown put it in his summit-closing press conference, the era of the “Washington Consensus” (laissez-faire capitalism) is over. All G20 members will hope that the creation of the FSB, with its membership beyond the G20 and its mandate including oversight of principles on financial sector pay and compensation, will help to both calm popular anger against the financial sector and moderate the sector’s future behaviour.

## International financial institutions

### Outcomes

The G20 pledged \$850 billion for the global financial institutions to support growth in emerging markets and developing countries. This represents \$750 billion in member financing and borrowing facilities for the IMF and an increase in lending of at least \$100 billion by Multilateral Development Banks (MDBs). They also agreed a new \$250 billion Special Drawing Rights allocation at the IMF (these are members’ quota funds which they may draw on without conditionality). The G20 committed to implementing the package of IMF and World Bank quota and voting reforms agreed last year and called for the IMF and World Bank to bring forward further reform proposals over the next two years.

### Analysis

The IMF emerges stronger from the London G20 summit. Having for the first year of the crisis been regarded by numerous economic pundits as outdated and largely irrelevant, it will receive very significant new financing to support emerging market and developing country lending programmes within more flexible lending and conditionality frameworks. A further round of IMF voting rights reform will also be developed. This is a victory for Asian and Latin American countries which have long sought IMF reform. Europe, Canada and Japan have contributed to the additional funding, in part to preserve existing quota and voting rights. Further reforms to World Bank representation rights will also be brought forward over the next year. While not spelled out in the communiqué, this means among other things that the U.S. and Europe will no longer enjoy their long monopoly on providing the heads of the two organisations.

## Sustainability and development

### Outcomes

The G20 reaffirmed its commitment to the Millennium Development Goals and their respective ODA pledges. They estimated that their overall initiatives would contribute \$50 billion towards social protection in the poorest countries and pledged additional resources from agreed sales of IMF gold, together with surplus income, to provide \$6 billion for additional concessional and flexible finance for the poorest countries over the next two to three years. The G20 have also agreed to review the flexibility of the Debt Sustainability Framework and the UN has been asked to establish an effective mechanism to monitor the impact of the crisis on the poorest and the most vulnerable.

On the environment, the G20 communiqué refers to the G20 countries doing “whatever is necessary” to “build an inclusive, green and sustainable recovery,” but no concrete decisions were made.

### Analysis

The world’s poorest nations and the global development community will be very disappointed. The main “big number” in the London communiqué – \$50 billion for social protection, boosting trade and safeguarding development – is actually the estimated benefit to low income countries of “the actions and decisions we have taken today,” rather than specific funding. Apart from the \$6 billion in additional concessional finance for the least developed countries, the G20 leaders simply restate their commitment to the Millennium Development Goals and existing overseas development aid budgets; and call on the IMF, World Bank, UN and other bodies to establish or review existing measures and mechanisms.

In effect, if not in rhetoric, most of the G20 London outcomes appear based on the hope that the benefits of their actions will “trickle down” to the poorest nations. This suggests that, at least in this regard, the “old Washington consensus” is not over.

As for the environment, many G20 officials were briefing defensively that the climate can wait for the Copenhagen summit in December. Developing countries will, however, be encouraged that the principle of “common but differentiated” action on emissions reduction – as per Kyoto – is referenced. The G20 promises to “make the transition towards clean, innovative, resource-efficient, low carbon technologies and infrastructure,” but with few clues as to how. The MDBs will be nudged towards ecological projects, but the detail was missing. Overall, this part of the G20 outcome will strongly disappoint – and indeed anger – environmental campaigners.

## G20 protest movements

Several different protest cultures saw the London summit as an opportunity to put their case to the world's media (and self-made media channels), including climate change activists, anti-war groups, anti-poverty charities, trade unions and students. Predictably, the large gathering outside the Bank of England, for whom the primary target was finance industry greed and the size of bank bail-outs, led the news bulletins when small parts of the crowd began trying to force police lines, and some vandalised an empty retail bank. On Thursday, the main focus of protest was outside the summit venue in Docklands, where a large area was set aside for protest groups within a police cordon. A dizzying range of mainly human rights causes were represented; but there were probably more police than protesters. In scale and impact, the London protests were small, mainly peaceful and good-humoured, and disrupted only small areas of London. Indeed, UK blogs have been full of comments longing for "a good old Jarrow march to join." This reference, to 1930s unemployment marches, is in itself telling; the extent to which this crisis leads to mass public protest, including against business, in this and many other countries will depend very much on how much unemployment rises in the next year.

For more information contact Rachel Thompson or Razi Rahman:

APCO Worldwide  
90 Long Acre  
London WC2E 9RA  
United Kingdom  
+44.207.526.3600  
[www.apcoworldwide.com](http://www.apcoworldwide.com)