THE G20 AND BEYOND
Towards effective global economic governance

Jakob Vestergaard
Danish Institute of International Studies
(jve@diis.dk)

FOREWORD

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INTRODUCTION

In 2010, the shine came off the G20 (Bosco 2010). When the G20 leaders convened for the summit in Seoul, there was deep conflict and tension on issues of global imbalances. Suddenly, the "fellowship of the lifeboat" that impressed observers in the first acute phases of the financial crisis appeared to have disappeared (Wade and Vestergaard 2010). To many the Seoul summit was thus the real test of the G20: the outcome of the Seoul summit would show whether the G20 had any relevance [find quote]. Most expected a disappointing result. A week before the summit, Gideon Rachman (2010) concluded that the G20 had already proven itself to be not only illegitimate but also ineffective As it turned out, the Seoul summit met the expectations: nothing came out of it on the key issues. The G20 had shown "how not to run the world" (FT 2010). In the views of many, the self-declared steering committee for the global economy had failed.

Often, issues of legitimacy and effectiveness are thought of in terms of a trade-off: more legitimacy, less effectiveness – and vice versa. The current paper is based on the reverse assumption: that in matters of global economic governance, legitimacy and effectiveness go hand in hand. The paper therefore sets out to identify the main legitimacy problems of the G20, and uses this analysis as the basis for reviewing and discussing possible future modes of global economic governance.

In analyzing the legitimacy problems of the G20, the paper focuses particularly on matters of inclusion and exclusion. It is stressed that the existing membership is based on no objective criteria and by implication that the member countries are by no means simply the twenty largest countries of the world. The G20 claims that its "economic weight and broad membership gives it a high degree of legitimacy and influence over the management of the global economy and financial system" (G20 2010a). The G20's claim to "represent" the world in the sense that its members account for a high proportion of global population and gross domestic product is deeply problematic, however. In a setting where the majority of countries have no voice and influence, any claim to 'representational' legitimacy is less than convincing. The permanent exclusion of 172 countries violates the principle of universality, a fundamental principle of liberal internationalism and indeed of international cooperation since the Second World War. Particularly troubling is the fact that only one African country is included in the G20 membership and that not one single low-income country is represented.

Criticisms of the illegitimacy of the G20 have given rise to various proposals to revise its membership. The paper discusses two such revisionist approaches and concludes that they only marginally enhance the legitimacy of the G20 as a body of global economic governance. The paper instead advocates a fundamental reform of the existing Bretton Woods system, including the creation of a Global Economic Council in order to address the global leadership role assumed in recent years by the G20 with limited

success. Being firmly embedded in the Bretton Woods system, while fundamentally reshaping its governance structures to reflect the geopolitical realities of the 21st century, this Global Economic Council would be a legitimate steering committee of the global economy; the pinnacle of a new model for global economic governance.

The paper first briefly outlines the history of the G20 (section 1), and then reviews its membership in terms of the key patterns of inclusion and exclusion (section 2). This is followed by a discussion of two revisionist approaches to G20 reform, and an account of the actual steps taken by the G20 to accommodate criticism of its illegitimacy (section 3). The paper then suggests that effective global economic governance will require moving beyond the G20 (section 4) and outlines an institutional framework considered expedient towards that end, which is predicated upon a fundamental reshaping of the Bretton Woods system (section 5). The paper ends with a few concluding remarks (section 6).

THE ORIGIN OF THE G20

The G20 first emerged in the wake of the financial crisis in Asia in 1999, as an informal finance ministers and central bank governors' forum. On 25 September 1999, the G7 finance ministers and central bank governors announced that they had decided to "broaden the dialogue on key economic and financial policy issues" (G20 2008: 8). The G7 countries hence decided to invite their "counterparts from a number of systemically important countries from regions around the world" and the first G20 meeting was held a few months later, in Berlin. The communiqué of the G20 finance ministers and central bank governors reiterated the intention stated by the G7 in its September meeting:

> The G20 was established to provide a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the discussions on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all (G20 2008: 63).

This statement is noteworthy for two reasons. First, it is striking that the G20 is conceived as an information dialogue *within the framework of the Bretton Woods system*. A decade later, many would see the relationship between the G20 summits and the Bretton Woods system as, at best, antagonistic and ambiguous. Second, the statement is remarkable for its reference to 'systemically significant economies' and the absence of a reference to the G20 as a 'representative' forum. The question of legitimacy, in terms of 'representing' a large share of the global economy, was not really an issue in 1999. It was simply a club of 'systemically significant economies'.

The countries invited for the first G20 meeting in Berlin in December 1999 were Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the UK, and the USA. In addition to these 19 nation states, a representative from the EU was invited to be a formal member as well, taking the total number of members to 20. Nation states and the EU were not the only invitees, however. The managing director of the International Monetary Fund (IMF), the president of the World Bank and the chairs of the International Monetary and Financial Committee (IMFC) and the Development Committee also participated in the first G-20 meetings.

The creation of the G20 forum in 1999 reflected, of course, a recognition that the weight of the G7 countries in the global economy was declining due to the rapid growth of dynamic emerging market economies, but also the objective of including all 'significant' economic powers in deliberations on matters of global economic governance. But the process by which countries were selected for these purposes was of questionable legitimacy, a 'reflex of the G7 world' (Wade 2009:553):

> They were selected by Timothy Geithner at the US Treasury in a transatlantic telephone call with his counterpart at the German Finance Ministry, Caio Koch-Weser. Geithner and Koch-Weser went down the list of countries saying, Canada in, Spain out, South Africa in, Nigeria and Egypt out, and so on; they sent their list to the other G7 finance ministries; and the invitations to the first meeting went out (ibid.)

The inclusion of countries such as Argentina, Australia and Saudi Arabia reflected not so much that these were considered more 'systemically significant' than other countries, but that an effort was made to include in the forum good allies of the US. In the case of Argentina, its inclusion was allegedly intimately related to good personal relations between Secretary of the US Treasury, Larry Summers, and Argentine finance minister, Domingo Cavallo, who had shared accommodations as Harvard graduate students (Patrick 2010: 49).

For the first many years the G20 forum of finance ministers and central bank governors attracted little public attention. But with the advent of the global financial crisis this changed completely. Now leaders of the great powers of the world economy decided to use the G20 construction as the basis for creating a Heads of State forum in which to discuss and coordinate responses to the global financial crisis. In a short period of time, the G20 moved from relative obscurity to centre stage in media coverage of global economic governance in the face of a financial crisis that threatened to cause a meltdown of the global economy.

There was no script, of course, laying out in advance that the G20 forum should be chosen for this role. The most relevant alternatives at the time were the G13 forum – the G8 plus the 'outreach five' (Brazil, China, India, Mexico and South Africa) – or the governing body of the IMF. There were serious shortcomings in both these alternatives, however.

The IMF was not in good standing in Asia after its role in exacerbating the financial crisis there a decade earlier, by imposing contractionary fiscal and monetary policies in return for IMF funding packages. Furthermore, reforms of the voting power of member countries in the governing bodies of the IMF (and the World Bank) had not really progressed despite principal agreements on the necessity of such reforms and years of deliberations. With their limited formal voting power, and the long tradition of US-European dominance of the IMF, it was not surprising that the dynamic emerging market economies preferred the G20 as the premier forum for deliberation on these issues.

The G13 countries met annually at the margins of G8 summits from 2005 in Gleneagles to 2007 in Heiligendam, but the 'outreach five' were never entirely impressed and convinced by a format in which they were marginal invitees rather than equal cooperation partners. Compared to a G13 initiative, the G20 had two further advantages. First, deliberations among the member countries of the G20 had been thoroughly institutionalized in and through a decade of informal meetings of the finance ministers and

central bank governors. Second, its claim to 'represent' the world was – not just in real terms, but also symbolically – somewhat greater.

The G20 had the further advantage over these two alternatives that the idea of elevating it to the Heads of State-level had circulated for a couple of years already. Paul Martin, Canadian Finance Minister and Prime Minister from the mid-90s to 2006, is widely recognised for being the first to promote this vigorously. In 2004, he said:

> An approach I believe to be worthwhile would be to look at the lessons learned from the Group of 20 Finance Ministers… We foresaw an informal gathering of Finance Ministers, representing established and emerging centres of influence, and coming from very different political, economic, cultural and religious traditions… [I]t has worked remarkably well – because peer pressure is often a very effective way to force decisions. We believe a similar approach among leaders could help crack some of the toughest issues facing the world (Martin 2004).[1]

Despite these laudable intentions, two things must be stressed. First, that when disagreements amongst the major economic power loomed larger, the informal G20 forum did not work 'remarkably well'. Second, as a *Leader's forum* for responding to the global financial crisis and for devising principles of global economic governance in 2008 – the G20 was from the very beginning outdated in terms of its composition. Had twenty countries been selected in 2008, on the basis of the then prevailing geopolitical world order, there is no doubt that a different set of countries would have been arrived at. This is recognised even by G20 proponents: "The G20 reflects the membership of the finance ministers' network created in 1999, and does not take into account changes since that time (Patrick 2010: 20). By extension, it must be stressed that the G20 does *not* consist of the twenty largest economies of the world, as popular conception has it, and that the selection of countries included was *not* based on objective criteria. This, in itself, is problematic. But most importantly it pinpoints a major shortcoming of the G20 as the 'premier forum' of global economic governance: how is membership to be adjusted to the rapidly changing realities of the global economy in the coming years? In this sense, the main strength of the G20 – that it was already there, ready-made and 'flexible' – was at the same time its main weakness: in terms of its membership it was outdated from its inception, and this problem will only increase in the coming years. In the words of Steward Patrick:

> Perhaps the trickiest issue surrounding the G20's membership is whether the body should be prepared to adjust its participants in response to inevitable shifts in the global distribution of economic power…. In the absence of objective criteria, however, … a regular process of readjustment seems unlikely (Patrick 2010: 22-23).

[1] Cited from Cooper and English (2005: 7).

THE G20: INEFFECTIVE AND ILLEGITIMATE?

The G20's contested claim to legitimacy

It is essential for the G20 to be able to appeal to notions of legitimacy. A self-proclaimed 'steering committee' for the global economy must in some sense 'represent' the global economy. In the G20's phrasing, this legitimacy comes from its 'economic weight' and 'broad membership':

> Together, member countries represent around 90 per cent of global gross national product, 80 per cent of world trade (including EU intra-trade) as well as two-thirds of the world's population. The G-20's economic weight and broad membership gives it a high degree of legitimacy and influence over the management of the global economy and financial system (G20 2010a).

With regard to the G20's membership, it is important to stress that the G20 consists not of twenty but of nineteen member countries. The twentieth member of the G20 is the EU, "represented by the rotating Council presidency and the European Central Bank" (G20 2010a). The G20 is really a G19, then, or a 'G19+1', if you like. In addition to the twenty formal members of the G20, a number of international organizations have participated as 'special guests', 'outreach participants', or 'observers' (the nomenclature varies). The IMF and the World Bank, for instance, have participated in G20 summits with their respective Presidents as well as with the chairmen of their governing bodies.[2] Other international organizations that have participated in G20 summits include the United Nations, OECD, the World Trade Organization (WTO), the International Labour Organization (ILO), and the Financial Stability Board.

With respect to the formal membership of the G20, the mix of nineteen member countries and one regional body, the EU, is in many ways an awkward construction. It means that some European countries have 'double representation' in the G20, as they are represented both by their own Heads of State and by the representatives of the EU, while a vast range of European countries that are not members of the EU are not represented at all.[3] A further disadvantage of this 'system' is that it raises the legitimate question of why the EU has been included but not other regional organizations, such as ASEAN or the African Union, for instance. The inclusion of representatives of the EU in an informal G20 finance ministers' forum in 1999 was much less controversial than its privileged participation in a G20 Leader's forum, seeking to play a self-proclaimed role of 'steering committee' for the global economy.

It must be noted in this regard that the EU is not the only regional body that has participated in later G20 summits. In Toronto and Seoul, representatives from ASEAN and the African Union, for instance,

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[2] "To ensure global economic fora and institutions work together, the Managing Director of the International Monetary Fund (IMF) and the President of the World Bank, plus the chairs of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate in G20 meetings on an ex-offio basis" (G20 2101a).

[3] The more inclusive of Europe's regional organizations, the Council of Europe, thus has 47 members as compared to the 27 members of the EU. The Council of Europe was founded after the Second World War and Montenegro was the latest country to join in 2007.

participated and this arrangement seems to have now been institutionalized. Given that the G20 is an informal, consensus-driven body, is there a risk of exaggerating the difference of being a formal member, such as the EU, or a regional representative of the ASEAN countries, one might ask. In this regard it must be stressed that formal members participate in G20 summits with three persons – a Head of State, a Finance Minister and a Senior Civil Servant (the country's so-called G20 sherpa) – while outreach participants such as countries representing a regional body (Vietnam for ASEAN) or international organizations (the IMF, for instance) are represented by only one person. Furthermore, it is unlikely that outreach participants are involved as anything like equal partners in the deliberations and negotiations that take place at the level of finance ministers and central bank governors, and their respective civil servants, in preparing the G20 summits.

Hence, while it generally makes sense to engage regional and international organizations in G20 deliberations, as has been increasingly the practice, convincing criteria and formats for such participation must be developed rather than left to the discretion of the summit host. It is particularly important that one treats all regional bodies on equal terms, instead of granting one of them privileged status. Including the EU in the formal membership of the G20 may serve to artificially inflate the figures on the G20's weight in the global economy, but this 'benefit' comes at a rather high cost. It is difficult to see how this special status of the EU, at the symbolic level as well as in terms of presence at the high table at G20 summits, can be seen as anything other than preferential treatment of the EU over other regional bodies – and, by extension, of Europe over other regions. In brief, it would be wise to let the EU participate not as a formal member of the G20, but on equal terms with other regional bodies and international organizations, as observers, in the future. This in and of itself would greatly enhance the G20's legitimacy, not least in the eyes of many non-EU observers.

The shares of world GDP, trade and population that the G20 claim title to are based on calculus that includes all EU countries. Differences of opinion exist with respect to whether the GDP and population of all EU countries should be included in the calculus of G20 shares of the global economy or not. Certainly, there is a strong element of mixing categories here. The population of nineteen countries are represented directly through their own national representatives, while the population of 27 EU countries are 'represented' indirectly through the EU seat. It should be noted in this context that the nineteen member countries of the G20 together account for 77 pct of world GDP (not 90 pct), 60 pct of world trade (not 80 pct) and 62 pct of world population (not two-thirds).[4]

[4] 2009-figures, World Development Indicators.

'Surely, the G20 is better than the G7?'

Another key line of defence for the G20 against protests that it is an illegitimate body is that it cannot sensibly be criticized because it is so obviously an improvement vis-à-vis the G7. How can it be considered anything but progress when the large economic powers of the past couple of decades start consulting with the dynamic emerging market economies, in recognition of the rapidly changing economic world order, as opposed to consulting only amongst themselves?

It is of course a positive development that the G7 countries now feel inclined, perhaps even obliged, to consult in a systematic manner with the dynamic emerging market economies about the future growth and stability of the global economy. Indeed, *some* form of multipolar deliberation and dialogue was and is inevitable in responding to the economic crisis and in striving to devise new principles of global economic governance was inevitable, given the geopolitical realities of the world economy. There are several reasons, however, why the G20 was the *wrong* form of multipolar deliberation. First, the G20 continues and reinforces a troubling trend towards 'plurilateralism-of-the-big', by which the vast majority of nations lose voice and influence on matters that affect them crucially. Second, the G20 effectively undermines the existing system of multilateral cooperation in institutions such as the IMF, the World Bank and the United Nations, causing resentment towards the G20 in those institutions in general and among non-G20 countries in particular (Bosco 2010).[5] Thirdly, what is needed to address the key problems today – such as global imbalances, the climate crisis, and rising poverty, unemployment and inequality – is not an informal Leaders' forum, but formal and binding deliberations and agreements in a truly multilateral framework (see more on this below).

The ineffectiveness of the G20

In the run-up to the Seoul summit, the G20 was depicted by key commentators as "divided, ineffective and illegitimate" (Rachman 2010). The impression of an ineffective forum of leaders was reinforced during and after the Seoul summit. In Seoul, G20 leaders failed to make progress in dealing with the matter of global imbalances (Giles et al 2010; FT 2010). There are other examples of the ineffectiveness of the G20 (Vestergaard 2011b); suffice it here to mention one particularly unfortunate one.

In the wake of the failure of the Seoul summit with respect to global imbalances, proponents of the G20 have pointed to two areas of success: IMF reform and the new agreement on international banking regulation, the so-called Basel 3 agreement. With regard to the latter, Domenico Lombardi praises the role of the G20:

[5] For more on this, see Vestergaard (2011b).

> Failure to reach an (admittedly difficult) agreement on a piloted across-the-board adjustment of balance-of-payments should not overshadow the rapid agreement achieved with regard to the Basil III Accord, which would not have been possible without the political momentum provided by the G-20 leaders (Lombardi 2010).

While it may be true that the Basel 3 agreement would not have been reached in the course of less than a year without the political momentum provided by the G20 summit process, there are important qualifications to be made. First, as the result of intense banking industry lobbying the Basel 3 agreement stipulates that its regulations can be phased in between 2015 and 2019, with the substantial associated risk that by that time public attention to international banking regulation will have withered away, hence allowing international banks, once again, to ignore the new modes of regulation and proceed with business as usual (Persaud 2010). Second, the actual Basel 3 agreement itself is a huge disappointment, if not a downright failure. Finance professors usually stay out of political affairs. Thus, all the more remarkable was the letter publicized in the *Financial Times* by twenty of the world's leading finance professors in the run-up to the Seoul summit, commenting on the Basel 3 agreement.[6] The agreement drafted for approval by the G20 Leaders in Seoul failed to "eliminate key structural flaws in the system" and hence urged the finance professors to remind the G20 Leaders that when devising new modes of international banking regulation "healthy banking is the goal, not profitable banks" (Admati et al 2010)

Proponents of the G20 may object that the G20 cannot be held responsible for the failings of the Basel committee. But keep in mind that the members of the Basel committee are, by and large, the finance ministers and central bank governors of the G20 countries.[7] If the G20 cannot incline a committee of its own finance ministers and central bank governors to deliver a significant result on what is the single most important reform agenda – international banking regulation – does it then make sense at all to think of the G20 as a 'steering committee' for the global economy? I argue that it does not. The uncomfortable truth is that the G20 has failed to have any substantial political impact on any of the key problems haunting the global economy. It has indeed shown itself to be little more than the 'toothless talk shop' many feared it would be when the rubber hit the road (Wolverson 2010).

The assumption underlying the initial faith in the G20 seems to have been that the world needed a new leaders' forum which included the dynamic emerging market economies as full and equal members, while preserving the "agility and informality that leaders find so attractive" (Patrick 2010: 22). But the problems that the worlds' leaders need to address require binding agreements not informal dialogue. Indeed, an

[6] The prominent list of finance professors signing the letter included Professor Anat R. Admati (Stanford), Professor Markus K. Brunnermeier (Princeton), Eugene F. Fama (Chicago) and Professor Charles Goodhart (London School of Economics).

[7] The member countries of the Basel committee are the nineteen member countries of the G20 plus a handful of additional European countries (Belgium, Luxembourg, the Netherlands, Spain, Sweden, Switzerland) and two countries that are financial hubs in Asia (Hong Kong and Singapore).

informal mode of cooperation system is unlikely to be effective when the parties are as fundamentally divided as is the case of the largest powers in today's global economy:

> Even if the G20 restricts its conversation to economic matters, its ideological diversity makes it harder to find common ground… [U]nlike the historical existence of the G7 nations, which have long been political and military allies, there is no background security 'glue' binding G20 members that might facilitate multilateral cooperation when specific interests collide (Patrick 2010: 30-31).

Despite this fundamental difference between the G20 and the G7, the implicit assumption seems to have been that an informal G20 would be as effective as the G7 had been previously. But precisely because of the fundamental differences of opinion in and among the worlds' major economic powers, an informal forum is no longer the proper institutional format. It is noteworthy in this regard that disagreement and tension is by no means exclusively or even mainly between the US and China. On the contrary, the conflict lines are many and they criss-cross traditional divides of Part 1 vs Part 2 countries and market capitalism vs state-capitalism. Indeed, Gidon Rachman recently identified as many as seven major pillars of friction in the G20 deliberations (Rachman 2010). Given the substantial differences among the world's major powers, a more binding form of dialogue and deliberation is likely to be more conducive to progress on the substantive matters.

Inclusion and exclusion

A major problem of the G20 in its current configuration is that there are several ways in which it is not 'representative' of the global economy. First, the only African country in the G20 is South Africa, whereas there are six countries from each of the other three main regions of the world (see table 1 below). Second, not one single low-income country is included in the G20, whereas both middle-income and high-income countries are well represented, by nine and ten countries respectively. This reflects, of course, that when the countries were originally selected the intention was to create a forum for 'systemically significant' economies, a category to which no low-income country belongs. Today, however, after having been elevated to a heads of state forum which intends to be the premier forum of global economic governance, the absence of any low-income country is deeply problematic. The same applies for the absence of small, open economies: this type of economy is perhaps the most common in the world economy, but there is nevertheless no small economy included in the G20 to voice the perspectives and concerns of such economies.

If one divides the world in four main regions – Americas and Australasia, Europe, Asia, and Africa – the under-representation of Africa comes across quite clearly. The representation of the three other regions, on the other hand, is well-balanced: six countries from each.

Table 1 G20 countries – by region and income classification

	Low-income countries	Middle-income countries	High-income countries	Total
Africa	0	South Africa		1
Americas & Australasia	0	Argentina, Brazil, Mexico	Australia, Canada, USA	6
Asia	0	China, India, Indonesia	Japan, Korea, Saudi Arabia	6
Europe	0	Russia, Turkey	France, Germany, Italy, UK	6
Total	0	9	10	19

The under-representation of Africa has given rise to considerable criticism not least, of course, from the excluded African countries. The African Union (AU) repeatedly complained over its exclusion, appealing to G20 leaders that they considered Africa's right to be an active player in the process and "not to suffer, as always, the consequences of other people's mistakes" (cited in Mururi, 2008).[8] From the perspective of African countries, the G20 was seen not as a major innovation, reflecting a new world economic order as of 2008, but as an extension of "the old architecture", in the words of Ugandan Central Bank Governor, Emmanuel Tumusiime Mutebile (cited in NN 2010). As in the case of the objections of ASEAN, this criticism has been dealt with in later summits by means of ad hoc invitations on the part of the summit hosts. Thus, Ethiopia and Malawi were invited for both the Toronto and the Seoul summits.[9]

Not simply the '20 largest economies'

Contrary to conventional wisdom, the G20 does not consist of the world's 20 largest countries, in terms of population and/or GDP. Table 2 gives an overview of the world's twenty largest countries by four different measures: GDP at market values, GDP at purchasing power parity, GDP as an average of market values and purchasing power parity; and by population.

[8] The African Union (AU), established in 2002, represents all African countries except Morocco (a total of 53 countries). The AU is successor to the previous Organization of African Unity (OAU).

[9] Malawi currently holds the chairmanship of the AU, whereas Ethiopia is home to the AU's secretariat.

Table 2 The world's largest countries, by GDP (billion USD) and population (millions) [10]

Ranking	GDP (nominal)	GDP (PPP)	GDP * (60/40)	By population
1	US (14256)	US (14256)	US (14256)	China (1331)
2	Japan (5068)	China (9104)	China (6633)	India (1155)
3	China (4985)	Japan (4138)	Japan (4696)	US (307)
4	Germany (3347)	India (3784)	Germany (3202)	Indonesia (230)
5	France (2649)	Germany (2984)	France (2458)	Brazil (194)
6	UK (2175)	Russia (2687)	India (2300)	Pakistan (170)
7	Italy (2113)	UK (2257)	UK (2207)	Bangladesh (162)
8	Brazil (1572)	France (2172)	Italy (2036)	Nigeria (155)
9	Spain (1460)	Brazil (2020)	Russia (1813)	Russia (142)
10	Canada (1336)	Italy (1922)	Brazil (1751)	Japan (128)
11	India (1310)	Mexico (1540)	Spain (1474)	Mexico (107)
12	Russia (1231)	Spain (1496)	Canada (1314)	Philippines (92)
13	Australia (925)	Korea, Rep. (1324)	Mexico (1141)	Vietnam (87)
14	Mexico (875)	Canada (1280)	Korea, Rep. (1029)	Egypt (83)
15	Korea, Rep. (833)	Turkey (1040)	Australia (898)	Ethiopia (83)
16	Netherlands (792)	Indonesia (967)	Turkey (786)	Germany (82)
17	Turkey (617)	Australia (858)	Netherlands (745)	Turkey (75)
18	Indonesia (540)	Iran (844)	Indonesia (711)	Iran (73)
19	Belgium (469)	Poland (727)	Poland (549)	Thailand (68)
20	Poland (430)	Netherlands (673)	Iran (536)	Congo, DRC (66)

Source: World Development Indicators (WDI). All data are for 2009 (latest available).

The set of countries that are the world's twenty largest vary considerably with the indicator chosen. A key problem of the existing G20 membership is that it is not based on objective criteria. It seems impossible even to 'reverse-engineer' a set of criteria that would lead to the selection of the current G20 member countries.

Table 2 above amply demonstrates that a different set of G20 member countries – which would be more representative in terms of indicators such as GDP and population – could easily be construed. It is important to stress this because it means that the G20, in its current configuration, cannot claim to be legitimate, not even in the limited sense of being the world's largest economies. If one was to reshape the

[10] There is no agreement among governments about which GDP indicator to use. Generally, most developed countries are proponents of using GDP at market values (nominal) while many emerging market economies prefer GDP at purchasing power parity (PPP). In the recent voting power realignment in the World Bank, the compromise reached was to use a composite GDP indicator, given 60 pct weight to GDP at market values and 40 pct weight to GDP at purchasing power parity. This composite GDP indicator is referred to throughout this paper as GDP*.

G20 so as to actually be comprised of the worlds' twenty largest economies, significant changes would need to be made. Table 3 schematically illustrates these changes – in terms of which countries would be excluded and which would be included, if the G20 consisted of the world's 20 largest countries, by four different indicators.

Table 3 If the G20 consisted of the 20 largest economies [11]

	Countries OUT	Countries IN
By GDP (nominal)	Argentina, South Africa, Saudi Arabia	Belgium, Netherlands, Poland, Spain
By GDP (PPP)	Argentina, South Africa, Saudi Arabia	Iran, Netherlands, Poland, Spain
By GDP *	Argentina, South Africa, Saudi Arábia	Iran, Netherlands, Poland, Spain
By population	Argentina, Australia, Canada, France, Italy, Saudi Arábia, South África, South Korea, UK.	Bangladesh, Congo, Egypt, Ethiopia, Iran, Nigeria, Pakistan, Phillipines, Thailand, Vietnam

Three countries would be excluded from the G20 membership irrespective of which of these four indicators were used as criterion: Argentina, South Africa and South Korea. The countries that would be included vary depending on the indicator, but in the case of all three GDP indicators Netherlands, Poland and Spain would be new member countries. This is a slightly surprising result. In debates on the membership of the G20, Europe is seen by many, especially in the US, as grossly over-represented. This is so even to the extent that "European overrepresentation has become a source of global resentment" (Patrick 2010: 20). But when reviewed in terms of GDP data on the world's largest economies, this idea of European overrepresentation proves to be false. Regardless of what GDP-measure is used, Europe is under-represented by at least three countries. By all three GDP measures, a reshaping of the G20 to reflect weight in the global economy would result in three new permanent G20 member countries from Europe: Netherlands, Poland and Spain.

If measured instead by population, however, Europe would indeed be over-represented. If the G20 was revised to consist of the twenty largest countries as measured by population Europe would be represented only by Germany, Turkey and Russia, with France, Italy and the UK losing their seats. But Europe would not be the only region to loose seats if population was the criteria used. In fact, a total of nine countries would have to give up their seat, including Argentina, Australia, Canada, Saudi Arabia, South Africa and South Korea.

It should be noted in this connection that if G20 membership was revised so as to be determined by

[11] In each category, one more country is included than is excluded. This reflects the contention that the G20 should consist of twenty member countries instead of nineteen countries plus the EU, as is currently the case.

weight in the global economy (GDP by some measure), it would have two positive effects and one negative. On the positive side, the selection of countries on the basis of objective criteria would add to its legitimacy and the aggregate share of world GDP would obviously increase. On the negative side, however, it would be hugely detrimental to the legitimacy of the G20 in the sense that there would no longer be any African country included, since South Africa is not part of the top-20 in any of the three measures of GDP. This would add insult to injury, as African countries already do not feel represented by South Africa.

The fundamental illegitimacy of the G20

The G20 is a group of countries that constitutes a large part of the world economy and world population, but this is not enough to give it legitimacy as a steering committee for the world economy. A reasonable claim to legitimacy cannot be made for a body of global economic governance when 172 countries are permanently excluded and hence have no voice or influence on deliberations that shape and frame their future. Consider an analogy with systems of national representation: would an arrangement by which everyone over 18 years in the US had voting rights – except all Jews and Muslims – be legitimate on the grounds that these two groups are so small minorities that they don't really count in the larger picture anyway? Of course not. What this analogy helps accentuate is that legitimacy in representational terms ultimately is a matter of ensuring that minorities have voice and influence on equal terms with the rest of the constituency. Any talk of legitimacy in the case of the G20 is non-sense. It is a self-selected and illegitimate group of countries which – by permanently excluding 172 countries from key deliberations on global economic governance – is undermining a system of multilateral cooperation that it has taken more than sixty years to build.

ENHANCING THE LEGITIMACY OF THE G20?

By far the most common response to quarrels about the legitimacy deficiencies of the G20 is to propose some form of revision of its membership. The following considers two such revisionist approaches to enhancing the legitimacy of the G20. These two proposals shed an interesting light on the existing G20 configuration as well as on the efforts made by the G20 to address various criticisms of its illegitimacy.

Objective criteria and broader membership

One strategy for addressing the membership and legitimacy problems of the current G20 would be to rethink its membership in a manner that makes it more 'representative' according to a set of objective criteria, as opposed to on the basis of just one indicator or on the basis of no explicit criteria (as is currently the case). Obvious candidates for such a set of criteria would be the following:

- weight in the world economy, measured by GDP
- proportion of the world's population
- regional inclusion, ensuring that all regions are well-represented
- inclusion of all types of countries, by income classification

It would be relatively simple to modify the G20 along these lines in a manner that would not only enhance it regional coverage but also included a couple of low-income countries in its membership, while at the same time maintaining its current levels of share of world GDP and share of world population. Consider the following operationalization of these principles of membership:

- All of the top 16 countries in terms of GDP, measured in purchasing power terms
- Four additional countries chosen to ensure that all regions are well-represented, more specifically that the G20 membership consists of at least three countries from each of the world's four regions
- These additional four countries are chosen *within* each region on the basis of GDP weight, population size, and geographical-cultural variation.

The top 16 countries in terms of GDP (at PPP values) are given in Table 1 above. The second criteria would require three African countries to be included. In terms of the combined criteria of population size, GDP weight and intra-regional variation, the most pertinent choice of African countries would be Egypt, Nigeria, and South Africa. Several options exist for the choice of the last country of the revised G20 membership. One option would be to accommodate protests from the Nordic countries, by including Sweden, hence adding a country from the otherwise excluded Scandinavian region. The Nordics find their

exclusion from the G20 membership unfortunate for two reasons. First, because they represent more than 2,31 pct of the world's GDP (1347 billion USD) and hence have more economic weight than G20 members such as Canada, India, Russia, Australia, Korea and Indonesia (see table 2).[12] Second, because they feel that they represent multilateral values and commitments that merit their participation in the key bodies of global economic governance.[13]

As compared to the current configuration of the G20, the application of these new principles for G20 membership would entail replacing Argentina, Australia, and Saudi Arabia with Egypt, Nigeria, Sweden and Spain (since South Africa is included in the original set of G20 countries, which Spain is not, despite its high GDP ranking). In terms of share of GDP and share of population, this reconfigured G20* would compare to the existing G20 – which has 19 member countries – as follows:

Table 4 G20 versus G20 (share of world GDP and world population, in pct)*

	GDP (nominal)	GDP (PPP)	Population
G19	76.9	74.5	61.3
G19+Spain	79.4	76.5	62.0
G20 *	78.0	75.3	64.4

Source: World Development Indicators (WDI), 2009-data.

The revised set of countries would comprise a higher share of both world GDP and world population than the existing set of nineteen formal member countries. Compared to the existing nineteen member countries plus Spain, the self-declared 'permanent guest' of the G20, the revised G20* would have a slightly smaller share of world GDP but still a higher share of world population.

The important point to stress here is that not only is a principle-based selection of G20 member countries possible; the selection of a new set of countries – which includes three African countries instead of one – may *increase* rather than decrease the aggregate share of world GDP and world population of G20 member countries.

A partial constituency model

Rueda-Sabater and colleagues at the Centre for Global Development in Washington argues that for a global governance arrangement to have "lasting credibility", it must be based on "transparent criteria" (Rueda-

[12] The total World GDP (at market rates) was 58,228 billion USD in 2009, according to World Development Indicators, giving the Nordic countries are share of world GDP of 2.31 pct. The ranking of the Nordic economies varies, of course, with what measure of GDP is chosen. While the Nordic countries are the tenth largest economy if measured in GDP at market rates, they drop to sixteenth place (ahead of Indonesia, just after Turkey) if measured by GDP at purchasing power parity (1022 billion USD).

[13] Indeed, it is not without irony that the Nordic-Baltic constituency is the only country constituency of the Bretton Woods institutions that is not 'represented' by a country in the G20 membership *or* have managed to negotiate some form of ad hoc participation in the later G20 summits.

Sabater et al 2009: 2). On these grounds they reject both a 'club' approach, such as the OECD, and a 'hosted' approach, "such as the G7 expanding 'by invitation' to a G20" (ibid.). Instead they propose what could be called a 'partial constituency'-model, by which membership is comprised of two types of countries: (i) countries that are among the world's biggest in terms of GDP and/or population, and (ii) countries that are elected as representatives of each of the world's main regions.

In the former category, the suggestion is to select the 16 countries that have a share of world GDP or world population higher than 2 pct. Currently, this would yield the following set of countries: Bangladesh, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Nigeria, Pakistan, Russia, Spain, United Kingdom and United States. As compared with the existing G20 membership, the 2 per cent rule would exclude Argentina, Australia, Mexico, Saudi Arabia, South Africa and Turkey.

Countries elected as representatives of each of the world's main regions are included in recognition that for "a global governance system to be truly representative, it must also deal in some form with universality" (Rueda-Sabater et al 2009: 10). "But instead of allowing that notion to cripple the effectiveness of the governance system", the authors continue, "an alternative approach might be something akin to the 'protection of minority rights'" (ibid.). More specifically, the proposed solution is for five countries to be elected, one in each of the following five regional groupings: Americas, Europe+, Middle East/South Asia, Africa, East Asia/Pacific. This brings the total number of countries included in this new system of global governance to twenty-one.

The claim to 'universality' made in the proposal by Rueda-Sabater and colleagues is little more than cosmetic, however. Voice, influence and representation for minorities should not be a concession at the margins. Choosing sixteen big countries and then adding five to represent the rest of the world's 176 countries would amount to little more than a pretension to universality. Representation in the Bretton Woods institutions, on the other hand, is based on genuine universality in the sense that all member countries are represented in their governing bodies with voting power in proportion to their GDP.[14]

A brief comparison with the governing bodies of the Bretton Woods institutions may further highlight the limitations of the proposal of Rueda-Sabater and colleagues. There are five countries that have traditionally appointed their own chair for the governing bodies of in the World Bank and the IMF, while the remaining nineteen chairs represent each their country constituency. Until recently these five countries were the US, Japan, Germany, UK and France, but in the course of the ongoing voice reforms of the Bretton Woods institutions China is now being given the right to appoint its own chair, to reflect the fact that it is surpassing Japan to become the second largest economy of the world. In a sense, one may depict the

[14] Membership of the Bretton Woods institutions is near-complete: the IMF and the World Bank both have 187 member countries, as compared to the 192 member countries of the United Nations.

Bretton Woods institutions as based on a partial constituency model itself: five countries represent only themselves, and the remaining 182 member countries are represented in the form of nineteen country constituencies. In the proposal of Ramachandran and colleagues, the balance between single country-chairs and country constituencies is turned upside-down: nineteen countries represent only themselves and the remaining countries are represented through as little as five chairs. There is reason to doubt whether these five chairs, which would represent on average thirty-five countries each, would makes much sense as a vehicle for multilateral corporation. Indeed, a central concern through out the recent voice reform process in the World Bank was the need to *reduce* the number of countries in the largest country-constituencies to a maximum of 16 countries, so as to make the complexity of intra-constituency dialogue and deliberation manageable (Vestergaard 2011a).

Efforts by the G20 to accommodate its critics

In responding to various criticisms of its illegitimacy the G20 has not yet considered a revision of its core membership, as both of the discussed revisionist approaches would have called for. Instead, the response has been limited to ad hoc invitations of a few countries as representatives of regional organizations such as the African Union and ASEAN. This may be seen as a de facto recognition of the illegitimacy of having one regional body (EU) participating at the high table, while other regions do not have such representation. The G20 has addressed the criticism, in other words, that some regions are underrepresented relative to others by means of sending ad hoc summit invitations to countries considered representatives of 'underrepresented' regions. Thus, ASEAN has now been represented as outreach participant in five summits, and Ethiopia and Malawi have participated in the two latest summits as representatives of the African Union.[15]

At the Seoul summit this previously 'spontaneous' practice of ad hoc invitations, at the discretion of the summit host, was institutionalised in and trough the summit communiqué: "We reached broad agreement", the declaration said, "on a set of principles for non-member invitations to Summits, including that we will invite no more than five non-member invitees, of which at least two will be from Africa" (G20 2010b). This reflects the pattern of the two latest summits. Both in Toronto and Seoul, five countries were invited to participate as 'special guests'. In Toronto, the five special guests were Spain, Netherlands, Ethiopia, Malawi, and Vietnam, whereas in Seoul, Singapore was invited instead of the Netherlands, while the other four were the same.

In response to criticism, the G20 has in effect become a 'G20+5', in other words. Of the 25 participating

[15] ASEAN is the Association of South East Asian Nations, which has eight member countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. In 2011, Indonesia will take over the chairmanship of ASEAN.

members and special guests, twenty represent only themselves, and five represents a region, or group of countries. The twenty members that represent only themselves are the original nineteen member countries plus Spain, the self-declared 'permanent guest'. The five participants that represented a region or group of countries in Seoul were the following:

- Ethiopia and Malawi: representatives of the African Union
- Vietnam: representative of ASEAN
- EU presidency and Head of ECB (shared seat): representative of the European Union
- Singapore: representative of the Global Governance Group (3G), consisting of 28 member countries from Asia, the Middle East, Africa, Europe, South America, Latin America and the Carribean.

Four of these regional seats seem more or less fixed by now, namely the two seats to represent the African Union, the representative of ASEAN and the EU seat. Only the last of the five 'special guests' will be left to the discretion of the summit host to decide (Hermawan 2010: 40).

Needless to say, this 'G20+5' construction gives more countries voice in the G20 process. All African countries (except Morocco, which is not a member of the African Union) thus now have voice and influence through the representatives of the African Union. Three important observations must be made, however. First, the 'G20+5' suffers from the rather severe problem that the balance of single country representatives vs. country constituencies is dramatically worse than that of the existing Bretton Woods institutions: nineteen countries represent only themselves and the attempt to reach as many of the remaining 173 countries as possible through the invitation of five 'special observers' has little but cosmetic significance from the perspective of multilateralism. Second, as mentioned previously, formal members and 'special observers' by far participate on equal terms in the summits, and the latter are largely excluded from the deliberations and negotiations that are undertaken to prepare the G20 Leaders' summits. Hence, in effect the role of 'special observer' is symbolic rather than substantial. Third, the now institutionalized practice of inviting five special observers for each summit is based on no objective criteria – and hence the already existing problem of arbitrary mechanisms of inclusion and exclusion is being further reinforced.[16]

[16] This goes also for the problem of 'double representation' of some countries through the inclusion of the EU: with the permanent inclusion of an ASEAN representative there is now also double representation of Indonesia, which is a G20 member country and a member of ASEAN, as well as of Singapore which participates as a member of the Global Governance Group (3G), while being at the same time a member of ASEAN.

BEYOND THE G20

Diplomacy is crucial…

When international media was full of fear of an impending currency war, G20 finance ministers held a pre-summit meeting in Gyeongju and managed to at least temporarily dampen tensions around these issues, by agreeing on the principle that all countries should strive to limit their current account deficits and surpluses on their balance of payments. This led some observes to argue that one of the most important advantages of the G20 process is an informal one. Just as G7 meetings led to 'close and repeated personal contacts between key economic policy makers and civil servants', now similar close networks of familiarity and trust are being build among the G20 menber countries:

> [T]he G20 process is likely to lead to much greater personal familiarity and a more common understanding of the key policy challenges for policy makers and their staff, which in turn can greatly contribute to tackling problems and co-operation. Indeed, it was the shuttle diplomacy of some senior civil servants that made the Gyeongu agreement possible and diffused tensions (Dervis 2010).

The importance of such shuttle diplomacy, or 'concert' among the world's leaders – to use David Bosco's phrasing (Bosco 2009) – should not be underestimated, particularly not in situations of deep disagreement and tension among the world's largest economies. The subsequent failure of the G20 summit in Seoul to reach any agreement on the matter of global imbalances illustrates, however, the limitations of such diplomacy when undertaken in the context of an informal forum such as the G20. There is little reason why deliberations on matters of global economic governance should proceed in the format of an informal and self-appointed club of countries. A much more promising approach would be to embed the diplomacy of civil servants and the concert of head of state in the existing institutional framework of the Bretton Woods institutions and their procedures and frameworks for binding multilateral agreements.

…but there is no reason to throw the baby out with the bathwater

The existing system of multilateral deliberation and arbitration on matters of global economic governance – notably in the form of the IMF and the World Bank – is fraught with difficulties. From the perspective of effective global economic governance for the 21st century, the two main deficiencies of the Bretton Woods system that needs to be addressed are the following:

- There is no Heads-of-State forum, and hence the Bretton Woods suffers from a lack of 'political weight' when the rubber hits the road
- Its systems of voting power do not adequately recognise the increased economic and political weight of dynamic emerging market economies

The absence of a Heads-of-State forum in the Bretton Woods system is a massive deficiency. In this sense,

the Bretton Woods system is profoundly anachronistic. In the meetings of the IMFC, the governing body of the IMF, the permanent absence of Heads of State is not conducive to deliberations on delicate matters of global economic governance such as global imbalances. With a pending 'currency war', in the words of Brazilian finance ministers Guido Mantega (Wheatley and Garnham 2010), little was achieved during the IMF's Annual Meetings in October, apart from agreeing to wait and see what the G20 leaders might be able to do during the Seoul summit a month later.

With regard to voting power in the Bretton Woods systems, dynamic emerging market economies feel grossly underrepresented and it is not difficult to understand why. Prior to the ongoing voice reform in the World Bank, China and India together had approx 40 pct more voting power than the aggregate of Belgium and Netherlands (5.56 compared to 4.01), despite having a more than six times larger aggregate share of GDP (12.60 compared to 1.97, cf. see table 5). The World Bank voice reform of spring 2010 changed the relative distribution of voting power in favour of dynamic emerging market economies, but not much - and again the comparison of China and India with the Netherlands and Belgium is illustrative. Although the aggregate voting power of China and India is now double that of Belgium and the Netherlands, the relative voting power of these two sets of countries is entirely out of line with their relative shares of GDP.

Table 5 The voting power of dynamic emerging market economies in perspective

	GDP (nominal, in pct of world total)	GDP (PPP, in pct of world total)	GDP * (60/40, in pct of world total)	Voting power (before voice reform)	Voting power (after reform)
China	7.49	11.68	9.32	2.78	4.42
India	2.01	4.92	3.28	2.78	2.91
-- Total	9.50	16.60	12.60	5.56	7.33
Netherlands	1.45	1.00	1.25	2.21	1.92
Belgium	0.84	0.56	0.72	1.80	1.57
-- Total	2.29	1.56	1.97	4.01	3.49

Source: World Development Indicators (WDI), 2008-data. See Appendix A for the full data set.

To reflect shares of GDP, China and India would need to have at least six times as much voting power as Belgium and the Netherlands.[17] It is not difficult to understand the dissatisfaction of dynamic emerging market economies with the voting power systems of the Bretton Woods institutions.

Despite these deficiencies of the Bretton Woods system, the answer is not to throw the baby out with the bathwater. The faith in the G20 was predicated on the illusory belief that global solutions would somehow

[17] This depends, of course, on the GDP indicator chosen. If measured in terms of GDP at market values the voting power of China and India should be roughly four times larger than that of Netherlands and Belgium (9.5/2.29=4.1), while if measured at purchasing power parity values, their voting power would have to be almost eleven times larger (16.6/1.56=10.6)

be easier arrived at in a 'flexible' forum outside the established institutional framework of the Bretton Woods institutions. One should not forget, however, that informal fora are flexible not just for oneself, but also for all the other involved parties. In a sense, it is precisely this much praised 'flexibility' that is the root cause of the ineffectiveness of the G20: the flip-side of 'flexibility' is the *non-binding* nature of the deliberations that take place. The way forward is to reform the Bretton Woods institutions so as to allow them to operate effectively as key pillars in a multilateral system of global economic governance, under the stewardship of a Global Economic Council.

Before explicating in more detail this proposed revision of the Bretton Woods system a brief engagement with a certain scepticism with proposals of this nature is warranted.

Are binding forms of global economic governance even more prone to failure?

Some would argue that binding forms of multilateral cooperation has failed at least as much as non-binding forms and that binding arrangements generally are difficult to arrive at, cumbersome to manage, and slow in operation. Critics often mention the WTO as a key example of this, not least in light of the current deadlock of the Doha Round. While the Doha stalemate is certainly highly unfortunate, one should not forget that trade agreements is the single most successful area of post-WW2 global economic governance. The underlying reason for the current standstill in the WTO is not so much that a finalized Doha agreement would be binding for the parties, as it is the ongoing reconfiguration of global economy – and the reluctance on the part of developed countries to accept that the terms of the game are changing.

Many would be delighted, in the current era of severe global imbalances, if there was a similar level of binding agreements and dispute settlement mechanisms in the areas of international financial flows and macroeconomic policies, as there is in trade. Indeed, the establishment of a dispute settlement mechanism for exchange rate controversies was precisely what Simon Johnson, former Chief Economist at the IMF, proposed as the only way to resolve the exchange rate controversy between the US and China.

The Obama-administration has strived to make the agenda of addressing these 'global imbalances' a key issue of the ongoing G20 deliberations. The US is particularly frustrated with Chinese exchange rate policy – which is seen to be severely undervalued, and hence a key cause of these 'global imbalances' – and of the massive loss of jobs in America. The Chinese, on the other hand, see these issues quite differently. So where do we find the IMF in all this? Let me quote a news report from the Wall Street Journal last week. It is highly illustrative:

> Unlike the US government…, who see China's reluctance to allow its currency to rise against the dollar as an impediment to rebalancing the world economy, Mr. Strauss-Kahn [Director of the IMF] shied away from criticizing the Chinese government for its handling of the currency. The value of the Chinese yuan against the US dollar, he said, is "one index but I'm not sure it's the only one (WSJ, 4 November 2009).

The fact that the Director of the IMF abstains from taking sides with the US on this crucial issue shows you that power relations in the global economy are really changing. The IMF – commonly perceived to be closely aligned with US interests on central issues – is acting much more carefully vis-à-vis the rising power of the global economy than it would have just a year earlier.

On top of the agenda is the "G20 Framework for Strong, Sustainable and Balanced Growth". The key word here is 'balanced' – as opposed to 'imbalanced'. In the future, no countries should run neither large trade surpluses nor deficits – but instead generate a balanced form of economic growth, the underlying reasoning goes. The big question is, however, which mechanisms can be agreed upon to ensure that countries pursue policies that are reconcilable with this new paradigm of balanced growth. For the US, the key issue is Chinese exchange rate policy. The Chinese, however, believes that the main cause of current global imbalances is US monetary policy.

This fundamental disagreement is what motivates proposals such as Simon Johnsons. Binding forms of multilateral deliberation and agreement are necessary to break the current impasse on the issues of global imbalances. According to Simon Johnson, the emerging consensus in Washington is that exchange rates should in the future be the jurisdiction of the WTO, not the IMF. Not only does the WTO have much more legitimacy, Johnson explains; it also "has agreed upon and proven tools for dealing with violations of acceptable trade practices" (Johnson 2010). China is more than a little unlikely to be supportive of this idea. It took 15 years to negotiate China's membership of the WTO – and China, for cultural and other reasons, does not have much appetite for taking disputes to court. There is every reason, in other words, to expect that China will resist the idea of making its exchange rate and economic growth policies subject to international dispute settlement within the WTO. But the point here is not so much whether exchange rate disputes could or should be dealt with in the WTO in the future. The point is rather to stress that some of the most pressing issues of global economic governance lacks an institutional framework within which they can be effectively resolved. Such an institutional framework must be created, and it must take the form of binding deliberations and agreements. By creating a global economic council, anchored in the Bretton Woods system, one could combine the key strength of the WTO – the binding nature of the agreements made and the many years of experiences with dispute settlement – while reducing the potential risk of having this system fall into the 'consensus trap' of the WTO: most decisions are taken by simple majority in the Bretton Woods institutions, and should also be so in the proposed Global Economic Council. Of course, many important issues need to be addresses in more detail than is possible in this paper, such as how binding agreements are to be applied, enforced and sanctioned in case of non-compliance, and so forth. But irrespective of how such issues are addressed most effectively, the current era of globalization badly needs a new institutional set-up for global economic governance.

INSTITUTIONAL FRAMEWORK FOR A BRETTON WOODS II

Three key reforms are essential for establishing an institutional framework expedient to effective global economic governance. First, a Heads-of-State forum needs to be created, which is predicated upon the voting power and country constituency systems of the Bretton Woods institutions. Second, the voting power systems of the Bretton Woods institutions much be revised so that voting power come to reflect much better the economic weight of its member countries. Third, the country constituencies of the Bretton Woods institutions much be revised to meet the dual objective of moving to a system of all-elected chairs and ensure a better balanced representation of the world's main regions.

Establishing a Global Economic Council

The cornerstone of a revised and up-to-date Bretton Woods system should be a Global Economic Council. Its key task would be to act as steering committee of the global economy in general and of the Bretton Woods Institutions in particular. Ideally, the council should function as a joint Board of Governors for the World Bank and the IMF and it should have a small secretariat that would help prepare its summits, the hosting of should rotate among the world's four main regions.

The Council should consist of twenty-five country constituencies, in an arrangement similar to that of the Boards of the IMF and the World Bank, with procedures for consultation and rotation to ensure that all member countries have a voice in the process in proportion to their GDP. A Global Economic Council based on country constituencies, with the relevant twenty-five Heads of State meeting twice a year, on the basis of prior consultation with their country constituencies, would have all the benefits of concert and multilateral legitimacy. Moreover, it would have the advantages of being embedded in and calibrated with the existing institutional framework, in and around the IMF and the World Bank.

The Council should deliberate on key issues with regard to the further reform of the governance arrangements of the existing Bretton Woods institutions, such as voice and voting power reform and potential capital and quota increases. But it would be natural for the Council to also have informal discussions global economic governance issues beyond the two Bretton Woods institution such as, for instance, the matter of how new momentum may be brought to the WTO's Doha round and whether the proposals by the Basel committee for a new international agreement on banking regulation are satisfactory and sufficient.

Reforming the existing voting power systems

The current systems of voting power of the Bretton Woods institutions do not adequately reflect the geopolitical realities of the world economy. We discussed above the massive under-representation of China and India vis-à-vis Belgium and Holland. The crucial question is whether this under-representation of two

dynamic emerging market economies, and over-representation of two small developed countries, is part of a general pattern. Consider the overview of the voting power to GDP ratios for some of the major shareholders of the Bretton Woods institutions provided in Table 6 below.

What the voting power to share of GDP ratio tells use you is basically how much voting power you get in the World Bank or the IMF for 1 pct share of world GDP. Three factors cause these ratios to deviate from one (share of voting power equals share of GDP). First, the allocation of basic votes to all countries independently of their GDP. Second, the inclusion of other criteria than GDP in allocating quota shares, such as contributions to IDA in the case of the World Bank and indicators for 'openness' and 'economic variability' in the case of the IMF. Third, processes of 'political engineering' that have given some countries a higher share of voting power than they would be eligible for on the basis of the principles agreed upon.[18] The first of these factors is negligible as basic votes as a share of total votes has eroded over the years from the original level of 10 pct to little more than 2 pct today. The other two factors give rise, however, to rather substantial variations in the voting power to GDP ratios, as shown in Table 6 above. Indeed, some of these variations are so big that it is difficult to accept and appreciate the voting power systems of the Bretton Woods institutions.

Does it not, for instance, constitute a significant problem for the legitimacy of the governance of the World Bank that China gets only 0.47 pct of voting power for 1 pct share of GDP while Belgium gets 2.19 pct voting power for 1 pct share of GDP? Is it reasonable that Saudi Arabia has a voting power to GDP ratio of almost 4 in the IMF, while voting power to GDP ratios of Brazil, China, India and Turkey are all below 0.6 pct.?

What these data convey is that the oft-cited principle that voting power in the Bretton Woods institutions should reflect countries economic weight in the global economy is theory more than practice. It is of paramount importance to the legitimacy of the Bretton Woods institutions that their voting power systems are revised in a manner that restores a fundamental balance between voting power and GDP. Further, a revision of voting power allocation for the Bretton Woods system, including the Global Economic Council, should restore basic votes at 10 pct of total votes, and make provisions that this level is maintained through an annual, automatic adjustment process. This revision would entail *excluding* all other criteria than GDP in the allocation of quota shares.

[18] For more on this in the case of the World Bank, see Vestergaard (2011a).

Table 6 Voting power to GDP ratios in the World Bank and the IMF

Country	Share of GDP*	World Bank		IMF	
		Share of voting power	VP to GDP ratio	Share of voting power	VP to GDP ratio
US	22.27	15.85	0.71	16.74	0.75
China	9.32	4.42	0.47	3.65	0.39
Japan	7.22	6.84	0.95	6.01	0.83
Germany	5.26	4.00	0.76	5.87	1.12
France	4.03	3.75	0.93	4.85	1.20
UK	3.90	3.75	0.96	4.85	1.24
Italy	3.35	2.64	0.79	3.19	0.95
Russia	3.34	2.77	0.83	2.69	0.80
India	3.28	2.91	0.89	1.88	0.57
Brazil	2.76	2.24	0.81	1.38	0.50
Spain	2.41	1.85	0.77	1.38	0.57
Canada	2.20	2.43	1.11	2.88	1.31
Mexico	2.02	1.68	0.83	1.43	0.71
S. Korea	1.68	1.57	0.94	1.33	0.79
Australia	1.46	1.33	0.91	1.47	1.01
Turkey	1.32	1.08	0.82	0.55	0.42
Netherlands	1.25	1.92	1.54	2.34	1.87
Indonesia	1.04	0.98	0.94	0.95	0.91
Poland	0.92	0.73	0.79	0.63	0.69
Iran	0.82	1.47	1.79	0.69	0.84
Saudi Arabia	0.81	2.77	3.44	3.16	3.92
Belgium	0.72	1.57	2.19	2.08	2.91
Switzerland	0.68	1.46	2.14	1.57	2.30
Sweden	0.68	0.85	1.25	1.09	1.61
Argentina	0.66	1.12	1.70	0.96	1.45
Norway	0.60	0.58	0.97	0.76	1.26
Thailand	0.59	0.49	0.83	0.50	0.84
Austria	0.59	0.63	1.07	0.85	1.44
South Africa	0.57	0.76	1.32	0.85	1.48
Greece	0.54	0.33	0.61	0.38	0.71

Source: World Development Indicators, 2008-data.

The proposal to exclude all non-GDP criteria will likely be unwelcome in countries that currently carry a voting power to GDP ratio that is significantly higher than 1, including a number of small European countries, such as Belgium, Holland, and Switzerland, and a few DTCs such as Saudia Arabia and South Africa. They will likely argue that voting power ought to reflect other factors than just GDP. The issue of

what other elements than GDP should be added is a highly contentious one, however. When small European countries argue, for instance, that significant contributions to IDA should give rise to higher voting power in the World Bank, they should be aware that others might argue that it is about time that the size of countries' population is given weight in the allocation of voting power. Indeed, if other criteria than GDP were to be added to a revised formula, one could easily imagine more relevant ones than 'openness' or contributions to IDA. An obvious candidate to would be some indicator that captures the geopolitical power that comes with the economic dynamism of rising emerging market economies such as China and India. In fact, in both the 2008 IMF quota and voice reform and in the 2010 IBRD voting power realignment one of the elements of the GDP component was a so-called 'PPP booster' intended precisely to "to give additional recognition to dynamism of economic growth" (DC 2010a: 7).[19] Of course, such an economic dynamism component can be specified in many different ways. The point here is that as long as developed countries grant themselves additional IMF quota shares and IBRD shareholding on the basis of such criteria as 'openness', 'economic variability' and IDA contributions, emerging market countries are likely to insist on special provisions for economic dynamism.

The IMF often prides itself that voting power in the institution is predicated upon a quota formula based on objective criteria. However, the phenomenon of politically determined quotas that are then justified ex post "by reference to ostensibly neutral formulae specifically designed to produce the intended results" dates back to the founding of the Bretton Woods institutions (Woodward 2007: 5). In the case of the IMF, it was Raymond Mikesell who produced the formula for the initial allocation of quotas in 1943, under the instructions of Harry Dexter White, chief negotiator of the US. Mikesell later reported on how he answered questions about how the figures were arrived at:

> I… gave a rambling twenty-minute seminar on the factors taken into account in calculating the quotas, but I did not reveal the formula. I tried to make the process appear as scientific as possible, but the delegates were intelligent enough to know that the process was more political than scientific (Mikesell 1994: 35-36)

What this paper proposes is a formula that is so simple that it is not really a formula. The proposal is to simply allocate to countries a share of total quota votes that equals their share of world GDP. This is the best way to ensure that relative voting power reflects the realities of the global economy while at the same time avoiding all manner of resource- and time-consuming political battles in and around a more or less complex quota formula.

The voting power system proposed would have three main elements. First, that all countries agree to

[19] In the case of the World Bank, the 'PPP booster' gave countries whose "PPP-based weight in the world economy" was "30 pct or more above their IBRD shareholding a total increase in shareholding percentage of at least 10 pct" (DC 2010a: 7).

abandon whatever claims they feel they legitimate have for the inclusion of other criteria than GDP in the allocation of voting power, *in favour of* a revision that give all countries, including a number of grossly under-represented DTCs, their fair share of voting power as measured by their share of world GDP. Second, that a composite measure of GDP is used, giving roughly equal weight to GDP at market values and GDP at purchasing power values.[20] Third, that the relative voting power of low-income countries is increased by restoring basic votes at the original level of 10 pct of total votes.

Revision of system of country constituencies

It is important that the country constituencies of the Global Economic Council are the same for the global economic council and for the governing bodies of the IMF and the Bank. Since the existing configuration of country constituencies in the World Bank and the IMF is in need of serious repair, fundamental revision of country constituencies must be undertaken. New principles are needed both for the allocation of chairs *among* regions and for the allocation of chairs *within* regions.

The first principle of allocation of chairs among regions should be to achieve reasonable representation of all the world's main regions, first and foremost to remedy the inadequate representation of African countries in both the Bretton Woods institutions and the G20 as currently configured. The first task to undertake in achieving this is carving the world up in its main regions. This paper proposes basing future global economic governance arrangements on four main regions: Africa; Asia; Americas and Australasia; and Europe.

Table 7 The world's four main regions [21]

	GDP (nominal) (billion USD)	GDP (PPP) (billion intl. dollars)	GDP*	GDP* (pct. of total)
Africa	1440	2847	2003	3.23
Americas & Australasia	20608	22570	21393	34.55
Asia	16525	27357	20858	33.69
Europe	17678	17638	17662	28.53
Total	56251	70411	61916	100

Source: World Development Indicators (WDI), 2009-data.

Sixteen seats in the council should be distributed evenly among each of these four main regions; four seats

[20] This could be either the 60-40 weighting used both in the 2008 IMF quota review and in the current quota framework developed for the IBRD shareholding realignment (see Vestergaard 2011a), or simply a 50-50 weighting.

[21] The total numbers reported for GDP are not the same as the numbers provided by the World Bank's World Development Indicators (WDI) for aggregate World GDP. The aggregate world numbers are bigger than what is calculated above. This is related to the procedure of imputing missing values for aggregate calculations when producing WDI data.

for each region.

The second principle should be that nine additional seats are assigned to the four regions in proportion to their relative weight of the world economy. At current GDP shares (see table below), this would mean that all three regions except Africa would get three additional seats. Together, the application of these two principles would give Africa four seats and the three other regions seven seats each.

Table 8 GDP and the allocation of seats in revised Bretton Woods system*

	GDP* (pct. of total)	GDP seat indicator	Allocation of GDP seats	Regional seats	Total number of seats
Africa	3.23	0.30	0	4	4
Americas & Australasia	34.55	3.11	3	4	7
Asia	33.69	3.03	3	4	7
Europe	28.53	2.57	3	4	7
Total	-	9	3	16	25

The allocation of chairs *within* the four different regions should be based on the following two main principles.[22] First, country constituencies should be *elected* chairs, with a minimum size of three countries per constituency. This would break with the current 'mixed-system' of five appointed chairs and nineteen elected chairs. This principle of elected chairs means that all countries within a region may put forward their candidacy for one of the region's chairs. In order to do so, however, the country must form an alliance with at least two other countries. Within each region, countries would then vote in proportion to their GDP. In the case of Asia, for instance, the seven largest of such country constituencies formed – in terms of the aggregate representation they mobilize through regional voting – get the seven Asian chairs.

Second, all chairs should involve a mechanism of rotation to ensure consultation and dialogue within constituencies. Each constituency could have one Director and two Alternates, and decide internally whether there should be rotation on both levels or only at the level of Alternates. This flexibility in rotation modalities would allow large economic powers – such as the US and China – to maintain Directorship of a chair, while ensuring consultation with countries in their constituency through the system of Alternates. In polarized country constituencies, comprised of a group of large countries along with a group of smaller countries, the larger countries could choose to rotate the Directorship among themselves while the smaller countries of the constituency rotate at the level of Alternates.

To briefly summarize, the proposed reforms would revise and reboot the existing Bretton Woods

[22] The decision to move to an all-elected Board has been taken for the IMF and is scheduled to be implemented over the next few years (IMF 2010).

institutions, while putting them under the stewardship of a Global Economic Council. The governing bodies of the World Bank and the IMF, as well as the Global Economic Council, would be based on a new set of twenty-five elected country-constituencies ensuring a more balanced representation of the world's main regions and voting on the basis of voting power systems that much better reflect their relative economic weight than is currently the case.

CONCLUDING REMARKS

"Given the broad impact of our decisions", the G20 proclaimed in Seoul, "[we] recognize the necessity to consult with the wider international community", and we pledge to bear in mind "the importance of the G20 being both representative and effective as premier forum for our international economic cooperation" (G20 2010b: 17). This paper has argued that the G20 so far have been both ineffective and illegitimate, not least in pursuing its self-proclaimed role of 'steering committee' for the global economy, and more importantly, that it is ill-suited to address the global economic governance challenges of the 21st century. A major shortcoming of the G20 in this respect is that it has no capacity or institutional framework that enables negotiation and arbitration of a formal and binding nature.

The way forward in global economic governance is to revise the existing Bretton Woods system in a manner that addresses its weaknesses and makes it responsive to the geopolitical realities of a rapidly changing global economy. The major deficiency of the existing Bretton Woods system is that it lacks a Heads of State forum that meets twice a year to deliberate and negotiate on matters of global economic governance. The first key challenge is thus to establish a Heads of State forum that is both legitimate and effective to take over the role currently strived for by the G20. While a Heads-of-State forum is a *sine qua non* for effective global economic governance in the 21st century the G20 is by far the right solution. The G20 is fundamentally *illegitimate*, not least by permanently excluding 172 countries from its deliberations and decision-making. Moreover, the G20 is *ineffective* on the crucial issues. Contrary to popular conception the G20 creates a dilution of global economic governance rather than a strengthening of it. The way to strengthen global economic governance is to create a genuine steering committee for the global economy, in a manner that both mirrors the legitimacy constructs of Bretton Woods Institutions and brings them up-to-date through an in-depth reform process.

The creation of a Global Economic Council, in which all member countries of the Bretton Woods institutions are represented through a system of country constituencies, is hence proposed. This council should be firmly embedded in the existing institutional arrangements of the Bretton Woods institutions, which must thus be reformed accordingly. A total of twenty-five country constituencies should be allowed, as is now the case in the governing bodies of the IMF and the World Bank.[23] In allocating these twenty-five seats among and within the worlds four main regions (Africa; The Americas & Australasia; Asia; and Europe) the following two criteria should apply: (i) significant and balanced representation of all the world's four main regions, and (ii) differentiation on the basis of the four regions' aggregate share of GDP. Sixteen seats should be distributed equally among the four regions (four seats to each region), while the

[23] The IMF has 24 chairs while the World Bank has 25, as a consequence of the recent decision to add a third African chair in the Bank (see Vestergaard 2011).

remaining nine seats should be distributed among the regions in accordance with their aggregate share of world GDP. At current levels of GDP, this would result in four seats for Africa and seven seats for each of the three other regions. Within regions, constituencies should be formed on the basis 'elections' in which countries 'vote' in proportion to their GDP, much as is the case in the governing bodies of the IMF and the World Bank currently.

The three major advantages of such a reconfiguration of global economic governance would be that (i) it would embed a Leaders' forum within the institutional framework of the existing Bretton Woods institutions while at the same time bringing the latter up to date, (ii) it would reconfigure the current country constituencies so that all chairs represents at least three and no more than 16 member countries; (iii) it would give long-term durability to global economic governance because the system would be responsive to the rise and fall of nations and regions in and through a transparent, automatically updated system of weighted voting (based on GDP), while ensuring at the same time a certain level of inter-regional legitimacy and stability by means of the proposed balanced allocation of chairs to all the world's regions.

A Bretton Woods system revised along these lines would not only allow for a better balance between established and rising powers, and hence a more durable way of changing the governing balance as the economic balance changes, it would also more likely be effective than an informal G20 Leaders forum would, whether revised or not.

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