



France at the helm of the G20 in 2011

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The G20 is gradually becoming a global economic steering committee, noted a report jointly prepared by the Asian Development Bank and the Peterson Institute for International Economics. This ambiguous international gathering has been gaining particular importance and momentum since the beginning of the global financial and economic crisis. From November 2008 on, not only central bankers and finance ministers but also heads of government and heads of state have periodically conferred at G20 summits in order to tackle the critical issues. The G20 Summits have been held in Washington in 2008, in London and Pittsburgh in 2009, and in Toronto and Seoul in 2010.

Unlike international institutions such as the OECD, IMF or World Bank, the G20 has no permanent staff. The G20 chair rotates between members, and in 2011 the G20 chair is France. The chair is part of a revolving three-member management Troika of past, present and future chairs. The incumbent chair establishes a temporary secretariat for the duration of its term, which coordinates the group's work and organizes its meetings.¹

The G20 is a forum that several countries seem to prefer compared to formal international organizations. Experts point out that although this informal character makes the G20 more attractive, it also reminds us of the contested legitimacy of this policy cooperation forum. One of the loudest critics of the G20 is Norway, whose foreign minister once stated;² "the G20 is a grouping without international legitimacy... in terms of international cooperation, it is one of the greatest

setbacks since World War II... why is the European Union represented in addition to having four individual EU member states and two others as observers? That is not acceptable."

What seems unfair from the point of view of Norway and others might represent a tremendous advantage for the European Union when trying to maintain its fading role in the world economy. If European overrepresentation is not enough, in 2011 France chairs the Group of Twenty! French President Sarkozy is determined that the proposed G20 reform of the world financial and trade system should be his legacy. He is backed by fellow EU member countries in the organization and, in order to win emerging countries' sympathy for his market and exchange rate regulation plans, he has put development aid and a world tax on financial transactions at the heart of his ambitious program.

The French chair of the G20 has set the following six major priorities as the principal agenda items:

1. Reforming the International Monetary System (IMS)
2. Strengthening financial regulation
3. Combating commodity price volatility
4. Supporting employment and strengthening the social dimension of globalization
5. Fighting corruption
6. Working on behalf of development

This agenda covers several key problems of the world economy so if France is able to accomplish these ambitions, the upcoming Cannes summit (November 2011) would be of historic importance. Focusing on IMS reform, the previous summits have proven that interests collide when it comes to regulating global financial markets. However, since IMS reform has

¹ www.g20.org About G-20: Chair

² Norway Takes Aim at G-20, 'One of the Greatest Setbacks Since World War II' (22 June, 2010). <http://www.spiegel.de/international/europe/0,1518,druck-702104,00.html>

been on the agenda for several decades, it is improbable that France and the G20 will be able to deliver a complete solution. They might enhance taking a few steps forward in the right direction but the reform of the international monetary system will probably take place at a slow pace and gradually, in particular because the leading G20 country elites have very divergent opinions on how to address worldwide economic problems.³ Systemically important countries of the G20 are not willing to accept abrupt changes (e.g. a tax on financial transactions), or any individual obligation. There is also an absence of consensus on what needs fixing in the current system.

Christine Lagarde, French finance minister, formulated the common goal as follows: "We should not lose sight of the fact that the international monetary system is not an end in itself, ...It is a means to an economy that on a global basis functions better and is not interested in accumulating massive reserves in various corners, is not interested in engaging in currency wars, but is interested in having more stability and having more predictability in a system that reflects better the forces around the world."⁴

France's financial, regulatory and other reform ambitions seem to be a bit exaggerated in the short term. Nevertheless, everyone agrees that change is needed and concrete steps should be taken. Consensus is needed on issues related to exchange rates, capital flows and reserves. Financial safety nets must be improved so that countries do not feel they need to accumulate enormous reserves.⁵

The most realistic short-term deliverables regarding international monetary system reform are the following: an agreement on channelling and thus reducing speculative investments, establishing the framework of a new system for allocating SDRs, and aiding the internationalization of the Chinese currency by the inclu-

sion of the Renminbi in the SDR basket.⁶ These reforms would contribute to improving the present system and move towards a more balanced, less dollar-centric, broadly-based monetary system. France is especially keen on diminishing the exclusive role of the American currency. But diversifying away from the one and only dominant currency would not resolve the problems of the international monetary system. It is certainly one crucial part of the solution, but there are other fundamental structural problems that need to be dealt with. The lack of policy discipline, economic policy coordination and weak governance of global monetary conditions are all huge obstacles in the way of substantial, revolutionary change.

The French agenda certainly draws international attention to several of the above-mentioned issues and even if these are not short-term projects, the process of examination might promote understanding of the functioning of the global economy and, over time, enhance its evolution.

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³ Simai Mihály: A G20-ról 2011 áprilisában: a múlt, a jelen, és a következő csúcs <http://www.vki.hu/csutortoki-beszelgetesek/csutortoki-beszelgetesek-7-2011-04-13-vitaindito-1.pdf>

⁴ Graham Dwyer, IMF online Survey, Panel Calls for Greater Asian Role in International System (5 May, 2011).

⁵ Reform of the international monetary system: Some concrete steps, Yongding Yu, Agnès Bénassy-Quéré, Jean Pisani-Ferry (28th March 2011), Bruegel Institute. <http://www.bruegel.org/publications/publicationdetail/publication/516-reform-of-the-international-monetary-system-some-concrete-steps/>

⁶ Edwin M. Truman: International Monetary System Reform: Will the G-20 Make Significant Progress? (22 February 2011), Bruegel Institute. <http://www.bruegel.org/publications/publication-detail/publication/501-international-monetary-system-reform-will-the-g-20-make-significant-progress/>