

# Reforming the G20

By **JIM O'NEILL**

CHAIRMAN, GOLDMAN SACHS ASSET MANAGEMENT



**JIM O'NEILL**

graduated with a degree in economics from Sheffield University and holds a PhD from the University of Surrey and an honorary doctorate from the University of London. The creator of the BRICs acronym, he has published much research about BRICs which has become synonymous with the emergence of Brazil, Russia, India and China as the growth opportunities of the future. Prior to assuming his current role he was head of Global Economics, Commodities and Strategy Research at Goldman Sachs, taking up the Chairmanship of the firm's Asset Management Division in September 2010.

In some ways, Mexico is an ideal country to host the next G20 Summit, in terms of trying to nudge the G20 Group into becoming something more of an effective, as well as representative, decision making body for the world economy and society. The activation of the G20 by President Bush in late 2008 was a most wise move in my judgement, as it was essentially recognition that for the world to recover from the shock of the credit crisis that struck so violently, the world would need the new, rapidly rising economies from the emerging world to play their part, along with the more recognised developed nations. That G20 was followed up just as successfully with the Gordon Brown-hosted G20 in London the following Spring, but since then the G20 has to some extent lost its way. Mexico might be in as good a position to help bring around change.

Why might the G20 have lost its way? To some extent aspects of the answer are not new or surprising. As with each G group, the G20 came into its own as a response to an immediate crisis, and once such groups have delivered on the emergency measures needed – in that case to halt a major recession from becoming something even worse – it is difficult for all participants to sustain their energies for such events when the need is less urgent. The narrower bodies of G5 and G7 both enjoyed great immediate success when they were activated in the 1980s, but in some ways, have lost their aspects of their purpose since – not least as they are hardly representative of the modern, complex world in which we now live. In this regard, the G20 is a much more representative body of the current times, and in this context certainly serves as a legitimate body for global economic governance. In my book, such organisations have to tick two main boxes: legitimacy and effectiveness. By including all the so called BRIC countries – Brazil, Russia, India and China – as well as other important emerging economic powers such as Mexico, the G20 definitely ticks the legitimacy box. While there is a voice to be heard from some of the large-population excluded emerging nations, in terms of the current leaders of the world economy, there is no one really missing. However, partly because it has so many countries included (I believe around 28, not 20), the G20 struggles to be effective in terms of decision making. Mexico, as one of the G20 but neither a

BRIC nor a G7 member could play a role in helping change this.

As a group of 20-plus, it is difficult to see how such a broad number can regularly meet and successfully agree policies to justify their impact. In my view, what it should probably strive towards is to meet less often and become the main umbrella organisation, inside of which more effective and revamped bodies could meet more frequently to steer our complex and rapidly changing world. I propose that the G20 itself essentially replaces the G8 group of advanced nations plus Russia as a body that should meet formally once a year, and oversee what is done by new constituent parts. Before I propose what and who they should be, let me give a flavour of the scale of change taking place in the world economy today.

In 2011, China itself saw its nominal GDP increase by around US\$1.3 billion, rising from just under US\$6 billion to around US\$7.3 billion. This change was the equivalent of creating the economic equivalent of Greece every 11 and ½ weeks, or not far off the economic equivalent of Spain every 12 months. The wider four BRIC countries, which China dominates, saw their combined GDP rise by around US\$2.3 bn in 2011, equivalent to the four of them creating close to another Italy every 15 months, which given that Italy is the 8th largest economy in the world, is pretty extraordinary. Even if they are a disparate group politically, economically their rise is the largest phenomenon of our generation. Their vast growth impact is also being joined by some other emerging powers, including Mexico. While not in the same league as the four BRIC countries, the economies of Indonesia, Korea, Mexico and Turkey are quickly rising to join the larger economies of the world, and are with it, increasingly important. For the past year or so, I have been trying to deliberately encourage investors to not think of these 8 nations as traditional emerging economies, as it makes it easier for people to realise their impact if one thinks of them somewhat differently. I call them Growth Markets. Collectively, the 8 are already 25 per cent of global GDP, about the same size as the US, and in the decade 2011-20 their contribution to global GDP will be more than double that of the US and Europe put together. By 2020, their share of global GDP will be at least 35 per cent, not far off the share of the G7 nations. Why should the G7 countries still be seen as the dominant force in the

world economy, and with it, occupy all the key seats for global governance?

What the world needs is, essentially, a new G7 within the umbrella of the G20, that can take participation from each of the current G7 and Growth 8 to give us a world of more effective decision making. I would propose a new G7 consisting of the Euro Area as one, the US, Japan, and each of the four BRIC countries, Brazil, Russia, India and China. That would mean no seat for a number of countries including Canada and the UK of the current G7, South Africa who now participate in the BRICS meeting annually, and none of the 4 countries outside the BRIC group from the Growth 8. Each of them, Mexico included, might not like to be excluded from a new central club, but they would remain active participants in the G20.

For the Europeans, stuck with this remarkable crisis in the Euro Area, to consolidate their presence in a new G7 to just one representing the Euro Area should be simple. In many ways, the current crisis is a crisis of legitimacy, not a true fiscal crisis. The average GDP-weighted fiscal deficit and debt position of the Euro Area, as high as it is, is actually lower than that of the US and considerably lower than that of Japan. Moreover, the Euro Area has a combined small balance of payments current account surplus, not deficit. The reason why there is a crisis is markets are worried about many aspects, the debt sustainability of some included, but in general most of the issues relate to the actual sustainability of EMU

itself. Markets simply don't believe that EMU as created and – so far – governed can persist. What better way of key policy leaders demonstrating their commitment than by sending a clear signal that they want to be genuinely regarded as one when it comes to key internal decision making? They could still be represented individually in the G20, but their 'joined at the hip' new stance for the G7 would give room for other key global players, especially the Chinese to become more representative. For other countries not part of the new G7, their diplomatic stress would be seen as more accepting, surely, if the Europeans took this step for the betterness of improved global governance and decision making. Such a move from the Europeans would have other powerful positive spin-offs also, not least allowing for further ongoing changes in IMF board seats and voting rights, allowing log jams that have persisted for years to be cleared.

We have to find a way of improving the legitimacy of the G's and global governance, and with it, reducing some of the stigma about change and the taboos that many international civil servants resist. As a keen fan of football (soccer to American readers), the concept of promotion and relegation has for many years struck me a suitable reward for those at the forefront of rising economic success and a stimulatory punishment for those that have – perhaps only temporarily – lost their way. A bold G20 host such as Mexico should be in a position to suggest such an idea!

**The G20 struggles to be effective in terms of decision making. Mexico could play a role in helping change this**

London 2009:  
The last truly effective G20 Summit?

