INTRODUCTION

THE G-20 GLOBAL FINANCIAL SUMMIT: WHAT IS AT STAKE?

This Saturday, November 15, 2008, leaders of the G-20 countries will gather for the first time to address a financial crisis whose evolution highlights a dramatic shift in the contours of the global economy. As the world looks to China and other emerging powers to act as the engine for global recovery from a financial crisis that emanated from Europe and the U.S., the established economic and financial order is being turned on its head. Between 1960 and 2000, the fate of the world economy could reasonably be understood as the fate of the G-7. The G-7 share of output remained at roughly two-thirds of the global share of output. Since 2000, however, the G-7 share has fallen below sixty percent and, according to Brookings scholar Homi Kharas, is likely to fall to around a third by 2030. In contrast, the G-20 share has remained stable at 90 percent of the world economy since 1965 and is likely to remain there into the foreseeable future.

Can the G-7 remain the global economy's steering committee or is it time to pass the baton? The G-20 finance ministers forum was set up following the Asian Financial Crisis to create a more representative body to discuss issues of pressing global policy importance. Like the other international institution set up in the late 1990s—the Financial Stability Forum—the G-20 has not yet lived up to its promise. Now, for the first time, the G-20 is meeting at the Heads of State level rather than the Ministers level. This summit should mark the first step towards a more prominent role for the G-20 in global economic governance.

The G-20 meets at a key moment for the world economy with world leaders facing critical challenges of both a short- and long-term nature. So, what is at stake for the first G-20 summit and what can be done by the leaders who will gather seeking solutions? In this new report, Brookings Global scholars outline the seven key issues at stake and offer recommendations for strengthening the global financial architecture and its governance.

The possibility of a global recession will need to be met with a swift policy response. Just as the U.S., Europe and even China are engaging in expansionary macroeconomic policies, so too other emerging economies should be given the policy space for countercyclical policies where appropriate. Finding ways to maintain aid flows to the poorest countries should also be a priority. The global trading system must be reinvigorated if trade flows are to serve as a critical channel for global recovery.

The current crisis has also highlighted several longer term challenges of economic governance that this summit should begin to address. The functioning of financial regulation needs to be re-examined to establish the appropriate balance between financial innovation and risk management. The role of the IMF will also need to be rethought: whether this means an expanded role with strengthened macroeconomic surveillance or a diminished role in favor of regional financial cooperation is an open question.

1. **Financial Regulation and Supervision**. Eswar Prasad outlines the critical issues facing the leaders, including the need to redesign regulatory structures for increasingly complex financial systems and to increase transparency in the operation of specific markets and financial institutions.

2. **Stabilize Emerging Economies**. Mauricio Cárdenas notes the need for emerging market policymakers to deploy countercyclical policies in the face of depressed global demand and falling commodity prices and lays out several measures in support.

3. **Reform the Aid System to Fix the Slow-Burning Global Poverty Crisis**. Homi Kharas argues that leaders must look to maintain aid flows now more than ever at this critical financial inflection point, particularly as developing nations may be hit hardest and long-term global stability depends as much on reducing poverty as it does on fixing the regulations governing global private capital.

4. **Beyond the G-20: Why the WTO Is More Important than Ever**. Paul Blustein argues that the financial crisis proves the World Trade Organization is more relevant than ever for avoiding the beggar-thy-neighbor trade wars that deepened the Great Depression, and recommends that leaders use the summit as an opportunity to reinvigorate the multilateral trading system and refrain from any actions that would undercut the vitally critical contribution of trade to restarting growth.

5. **Now Is the Time for Permanent Governance Changes**. Colin Bradford and Johannes Linn applaud this first-ever meeting at the heads of state level of the G-20 countries and call for a permanent shift to the G-20 from the G-8 in order to make the governance of the global financial order more representative and more effective.

6. **Keep the IMF at the Center**. Lex Rieffel argues that the IMF must stay at the center of the international financial architecture but can do so only if its responsibilities, funding, and governance are reformed to reflect the growing importance of emerging powers and to apply its powers of surveillance to all members including the United States.

7. **What the U.S. and Asia Should Do: Establish a Global Financial Crisis Secretariat and an Asian Financial Facility**. Wing Thye Woo argues that Asia should adopt a regional financial swap facility to complement the IMF, much as the regional development banks complement the World Bank.