

# TOPIC OF THE ISSUE

## Toronto and Muskoka Summits: Expectations and Results

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Key-words: G8, G20, global governance, IFI reform, international development assistance, Global Partnership

*The paper analyses results of the G8 and G20 summits held in Canada in June 2010 and their consequences for evolution of both forums and for their interaction. Among major achievements of the Toronto summit the author points out commitments on fiscal consolidation, IFI reform and on the start of country reviews of the implementation of the Framework Agreement on strong, sustainable and balanced growth. The G8 summit at Muskoka is viewed as a successful attempt to bring the G8 "back to basics" model – a leaders' driven process at the center of which stands their informal direct dialogue. Key practical outcomes of the summit are the initiative on Maternal and Child Health Care, anti-terrorist action plan and decision to carry on the Global Partnership program in its present form. Russia's position on main issues on G8 and G20 agenda is presented in the article.*

According to social psychology mass mind perturbed by profound social and economic shocks usually tries to see in some political figures or public institutions some sort of a magical solution to problems which fall upon them.

The initial success of the G20 made it an easy prey of mass mind in this respect. The G20 made a great contribution to stopping the deepening morass of the financial and economic crisis. Due to efforts deployed by the G20 members, 2.7 percent of the world's GDP were spent in a coordinated manner on anti-crisis programs. The G20 initiated the process of reform of international financial institutions. It also started an unprecedented dialogue on essentials of economic policy between governments which belong to profoundly different schools of thought, since the G20 embraces such diverse countries as Saudi Arabia and the U.S., China and the UK, etc. In my view the major achievement of the G20 in a historic perspective will be this dialogue on a new model of economic interaction and on restructuring domestic economies of leading countries of the world.

However, the times have changed. The world economy and the G20 face new challenges, the challenges of the post crisis world. Of course, "post-crisis" is meant here in a very conditional manner. Profound roots of the crisis have not been removed yet, they are still with us. Moreover new problems have piled on them: the lingering threat of the default in at least half a dozen of EU countries, the risk of deflation. The poorest countries of the world face new challenges as well.

To sum up, the time of miracles for the G20 has past. Paradoxically enough the public still expects rabbits from the hat of any G20 summit.

It is to remember, however, that revolutions of expectations end up in counterrevolutions of disappointments; both political and economic history teaches us this. It may be worthwhile to look at the Seoul summit from this point of view.

What was expected of the summit? It was supposed to be a routine event, an interim station between the Pittsburgh summit and the Seoul summit. It was conceived as mainly a review exercise on what was being done to implement the Framework Agreement on Strong, Sustainable and Balanced Growth.

However the dramatic turn of events in Greece and on the whole in the EU made the organizers of the summit to change the agenda dramatically and this changed also expectations from the summit and results of this meeting. The Greek crisis showed dramatically the profound and often mislooked nature of the public debt problem. It was piling up for many decades; however, a true explosion came about in the last two years. On the one hand, because of the anti-crisis government expenditures growth, on the other hand, because of depletion of revenues, caused by the economic slowdown (*Table 1*).

The acuteness of the problem is not only in the dangers that the uncontrolled public debt and budget deficits carry for pre-default countries. This problem has a systemic effect on the world economy in a situation where the international community cannot afford itself a new wave of the crisis. There are two reasons for that. First, financial resources to fight the crisis are nearly exhausted. Second, political patience of the electorate and the tax payers, especially in Europe, is also near the break after which there may come social un-

**Table 1.** *Fiscal Balances (In percent of PPP-weighted GDP, Pre-crisis 2007)*

	2009	2010	2014	2009	2010	2014
World	-0.5	-6.7	-5.6	-2.8	0.3	0.3-0.3
Advanced economies	-1.2	-8.9	-8.1	-4.7	0.3	0.1-0.7
Emerging economies	0.7	-4.0	-2.8	-0.7	0.3	0.6-0.2
Low-income economies	-0.2	-3.8	-2.0	-1.4	0.3	0.1-0.3
G-20 Countries	-1.0	-7.9	-6.9	-3.7	0.1	0.0-0.6
Advanced G-20 economies	-1.9	-9.7	-8.7	-5.3	0.4	0.0-1.0
Emerging G-20 economies	0.3	-5.1	-4.1	-1.3	-0.3	0.1-0.0

Source: IMF World Economic Outlook, October 2010.

rest. The first wave of the crisis inflicted economic losses on the world of the magnitude which can be compared only to the losses inflicted by the World War II. According to the IMF estimates, the overall losses, including missed opportunities in trade and investment, as well as new public expenditure for the unemployed, amount to over 28 percent of the GDP of advanced economies.

The second wave which will not be controlled by such enormous resources as the first one will unfold with untold ferocity on economy and society. This explains great importance of the decision on fiscal consolidation taken in Toronto. The parameters of the fiscal consolidation are the following: beginning the process in the year 2011, reducing deficits in advanced economies by 50 percent in 2013 and stabilizing public debt or beginning to reduce it by 2016. Real adherence of G20 members to this decision will be indicated by the drafts of their state budgets for 2011, when fiscal consolidation should be started.

In April 2010 the reform of the World Bank has been completed. This is indeed a major achievement of the G20. As a result the share of the emerging market and developing countries (EMDCs) increased by 3 percent up to 47.2 percent. This is a major achievement, although in the long run the ideal is to reach a 50-50 split between the developed countries and EMDCs. What is most important however is the reform of the IMF, which was announced by the ministers of finance in October 2010. According to the decisions taken in London, reiterated in Pittsburgh and reconfirmed in Toronto, the IMF will be reformed to the advantage of the EMDCs, and if the recommendations of the finance ministers are implemented the share of the EMDCs will increase up to 42.2

percent.<sup>1</sup> Moreover the ministers of finance recommendations foresee the option of continuing the reform well beyond 2011, up to the year 2014, to more fully accommodate interests of emerging market and developing countries. This is a classic example of a long-term decision taken by the G20 the effects of which can be assessed only with the passage of time.

Finally, the G20 at the Toronto summit made a crucial decision to cross over to country reviews of the implementation of the Framework Agreement. This "personalizes" accounts of the member countries' economic conduct and helps to bring to the light the degree of their conformity with G20 requirements. In the final analysis, this will, hopefully, harmonize more fully economic policies of G20 countries to bring about the optimistic scenario of the world economic development conceived by the IMF. The parameters of this scenario are really inspiring. Implementation of the Framework Agreement by G20 countries will lead to accelerating growth of the world's GDP by 2.5 percent for five years. This will create 35 million new jobs, and the number of people living below the poverty line will be reduced by 33 million.

In the light of the ecological catastrophe in the Gulf of Mexico special attention at the summit was given to issues of protection of the marine environment and prevention accidents at sea. The Russian President proposed creation of an international mechanism to prevent and fight consequences of accidents related to offshore oil and gas exploration and development, as well as their maritime transportation. There is no international institution

<sup>1</sup> The G20 Seoul summit endorsed this recommendation on November 12, 2010.

regulating this sphere and setting international standards. National mechanisms of risk assessment do not always work efficiently. The mechanism proposed by Russia could include regional transnational regulators of the activities on the sea shelf for environmental impacts assessment at all stages (from exploration to conservation), creation of infrastructure to deal with oil spills consequences, development of systems of personnel training and rapid response, and technology transfer to developing countries. These activities could be financed from funds created by companies working on the shelf.

The G20 faces new challenges and most importantly the Seoul summit is called to start devising a new post-crisis strategy for its member countries. A strategy that will have a strong unifying impulse, a strategy that will replace fear of a new recession, which was the major unifying factor in the G20 previously by the hope for the better future if the G20 members work in a coordinated way.

Turning to the G8 one should note that it faces now quite a battery of difficult problems. It is overshadowed by a new entity which is much more impressive in terms of sheer numbers and economic might. The G20 is more than 85 percent of the world GDP, while the G8 is less than 40 percent. But what is most important, the G8 is still in search of its own identity. Political elites of the West are still reflecting over the utility and the future goals of the G8, if any. The donor fatigue is telling more and more on the efficiency of the G8. The club will face difficulties in launching any major donor initiative in several years to come. The G8 faces a problem of finding new partners. The Heiligendamm-L'Aquila Process (HAP) is over. Africa as one single partner is not enough. The G8 needs new partners which could be strategically, systemically important.

Despite all these problems, there are some encouraging results of the Muskoka summit.

First, on the political plane, the summit succeeded in hammering out an action plan to fight terrorism. This is not a talking shop, but an operational plan designed to confront the arc of terrorist activities stretching from Sahel to Europe, to Russia, to Central Asia and Afghanistan and the bordering regions of Pakistan. Second, the summit reaffirmed dedication of the G8 partners to the Global Partnership program with its focus on Russia. There was a debate prior to the summit whether the program should be extended to cover other countries and issues or first complete programs initiated in 2003 in Russia and then turn to

other partners. The second point of view – Russia-centered – prevailed for the good of the program of Global Partnership. Otherwise jumping from one unfinished construction site to another would undermine the authority of the G8.

Leaders discussed main security issues, namely international terrorism, organized crime and drug trafficking in vulnerable states. The G8 decided to help build developing countries' capacity by preparing civilian experts, police forces and by helping them to fight piracy off the African coast.

In the humanitarian sphere, the signature initiative of the Muskoka summit and of the Canadian Presidency has become the initiative on reducing maternal and infant mortality in the poorest countries of the world. The Canadian presidency deserves compliments for its creativity in mobilizing not only G8 partners but also non-G8 countries and private funds to augment the resources mustered by the club and also to present this initiative masterfully at the UN Summit on MDGs in September this year. This helped a great deal to motivate many UN members to do more in this very important sphere, in which there has been relatively little progress to date.

The most important achievement of the G8 Muskoka summit in the sphere of international development assistance is conceptual. First, participants shifted the emphasis from the task of mobilizing only their own donor resources (which are becoming scarce, at least temporarily) to playing a catalytic role in the process of marshalling ODA. The G8 members donated USD 5 billion to the Maternal and Child Health Care (MCH) initiative, and they succeeded in attracting USD 2.8 billion more of donations from private funds and third countries. This is a model for the future.

Russia will also contribute to this initiative by implementing a five-year program of medical staff training in seven countries with the highest level of child mortality (Tajikistan, Kyrgyzstan, Uzbekistan, Armenia, Afghanistan, Angola and Nicaragua). Russia plans to deliver vaccines and equipment to these countries.

Second, the G8 in Muskoka succeeded in shifting the emphasis from the direct donor activities in third-world countries to capacity building of these countries themselves. This is the most promising way to boost resilience of many countries of the third world to the vicissitudes of the world economic conjuncture.

Finally, the G8 countries at Muskoka succeeded in starting a new process of redefining functions of G8 and accommodating them to the

new functions of G20 in the sphere of international development assistance. This dialogue should go on to make more precise the division of labor and identify synergies that may accrue from this interaction between the G8 and G20 in the sphere of international development assistance.

In assessing results of any G20 or G8 summit, we should look at them as stages in a continuous process of development of a new system of global governance. Impact of certain decisions,

especially those of the G20, can be seen only with the passage of time, since they are of lasting nature, dealing with long-term economic and financial processes. Let us not jump to another wave of euphoria nor fall down into the black hole of melancholy in assessing results of the Toronto, Muskoka, Seoul and other summits. Rather, let us work together – diplomats and scholars – in search of creative and ambitious decisions which may be taken at these summits.