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MARCH 2015 NO: 14

THE G20 AND THE GOVERNANCE OF GLOBAL FINANCE

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ABSTRACT

Many developing countries faced severe financial crises after the second wave of financial globalization. Some economists argued that these crises occurred mainly due to the vulnerable and unstable nature of financial globalization. Developed countries, however, usually turned a deaf ear to such criticisms. Their gain from financial globalization deterred them from taking any steps towards reshaping the governance of global finance.

When criticism increased after the East Asian financial crisis, G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the USA) decided to create a new international forum (The Group of Twenty-G20) for cooperation and consolidation on issues mainly related to the global financial system. The G20 was founded in 1999. It was easier for developed countries to blame developing countries and to ignore the fault lines of the global financial system and, as a result, the G20 was not functional until the Global Financial Crisis (GFC). Since the onset of the GFC, the G20 is seen as the most powerful forum to lead global efforts to mitigate the effects of current crises and to avoid new ones in the future.

This analysis tries to evaluate the effectiveness of the G20 on changing the global financial landscape. Since the Washington Summit (2008), the G20 has made important progress in reshaping the governance of global finance. Among others, it has implemented macro-prudential policies; developed strict rules on the 'too big to fail' problem; increased the lending capacity of the IMF; and collected richer information on the shadow banking system.

Although the G20 has made substantial progress in implementing internationally consistent reforms, there is a lot that needs to be done in the future. IMF reforms are still waiting to be implemented. Another area in which the decisions of the G20 have been inadequate is increasing international safety nets. Although IMF resources have been increased, international safety nets are not enough to stabilize the global economy. Reducing the oligopolistic power of credit rating

This analysis tries to evaluate the effectiveness of the G20 on changing the global financial landscape.

agencies is another vital issue. Although G20 leaders have expressed their willingness to reduce this power, no noteworthy step has yet been taken.

Slowdown in the pace of global finance reforms is another problem for the G20. Since experiencing partial economic recovery in the USA, UK and Germany, these dominant actors' enthusiasm to reform global finance has begun to falter. This is an indication that, in fact, their commitment to change was not real, but pragmatic and self-centered.

INTRODUCTION

Before the Global Financial Crisis (GFC), developing countries were more likely to experience financial crises due to poorly managed banking systems, high public debts and a lack of transparency both at government and corporate level. Many developing countries faced severe financial crises after the second wave of financial globalization. These countries include Mexico and Brazil (1982-Latin American debt crisis); Mexico (1994); Turkey (1994); South Korea; Indonesia; Thailand; Malaysia (1997-East Asian financial crisis); Russia (1998); Brazil (1999); Argentina (2000); and Turkey (2000/1).

Some economists argued that these crises occurred mainly due to the vulnerable and unstable nature of financial globalization.[1] Developed countries, however, usually turned a deaf ear to such criticisms. Their gain from financial globalization deterred them from taking any steps towards reshaping the governance of global finance.

When criticism increased after the East Asian financial crisis, G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the USA) decided to create a new international forum (The Group of Twenty-G20) for cooperation and consolidation on issues mainly related to the global financial system. The G20 was founded in 1999. It was easier for developed countries to blame developing countries and to ignore the fault lines of the global financial system and, as a result, the G20 was not functional until the Global Financial Crisis (GFC). Since the onset of the GFC, the G20 is seen as the most powerful forum to lead global efforts to mitigate the effects of current crises and to avoid new ones in the future.

The GFC, which is considered to have been the severest financial crisis since the Great Depression, changed the attitude of developed countries, albeit slightly. After the second wave of financial globalization developed countries understood that financial crises were related to the fault lines of the global financial system and they became aware of the urgency of reforming the global financial system, on the one hand, and the importance of reform within a framework of cooperation, on the other. In the aftermath of the GFC, G20 leaders stated that "… we are determined to reform and modernize the international financial institutions to ensure they can assist members and shareholders effectively in the new challenges they face. We will reform their mandates, scope and governance to reflect changes in the world economy and the new challenges of globalization, and that emerging and developing economies, including the poorest, must have greater voice and representation."[2]

In the present analysis, we will try to evaluate the effectiveness of the G20 on changing the global financial landscape. We will begin with an analysis of the fault lines in the global financial system that caused the GFC and continue by presenting the key issues that were discussed during the G20 summits to correct these fault lines. Following this, an analysis of the way the G20

1. Stiglitz, J.E., Globalization and Its Discontents, (New York: W.W Norton, 2002); Rodrik, D., The Globalization Paradox, (New York: W.W Norton, 2011).

2. G20, Declaration of 2009 London Summit, http://www.g20.utoronto.ca/2009/2009communique0402.html

has changed the global financial system after the GFC will be put forth. Finally, we will examine the policy areas where the G20 has failed to make the global financial system function effectively.

THE FAULT LINES OF THE GLOBAL FINANCIAL SYSTEM

Global imbalances: It is natural that whilst some countries run current account surpluses, others run deficits. Since the 2000s, however, the USA's huge current account deficit and East Asian countries' huge current account surpluses have created problems for the global economy. After the East Asian Crisis, many East Asian countries set a target of running a trade surplus and increased their savings in order to build up precautionary reserves, which could be used to deal with sudden stops in capital flows. Other developing countries followed the same strategy. Although the IMF had to fulfill this task during the crisis, it was reluctant to provide safety nets. Due to weak international safety nets, developing countries, especially East Asian ones, have tried to export, save and further reserve. These reserves usually finance the USA's current account deficit as the central banks of developing countries hold their foreign exchange reserves mostly in the form of low-yielding short-term U.S. Treasury bills.

Global imbalances cause capital flows to move in the wrong direction, namely from developing countries to developed countries. These flows have not financed investment, but rather consumption and government deficits in developed countries such as the USA. As in the case of the GFC, these flows inflated the housing bubble. In their famous book, *This Time is Different*, Carmen Reinhart and Ken Rogoff argue that the rise of the housing bubble was mostly related to the large increase in capital inflows to the United States.[3] One of the deep causes behind the GFC, therefore, lies in global imbalances.[4]

Too Big to Fail: Another crucial fault line that caused the GFC is the dominant number of large and complex financial institutions in global finance. Many economists argue that certain financial institutions did not refrain from taking excessive risks during the 2000s as a result of the confidence of their CEOs that even in the case of bad investments they would be bailed out due to their size.[5] Mark Carney, FSB chairman and governor of the Bank of England, stated, "The banks and their shareholders and their creditors got the benefit when things went well. But when they went wrong the British public and subsequent generations picked up the bill - and that's going to end. Instead of having the public, governments, [and] the taxpayer rescue banks when things go wrong; the creditors of banks, the big institutions that hold the banks' debt - not the depositors - will become the new shareholders of banks if banks make mistakes. Let's face it, the system we've had up until now has been totally unfair."[6]

Shadow Banking: We can't just blame regulated financial institutions for the GFC. There are many financial institutions that act like banks, but are not regulated and supervised like them. These institutions are called 'shadow banks'. The The Financial Stability Board (FSB) has defined shadow banking as "credit intermediation involving entities and activities (fully or partly) outside the regular banking system", or

3. Reinhart, C.M. and Rogoff, K.S., This Time is Different: Eight Centuries of Financial Folly, (Princeton, NJ: Princeton University Press, 2010).

4. The Economist, Global Economic Imbalances: When a Flow Becomes a Flood, 22 January 2009.

5. Stiglitz, J., Freefall: America, Free Markets and the Sinking of the World Economy,(New York: W.W Norton, 2010).

6. "'TooBigto Fail' Bank Rules Unveiledby Global Regulators", BBC, 10 November 2014.

non-bank credit intermediation in short.[7] Shadow banks played a key role in the securitization of mortgages, fuelling the housing bubble. According to the FSB's estimates, the size of the shadow banking system grew rapidly before the crisis, from $27 trillion in 2002 to $60 trillion in 2007.[8] Although shadow banks took higher market, credit and liquidity risks, they did not have enough capital requirements to be used as buffers against potential losses. Some real banks controlled shadow banks to hide the risky transactions in their balance sheets. Due to the lack of transparency, it is not often easy to see the relationship between real and shadow banks and to investigate who is behind specific investsments.[9]

Regulatory Capture and Arbitrage: In the period between 1980 and 2008, countries were encouraged to undergo massive deregulation of their financial systems. In addition to the World Bank and IMF, international financial institutions were among the key players that forced governments to accelerate financial deregulation in order to expand their playing field, facilitate risk-taking and increase their returns. In their book, *13 Bankers*, Simon Johnson and John Kwak argue that the concentration of power by financial elites in the USA increased their capacity to demand lightweight regulations from the government.[10] This financial oligarchy, to use Johnson and Kwak's term, gained influence not only over politicians through campaign contributions, but also over regulators. The latter often became the oligarchy's advocates in anticipation of future employment and benefits, a situation known as regulatory capture. Using this lax regulatory environment, large financial institutions used risky and complex financial instruments such as negative-amortization mortgages, collateralized debt obligations (CDOs) and synthetic CDOs, and credit default swaps (CDSs) in the credit expansion that lead the GFC.

Credit rating agencies (CRAs) have serious conflicts of interest as they rate financial instruments for fees given to them by the issuers of these instruments.

This deregulation process and the risk of regulatory arbitrage came not only from the USA. Many developed and developing countries have competed with each other since the 1980s to attract more foreign financial inflows. One of the easiest ways to do this was to relax the financial system's legal, institutional and regulatory constraints. Foreign investors took advantage of regulatory differences between countries and engaged in regulatory arbitrage, moving their capital from countries with high regulatory standards to countries with low ones.[11] Regulatory arbitrage and competition between countries created a race to the bottom that enabled large financial institutions to act however they liked.

Credit Rating Agencies and a Lack of Transparency: Certain economists argue that credit rating agencies played a crucial role in the events leading up to the GFC.[12] Credit rating agencies (CRAs) have serious conflicts of interest as they rate financial instruments for fees given to

7. FSB, "Shadow Banking: Strengthening Oversight and Regulation Recommendations of the Financial Stability Board", (27 November 2011), http://www.financialstabilityboard.org/wp-content/uploads/r_111027a.pdf?page_moved=1

8. a.g.e

9. Kodres, L.E., "What is shadow banking?", *Finance and Development*, c.50, no.2 (June, 2013), s.42-43.

10. Johnson, S. And Kwak, J., 13 Bankers: The Wall Street Takeover and the Next Financial Meltdown, (New York: Pantheon Books, 2010).

11. Houston, J.F, Lin, C. and Ma, Y., "Regulatory Arbitrage and International Bank Flows," *Journal of Finance*, c.67, no.5 (2012), s.1845-1895.

12. Roubini, N. And Mihm, S., C Crisis Economics: A Crash Course in the Future of Finance", (New York: Penguin Books, 2010).

them by the issuers of these instruments. Investors who try to decide whether to buy the latter usually trust these ratings given that it is very difficult to assess the agencies' quality on their own. These ratings, however, can be biased. CRAs were, thus, criticized for misleading investors and governments. Added to this, the methodology of the CRAs is not transparent and it is difficult for investors to understand. Annette Heuser summarized the situation as follows: "…the rating agencies are not really telling us how they are coming up with their ratings, but in this day and age, you can't even sell a candy bar without listing everything that's inside. But for ratings, a crucial element of our economy, we really do not know what all the different ingredients are."[13]

The lack of transparency was not just an issue for the CRAs, but is a general problem of the financial system. It's very challenging for the average investor to understand the complexity and toxicity of financial instruments such as CDOs. Taking advantage of this shady environment, some financial institutions abuse the good faith of their investors. As Sheng argues, "the system was "gamed" by companies and financial institutions supported by their expensive lawyers learning how to disclose so much information and risks that they are responsible for nothing when anything goes wrong."[14]

Absence of a Global Financial Regulator: While there are Bretton Woods's institutions such as the IMF and the World Bank that shape the global economic system, their mandates are far behind the necessary arrangements for the handling of the global financial system. In addition to the absence of a global regulator, there has been little policy coordination between countries. One of the reasons behind the inability to arrive at a global financial regulator is that for many citizens, global financial flows are a marginal issue.[15] Since, in contrast to international trade, global financial flows did not directly affect wider society before the GFC, there was less pressure on governments to work on a global regulator and/or policy coordination. As a result there is no global regulatory authority like the World Trade Organization (WTO). Another reason is that no sovereign country is willing to share a portion of its fiscal and monetary sovereignty with a global financial regulator.[16] Third, as discussed above, large financial institutions have enough political power to eliminate any efforts towards a global regulator and policy coordination.

THE AGENDA OF THE G20

Washington 2008

Western leaders started to search for solutions with the onset of the GFC. Considering the destructive effects of this crisis and the growing power of developing countries, it was clear that possible solutions should be discussed with a wider participation of delegates. In October 2008, US President George W. Bush called a G20 meeting in order to find potential solutions to the GFC. The main aim of the G20 leaders was to reform and modernize the international financial institutions, while the principal targets of the summit were to determine the fault lines that caused the GFC and to agree on measures to fix them.

G20 leaders held a meeting in Washington on November 15, 2008. Regarding the causes of the crisis, the summit's declaration underlined the following issues: "During a period of strong global growth, growing capital flows, and prolonged stability earlier this decade, market participants sought higher yields without an adequate appre-

13. Heuser, A. "The Three Agencies with the Power to Make or Break Economics," TED Talk, https://www.ted.com/talks/annette_heuser_the_3_agencies_with_the_power_to_make_or_break_economies?language=tr

14. Sheng, A., "Financial Crisis and Global Governance: A Network Analysis", *Globalization and Growth: Implications for a Post-Crisis World*, In: M. Spence and D. Leipziger (Eds.), (Washington, DC: The World Bank, 2010), s.69-94.

15. Dieter, H., "Rethinking Global Economic Governance and the G20?", *SWP Working Papers*, no.2012/02 (May 2012).

16. Sheng, a.g.e

ciation of the risks and failed to exercise proper due diligence. At the same time, weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products, and consequent excessive leverage combined to create vulnerabilities in the system. Policy-makers, regulators and supervisors, in some advanced countries, did not adequately appreciate and address the risks building up in financial markets, keep pace with financial innovation, or take into account the systemic ramifications of domestic regulatory actions. Major underlying factors to the current situation were, among others, inconsistent and insufficiently coordinated macroeconomic policies, inadequate structural reforms, which led to unsustainable global macroeconomic outcomes. These developments, together, contributed to excesses and ultimately resulted in severe market disruption."[17]

During the first summit, leaders tried to understand the root causes of the GFC. They also discussed actions which were necessary to strengthen both domestic and global financial markets, and regulatory regimes which would help prevent future crises. These action plans included the following: increasing safety nets, promoting policy coordination, strengthening transparency and accountability, enhancing sound regulation, and reforming international financial institutions. Despite the importance of the aforementioned issues for a healthy global financial system, the Washington Summit proposed no action plan for their implementation.

Considering that the crisis had only started a few months before the summit and that speaking of the global financial system's fault lines before the crisis was considered tantamount to sin, it would be unfair to expect serious reform proposals to resolve these issues. It was promising that the chronic problems of the global financial system were addressed. For example, G20 leaders underlined that new short-term liquidity facilities are needed as safety nets to increase access to finance for developing countries in difficult financial conditions. They also underlined the necessity of enhancing policy coordination and cooperation between countries. The G20 also stated that, based on changing economic weights in the world economy, it is necessary to reform the IMF and the World Bank in order to increase their legitimacy and effectiveness. If developing countries were to have a greater voice in these institutions, the Bretton Woods twins would be able to work more efficiently for global prosperity. The summit also underlined the need for credit rating agencies to be regulated so as to avoid conflicts of interest, provide more information to investors and to issuers, and differentiate ratings for complex financial products. Although the Washington summit took place two months after the collapse of Lehman Brothers, there was no discussion of the 'too big to fail' problem.

During the first summit, leaders tried to understand the root causes of the GFC.

London and Pittsburg 2009

It would have been naïve to believe that leaders would start implementing financial reforms before the next summit. At the London and Pittsburg summits, it was expected that certain issues that had not been discussed in the previous summit would now be addressed. G20 leaders addressed two new issues in the London summit: 'too big to fail' and macro-prudential risk. The declaration of the London summit stated that domestic and global policymakers should extend regulation to all systemically important institutions (banks, hedge funds, etc). There are large and complex financial institutions that dominate global finance and are often larger than whole countries. These

17. G20, Declaration of 2008 Washington Summit, http://www.g20.utoronto.ca/2008/2008declaration1115.html

institutions considered themselves too large and too interconnected to fail, and believed that governments would shield them from potential failure in order to prevent an economic disaster. This confidence encouraged excessive risk taking with the promise of supernormal returns. As long as these institutions saw such returns, all went well, while taxpayers lifted the majority of the burden. Addressing the 'too big to fail' problem, for the first time, was crucial.

At the London summit, G20 leaders underlined the importance of macro-prudential risks. Before the GFC, policymakers focused more on micro-prudential risks when regulating financial markets. Micro-prudential regulations take risks as exogenous and examine the responses of individual financial institutions to such risks. But, as the GFC showed, reducing the probability of failure of individual financial institutions cannot provide financial stability. For the first time at the London summit the need for policymakers to take into account systematic risks and use macro-prudential policies was highlighted.

G20 leaders also discussed the governance structure of the IMF with a view of increasing its effectiveness and legitimacy. In April 2008, the Board of Governors of the IMF voted in favor of changes to the quota and voting share structure that will give a greater voice to developing countries. China, South Korea, India, Brazil, Mexico, Spain, Singapore, Japan and Turkey were among the countries that benefited from both the quota and vote increase.[18] The summit declaration pointed out that "we commit to implementing the package of IMF quota and voice reforms agreed in April 2008 and call on the IMF to complete the next review of quotas by January 2011."[19]

A series of concrete steps were revealed at the London summit. The declaration stated that G20 leaders had reached an agreement to increase the resources available to the IMF through immediate financing from members totaling $250 billion; to support at least $100 billion of additional lending by the Multilateral Development Banks (MDBs); and to ensure availability of at least $250 billion over the next two years to support trade finance. G20 leaders also agreed to extend regulatory oversight and registration to credit rating agencies in order to ensure that these institutions increase transparency, improve quality, and avoid conflicts of interest.

Shortly after the London summit, it was announced that the US had volunteered to host a second G20 meeting, which, in general, reviewed the topics discussed in London. In contrast to the previous summit, G20 leaders stated that they would commit to improve access to finance for the poor, and for small and medium-sized enterprises (SMEs). They announced the launch of a G20 Financial Inclusion Experts Group, which will harbor new approaches to the provision of financial services to these groups;promote successful regulatory and policy approaches; and elaborate standards on financial access, financial literacy, and consumer protection.[20]

Toronto and Seoul 2010

There were two G20 summits in 2010: one in Toronto and another in Seoul. The topic related to global finance which was most extensively discussed in these meetings was an increase in global financial safety nets. South Korea suffered considerably in the absence of these safety nets during the East Asian Crisis and, therefore, asked to come to the forefront of the issue.[21] The Seoul declaration underlined that as the global economy becomes more integrated strengthening global financial safety nets is urgently needed in order to restrain the highly volatile nature

18. IMF Staff, "Reform of IMF Quotas and Voice: Responding to Changes in the Global Economy", (Nisan, 2008). https://www.imf.org/external/np/exr/ib/2008/040108.htm

19. G20, Declaration of 2009 London Summit, http://www.g20.utoronto.ca/2009/2009communique0402.html

20. G20, Declaration of 2009 Pittsburgh Summit, http://www.g20.utoronto.ca/2009/2009communique0925.html

21. G20, Declaration of 2010 SeoulSummit, http://www.g20.utoronto.ca/2010/g20seoul.html

of financial flows. Strengthening global financial safety nets can help countries cope with financial volatility and reduce the negative effects of sudden capital outflows.

After the crises that occurred during the 1990s, the IMF put pressure on developing countries to increase the foreign exchange reserves of their central banks in order to fight sudden capital outflows. But, the IMF missed a crucial point: the cost of excessive reserve accumulation. Central banks hold their reserves mostly in the form of short-term U.S. Treasury securities. These securities offer low yields due to their low risks which creates an inequality in global finance. While the USA is able to borrow at low interest rates, developing countries gain little. Dani Rodrik argues that there is an opportunity cost of excessive reserve accumulation since the private sector borrows at a higher rate than what the central bank receives from its foreign currency based assets.[22] Increasing global financial safety nets cannot only reduce the probability of liquidity crises, but also the social cost of accumulating excessive amounts of foreign reserves.

G20 leaders praised the success of MDBs in providing loans of $235 billion at a time when sources of finance in the private sector were diminished.[23] G20 leaders argued that they had fulfilled the Pittsburgh Summit commitments to ensure that the MDBs have appropriate resources to stabilize the global economy.[24]

The declarations of these summits also stated that G20 leaders were committed to completing IMF quota and governance reforms by the Annual Meetings in 2012. The G20 agreed to double the IMF's total quota resources to $720 billion, to shift six percentage points of total quota to developing countries and to move two of the 24 IMF directorships from Europeans to representatives of developing countries.

In addition, G20 leaders agreed to work more on strengthening regulation and oversight of shadow banking. Leaders requested that the FSB, in collaboration with other international standard setting bodies, develop recommendations on this issue. G20 leaders also expressed their desire to accelerate the implementation of strong measures to improve transparency and regulatory oversight of hedge funds, credit rating agencies and over-the-counter derivatives in an internationally consistent and non-discriminatory way. They also stated the importance of reducing the reliance on external ratings.

Before the Seoul summit, the FSB published a report on the principles required to reduce reliance on CRA ratings.[25] These are the following:

- Standard setters and authorities should remove or replace references to CRA ratings in rules and regulations wherever possible.
- Banks, market participants and institutional investors should make their own credit assessments, and not rely solely or mechanistically on CRA ratings.
- Central banks should reach their own credit judgments on the financial instruments that will be accepted in market operations, both as collateral and as outright purchases.

The international currency war became a hotly debated issue in 2010. On September 27, 2010 in Sao Paolo, Brazilian Finance Minister Guido Mantega in a speech to Brazilian industrial leaders warned of an international currency war. "We're in the midst of an international currency war; a general weakening of currency. This threatens us because it takes away our com-

22. Rodrik, D. "The Social Cost of Foreign Exchange Reserves", *International Economic Journal*, c.20, no.3 (2006), s.253-266.

23. G20, Declaration of 2010 Toronto Summit, http://www.g20.utoronto.ca/2010/to-communique.html

24. The major MDBs include the World Bank; the Asian Development Bank (AsDB); the African Development Bank (AfDB); the Inter-American Development Bank (IADB); the European Bank for Reconstruction and Development (EBRD); the World Bank Group; the International Bank for Reconstruction and Development (IBRD); and the International Finance Corporation (IFC).

25. FSB, "Principles for Reducing Reliance on CRA Ratings", (27 October 2010) http://www.financialstabilityboard.org/wp-content/uploads/r_101027.pdf?page_moved=1

petitiveness," he said.[26] Although since the GFC some countries had tried to devalue their currencies so as to gain a competitive advantage, this was the first comment on the international currency war made by a senior policy maker. Famous economists, such as Jim O'Neill, Martin Wolf and Nouriel Roubini, shared their concerns regarding Mantega's warning.

The international currency war was also heavily discussed at the Seoul summit. The summit's declaration underlined the importance of more market-determined exchange rate systems, and the need of exchange rate flexibility to refrain from competitive devaluation of currencies. There was no progress in resolving this issue, however; statements made after the meeting reflected the difficulty of solving the problem. U.S. President Barack Obama accused China of keeping the Yuan low on purpose.

G20 leaders reaffirmed their view that no financial institutions should be too big or too interconnected, and that taxpayers should not be called to the rescue when things go wrong. The declarations of the Toronto and Seoul summits labeled these institutions as systematically important financial institutions (SIFIs) and globally systematic (G-SIFIs). It was underlined that their regulation is crucial to building a more stable and resilient global financial system. The G20 leaders proclaimed that they endorse the work of the Financial Stability Board in addressing the 'too big to fail' problem. Although, the FSB worked on a resolution framework and new capital requirements, it did not bring a finished policy proposal to the table.

As in the Pittsburg summit, G20 leaders also emphasized the importance of financing SMEs to create more jobs and increase economic growth. In order to find the most promising models for increasing external finance opportunities for SMEs, the G20 announced the launch of the SME Finance Challenge with a prize of $528 million. The winners of the G-20 SME Finance Challenge were present at the closing ceremony of the G-20 Seoul Summit.[27]

Cannes 2011

The Cannes summit took place in an environment dominated by the intensified Eurozone debt crisis and G20 leaders were expected to offer concrete solutions to reduce the impact of this new crisis. But, the declaration remained far below expectations. It stated, "We will ensure the IMF continues to have resources to play its systemic role to the benefit of its whole membership, building on the substantial resources we have already mobilized since London in 2009."[28] As The Guardian underlined, the following questions remained unanswered: How many resources and from whom? And where will they be spent?[29] To make matters worse, we heard contradictory statements during the summit from G20 leaders regarding the solution to the Eurozone debt crisis. For example, UK Prime Minister David Cameron said, "Britain will not contribute to the euro zone bailout fund and we are clear that the IMF will not contribute to the euro bailout fund either."[30]

Although there had been disappointment about the resolution of the Eurozone debt crisis, some important steps were taken in relation to the 'too big to fail' problem. In November 2011, the FSB published an initial list of G-SIFIs. The FSB also announced that the list of G-SIFIs will be updated annually and published in November of every year. This first list included the following banks: Bank of America; Bank of China; Bank of New York Mellon; Banque Populaire CdE; Barclays; BNP Paribas; Citigroup; Commerzbank; Credit Suisse; Deutsche Bank; Dexia; Goldman Sachs; Group CréditAgricole; HSBC; ING Bank; JP Morgan Chase; Lloyds Banking Group;

26. "Brazil in 'CurrencyWar' Alert", *The Financial Times*, 27 September 2010.

27. http://www.changemakers.com/g20media/pressrelease11-12-10

28. G20, Declaration of 2011 Cannes Summit, http://www.g20.utoronto.ca/2011/2011-cannes-declaration-111104-en.html

29. "G20 Summit: Slumping the Occasion", *The Guardian*, 4 November 2011.

30. "G20 Summit Ends without Resolution", *Channel 4*, 4 November 2011.

Mitsubishi UFJ FG; Mizuho FG; Morgan Stanley; Nordea; Royal Bank of Scotland; Santander; Société Générale; State Street; Sumitomo Mitsui FG; UBS; Unicredit Group; and Wells Fargo.

Although the danger of an international currency war was not felt as strongly as in 2010, G20 leaders discussed this issue and reaffirmed their commitment to move towards more market-determined exchange rate systems. G20 leaders also pledged to implement the 2010 IMF quota and governance reform in full. Leaders reaffirmed their objective of a single set of high quality global accounting standards, as well as a commitment to the improvement of the standards for the valuation of financial instruments.

The declaration underlined that the shadow banking system can create opportunities for regulatory arbitrage and pose systematic risks. Leaders reaffirmed their desire to strengthen the regulation and oversight of the shadow banking system. Before the summit, the FSB announced eleven recommendations on the oversight and regulation of the shadow banking system.[31] The aim of these recommendations was to establish a set of rules that are close to those introduced for real banks and, in this way, to close the regulatory gap between real and shadow banks.

In order to produce "a simple visual summary of the progress made in global policy development and implementation of financial reforms at the G20 level", the FSB developed a "traffic light" table.[32] The table categorizes reforms according to their progress and implementation into four categories: complete, green, amber and red. It also includes the responsible institutions for global policy development and/or policy implementation, and deadlines. The first table was presented at the Cannes Summit.

31. FSB, "Shadow Banking: Strengthening Oversight and Regulation Recommendations of the Financial Stability Board", (27 October 2011), http://www.financialstabilityboard.org/wp-content/uploads/r_111027a.pdf?page_moved=1

32. FSB, "Progress in Implementing the G20 Recommendations on Financial Regulatory Reform: Status Report by the FBS Secretariat", (19 June 2012), http://www.financialstabilityboard.org/wp-content/uploads/r_120619b.pdf?page_moved=1

Los Cabos 2012

Policymakers and the press were more concerned about the future of the EU economy than the US economy during the Los Cabos summit. Austerity in the debt-ridden members of the Eurozone and the future of the Euro were among the most hotly debated topics. This G20 summit coincided with the Greek elections. While the G20 leaders discussed important issues on global economy, they were also following the developments in Greece. The news that the pro-austerity New Democracy party won the election delighted many EU members, especially Germany.

Policymakers and the press were more concerned about the future of the EU economy than the US economy during the Los Cabos summit.

With regards to the EU economy, in the declaration document, the G20 leaders stated that EU members would take all necessary policy measures to ensure economic stability and to improve the functioning of the financial system.[33] No clear picture on how this was to be achieved, however, emerged.In the summit, a Canadian journalist asked José Manuel Barroso to explain why North Americans should risk their assets to help Europe". Barroso replied, "Frankly, we are not here to receive lessons in terms of democracy or in terms of how to handle the economy. This crisis did not originate in Europe … seeing as you mention North America, this crisis originated in North America and much of our financial sector was contaminated by, how can I put it, unorthodox practices, from some sectors of the financial market."[34]

33. G20, Declaration of 2012 Los Cabos Summit, http://www.g20.utoronto.ca/2012/2012-0619-loscabos.html

34. "G20 Summit: Leaders Alarmed Over Eurozone Crisis", *BBC*, 19 June 2012.

In order to increase the IMF's legitimacy, relevance and effectiveness, the G20 leaders reaffirmed their commitment to implement the 2010 IMF Quota and Governance Reform in full. Leaders emphasized that the new quota formula should be simple and transparent, and that the distribution of quotas based on the formula should better reflect the relative weights of IMF members in the world economy. They announced that they were committed to complement the review of the quota formula; to overcome the shortcomings of the current quota formula by January 2013; and to complete the general review of quotas by January 2014. At the Los Canos summit, leaders also committed to increasing temporary resources available to the IMF by $461 billion. Turkey's contribution to this financial pool was $5 billion. Brazil, Russia, India and China agreed to contribute around $70 billion to the IMF.[35]

As can be seen from the FSB's "traffic light" table, the G20 leaders were not satisfied with the steps to reduce reliance on CRA ratings taken up to that time. Leaders called for accelerated progress in reducing external ratings and encouraged steps that would enhance the transparency of CRAs and the competition between them. Leaders renewed their support for the continued effort towards a convergence to a single set of high-quality accounting standards.

As discussed above, huge differences between countries in terms of trade balances and saving rates is a serious risk factor for the global economy. To reduce this risk, the G20 leaders urged countries with large current account surpluses to increase domestic demand, and countries with large current account deficits to increase their saving rates. The G20 leaders suggested surplus economics could help remove price and tax distortions, strengthen social safety nets and liberalize service sectors in order to increase domestic consumption. This general advice is difficult to implement, though, due to the fact that saving and consumption decisions are affected by many different factors. To reduce global imbalances, first, each G20 country (especially the US and China) should be willing to change its economic structure even if it might be harmful for the country in the short and medium run. Second, each country must take its own measures based on its institutional, cultural and economic environment rather than implementing 'one size- fit sall' type policies.

With regard to international currency wars, the G20 leaders welcomed China's commitment to allow market forces to play a larger role in determining the value of the Renminbi.

Saint Petersburg 2013

The 2013 G20 summit was held in Saint Petersburg and was universally accepted as one of the most inefficient ones. First, the summit was overshadowed by disputes between the leaders over military action against Syria in the Syrian civil war. In addition to this, leaders could not agree on certain critical issues regarding the global economy. The primary discussion about the global economy was the Fed's announcement on the tapering of asset purchases. Immediately after the GFC, the Fed decided to create more money by buying bonds or other financial assets from financial institutions, a monetary policy known as quantitative easing (QE), to stimulate the U.S. economy. A portion of this increased money supply was directed to developing countries in search of high yield. But, in May 2013, Fed Chairman Ben Bernanke raised the possibility of tapering the Fed's $85-billion-per-month bond buying program after receiving some positive signs of economic recovery. Tight U.S. monetary policy might lead to capital outflows and currency depreciations in developing countries; in other words it holds a potential risk of slow economic growth in countries such as China, India, Brazil, South Africa, Mexico and Turkey.

35. "BRICS to Announce IMF Contribution at G20 Meeting, Brazil Says", *Bloomberg*, 18 June 2012.

In the opening speech of the summit, Vladimir Putin voiced his concerns about the negative effects of tapering on global economy. Russia was backed by many countries, including China. China's Vice Finance Minister Zhu Guangyao said, "The U.S. economy is showing some positive signs and is recovering gradually and we welcome this. But the United States - the main currency issuing country - must consider the spill-over effect of its monetary policy, especially the opportunity and rhythm of its exit from the ultra-loose monetary policy."[36]

However, G20 leaders struggled to find common ground to mitigate the potential negative effects of tapering on the global economy. BRICS countries focused more on this issue during the summit. At a meeting of BRICS leaders during the G20 summit, the BRICS countries decided to fund their development bank with $100 billion. China committed $41 billion; Brazil, India and Russia $18 billion each; and South Africa $5 billion.[37] This development bank will finance joint development projects and reduce the effects of sudden capital outflows, as in the case of tapering, and it reveals the BRICS nations' desire to reshape the Western-dominated international financial system by reducing the dominance of the World Bank and the IMF.

G20 leaders again reaffirmed the urgent need for ratification of the 2010 IMF Quota and Governance Reform. The declaration of the summit stated that completing this reform is indispensable for enhancing the IMF's credibility, legitimacy and effectiveness.[38] However, these words expressed nothing more than a wish.

To increase economic growth and create more jobs, G20 leaders announced that they will start to implement, by the next G20 summit, a set of collective and country-specific actions that promote long term financing for investment in infrastructure and SMEs.

Brisbane 2014

The Brisbane summit took place in a milieu of rising tension between the West and Russia due to the Ukraine conflict. Although this summit was supposed to address key global economic challenges, geopolitical issues dominated and, as a result, this summit was a disappointment. President Vladimir Putin left the summit early under the pretext of a long flight to Russia.

Contrary to the long declarations of past summits, the G20 leaders this time released a short communiqué. The most prominent section of the communiqué regarded IMF reforms. G20 leaders declared that "we are deeply disappointed with the continued delay in progressing the IMF quota and governance reforms agreed in 2010 and the 15th General Review of Quotas, including a new quota formula. The implementation of the 2010 reforms remains our highest priority for the IMF and we urge the United States to ratify them. If this does not happen by year-end, we ask the IMF to build on its existing work and stand ready with options for next steps."[39] Although the written statement from the White House after the Brisbane summit emphasized the US leadership in reshaping global finance, the IMF governance issue was not even mentioned.[40]

To boost global growth and create more jobs, this summit introduced the Brisbane Action Plan, which contains more than 800 reforms ranging from building more roads, integrating SMEs into the global economy, and promoting the greater participation of women in the labor market.[41] The IMF and OECD estimate that if these reforms are fully implemented, G2O

36. "Ahead of G20, China Urges Caution in Fed Tapering", *Reuters*, 27 August 2013.

37. "BRICS Leaders Meet A Head of the G20 Summit in St Petersburg", 5 September 2013. http://en.g20russia.ru/news/20130905/782407860.html

38. G20, Declaration of 2013 St Petersburg Summit" http://www.g20.utoronto.ca/2013/2013-0906-declaration.html

39. G20, Communique of 2014 Brisbane Summit, http://www.g20.utoronto.ca/2014/2014-1116-communique.html

40. The White House, Office of the Press Secretary, "Fact Sheet: The G-20 Brisbane Summit", (16 November 2014), http://www.whitehouse.gov/the-press-office/2014/11/16/fact-sheet-g-20-brisbane-summit

41. G20, Brisbane Action Plan, https://g20.org/wp-content/uploads/2014/12/brisbane_action_plan.pdf

growth will increase by 2.1 per cent by 2018.[42] The fate of these reforms shouldn't follow the example set by the IMF reform; their implementation should be rigorously monitored.

Global financial players tried to exploit regulatory loopholes so as to increase their earnings. This regulatory arbitrage caused a "race to the bottom" in global financial regulations.

THE GOVERNANCE OF FINANCE BEFORE AND AFTER THE GFC

How has the GFC changed the general view on the governance of financial regulation and supervision, and its implementation? What has the contribution of the G20 been so far on this issue? In this section, we will try to answer these two questions.We will begin this analysis by discussing two broad views on the governance of finance: public and private interest.

According to the public interest view on the governance of finance, market failures are likely to be more pervasive in financial markets and governments that have not only the incentives, but also the capabilities to ameliorate these market failures. Therefore, the public interest view suggests that governments can use regulations and supervisory agencies to facilitate the efficient functioning of financial markets. [43]

On the other hand, the private view on the governance of finance argues that government regulations can be politically captured, and thus their actions cannot ameliorate market failures. The private view argues that governments use regulations and state-owned banks to provide employment, subsidies and other benefits for themselves, their families, and their supporters. Therefore, regulations and supervision that empowers the private sector to monitor financial markets is more effective at enhancing financial markets' performance and stability.

Before the GFC, the private view was highly supported by economists, politicians and international organizations. The GFC, however, shifted the general attitude from favoring the private view to advocating a position somewhere between the public and private one.

The period between 1980 and 2008 is known as the "financial deregulation" era. This deregulation process reduced government interventions in bank lending; privatized state-owned banks; phased out interest rate ceilings; removed the barriers between different types of financial institutions; allowed the self-regulation of over-the-counter markets; and condoned the rise of shadow banking. The same period was also widely accepted as the second wave of financial globalization: as the financial system became more tightly integrated, financial deregulation, new financial instruments and technological improvements increased cross-border capital flows (international portfolio investments, foreign direct investments and foreign debts) to unprecedented heights.

There were huge differences across countries in financial system regulations during this era. These differences encouraged the flow of foreign capital from countries with highly regulated financial systems to those with less regulated financial systems. Global financial players tried to exploit regulatory loopholes so as to increase their earnings. This regulatory arbitrage caused a "race to the bottom" in global financial regulations. Former IMF chief Dominique Strauss-Kahn stressed that "One of the lessons of the crisis is that we must avoid regulatory arbitrage. Key

42. OECD ve IMF, "Quantifying the Impact of G-20 Members Growth Strategies", (2014), https://g20.org/wp-content/uploads/2014/12/quantifying_impact_g20_members_growth_strategies.pdf

43. Bath, J., Caprio, G. and Levine, R.,Guardians of Finance: Making Regulators Working for Us, (Cambridge, MA: The MIT Press, 2006).

aspects of prudential regulations must be applied consistently across countries and across financial activities. This is especially important today, as the road to a safer future involves strengthened financial regulation and supervision, not only of cross-border institutions but also of cross-border markets. This will only work if all countries sign on and take ownership of the initiative, and resist the temptation to offer loopholes."[44]

While it was widely accepted that financial deregulation provides financial and economic stability, there were some concerns about financial innovations and risk management strategies. Basel I and II were among the few global attempts to recommend certain standards and regulations for the banking system. The 1988 Basel I Accord was a primitive attempt and its main aim was to set capital requirements that minimize credit risks. According to Basel I, banks that operate internationally are required to hold a backing for risk-weighted assets no less than 8% of capital. Basel II provided a more comprehensive regulatory framework than Basel I, which was based on three pillars: the first pillar dealt with minimum capital requirements in respect to credit, market and operational risk; the second pillar dealt with the supervisory and regulatory response of capital adequacy; and the third was related to market discipline based on disclosure requirements.

Most of the economists, policymakers and international organizations had a similar attitude towards financial deregulation before the GFC. Yet, this attitude changed after the GFC. It has been frequently argued that financial deregulation created an excessive risk-taking environment, which in turn caused the GFC. G20 leaders admitted that weak standards and regulations had created vulnerabilities in the system.

The GFC also caused a shift from micro-prudential policies to macro-prudential ones. Micro-prudential policies aim to reduce the probability of failure of individual financial institutions. On the other hand, the main purpose of macro-prudential policies is to reduce systemic risk, which is a risk of disruption to financial services that is caused by an impairment of all or part of the financial system and holds the potential to negatively affect the real economy.

In the wake of the GFC, it has been widely argued by economists and policymakers that micro-prudential supervision and regulations are not sufficient to force financial institutions to have the required capital and liquidity to cope with shocks. But, there is some tentative evidence that macro-prudential policies might reduce systemic risk and provide financial stability. During the G20 summits, leaders also underlined the importance of macro-prudential policies for mitigating financial stability risks. In the declaration of the London summit G20 leaders stated: "We have agreed that all systemically important financial institutions, markets, and instruments should be subject to an appropriate degree of regulation and oversight. In particular, we will amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks, and private pools of capital to limit the build-up of systemic risk."[45]

Some economists argue that at times of distress, time-invariant regulatory capital is often not the binding constraint on banks. Therefore, new macro-prudential supervision and regulations should use time-varying capital requirements. They suggest that if the regulation of equity-to-assets ratio is 8% at times of distress and policymakers want banks to be able to absorb losses of 4% of assets, then the regulatory minimum for equity-to-assets ratio should be at least 12% in good times.

In the light of the opinions of policy makers and economists, Basel Accord's new edition,

44. Strauss-Kahn, D., Crisis Management and Policy Coordination: Do We Need a New Global Framework?, (15 May 2009),https://www.imf.org/external/np/speeches/2009/051509.htm

45. G20, Declaration of 2009 London Summit, http://www.g20.utoronto.ca/2009/2009communique0402.html

Basel III, not only targets micro-prudential regulation, but also macro-prudential regulation. According to Basel III, national regulators can implement a countercyclical buffer during periods of high credit growth which will vary between 0 and 2.5% to total risk-weighted assets. The primary aim of this buffer is to achieve the broader macro-prudential goal of protecting the banking system from periods of excess credit growth. Basel III also introduces a leverage ratio requirement in order to constrain leverage in the banking sector, thus helping to mitigate the risk of the destabilizing deleveraging processes.

After the GFC, developed countries such as the USA and the UK spent billions of dollars of taxpayer money to bail out big banks. Almost everyone has accepted that this is not fair. G20 leaders have made it their task to solve this issue. The FSB announced that 30 systematically important financial banks should have a buffer of bonds or equity equivalent to 16-20% of the risk-weighted assets starting from January 2019 - initially three Chinese banks on the list would be exempt.[46] In addition to this, these 27 banks must also meet an 8% capital requirement under Basel III. As FSB chairman Carney said, "Once implemented, these agreements will play important roles in enabling globally systemic banks to be resolved without recourse to public subsidy and without disruption to the wider financial system."[47]

The GFC also changed the attitude on safety nets. IMF resources were inadequate in terms of offering liquidity during the crises faced by developing countries in the 1990s. As discussed, most developing countries accumulated large foreign exchange reserves since then to self-insure themselves. G20 leaders tried to make decisions on increasing IMF resources and there were certain achievements on financial safety nets. The IMF introduced a new Precautionary Credit Line (PCL) and made improvements to its existing Flexible Credit Line (FCL). But, as we will see, these improvements are not enough to cope with financial volatility and contagion risk.

Before the GFC, there had been no argument or worry regarding unregulated financial institutions that act like banks. The so-called shadow banking system was one of the main culprits of this crisis. Therefore, the G20 and the FSB set forth the agenda of transforming the shadow banking system into resilient market-based finance so as to address a critical fault line that contributed to the GFC.

WHERE HAS THE G20 FAILED SO FAR?

Although not adequate, the FSB has taken some measures to mitigate the problem by creating a system-wide framework to monitor unregulated financial systems, and by coordinating and contributing to the development of policy measures.[48] Although the G20 has taken some steps to improve the governance of global finance since the GFC, there are areas in which it has failed to put policies into practice. In this section we will take a close look at these failed opportunities.

The GFC showed us that we need a credit rating agency system that is more transparent and free from conflict of interest. Moody's, Standard & Poor's and Fitch dominate the ratings agency sector globally. There is a strong need for greater competition in this system so that it can

46. The 2014 updated list of global systemically important banks is: HSBC; JP Morgan Chase; Barclays; BNP Paribas; Citigroup; Deutsche Bank; Bank of America; Credit Suisse; Goldman Sachs; Mitsubishi UFJ FG; Morgan Stanley; Royal Bank of Scotland; Agricultural Bank of China; Bank of China; Bank of New York Mellon; BBVA; Groupe BPCE; Group CréditAgricole; Industrial and Commercial Bank of China Limited; ING Bank; Mizuho FG; Nordea; Santander; SociétéGénérale; Standard Chartered; State Street; Sumitomo Mitsui FG; UBS;Unicredit Group; and Wells Fargo.

47. "Mark Charney Hails New Deal for 'Too Big to Fail' Banks", *The Guardian*, 10 November 2014.

48. See FSB (2014) for more details. FSB, "Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability", (14 November 2014), http://www.financialstabilityboard.org/2014/11/overview-of-progress-in-the-implementation-of-the-g20-recommendations-for-strengthening-financial-stability-5/

function more efficiently. G20 leaders also emphasized the importance of reducing reliance on CRA ratings and of finding alternative ways to quantify risks. There has never been a tangible proposal to solve this issue, however. The inability to find a reasonable joint solution during the G20 summits, has led certain countries in search of partial solutions. Most of the BRICS countries believe that major CRAs make political decisions. Therefore, China and Russia suggested that an alternative BRICS-based rating agency should be established. Turkey has also expressed its interest in this issue.

Although some important steps have been taken in relation to international financial safety nets, these steps are not enough.The IMF's available resources are insufficient to meet the problems of the global economy. In addition to this, the IMF is still reluctant to help countries that have problems with the global system. China wants to fill this gap by offering to expand a $24 billion currency swap program to Russia in order to mitigate the effects of the economic crisis that Russia faced after the fall of oil prices and EU-US economic sanctions.[49] China has also provided $2.3 billion in funds to Argentina and has lent $4 billion to Venezuela. But, this is not a sustainable solution. The IMF's reluctance might cause serious threats to global economy.

Probably the most disappointing topic is the IMF reforms. As discussed, in 2010, the G20 agreed to double the IMF's total quota resources and redistribute voting power from developed countries to developing countries. But, these IMF governance reforms must be approved by an 85% majority of the total voting power in order to be implemented.[50] Hitherto, 146 of the 188 members of the IMF with 77.07% of the votes have approved these reforms.[51] But this approval is not sufficient because the US voting share is 16.7%, making approval by the US necessary. Although Barack Obama supports these reforms, Congress which is dominated by the Republicans is not eager to approve them and Obama does not want to meet Republicans' high political demand.IMF managing director Christine Lagarde hopes that this reform package will be approved in 2015. She has stated, "The 2010 governance and quota reform is an absolute must. It has to be implemented and everybody knows that it is currently stuck before the US Congress. We very much hope that the different branches of the US authorities… will understand the relevance of having an IMF that is representative of the global economy and includes the people that should sit at the table. Now this has not happened."[52]

Although some important steps have been taken in relation to international financial safety nets, these steps are not enough.The IMF's available resources are insufficient to meet the problems of the global economy.

CONCLUSION

The Global Financial Crisis changed the landscape of global finance. Before the GFC, it was unimaginable that Western leaders and Bretton Woods's institutions would admit that the global financial system can cause devastating effects by launching complex and opaque financial products, pushing for weak regulatory standards and taking high systemic risks. Today it is not surprising to hear confessions about the unstable nature of the global financial system. The GFC has showed us that there is something wrong with the

49. "Ruble Swaps Show China Challenging IMF as Emergency Lender", *Bloomberg*, 22 December 2014.

50. IMF, Factsheet: IMF Quotas, 3 Ekim 2014, http://www.imf.org/external/np/exr/facts/quotas.htm

51. Truman, E.M., "The G-20 Is Failing", *Foreign Policy*, (12 April 2012), http://foreignpolicy.com/2012/04/12/the-g-20-is-failing/

52. "Christian Lagarde Urges US to approve IMF Reforms", *The Financial Times*, 9 October 2014.

governance of global finance and, as a response, many leaders have tried to understand the fault lines that caused the GFC and to implement financial reforms to address these fault lines.

Although the epicenter of this crisis was the USA, it soon spread to the rest of the world. It was a global crisis and therefore it needed global solutions. Since the early 2000s, emerging economies such as China, Brazil, India, South Africa and Turkey made their presence felt in the global economy. Discussing these issues at the G8 platform was, therefore, no longer accurate and constructive - the G20 was a more appropriate platform for such discussions. Although the G20 began as an annual meeting for finance ministers and central bank governors following the Asian financial crisis, it was not an active and effective platform. Starting in 2008, the G20 has organized leaders' summits to strengthen the global economy and reform the global financial system.

As discussed, in the past six years, the G20 has made important progress in reshaping the governance of global finance by, among others, implementing macro-prudential policies; developing strict rules on the 'too big to fail' problem; increasing the lending capacity of the IMF; and collecting richer information on the shadow banking system.

Although the G20 has made substantial progress in implementing internationally consistent reforms, there is still much to be done. IMF reforms are still waiting to be implemented. The USA is refusing to approve these reforms. Turkey, which holds the chair of the G20 in 2015, should make efforts to mould public opinion on this issue and ensure that other G20 leaders exert more pressure on the USA to approve these reforms. As Turkish Prime Minister Ahmet Davutoglu and Deputy Prime Minister Ali Babacan have underlined, the ratification of these reforms is crucial to increasing the inclusiveness of the governance of global finance. Without their implementation, it is not possible to extend the legitimacy and effectiveness of the IMF.

Another area in which the decisions of the G20 have been inadequate is in building up international safety nets. Although IMF resources have been increased, international safety nets are not enough to stabilize the global economy. The international financial system should provide stronger international safety nets in order to reduce the tendency of developing countries to accumulate vast amounts of foreign currency reserves that cause global imbalances and carry social costs.

Reducing the oligopolistic power of credit rating agencies is another vital issue. Although G20 leaders have expressed their willingness to reduce this power, no noteworthy step has yet been taken. There is a need for establishing an international rating agency, but this institution should be more inclusive, trustworthy and effective than the IMF and the World Bank. There is an unwritten rule that the chief of the IMF should be European and the head of the World Bank an American. If such an international rating agency is established, the director of this institution should be from a developing country.

Slowdown in the pace of global finance reforms is another problem for the G20. Since experiencing partial economic recovery in the USA, UK and Germany, these dominant actors' enthusiasm to reform global finance began to decrease – a sign that their quest for change was not real, but pragmatic and self-centered.

The intended focus of the G20 summits is reforming the global economy, but certain summits were overshadowed by international political crises such as the Syrian civil war and the Russia-Ukraine conflict. Deep disagreements between G20 leaders on these political crises blocked the important decisions regarding the global economy. G20 meetings are aimed at deepening economic co-operation and strengthening the global economy and leaders shouldn't shift their focus towards other issues during these summits. There are other platforms and meetings where topics related to international politics and relationships can be discussed. To make the G20 summits effective, leaders should focus on issues related to the global economy.

Many developing countries faced severe financial crises after the second wave of financial globalization. Some economists argued that these crises occurred mainly due to the vulnerable and unstable nature of financial globalization. Developed countries, however, usually turned a deaf ear to such criticisms. Their gain from financial globalization deterred them from taking any steps towards reshaping the governance of global finance.

When criticism increased after the East Asian financial crisis, G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the USA)decided to create a new international forum (The Group of Twenty-G20) for cooperation and consolidation on issues mainly related to the global financial system. The G20 was founded in 1999. It was easier for developed countries to blame developing countries and to ignore the fault lines of the global financial system and, as a result, the G20 was not functional until the Global Financial Crisis (GFC). Since the onset of the GFC, the G20 is seen as the most powerful forum to lead global efforts to mitigate the effects of current crises and to avoid new ones in the future.

This analysis tries to evaluate the effectiveness of the G20 on changing the global financial landscape. Since the Washington Summit (2008), the G20 has made important progress in reshaping the governance of global finance. Among others, it has implemented macro-prudential policies; developed strict rules on the 'too big to fail' problem; increased the lending capacity of the IMF; and collected richer information on the shadow banking system.

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