

SNAP ANALYSIS: New world economic order takes shape at G20

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By Lesley Wroughton

PITTSBURGH (Reuters) - The [Group of 20](#) is set to become the premier coordinating body on global economic issues, reflecting a new world economic order in which emerging market countries like China are much more relevant, according to a draft communique.

Leaders of the [G20](#) developed and developing nations also agreed to make the International Monetary Fund more representative by increasing the voting power of countries that have long been under-represented in the world financial body, said the draft G20 communique obtained by Reuters.

It called for a shift in IMF voting by at least 5 percent, although several [G20](#) representatives said it was a 5 percentage point shift from developed to under-represented countries. Currently, the split in voting power is 57 percent for industrialized countries and 43 percent for developing countries. The shift would make the split nearly 50-50.

The [G20](#) was formed in 1999 for finance ministers and central bank chiefs following the Asian financial crisis. The idea was to help the G7 -- the United States, Germany, Britain, France, Italy, Canada and Japan -- talk with the wider world.

Following are some of the implications of the decisions:

- * The shifts reflect a recognition by the United States and Europe of a new global economic reality in which emerging market economies play a bigger role, especially in the aftermath of the global financial crisis that hurt developed economies more than developing ones.

- * By making the [G20](#) the new global economic coordinator, countries are committing to maintaining cooperation even after the global financial upheaval and recession recede. The G20 was upgraded from a ministerial to a leaders-level forum only last year as the crisis deepened.

- * Adopting the [G20](#) as the new economic steering committee raises questions over the whether or not the Group of Eight, which makes up the world's industrial countries, will eventually be faded out. Diplomats said the G8 would continue to function but would focus on non-economic issues.

- * The agreements are big wins for U.S. President [Barack Obama](#), hosting his first international summit. Since his election last year, he has pushed for changes in the global financial architecture to recognize the increasing economic clout of China and other emerging markets.

The agreement to overhaul the IMF's voting structure is especially big for the new Obama administration, given that the United States proposed the 5 percentage point shift. The speed with which the [G20](#) agreed to the change -- if the draft communique is eventually adopted -- is surprising because of the politically sensitive nature of the issue for Europe, which will see the biggest dilution in its voting power.

- * Giving developing nations more say at the IMF and a bigger say in global economic affairs could help Obama succeed in his push to get big exporters like China to increase domestic demand, helping slower-growing economies like the United States to find new markets.

- * The shift of at least 5 percentage points in voting power is the largest increase ever seen in the IMF's voting structure and is likely to see China overtake old European powers Britain and France which have long resisted the move.

- * The [G20](#) decision on IMF voting reform will give momentum to a 2011 deadline for overhauling IMF governance which will then be voted on by the IMF's 186 member countries.

- * The [G20](#) also agreed the head of the IMF should be selected based on qualifications and not nationality, according to the draft communique obtained by Reuters. The decision is significant because the head of the IMF has always been a European, while the president of the World Bank has always been an American.

(Reporting by Lesley Wroughton, Editing by Frances Kerry)

