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RECOVERY OR RELAPSE

THE ROLE OF THE G-20 IN THE GLOBAL ECONOMY

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INTRODUCTION

On June 26, heads of state and government of the Group of 20 (G-20) will meet in Toronto, which is the fourth time they will convene since the start of the global economic crisis. At last September's G-20 Summit in Pittsburgh, leaders seemed cautious yet fairly optimistic and confident that the worst of the crisis was behind them and that the world economy was on the path toward recovery. During Pittsburgh, leaders focused on the global coordinated actions needed to ensure a full economic recovery that would deliver sustainable, long-term and balanced global growth.

However, before the economic recovery could be fully entrenched, the global economy was hit with yet another setback in the form of the European debt crisis. Therefore, almost a year later, the question still remains: is the world economy really recovering? Or are we beginning to see a relapse?

Experts from the Brookings Global Economy and Development program examine this question, analyze the current economic climate, and provide recommendations on how the G-20 should continue to serve as the "premier forum for international economic cooperation."

Eswar Prasad takes the pulse of the world economy and tracks the recovery in G-20 economies by looking at a set of real economy, financial and confidence indicators. He discusses the critical policies and reforms that G-20 leaders must take into consideration in Toronto in order to put the world economy back on track toward balanced, robust and sustainable growth.

Domenico Lombardi assesses how the ongoing European debt crisis will impact the agenda and discussions in Toronto. He argues that the European Union—the largest economy in the world—lacks the institutional framework needed to manage the first serious crisis since its post-World War II establishment. Lombardi also discusses what the G-20 can and cannot do to help Europe deal with its debt crisis.

Colin Bradford and Johannes Linn analyze the changing role of the G8 with the rise of the G-20. They argue that the G8 has lost its legitimacy and effectiveness due to its reduced relative weight in the world economy and the growing set of complex global challenges that require greater coordination from a diverse group of countries. They advise allowing the G-20 to break the pre-formed, traditional alliances in order to engage in a more fluid and flexible process of discussion, negotiation and bargaining.

Homi Kharas examines what role the G-20 should play in international development vis-à-vis the G8. He argues that while the G8 deserves credit for achieving some positive impacts on development aid and debt relief, the G-20 can and should provide a more comprehensive view of development; one that includes issues like growth, employment, investment and private sector development and that affects a more diverse group of emerging and developing economies.

Ezra Suruma discusses Africa's lack of representation in the G-20 despite having Ethiopian and South African leaders participate in the meetings in Toronto. Suruma urges the G-20 and other international forums and institutions to respond to Africa's quest for inclusion and to increase Africa's voice of nearly one billion people in the global discussions of world economic affairs, which certainly impact the future of Africa's growth and development.

Paul Blustein evaluates how the G-20 has delivered so far on the Doha Round of global trade negotiations. He argues that although G-20 leaders have continued to pledge to refrain from using protectionist measures such as raising new barriers to international trade and investment, they have done little to seek an ambitious and balanced conclusion to the Doha Development Round in 2010.

BACK FROM THE BRINK, BUT A TOUGH ROAD STILL AHEAD FOR THE G-20

ESWAR PRASAD

OVERVIEW

The world economy took a pounding during the financial crisis. Just as it was finding its feet, the European debt crisis rocked it back on its heels. Despite all the warnings of doom, the world economy has in fact been quietly mending itself. The economic picture looks far better now than it did a year ago although some rough patches lie ahead.

The recovery has been supported by an extraordinary amount of fiscal and monetary stimulus. The major challenge for G-20 leaders is to design and time the exit from these stimulus measures in a manner that doesn't stall the recovery but helps secure medium-term fiscal and financial stability.

POSITIVE DEVELOPMENTS

The new Brookings-*Financial Times* TIGER (Tracking Indexes for the Global Economic Recovery) takes the pulse of the world economy and individual G-20 economies. It is a composite measure that combines information from indicators of real economic activity (GDP, employment, industrial production, trade), financial indicators (stock market indices, stock market capitalization and, for emerging markets, bond spreads relative to U.S. Treasuries) and indicators of business and consumer confidence.

The composite indices reveal five dominant themes. First, the global economy turned the corner by mid-2009 and has strengthened gradually since then. Growth rates of many indicators rebounded strongly after plunging into negative territory during 2008. These high growth rates are starting from a lower base and there is still a lot of ground to make up before the indicators are back at their pre-crisis *levels*. For instance, growth rates of industrial production in many G-20 economies are now higher than before the crisis but, because growth rates fell sharply during 2008, the levels of industrial production are still below pre-crisis levels. Still, the recovery has clearly gathered momentum. Some indicators such as global trade are already at or slightly above their pre-crisis levels.

Second, the recovery has been uneven. Growth rates of industrial production and trade volumes have recovered strongly, while the recovery in GDP and employment has been modest at best.

Third, the performance of world financial markets outpaced that of key macro variables in 2009. In recent months, however, financial markets have dipped, partly because they have been rattled by the problems in Europe. This could signal difficult times ahead or might be just a temporary pullback from an earlier surge of unfounded optimism.

Fourth, confidence measures have regained some of the ground they lost during the worst of the crisis. Business confidence is still rising gradually but consumer confidence in advanced economies has been stuck in a rut in recent months. Resurgent business confidence is a positive sign as it could boost investment.

And finally, emerging markets felt the effects of the global crisis later than the advanced economies and have also recovered more sharply, with particularly strong recoveries in China and India. So far in 2010, emerging markets are still barreling their way to a strong performance despite the problems that have beset advanced economies. Perhaps, in a long-term structural sense, they are becoming less dependent on advanced economies.

SHORT-TERM RISKS

We are certainly not out of the woods yet and a number of risks could well stall the recovery, which is far from entrenched or robust.

Weak consumer confidence and minimal employment growth could dampen the recovery if they translate into tepid growth in private consumption. Rising inflationary pressures in some emerging markets may lead to a tightening of monetary policies that would tone down growth in those economies.

Financial markets in many advanced economies are still in perilous shape, with the European debt crisis creating concerns that some European banks have significant exposure to sovereign debt of countries in dire fiscal straits. In other advanced economies such as the U.K. and the U.S., uncertainty about the impending changes to the regulatory landscape and the macro environment are causing financial institutions to conserve capital and limit credit growth. This could hold back both investment and private consumption growth.

MEDIUM-TERM RISKS

Rising levels of debt in the advanced economies pose serious risks of macroeconomic and financial stability. According to the IMF, the median ratio of gross public debt to GDP for advanced economies has risen from 44 percent in 2007 to 71 percent in 2010, and is likely to rise to 76 percent by 2015. The corresponding numbers for emerging markets for those three years are 32 percent, 39 percent and 39 percent, respectively. These high and rising debt levels of advanced economies will soak up a lot of world savings, reduce global potential output growth, and create a risk of inflationary spirals in the future.

There is also a risk of resurgent global imbalances, with many features of the world economy resembling the situation in 2006-07. Large and rising government budget deficits in the U.S. and many other advanced economies, along with low rates of private saving, are likely to lead to an expansion of current account deficits in these countries. Despite its rising deficits, however, the U.S. dollar's position as a safe haven currency has been strengthened by the problems in Europe, leading to large capital inflows and low interest rates in the U.S.

The combination of low interest rates in the U.S. and weak growth prospects of other advanced economies has led to a surge of private capital inflows to dynamic emerging economies, which are intervening heavily in foreign exchange markets in order to moderate currency appreciation. The resulting buildup of foreign exchange reserves is being recycled in the form of official purchases of U.S. Treasuries, thereby perpetuating imbalances.

While emerging markets have grown strongly, they are not large enough to become drivers of world consumption growth. In tandem with the continued export dependence of China, as well as large advanced economies like Germany and Japan, this portends significant trade tensions in the years ahead, particularly if employment growth remains weak in the U.S. and other major economies.

THE AGENDA FOR G-20 LEADERS

There is a deep tension now between measures to sustain the recovery and measures to bring public deficits and other byproducts of stimulus under control. G-20 leaders, especially those of advanced economies, need to display at least half as much alacrity in designing exit policies as they did in aggressively using fiscal and monetary stimulus to pull their economies back from the brink of cataclysm during the crisis. For advanced economies, the key priority is to develop clear and credible plans to bring deficits under control over the medium term, which would forestall the need to take drastic up-front measures that could put the recovery on hold.

Achieving more balanced global growth also requires addressing Chinese currency policy and implementing structural reforms in China and other countries such as Germany and Japan that are still heavily dependent on exports and need to shift more toward growth led by domestic consumption. The current efforts on financial regulatory reforms need to be concluded quickly both at the national and global levels so that financial institutions can face more certainty about the new regulatory environment, adapt to the changes and increase lending that is essential to support economic activity.

Reform of the global monetary system has taken a back-seat, with the dollar's position as the global reserve currency paradoxically being strengthened even as the U.S. runs up eye-popping levels of debt. Now that global imbalances are likely to rear their head again, G-20 leaders should refocus their energies on reform of the international financial institutions to provide more effective global surveillance and a platform for coordinating policies to prevent these imbalances from posing a new threat to economic and financial stability.

G-20 leaders have their task cut out for them when they meet in Toronto. They must rise above platitudes and petty politics to put the world economy back on track toward balanced, robust and sustainable growth.

THE G-20 SUMMIT ASSESSES THE EUROPEAN CRISIS: FINDING THE WAY FROM TORONTO

DOMENICO LOMBARDI

Last September in Pittsburgh, G-20 leaders were so thrilled with an emerging global recovery spurred by their unprecedented concerted and coordinated action that they pledged the G-20 as "the premier forum for international economic cooperation."

A U-TURN IN THE G-20 CONSENSUS?

Yet only a few months later, the pledge began to falter in light of the ongoing European crisis. As the recent meeting in Busan confirmed, now two separate views are taking shape among the G-20. The first—championed by the U.S.—considers fiscal policy to be a fundamental growth stimulus in the face of continued uncertainty surrounding the pace of private demand. The second—favored by Europeans—is one of increasing concern that growth-supportive fiscal policy may in fact prove to be a destabilizing factor, fueling adverse market reactions that would compromise debt sustainability.

Against the backdrop of the ongoing European crisis, there are signs, if still relatively concealed, of rising tensions in world capitals sparked by fears that the crisis may get out of hand and trigger an economic and financial turmoil too severe for a still fragile global economy to weather. In the U.S., these concerns are escalated by the jobless recovery that the latest data confirms and by the announced compensatory measure of expanding U.S. exports in the coming years.

A feeling shared by all the members of the G-20, including the Europeans, is frustration that the European crisis is far from a textbook case. It is unfolding against an incomplete institutional framework, showing the European Union—the largest economy in the world—to be ill-equipped to manage the first serious crisis since its post-World War II establishment.

IMPLICATIONS FOR THE U.S.

The meeting of the G-20 finance ministers in Busan a few weeks ago resulted in no easy way out. Meanwhile, the stakes continue to increase, especially for the U.S., which needs at the very least a stable if not a growing Europe to consolidate its own recovery. The medium-term repercussions of a weaker euro and the resulting decrease in U.S. exports to Europe is not the only issue to contend with. There will also be repercussions for U.S. manufacturers in the international markets who will be affected by the increased competitiveness of European exporters.

Two additional complicating factors could give rise to rough times ahead in the short term. First, the political climate in Washington could become easily overheated as an appreciated yuan against the euro offers Chinese policymakers the chance to delay any adjustment of their exchange rate policy vis-à-vis the dollar—an issue which has recently taken on a high level of political relevance in Washington. The second factor is the "contagion" to the still fragile U.S. banking system should the European financial system face heavy pressure as a result of the ongoing crisis.

WEIGHING THE OPTIONS

Why has the G-20 not yet fully recognized the systemic implications of a potential full-blown European crisis? First, because the Europeans themselves have been late in doing so. Second, because there has been wishful thinking for too long that the crisis in Greece or even Portugal or Spain would not necessarily spread to the rest of the European Union. Clearly, this is wrong. Not only is the E.U. heavily integrated, but many European countries share the common vulnerabilities of belonging to a monetary union whose incomplete institutional framework increases their defenseless exposure to a speculative attack.

The G-20 is not a decision-making forum but a high-level consultative body. Leaders will therefore use the summit in Toronto to put pressure on the Europeans to come together and resolutely solve their own problems. The recently-announced initiative on the European Stabilization Mechanism would certainly go in the right direction if given full operational content, but it stands too far from offering a convincing response to the current problems.

Ultimately, any crisis of confidence in the ability of the European economy to sustain its debt reflects a lack of confidence in its ability to grow again. By focusing only on fiscal stabilization, the Europeans risk validating the fears of the financial markets unless they start moving forward with an aggressive and credible plan to boost growth, removing the various barriers and regulatory obstacles in the way.

Apart from moral suasion, there is not much else that other countries can do as it is fully in the hands of the Europeans. They should be mindful, however, that no announcement will be ever credible enough, no financial safety net ever strong enough, no financial package ever big enough, if European leaders continue to qualify their pledges of support. A credible European Union means they must stand together, whatever it takes and come what may.

IT'S TIME TO DROP THE G8

COLIN BRADFORD AND JOHANNES LINN

In 2008, the global financial crisis forced a shift in summitry from the Group of 8 to the Group of 20, demonstrating that a more inclusive forum is better able to address the worst global recession in many decades. One year later, in the fall of 2009, the G-20 declared itself "the premier forum for international economic cooperation." In effect, the G8 gave up its claim of dominance in the field of international economic cooperation, which had been the raison d'être for its creation in the mid-1970s.

This fundamental shift in summitry suggests that the days of the G8 are numbered; but in June, Canadian Prime Minister Stephen Harper will host the G8 Summit the day before the G-20 meets in Toronto. French President Nicolas Sarkozy plans to chair both the G8 and the G-20 in 2011. Italian Prime Minister Berlusconi, chair of the G8 in 2009, made no effort to do away with it. Because it is the only Asian participant, Japan has manifested a keen interest in keeping the G8. And the U.S. administration also appears to think that the G8 has a continuing role to play.

But what would that role be now that the G-20 has proved itself a valuable leaders' forum? It has certainly demonstrated its authority during the crisis by successfully coordinating global policy for economic recovery and offering a framework of peer review intended to create conditions for strong, sustainable and balanced global growth.

The future of the G8 is unclear. But judging from some of the statements made by G8 leaders, they see the group as having a continuing role in those non-economic areas in which they still play a dominant role, such as security, nuclear proliferation, development assistance and maybe the Middle East. However, on further reflection, the G8 is not truly dominant in any of these realms. China is a key player in dealing with threats from North Korea and needed for making Iranian sanctions stick; 39 non-G8 countries joined in the recent 47-nation summit on nuclear proliferation; traditional advanced country official aid now accounts for only about 60 percent of total development assistance; and Turkey (a G-20 member, but not a member of the G8) is bidding for leadership in the Middle East.

Another function for the G8 could be that it serves as a trilateral caucus of the advanced countries composing it (North America, Europe and Japan). This runs the danger of making the G8 at least look like, and indeed become, a bloc of "like-minded" countries convening before G-20 summits to seek a common front against the rest. Prime Minister Harper ran into a decidedly negative reaction from China and South Korea when he proposed to hold the G8 before the G-20 Summit in Canada this June. He did not bend to their opposition but he felt it. The risk of other blocs forming and hardening over time, i.e., a BRIC bloc, an Asian bloc or a Muslim bloc, could then become a reality.

We have argued for some years that the G-20 summit should be created to fill the void at the apex in the international system, which the G8 created after losing legitimacy due to its reduced relative weight in the world economy and its lack of effectiveness. We now believe that the G8 should dissolve, since the G-20 is in full swing. This offers an opportunity to break out of pre-formed, traditional alliances and enter a more fluid and flexible process of discussion, negotiation and bargaining.

The global challenges of the 21st century are multiple, complex and inter-connected. National interests, pragmatically interpreted, will align differently across countries for different global issues. Hence, pragmatism has a critical role to play in formulating a country's position in bargaining across issues and in seeking coalitions with partners that will shift with issues. Different countries would then align with each other on different matters. Compromises might therefore be more easily reached and better outcomes anticipated because governments will be willing to contemplate tradeoffs across issues and pursue outcomes based more on substance rather than on ideology or pre-existing alliances.

If the G8 were to fade into the sunset, this would make it more likely that the pattern of "the West against the Rest," which was characteristic of the late 20th century and embodied in the G8 itself, would be replaced by new dynamics of G-20 summitry based on pragmatic leadership and shifting coalitions. As long as the G8 keeps meeting, especially just ahead of G-20 summits, it potentially perpetuates the old pattern of alliance politics. There would be a high price to pay by not embarking on a new trajectory for global cooperation and leadership, which is now within the grasp of the G-20.

PASSING THE DEVELOPMENT FOOTBALL FROM THE G8 TO THE G-20

HOMI KHARAS

The G-20 has become the self-proclaimed premier forum for international economic cooperation and is now wrestling with what this means for its agenda. So far, the G-20 has been preoccupied with fire-fighting recessions in rich countries. However, in Pittsburgh, leaders outlined a far more ambitious agenda of pursuing a framework for strong, sustainable and balanced global growth.

One implication of this is that the G-20 must now consider what it can do to promote economic development. According to the IMF, emerging and developing countries will account for half of global growth in 2010 and 2011 and probably an even larger fraction of long-term global growth. Therefore, those who worry about the lack of any driver for global aggregate demand—with U.S. consumers spending less excessively—should recognize the demand in developing countries from the new consumer classes and for infrastructure investments is still vast. Satisfying that demand is one of the pillars of the framework for strong, sustained and balanced global growth.

But it is not so easy for the G-20 to discuss development because "development" has traditionally been a topic for the G8, and the G8 seems to be reluctant to give up this role.

The G8 translated the spirit of the Monterrey Financing for Development conference into specific actions and helped focus attention on Africa. It led the way forward on debt relief for the poorest countries, on increasing aid levels and on support for the Millennium Development Goals. The latest major global development initiative was the April launch of the Global Agriculture and Food Security Initiative, conceived during the G8 meeting in L'Aquila last year.

It is not surprising then that the G8 believes it can still contribute to resolving the international development challenge. In Canada, Prime Minister Stephen Harper has made maternal and child health a priority item and has said that the agenda must focus on "helping the poorest and most vulnerable." Tony Blair has urged the G8 not to let aid for Africa slip off the agenda; and a number of African leaders have been invited to Huntsville as part of the G8 outreach program.

One obvious task for the Canada G8 Summit is to discuss the outcome of the bold G8 promise made at Gleneagles to raise aid to the poorest countries by 2010. The G8 promised $50 billion more in total aid and $25 billion more in aid to Africa. Based on budget figures of G8 members, collected by the OECD/DAC, actual aid in 2010 will fall well short—the increase in total aid might be $28 billion of which $11 billion is destined for Africa. The glass-half-full crowd can still celebrate a commendable expansion in aid (5.1 percent growth per annum in real terms since 2004) in the face of a harrowing global recession, but the glass-half-empty crowd will decry another round of broken development promises.

It would be wrong to attack the G8 for failing to meet its aid commitments. Actually, most countries have increased aid and the process of making ambitious commitments in a common cause appears to have helped spur high real aid increases. Only a few countries have performed poorly on this count. It would also be wrong to suggest that the G-20 should take up development just because it includes a few developing country members and is therefore a more legitimate body.

Rather, global development issues should be discussed in whichever grouping can be most effective. The G8 must be given credit for achieving some real results on aid, debt relief and the pursuit of non-income MDGs. But the G8 process has been very focused on aid in support of the MDGs in the least-developed countries. Issues of growth, jobs, investment and private sector business development, and avoidance and mitigation of the impact of economic crises have received much less attention from the G8.

Many analysts are urging a change in focus and have made Africa into the frontline of a war of competing development "brands." Ten years ago, *The Economist* branded Africa as "the hopeless continent," and not surprisingly the international response was to focus on improving the desperate living conditions of poor Africans—a welfare approach. Since then, Africa has grown robustly thanks to soaring commodity prices and now boasts an economy in excess of $1 trillion. Ngozi Okonjo-Iweala, a World Bank managing director and former Nigerian finance minister, talks about Africa in the same vein as the BRICs—as a desirable destination for foreign direct investment, home to some of the best reformers on easing business regulation and a place of strong growth, at least in a handful of economies that have grown at East Asian-like rates of over 7 percent over the last decade.

This is the G-20 development brand. It potentially offers a more comprehensive view of development that is more relevant to a diverse group of emerging and developing countries than just the poorest aid recipients. However, the G-20 has not yet developed an actionable agenda to show that it can deliver in a meaningful way. That agenda needs to be spelled out at the Korea G-20 Summit in November. The agenda needs to reinforce global commitments to stable financial flows, for example, by strengthening safety-net and infrastructure funding through international financial institutions. It needs to address the waste involved in fossil fuel subsidies that globally amount to $800 billion per year, vastly higher than development aid. It needs to ensure that new global financial regulations do not blunt innovations in mobile phone banking in developing countries or small and medium enterprise access to finance.

In short, the G-20 can ensure that global rules of the game do not have unintended adverse impacts on developing countries. That would be a much more powerful driver of poverty reduction than aid. In Canada, the G-20 meeting must repeat what Korean President Lee Myung-bak said in Davos earlier this year: "At the November Seoul Summit, we will place development issues firmly on the agenda." It's time to pass the development football from the G8 to the G-20.

IT'S TIME FOR AFRICA'S VOICE IN THE G-20

EZRA SURUMA

As the next meeting of the G-20 draws near, it is once again appropriate to draw attention to the continued marginalization of Africa in this forum. Africa should not be excluded on the grounds that it is poor and therefore unfit to sit in the rich man's club. Africa should be included because there are many issues that will be discussed which affect Africa substantially and therefore require Africa's participation if they are to have legitimacy in their application to African countries.

It is certainly good that Ethiopia has once again been invited to attend the forthcoming G-20 Summit in Toronto in June, bringing the total number of countries from Africa to two. Indeed, it could be argued that Africa is now on par with South America, which also has only two countries in the G-20: Argentina and Brazil. But this comparison of African representation in the G-20 with other continents is misleading, inaccurate and unsatisfactory.

It is misleading and inaccurate because Ethiopia has only been invited to attend as a guest and not as a member of the G-20. As such, Ethiopia will come as an observer and will not participate fully in all the meetings. So the fact remains that Africa, with a population of nearly one billion people, has only one nation that is participating as a member in the discussions that will ultimately shape the economic future of the world.

The fact that G-20 membership is largely based on economic size and less on population has resulted in the virtual exclusion of the African continent. Yet, the G-20 has become the most significant forum for the discussion of the world economy including the resolution of poverty and the future of the multilateral institutions. The exclusion of Africa means that it will not have an opportunity to contribute to the discussions on world poverty, aid and trade, which are core economic issues affecting the continent's future.

Africa's absence from the G-20 stands in great contrast to the generous representation of North America, Asia and Europe. All the North American countries—Mexico, the United States and Canada—are members, while Asia and Europe have six members each and the European Union has an additional membership, which raises Europe's total representation to seven. Surely there can be little doubt about the bias against Africa's representation in this global forum.

It is particularly noteworthy that currently the 53 African states that are members of the International Monetary Fund and the World Bank have only two executive directors who sit on each of the boards of directors of those institutions. After a protracted struggle, the World Bank has agreed to accord a third chair to the African countries. However, the IMF has not agreed to go along with the World Bank but is instead offering a different accommodation with increased representation at a lower level. All this has created considerable incongruence in the participation of Africans in these two multilateral institutions, which are critical players in the economic development of the African economies.

The G-20 is probably the main forum where this issue of African voice in these institutions and in the world economy as a whole can be substantively resolved. It is therefore not appropriate to discuss Africa's future participation in these institutions when the Africans are absent from the forum. As the long-standing struggle to increase Africa's voice in the IMF and the World Bank continues, it is important that the world is seen to respond to Africa's quest for inclusion in the discussion of the world's economic affairs rather than exacerbating its marginalization on the grounds that it is poor.

While the determination of the best route to follow to give Africa a voice will require consultation, one option is to include another African country such as Ethiopia or Nigeria as well as the African Union in the G-20. That would surely be a step toward a more balanced treatment of the one billion people of Africa who are a part of the global community but who are currently being treated as though they are aliens on this planet.

G-20 LEADERSHIP LACKING ON THE DOHA ROUND

PAUL BLUSTEIN

Promises, promises—that's all the G-20 has delivered so far on the Doha Round of global trade negotiations. At Toronto, leaders will hopefully stop issuing empty pledges to finish the Doha talks and show some meaningful action.

Now in their eighth year, the Doha negotiations suffered the latest in a series of setbacks last month at meetings in Geneva and Paris. Officials from leading members of the World Trade Organization again failed to make progress on a deal that would cap tariffs and farm subsidies—just as they've previously failed in Cancun, Geneva (three times) and Potsdam. According to reports from last month's Geneva meeting, participants were stunned at the depth of their divisions, from substantive issues to how to conduct the negotiations.[1] The result was a crowning blow to the G-20's avowed goal of completing the round in 2010.

The endless wrangling has become a menace to the credibility of the WTO—and thus to the overall health of the world trading system. The Geneva-based WTO is the institution that ensures countries abide by rules in international commerce and keep lids on their import barriers. When disputes arise, members bring complaints before WTO tribunals rather than engaging in tit-for-tat trade wars. The WTO's ability to continue performing those valuable functions will be imperiled if Doha fails; the organization must appear capable of forging new agreements and modernizing its rules, or its authority to arbitrate disputes and enforce rules will erode. The WTO's centrality to the trading system has already been weakened by a proliferation of bilateral and regional trade agreements in recent years.

To be sure, the world has avoided an eruption of 1930s-style protectionism, and for that, the G-20's repeated commitments to maintaining open global markets deserves some credit, as does the WTO itself. Trade specialists—including this author—who worried that the financial crisis might lead countries to raise import barriers *en masse* now appear to have been overly alarmist. The WTO's latest assessment shows that trade-restricting measures taken by member countries have declined in the last six months compared to the previous period.[2] The World Bank recently released a report showing that for two straight quarters, industry demands have declined globally for duties on imported goods that have been allegedly "dumped" or for "safeguard" duties on imports that are surging.[3] Even the vigilant watchdog group Global Trade Alert, which has compiled data showing nearly 500 "beggar-thy-neighbor" policies adopted by governments since November 2008, recently found that the total number of such measures is apparently starting to wane.[4] Sensibly, Global Trade Alert qualified its findings with the caveat that it is "still too soon to declare victory over protectionism," especially given mounting worries that the world could fall into a double-dip recession.

Although protectionist demons may have been kept at bay for the time being, the Doha Round's travails remain and they pose deeper problems for the trading system as things drags on. Waiting even longer to strike an agreement would expose the WTO to ridicule that it spent more than a decade laboring over a deal that only modestly alters trade barriers; the accord that is on the table would do little to achieve the round's initial aim of making global trade more beneficial for poor countries. Furthermore, a number of thorny issues have arisen during the time the Doha negotiators were haggling—issues that cry out for negotiated rules, including controversies over currency manipulation, carbon tariffs and restrictions on imported food. The WTO cannot deal with these issues effectively while the Doha talks are hanging fire.

At their first G-20 Summit in November 2008, leaders pledged that for 12 months, they would "refrain from raising new barriers to investment or to trade in goods and services." That vow was reaffirmed and extended at the 2009 Summits in London and Pittsburgh. A number of the G-20 countries violated this promise, in spirit if not in letter, but the vow had its intended effect of helping to keep protectionist impulses in check.

It is in their Doha sections that the G-20 communiqués have been full of hot air. At the November 2008 Summit, leaders said they would "strive to reach agreement this year on modalities"—that is the numeric formulas for cutting tariffs and farm subsidies that are the core of any future deal. When that goal proved unreachable, they declared at Pittsburgh last September that they "are determined to seek an ambitious and balanced conclusion to the Doha Development Round in 2010."

At Toronto, leaders will hopefully recognize that additional promises of this nature will only undermine their credibility. They should now clearly raise the prospect of inviting a detailed, compromise proposal from WTO Director-General Pascal Lamy, whose predecessor offered an important compromise in 1991 during the previous round. Major WTO member countries, including the United States, don't want Lamy to intervene so actively; they fear being put in a position where they will be compelled to choose between accepting a deal they don't like or walking away from the talks. That's understandable, but they have shown themselves incapable of meeting deadline after deadline. So they should try forcing themselves to negotiate in greater earnest, by declaring that if they cannot finish a modalities deal by the Seoul Summit in November, Lamy should present a compromise.

To show that they really care about the rules-based multilateral trading system, the leaders should also vow that as soon as the Doha Round is finished, they'll start negotiating in the WTO on the pressing issues that aren't on the Doha agenda. And they should instruct their trade ministers to stop launching new bilateral and regional trade deals. It's the multilateral system that needs shoring up.

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