



## **The G20 and the Restructuring of the International Economic Order: An Egyptian Perspective**

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### **Introduction**

More than 50 years ago, the world community set about devising the institutional building blocks of an orderly social and economic world, largely in response to crises and problems of the first half of the twentieth century which had witnessed two world wars, the great depression, widespread labour strife, and the rise of fascist movements.

The establishment of the United Nations and the Bretton Woods Institutions thus set markers for a model of multilateral governance for world order with the triumphant oligarchy of the second world war at the driving seat of the new world order and its institutional vehicles.

However, the pace of globalization in the past decade has had confounding effects on the world and its governing rules and institutions. The rampant restructuring of businesses, the global networking, the rise of international terrorism, the global environment, and problems facing sustainable development are all pushing issues that surfaced to the world agenda with the advent of the new global civilization.

These phenomena, old and new, spell out the urgent need to develop new forums and frameworks to deal with the challenges and promises of globalization, which no single conventional formula seems apt to deal with effectively. Hence, the current

wave of globalization entails change of strategies of individuals, nations, corporations, communities, and global governance institutions in order to come to terms with the emerging global system.

In this context, the need for organizational reform on the systemic level could not be over-stressed. In a crisis-laden world, while interests are networked and interdependent, the world needs new and better governance frameworks, and modes of institutional operation that are both representative and efficient in dealing with emergent global challenges.

The Group of Twenty (G20), which was unilaterally created by the G7 at their Finance Ministers' meeting in September 1999, was indeed intended as a step towards such reform. In addition to the G8 (G7 plus Russia), the membership of the G20 consists of Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Saudi Arabia, South Africa, Turkey and, oddly, two institutional representatives – one for the European Union and one for the Bretton Woods institutions (the IMF and World Bank).

The rationale was to involve developing countries in what came to be termed as “systemic significance” in discussions over future financial stability, especially in the aftermath of the Mexican, Asian, and Russian crises. In essence, the G20 is the successor of previous ad hoc fora established to this effect but on a temporary basis, namely the G22, which had been unilaterally created by the U.S. in November 1997 in the wake of the Asian financial crisis, and had almost similar membership (its membership had included Hong Kong, Malaysia, Poland, Singapore, and Thailand, and excluded Saudi Arabia, Turkey, the EU and the IMF/World Bank, but was otherwise the same as that of the G20). This was followed by the G33, which

convened in March and April 1999 to discuss issues pertaining to global economic and financial reform.

Against this backdrop, the current paper addresses the introduction of the G20 and its relevance to global governance as well as the potential role for Egypt in such a forum. The main argument is that changes in the world order have had a profound impact on global institutions, not only in terms of their agenda, but also in regards to their nature, institutional make-up, and even their procedures and modes of operation. This paper therefore comes into three sections: the first discusses the Systemic Impetus for Global Governance Reform, the second focuses on A Proposed Framework for the G20, while the third analyzes The Potential Role for Egypt within the G20.

## I. The Systemic Impetus for Global Governance Reform

### *1. A World Transformed: The Shift from Geo-Politics to Geo-Economics<sup>1</sup>*

Much contemplated since the end of the cold war, the New World Order has come in part as a declaration of forces and processes that have begun since World War II and even before. Theoretically, any world order entails a mode of technology, a power structure, and an agenda. Technologically, the “new” in the New World Order has been the increasing dominance of the third industrial revolution over world affairs.

Structurally, the “new” in the New World Order is not really the change from a bipolar world to the much “older” unipolar or multipolar worlds, but the fundamental change in the nature of polarity itself. Traditionally, polarity was defined in terms of power distribution among nation-states or blocs of nation-states that are engaged in the eternal pursuit of hegemony and dominance that involves the uses or the threat of

force. Now, it seems more and more that polarity can be defined in terms of the prevalence of a whole system of socio-economic-political interactions in world affairs. This system in the Western and capitalist order and to a lesser degree in the newly industrializing and emerging markets has dominated the world in the final years of the twentieth century. This order is highly integrated through a large network of institutions – multinational corporations, trade, and investments. Naturally, a change in the world structure has meant a new agenda, and this new agenda is basically an economic one. Unemployment, inflation, exchange rates, stock markets, trade barriers, and population have been and still are issues governing the global agenda.

The effect of September 11<sup>th</sup>, 2001, and the rise of global terrorism has not much altered this global transformation towards geo-economics, and despite the surge in political issues on the global agenda, fighting money laundering, drug trafficking, and terrorism financing continue to be among the foremost aspects of combating terrorism. These aspects of terrorism entail collaboration among the world's richest and poorest nations, and further confirm the need for a broader global governance that could guarantee efficiency and representation of the most central countries to the stability of the world order, financial and non-financial.

## *2. A Crisis-Laden New Global Order*

Within the rapid changes of the new world order, the subject of “Global Governance” became topical in the 1990s with a rash of financial crises, which came about as a result of global financial market integration in the last two decades of the twentieth century. Hence, with the rapid growth of cross-border capital flows, and the

phenomenon of “hot” money, greater uncertainty and unpredictability was attached to surges in international capital flows.

In this context, currency crises and banking crises were a recurrent phenomenon, most notably with the European crisis 1992-1993, the Mexican crisis 1994-1995, and the most dramatic crisis being the Asian crisis, 1997-1998, which started in East Asia in mid-1997 in a sequence of events beginning with a sudden reversal of the inflow with massive capital flight, along with rapid currency depreciation, including a stock market “meltdown”, which then spread around the world during the course of 1999.

According to the International Monetary Fund, there have been 158 currency crises in the period from 1975-1997, 54 banking crises, and 32 crises that had both currency and banking implications. The majority of the crises took place in the emerging markets while their repercussions were far-reaching and resonated in the whole world economy; even the U.S. dollar was caught in the currency turmoil of the nineties.

The number of currency crises in emerging markets reached 116 crises, compared to 42 crises in the industrialized countries. Similarly, banking crises in emerging markets reached 42 crises compared to 12 crises in the industrialized countries. And whereas crises in the industrialized countries were mainly a phenomenon of the eighties, the emerging market crises were more recurrent in the nineties.<sup>2</sup>

The global financial crises and especially the Asian crisis were subject to much speculation because of their unsettling effect on world finance and world economy. The IMF approach to the crisis stressed the domestic factors as the leading factors to financial instability. However, the Bretton Woods institutions – particularly

the World Bank – were subject to much criticism in the course of the Asian crisis, especially by Malaysia whose governing regime rejected the IMF's recipe for reform. Prominent academics and economists have also refuted the Bretton Woods diagnosis which focused on domestic aspects of the crisis and ignored the systemic influences, e.g. the inequitable terms of trade, the intense and volatile capital flows and short term lending, international capital flows, gyrations in exchange rates, turmoil in financial markets, as well as new protectionism in the industrialized countries against exports of the developing countries.<sup>3</sup>

The financial crises of the 1990s have therefore demonstrated that the emerging global capital market is vulnerable to systemic failure. Accordingly, in the depths of the Asian crisis (around September 1998) there were calls by the leaders of the Group of Seven (G7) to “reform the global financial architecture” signaling the world’s most powerful countries rather than coalitions of developing countries recognition of the need to reform global governance.<sup>4</sup>

Besides these financial crises, the more structural crises of underdevelopment persisted throughout the past decades with the few exceptions of the newly industrializing countries of East Asia and several emerging markets in Asia, Latin America, and, to a lesser degree, in the Middle East.

Thus the developing countries, comprising the majority of world population, still suffer problems of poverty, overpopulation and lack of sustainable economic growth, and other human development deficiencies. Besides these chronic problems, acute crises surfaced in the developing world – e.g. the food crisis in the seventies, the oil crises 1973-1974, 1979-1980, and the debt crisis in 1982 – thus further aggravating their trade and balance deficits. And despite the domestic aspects of underdevelopment, systemic factors as well contribute to the perpetuation of this state

of affairs or at least do not help ameliorate them. These include the uneven flow of capital and investment, the discriminate terms of trade, and the bias towards industrialized countries' economic and financial interests, which further validates the need for global governance reform.

### *3. The Need for a Representative Economic Oligarchy*

The challenges of the new global order have led to the revival of earlier universalist and utopian calls for a global government that would entail just representation and handling of world problems. However, lower on the pragmatic continuum, calls were raised for “better” representation for developing countries in world governing institutions and forums, especially those countries whose interests and well-being are central to the system’s functioning.

The rationale for this view is that as unpleasant as it might be to construct an equitable and just world order, perhaps a large reason for the failure of most attempts to reform the global order is that they have been dominated by the least developed and the powerless, while the rich and powerful have not been persuaded of the need for significant changes to the status quo.<sup>5</sup>

Therefore, the main hypothesis of the current paper is that a comparative-politics-like oligarchic system is the best – in terms of applicability and efficiency – form for global governance. This hypothesis derives from the shortcomings of the current global governance frameworks which come into three forms: first, open fora, e.g. the GATT and its successor the World Trade Organization; second, centralized and closed fora, e.g. Bretton Woods Institutions and the Gs especially the G7; and third, regional integration fora. The first, the open fora for economic and financial governance, suffer a structural difficulty, namely the large number of participants,

thus becoming couched in interest conflict. The second, however efficient and having operational mechanisms for decision and implementation, are fraught with hegemony of the western industrialized countries and especially the U.S., whose voting power at the WB, IMF, and G7 altogether amounts to almost one half of the voting power. Hence, the BWIs were deliberately designed to give the economically more powerful members a greater voice and vote in those organizations. Moreover, the influence of the economically powerful countries was enhanced through a series of fora that were established outside the BWIs in which the world's leading industrial powers were the exclusive members for financial and economic decision-making, especially in the G7/G8, which maintains a near monopoly over financial and economic decision-making.

The core members of the closed/élitist groupings, i.e. the G7 and its predecessors, have always been the United States, Japan and Germany, the latter being replaced by the EU, which came to be termed as the "G3".<sup>6</sup> This élitist nature of the G's composition and decision-making procedures casts doubt on their representativeness of global problems and crises, and their credibility to work on behalf of the whole world, developing and developed. This apprehension proved to be more than a moral stance with the eruption of the financial crises of the 1990s as previously stated, which showed the practical vitality of a relatively more inclusive forum for global governance.

In spite of the attempts of established frameworks, including the G7, to adjust to new international developments through the inclusion of social and political issues on their agenda (especially the issues of terrorism, poverty, and health), they have not been successful at controlling the negative externalities of globalization or the structural crises which the international economic and monetary systems suffer from.

Finally, the regional integration fora fail, in turn, to address most of the global economic and financial problems, the worst scoring regional blocs being those formed of developing and least developed countries. In this context, the Latin American Integration Association (LAIA) established in 1960 managed to raise intra-regional trade by merely 2.5% to reach 10.6% along 30 years of regional integration. Other regional blocs had failed totally to enhance intra-regional trade and cooperation, e.g. Customs and Economic Union of Central Africa (UDEAC), which witnessed regression in the trade volume among its member states from 4.9% in 1970, three years before the establishment of the union to 2.4% in 1990.<sup>7</sup>

Those three types of frameworks reflect two kinds of contradictions. The first is the contradiction between representation, on the one hand, and efficiency, on the other. This was clearly reflected in the crises surrounding the questions of trade, investment and services liberalization within the multilateral framework of the GATT and the WTO. The second conflict is between centralization, on the one hand, and the perception among developing countries that the developed countries are seeking to impose their hegemony, on the other. This conflict can clearly be perceived in the experiences of the World Bank, the IMF, and the G7.

Many attempts have been made to reform international financial institutions in the years following the Asian monetary crisis. Some academics, like John Eatwell, suggested the creation of a global monetary authority, "the World Financial Authority". According to Eatwell, this authority should possess enough powers that enable it to set a regulatory framework for the functioning of international capital markets, and to intervene in their management in times of crisis. Other reform initiatives were also suggested by the IMF, which created a new administration within the Fund, the "Capital Market Division", to monitor and evaluate international capital

markets and to issue a “Global Financial Stability Report” which focused attention on potential sources of international monetary crises, and areas of vulnerability within markets and international financial institutions. The G7 also established two important institutions: the Financial Stability Forum and the G20.

These various initiatives, though important, have been subject to a number of criticisms. In spite of the appeal of the idea of an international financial authority that has the power to intervene in the management of national capital markets, this idea runs counter to the concept of national sovereignty. Malaysia’s position towards the prescriptions of the IMF is a good example of this problem.

Also problematic is the fact that the “Financial Stability Forum” is mainly consultative in nature, and has limited representation. Membership to the FSF includes Finance Ministers, Central Banks and the main financial regulators from the G7 countries in addition to representatives of the various “Trade Unions” of Regulators such as the Basel Committee of Banking Supervisors, the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS). Singapore, Hong Kong, Australia, and the Netherlands are also included as representatives of other major financial centers.<sup>8</sup>

The creation of the G20 in this respect is the first real response to demands to reform the international financial system, and economic and financial governance in general. Reform requires the development of this group in a manner that helps it fulfill objectives which other international economic and financial institutions have failed to achieve.

The G20 has many strengths which position it to play that role. First, it includes, in addition to the big 7+Russia, emerging markets that have important experience in developing their economic capabilities and competitiveness and which

offer models of development within the constraints created by the international economic and financial system against developing countries. Moreover, even though the state has played an important role in the process of economic development in most of these countries and the process of democratization was thereby postponed, it is important to note two things. First, the private sector played an important role in the process of development in these countries. Their development strategies – especially in Asia – were outward oriented. The stability of their development strategies was thus dependent on the stability of their export sector and continued access to foreign markets. Second, a large number of these countries have undergone recent transformations that increase the prospects for democratization, which indicates the increased potential of these states not only to integrate with the world economic and financial system but also to assimilate the main principles and values of this system.

Therefore given its structure and *raison d'être*, the G20 seems as a step forward towards ameliorating the élitist nature of the most influential economic and financial institutions towards more representation of emerging economies and developing countries. In creating the G20, the G7 was probably attempting to enhance the legitimacy of the decision-making process on international financial matters, a process which the G7 has dominated over the past decades.

However, the above mentioned strengths of the G20 do not, *per se*, guarantee its success in meeting the challenges discussed earlier. The group's representativeness /efficiency amalgam is still in an evolving phase and depends largely on the future of the mandate, membership, and *modus operandi*. This takes us to the second part of this study where I propose a number of ways to develop the structure of the G20, its objectives, and its criteria for membership.

## **II. The G20: A Proposed Framework**

The G20 as a response to contextual global governance and crises should be designed taking heed of such challenges and how to best address them. In other words, the new institution should mirror the intricacies and spirit of the current global order, specially pertaining to globalization, the new geo-economic agenda, and the necessity to integrate emerging markets and developing countries' agenda into the global governance order. The main proposed features of the G20 are:

### *1. Objectives and Scope of the G20*

So far, the G20 has shown a narrow orientation with the central role of finance issues and finance ministers. This was evident even during its first meeting in Berlin in December 1999, where the inaugural meeting laid the roadmap to the group's priority objectives. These were: sound national economic and financial policies, strengthening national balance sheets to help cushion against unexpected shocks, debt management, and exchange rate regimes. They discussed a range of possible domestic policy responses to the challenges of globalization, and exchanged views on the role of the international community in promoting a less crisis-prone system.<sup>9</sup>

In other words, addressing domestic vulnerability to financial crises caused by capital flows appears to be at the heart of the G20 objectives. However, the focus of the group seem less exclusive taking into account the following meetings, especially following the September 11<sup>th</sup> attacks and the focus on draining terrorism financing.

Individual influences and member-states influences could also have a broadening effect to the group's core objectives. Indeed, Canadian Finance Minister Paul Martin, the G20's first Chairman, declared to the press after his appointment, "There is virtually no major aspect of the global economy or international financial system that will be outside of the group's purview"<sup>10</sup>. Moreover, the scope for

broadening the G20's agenda will depend, in part, on which country is nominated to chair the group in particular, non-G7 member-states.

An expanded agenda of the group should include as a start:

- A more effective system for global macroeconomic management;
- A stable and equitable system of development finance for all developing countries and finance for development-related scientific research;<sup>11</sup>
- A flexible framework for non-discriminatory trade and investment liberalization. This proposed framework could be established following the APEC model of open-regionalism, due to the difficulties of establishing a classic free-trade area among its member-states. This model is based on Unilateral Trade Liberalization (UTL), i.e. decisions for trade and investment liberalization are taken individually by member-states that see their domestic conditions as ripe, and in a non-discriminatory fashion against non-G20 members. This model is opposed to the traditional Collective Trade Liberalization (CTL) in which trade and investment are liberalized in accordance to mutual contractual agreements.

The rationale behind this approach is that the member countries have come a long way in the areas of trade liberalization, economic reform and openness to the outside world which reduces trade diversion and possible negative impact of trade liberalization through UTL. The main hypothesis here is that the UTL and non-discriminatory liberalization policies are more likely to succeed in open economies because of the incentives that these policies create. The assumption here is that if one country takes the initiative to liberalize its foreign trade unilaterally, this might

encourage other parties (members and non-members) to undertake similar initiatives when they observe the positive return of trade liberalization.

Experiences of non-discriminatory liberalization have generally taken one of several forms.<sup>12</sup> First: open membership, which refers to flexible and broad approach towards membership. This approach is based on a theoretical assumption that broad membership leads to better adaptation to legal multilateral frameworks, as well as screening down the discriminatory effect against non-members. Despite the merits of such an approach, open membership in the broad sense seems less convenient in the G20 because of previously discussed inefficiency problems associated with open fora.

Second: unconditional application of the Most Favoured Nation condition (MFN). This approach denotes automatic and unconditional spillover of trade and investment liberalization privileges within the group to non-members. This approach agrees with the spirit of article (24) of the GATT agreement and eliminates the prospects of trade disputes that are usually associated with perceived discrimination. However, this approach denies the group its bargaining power with non-members, creating a free-rider phenomenon where non-members automatically and unconditionally get the collective prerogatives of membership without attached responsibilities.

Third: conditional application of the MFN condition, which seems best suited for the G20, and entails that non-members enjoy the privileges of membership in terms of free flow of trade and investment only if they agree to reciprocate and liberalize their markets for trade and investment.

## *2. Market Integration*

This model is based on the necessity and vitality of the role of market mechanisms, and the private sector as the main engine for economic growth within the G20. In other words, the G20 should be based on “market integration” as the governing concept of global market integration, in contrast to government-based integration experiences of the fifties through the eighties, with its mechanism of governmental contractual agreements. The market driven integration model in this context entails the continuity of the government role but restricting it to agenda setting and devising public policies favorable for trade liberalization and investment.

## *3. The Nature of the Institutional Build up*

It is the contention of the current study that the flexible institutional model is the best-suited model for the G20. Institutional flexibility in this context refers to two aspects, first, a limited hierarchy based on a small secretariat in the form of small bureaus in member states; second, a non-binding legal framework in contrast to the traditional contractual and binding legal frameworks of earlier multilateral frameworks for cooperation.

It is noteworthy that the flexible institutionalist philosophy evolved as a backlash against the shortcomings of the regional and multilateral integration experiences in the fifties through the mid-eighties of the twentieth century. These institutional fora have led to the establishment of large bureaucracies demanding vast resources, which proved to be among their main flaws. Moreover, the binding legal frameworks of these multilateral fora, coupled with their very wide scope of interests and ambitions have led anonymously to their failure in attaining its objectives, or at

best to their stagnation. Within this rigid institutional framework, i.e. the legal institutionalism, differences among member-states were reflected in the mandates through excessive exceptions and precautions, leading the institution to be void or idle.

The flexible institutional model moreover shows increased merits in the case of the G20 in particular because of its composition of countries of differential developmental capacities, in terms of their GDP, population, etc. In which case institutional flexibility would be best-suited to counter apprehensions of the less developed that the group will be domineered by the most powerful.

It is noteworthy that expected future status and “voice” within global and regional integration institutions has been one of the key determinants of the success of integration experiences. According to Joseph M. Grieco, successful experiences of legal institutionalism have been recorded among countries where increased levels of legal institutionalism are not perceived as retracting from the relative status of member countries and their influence within the integration forum, whereas less successful experiences where symptomatic to experiences where more institutionalism meant less relative power or status to one or more of the member-states, in which case institutionalism becomes synonymous to hegemony.<sup>13</sup>

In the G20 context, the issue of differential levels of development and/or the fear of hegemony could be moderated intuitionally through flexible institutionalism, and its various modus operandi, e.g. the adoption of the variable speed approach, which entails the formulation of general objectives and guidelines for the economic and financial policies of the member-states, while allowing individual members to implement the general strategy in self-designed mechanisms and paces within an agreed upon time limit.

Moreover, in this context, consensual decision-making would be the best operating mechanism for the G20, and the best safeguard against hegemony of the G20's industrialized 7, or against what could be termed as "G7-ization"<sup>14</sup> of the G20, whether actual or perceived. Consensual decision-making in this sense would reinforce representation and participation of developing countries at the decision-making level of the institution, not merely their representation in discussions and deliberations. The decision-making procedures should also include credible processes for the selection of chief executive and a more democratic allocation of voting power.<sup>15</sup>

Finally, "flexible institutionalism" is best suited to the G20 because many of its members belong to the Asia Pacific Economic Cooperation (APEC), which is indeed to date the most successful manifestation of flexible institutionalism. Almost half of G20 members are also members to APEC; these are Australia, China, Indonesia, Mexico, and South Korea, in addition to some G7/8 members namely the U.S., Russia, Canada, and Japan. It is thus expected that the main emerging markets, specially the Asian ones, will refuse the binding legal institution model for G20, since APEC's flexible institutionalism was in origin the practical response to the Asian emerging markets' refusal to engage in legally binding forums with western industrialized countries for fear of hegemony.

#### *4. Organizational Structure: A Three-Legged Model*

As a result of the growing role of the private sector and of market forces, and the retreat of the role of the state, the G20 must be based on the interaction of three players: governments, the private sector, and the academic sector in a manner that ensures the representation of all three sectors.

To this effect, the creation of a businessmen's council that brings together representatives from the private sectors of the member countries and an academic council that brings together representatives from research institutes and think tanks in the fields of economics, political economy, and strategic studies; this, in addition to official bodies which represent governments, is suggested. The organizational structure must ensure interaction among the three tracks based on well-defined mechanisms.

The emphasis on enhanced private and academic roles is the outcome of important changes in the realm of international cooperation. New issues and threats such as the environmental threats, drugs, and illegal immigration have gained relative importance. These changes of the global agenda in addition to the growing role of the private sector in processes of economic and social development, and in the area of international trade and the parallel retreat of the economic role of the state, make it difficult to ignore these two players – private business and the academia – in the field of international cooperation and financial stability.

In light of this, and given the negative externalities of the process of globalization which was discussed in the first section, it is important to keep the following considerations in mind while developing the organizational structure of the G20:

- Representation at the G20 should be at the summit level rather than at the ministerial level for the following reasons: the top leadership has wider decision making powers which are better suited to the expanded agenda of the group. Popular legitimacy will make the G20 more legitimate and more representative of the international public opinion, a condition that is absent from many existing international economic and financial institutions.

Moreover, the experience of summit level organizations such as the APEC reveals a direct relationship between the success of an organization and representation at the summit level. Although the transformation of representation at APEC from the ministerial to the summit level was the result of the new orientation of the American presidency under Clinton who insisted on attending the fifth ministerial meeting of APEC which was held in the United States, the experience of APEC highlights the ways in which the top political leadership can circumvent bureaucratic obstacles.

- Expanding governmental representation to include Ministers of Finance, Economy, Trade, Industry, Energy, and the environment, since all of these areas are interconnected.
- Creating a council of senior officials from member countries which meet prior to ministerial meetings. This council is to be responsible for making recommendations to ministerial meetings and for implementing the decisions of the ministerial council. It should also be charged with overseeing the work of other councils and coordinating among them.
- Creating a number of new councils such as the G20 Business Council and the G20 Academic network which act as advisory bodies to the ministerial and Summit levels. Those two councils are to give advice and recommendations about the working plans of the G20. They are to prepare reports, periodicals and working papers about ways to develop the international financial order, to improve the terms of international trade, to liberalize trade, and to increase the role of the private sector and civil society in meeting those challenges. The Academic Network can focus, in the first phase, on developing a well-defined conception

of the G20. At a later stage, the Academic Network can conduct research on ways to improve the international economic and financial system.

### *5. Membership*

The decision to establish the G20 indeed marked the G7's intent to broaden participation in discussions on international financial affairs among countries whose size or strategic importance gives them a particularly crucial role in the global economy.

This is a significant step forward towards better representative global governance. However the G20 contains no representation of the poorest and smallest developing countries, because the poorest and smallest are unlikely to constitute any systemic threat. But there is a major systemic impetus to incorporate developing countries problems into the architecture of the G20 not necessarily through direct membership. This could be achieved through the group's accountability to the broader international community, and other more inclusive fora especially the United Nations Economic and Social, as well as increasing the transparency of the group's activities to enhance its credibility through disclosing its discussion papers, documents, and reports publicly.

Moreover, membership to the group should be decided upon objective criteria for membership, through deliberation of a special committee to be established to this effect within the G20, the committee would put forward the criteria and indicators that render a country a candidate for the group membership.

Suggested criteria could be, achieving considerable economic growth, a certain degree of global integration according to designated indicators, a minimum level of

democratization and political openness, an autonomous private sector, as well as equitable geographical representation.

In line with broadening the membership and scope of the G20 previously suggested, several formulations or “levels” of membership could be applied to integrate candidate members or include non-members into the group deliberations. Among these are the “dialogue partner”, or “guest country”, in addition to the broadening of the membership of the auxiliary councils, i.e. the Business Council and the Academic Network.

It is the contention of the current paper that according to all these criteria, Egypt is a viable candidate for G20 membership in terms of fulfilling basic requirements as well as its representativeness of the Middle East and the Arab region, which will be discussed in the following and last section.

### **III. Egypt and the G20**

#### *Egypt, The Position and the Mission*

Geography as well as history has defined, to a large extent, Egypt's position in the Middle East and its regional and global reach. Situated at the south-east corner of the Mediterranean Sea lanes to Europe, at the crossroads of the three continents of the old world, at the end point of the River Nile, and at the maritime passage to the Indian Ocean and Asia through the Suez Canal and the Red Sea, Egyptian geographic position has become in the very center of the region and the world, a position no other country in the Middle East could parallel.

On the other hand, one of the main features of the Egyptian history is the unbroken unity of the country. As Charles Issawi stated: “From the time that Menas unified Upper and Lower Egypt and founded the first dynasty up to the present day the

land was always – except for brief periods during the old and middle empires – had a single government". Egypt, thus, has known the phenomenon of statehood for over five thousand years. Throughout this very long history, Egypt interacted with the greatest of civilizations over the Mediterranean, with the Macedonians, Romans, the French and the British; and over the African-Asian land bridge, with the Assyrians, Babylonians, Persians, Byzantines, Arabs, and Turks.

The statehood of Egypt and the unbroken unity of the country made Egypt a haven for great civilizations. The ancient Pharaonic civilization, the Greek and Roman civilizations, and the Arab-Islamic civilizations found their seat in Egypt.

Thus no other country in the Middle East matches the unique status of Egypt as the civilizational and social space that shares with every nation in the region elements of identity, culture and history.

In modern times, Egypt was the first country in the region to embark on the process of nation-state building, an experience Egypt shared with the rest of the region. Of equal importance was the transmission of knowledge and technology from the beginning of the 19th century. This was facilitated by contacts between the Egyptians and the west. During Mohammed Ali's rule (1805-1848), 339 Egyptian students were sent to France, Britain, and other European countries. Although this process slowed down when Egypt was under British occupation, it was resumed in significant numbers after Egypt gained formal independence in 1922. Since that time, the process has continued without abatement. These groups of students not only created modernization plans for Egypt, but also carried them to the rest of the Middle East to this day.

The century that followed Mohammed Ali had witnessed the development of institutions and practices which many Middle East countries followed. In addition to

the creation of the Egyptian press and secular education, Egypt was ready in 1866 for its parliamentary experience. The “Consultative Assembly of Deputies” marked the first step towards “liberal institutions” in the European mould. Under the influence of National Party – the first Egyptian, and Arab, nationalist party in the modern sense – the assembly of 1881 drafted a constitution, demanded ministerial responsibility and insisted upon its right to vote the budget. Civil and secular education intensified to reach the university level when Cairo university, the first national university in the Arab world, was established in 1925. Art, literature and broadcasting, in addition to a more modern press, made Egypt the Mecca of the Arab intelligentsia. Major ideas of the time were always made and debated in Cairo and then spread to the rest of the Arab world.

Egypt's weight in regional affairs also derives from its historical tradition of prominence and leadership in the regional setting. Though this does not ensure future leadership, no other Arab state can rival Egypt's central regional role. Moreover, no non-Arab power could match Egypt's access to the multiple players of the region.<sup>16</sup>

The sheer size of the Egyptian population is a source of strength in the region. Representing more than one-sixth of the whole Arab population, Egyptians constitute a powerful influence on Arab intellectual and public opinion. Egypt has also a huge media and filmmaking industry, much of which is Cairo based. Traditionally, Egypt furnishes the Arab countries with teachers and texts, as well as being a cultural center and a favorite holiday resort for most Arabs. In other words, “what happens in Egypt resonates well beyond the borders of the country”.<sup>17</sup>

### **Egypt's Foreign Policy: From Geo-politics to Geo-economic**

Since the beginning of the 1990s, Egypt has witnessed a continued process of transformation in its foreign and public policies to cope with changes in the global and regional orders. In order to achieve its national interests and preserve its regional role, Egypt had to redefine its policies, and to focus on geo-economic factors that could enable it to adapt to the New World order, and to integrate into global economy.

This transformation marked a major transition from a foreign policy focusing on geo-political and strategic objectives and a public policy based on the centrally planned economy up until the seventies to foreign policy focusing on geo-economic objectives.

The most notable departure from the “old” towards the “new” perspective on Egyptian public and foreign policies was manifest in the discourse of President Mubarak in different instances. Mubarak summed up Egypt’s national interest and foreign policy goals in four major goals. These are:

- Integrating Egypt into the world system
- Transformation to a free market economy
- Political reform that would allow more participation and transparency.
- Achieving peace in the Middle East.

In achieving this new agenda, Egypt was a role model for the Arab region, and enjoys a number of assets, e.g. population, area, education, technology, and cultural influence. Egypt is moreover qualified for playing a central role in the Middle East hub of trade, communications and transportation, investment, and the geo-economic interactions.

This role is greatly enhanced by the legacy of Egypt as one of the main agenda-setting countries in the region and the developing world. Playing a pioneering

part in the history of the post-colonial world made Egypt specially experienced and specially situated to reflect the aspirations of the peoples of the region and the developing countries at large. Common endeavor and a sense of common responsibility bind Egypt with the community of nations in the third world at large and the Middle East in particular. Most importantly, the role derived from this unique status is welcomed by all regional parties, and goes unopposed by any one.

As an agenda-setter, Egypt had been responding to the major global transformations even much earlier before they appeared as a “New World Order” and before the term “globalization” was coined. It was in the 1970s that Egypt embarked on liberalizing its politics and economics and took courageous moves for peace with Israel, an agenda that would be the order of the Middle East in the 1990s. The developments in the world and the region in the last decade of the 20th century were to validate Egyptian vision.

Despite the shortcomings of Egyptian economic and political transformation, Egypt is by far considered by many analysts as one of the “promising emerging markets”. That was a long way from the image of the “sick man of the Middle East” that was prevailing in the 1970s.

The infrastructure that was devastated by wars and failed socialist experiments has been totally renewed and for the first time in its modern history, Egypt, at the end of the 20<sup>th</sup> century, enjoys a reliable infra-structure of ports, airports, electricity and energy of oil and gas, water and sewage, and functioning telecommunications.<sup>18</sup>

The most evident sector of technological infrastructure progress in Egypt is the communication infrastructure. In the year 1999, Egypt had 5.1 million fixed telephone lines. In the year 2001, Telecom Egypt was able to raise the number to 7.1 with a teledensity of 10 lines per 100 inhabitants, reaching a teledensity of 12 lines per 100 inhabitants in the year 2002.

In the year 2000, Egypt had 700,000 computers, 650,000 internet users, and 2.3 million cell phone users. In 2001, the number of PCs doubled to reach 1.4 million. By the year 2003, the number of internet users had increased almost 4 fold to reach 2.4 million accounts with more than three users per account, while the number of cell phones increased almost three fold to reach 6 million by the year 2004.

Although these figures are small by world standards, Egypt has one of the fastest growth rates in these areas. And all the above are supported by an extraordinary progress in developing Egypt's infrastructure which adds up to the diversity of the Egyptian productive apparatus to make the Egyptian economy one of the most balanced and best qualified for take off and sustained growth in the region.

The Egyptian financial market has also boomed in the 1990s and major MNCs are attracted to the Egyptian market. Egypt currently manufactures quality textile fashion products on license for major European businesses such as Pierre Cardin, Wrangler, Van Hausen, Stefanel and Naf Naf, and export them to France, Germany, England and the United States. Automobile assembly and spare-part manufacturing resulting from either licensing or joint venture agreements has recently flourished in Egypt. Examples of assembly and licensed production in Egypt are Suzuki, General Motors, Citroen, Hyundai, Nissan and Peugeot. International brand-name consumer and electronic products are also assembled, and their components manufactured, in

Egypt. Egypt has also developed industrial experience in furniture, pharmaceuticals and steel production.

Egypt's industrial and mining sectors account for 18.6% of GDP and 13.4% of employment. Over the last five years, Egypt has drawn multinationals into exploration for oil and gas. Moreover, with increased private sector role, key industries are starting to flourish, such as metals, petrochemicals, cement, automobiles, textiles, consumer electronics, and pharmaceuticals.

Moreover, Egypt enjoys a remarkable supply of skilled and inexpensive manpower. Its large pool of entrepreneurial, scientific and technical elements qualifies it for meeting the challenges of high-tech sectors and enterprises.

These changes were accompanied by a steady enhancement of the role of the private sector in the Egyptian economy. Since the mid-1970s the role of businessmen and private business in the Egyptian economy has constantly expanded. Egyptian Businessmen comprise residuals of the pre 1952 "capitalists", new entrepreneurs, and former state managers. Businessmen hold assets in agriculture, real estate, tourism, car assembly, electronics, and banking. Estimates conclude that by the year 2000, private sector contributed 70% of the Egyptian economy.<sup>19</sup>

Businessmen have moreover, gained representation in a variety of associations and unions that indirectly bolstered their lobbying capacity on the economic law making, through chambers of commerce and industry, business associations, political parties (mainly NDP and Wafd), research institutions (Economic Research Forum, Egyptian Center for Economic Studies), etc.

The presence of business MPs registered a record high in parliamentary term 1995-2000, rising from 7 business MPs in 1979-1984 to 71 in 1995, and finally to 77 in the 2000 parliamentary elections. Furthermore, in the 2000-2005 parliament,

business profile has been promoted, through heading 5 parliamentary committees of strategic importance, or almost one fifth of all parliamentary committees, namely The Committee for Budgeting and Planning, The Committee for Economic Affairs, The Committee for Workforce, The Committee for Housing, and the Committee for Youth.<sup>20</sup>

Without undermining the problems of Egypt's democratic transition, any comparison of the Egyptian state of affairs now to the sixties and the seventies is illuminating. Egypt has now achieved important strides in the areas of freedoms of expressions, press and media, (Minister Safwat Al Sharif stated on a TV show that there are 600 daily and weekly papers in Egypt, many of which are published in the peripheries outside the capital). More recently, the private sector ventured into the media where three operating satellite channels now in Egypt are private,<sup>21</sup> and many newspapers are underway.

After having a one-party political system, Egypt now has a multiparty system of 17 parties. The government's total monopoly over civil associations and organizations has been dismantled. Egypt now has a growing and flourishing civil society of 16,000 associations.<sup>22</sup> The judiciary has remained viable and independent; and the high constitutional court has become an arbiter of political life.<sup>23</sup>

### *Egyptian Strategic Assets*

In addition to the merits of Egypt for candidacy in the G20, it enjoys a number of regional assets unmatched by any regional player, among these are:

The geographical position of Egypt has made it a strategic as well as economic transportation point for three continents. The establishment of the Suez Canal in the 19th century has added considerably to these assets. The centrality of the Suez canal in

the global market makes it a candidate to be a hub of its own for cargo exchanged between East and West. It could also act as a complex centre linking East and West by means of ports, banks, and stockyards, in order to stimulate multi-national companies' investments.

Since 1975, much effort has been undertaken to widen and deepen the Canal but also in developing its linkages to the Egyptian hinterland, North Africa, and the rest of the Middle East via Sinai, Palestine and Israel through an extensive networks of roads and highways. The new Peace Canal for the irrigation of Sinai, which is currently under implementation, will spread life in both banks of the Suez Canal.

Finally, among the most influential regional assets, is Egypt's cultural industry ranking the first in the region. This culture is a rare melting pot of world civilizations and cultural treasures.

Currently Egypt is the largest producer of cultural products in the region. This includes the production of books, periodicals, popular magazines and newspapers, TV series, movies and the like products. Egypt's advantage in all these activities is cultural as well as financial. Egypt has the advantage of being the center of media production in the Arab markets of twenty-two Arab countries and more than 360 million Arabic speakers. Egypt's share of intra-Arab television programming is one-third. Egypt has almost a monopoly on cinema and videocassettes. The Egyptian dialect is the most known in the Arab world.

Therefore, no other country in the Middle East has the capability that Egypt has not only in cultural influence but also in the making and manufacturing of cultural products. In the areas of newspapers, books, films, video, television and broadcasting, Egypt has unmatched regional potential. The liberalization of Egypt politically and economically will give Egypt much expanded possibilities in this direction.

Egypt has also been active in the regional sphere in the field of CIT, Egypt's Orascom is especially working a network of communications through Africa and some Asian Arab countries, e.g. Syria and Jordan, and most recently post war Iraq.

Against this backdrop, Egypt has been involved in an extraordinary range of common endeavors with nations of the region and worldwide, preparing its economy to work as a regional hub, and weaving a series of economic networks, the most important of these are the COMESA free trade zone agreement with African countries, and the signing of the Egyptian-European Partnership Agreement, in addition to the attempts at revitalizing the Arab common market. Egypt has demonstrated, in the last few years, a capacity to benefit from important developments in the area of establishing regional and trans-regional liberalization projects which have looser membership criteria. These new experiments have raised economic interests above geo-strategic and cultural considerations and have promoted outward and export-oriented economic policies. In this context, Egypt was able to participate in a number of trans-regional trade liberalization initiatives. For example, Egypt is a "dialogue partner" in the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) and a "sectoral partner" in the ASEAN. Currently Egypt is seeking cooperation with the APEC process and a free trade area agreement with the United States.

To conclude, Egypt has been present and active in world forums and organizations and participating in creating new ones more than any country of similar size and power. The potential of an active and influential Egyptian role in the G20 as well as expected impact of such membership as a catalyst to Egyptian financial and economic reform is promising and expectedly rewarding.

<sup>1</sup> Abdel Monem Said Aly, “From Geopolitics to Geo-Economics: Collective Security in the Middle East and North Africa”, in Sven Behrendt (ed.) *Bound to Cooperate: Europe and the Middle East*, (Gutersloh: Bertelsmann Foundation Publishers, 2000), pp. 43-44.

<sup>2</sup> IMF, World Economic Outlook, May 1998, pp. 77-79.

<sup>3</sup> *Strategic Economic Trends Report 2000*, (Cairo: Al Ahram Center for Political and Strategic Studies, 2001), p. 118.

<sup>4</sup> Roy Culpeper, “Systemic Reform At A Standstill: A Flock Of "Gs" In Search Of Global Financial Stability”

<http://www.library.utoronto.ca/g7/scholar/culpeper2000/#evolution>

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Jaime de Melo, Claudio Montenegro, and Arvind Panagariya, “Regional Integration: Old and New”, *Policy Research Working Papers*, No. (985), (The World Bank, 1992), p. 33.

<sup>8</sup> “Is the Global Regulatory System fit for Purpose in the 21<sup>st</sup> Century?”, a lecture presented by Mr. Howard Davies, Chairman of the Financial Services Authority-UK, at the Monetary Authority of Singapore Lecture 2003, Singapore, 20 May 2003.

<sup>9</sup> Roy Culpeper, op.cit.

<sup>10</sup> Ibid.

<sup>11</sup> Gerry Helleiner, “Developing Countries, Global Financial Governance and the Group of Twenty”, *Foreign Policy-In Focus*, November 1999.

<http://www.foreignpolicy-infoc.org/pdf/gac/0111gs.pdf>

<sup>12</sup> C. Fred Bergsten, “Open Regionalism”, *Working Paper*, No. (97-3), (Institute for International Economics, 1997), pp. 8-9.

<sup>13</sup> Joseph M. Grieco, “Systemic Sources of Variation in Regional Institutionalization in Western Europe, East Asia and the Americas”, in Edward D. Mansfield and Helen V. Milner, (eds.), *The Political Economy of Regionalism*, (New York: Columbia University Press, 1997), pp. 170-171.

<sup>14</sup> Kirton, John, “What is the G20?? Adapted from “The G7, China and the International Financial System”. Paper presented at an International Think Tank Forum on “China in the Twenty-First Century”, China Development Institute, 10-12 November 1999, quoted in Roy Culpeper, Ibid.

<sup>15</sup> Gerry Helleiner, op., cit.

<sup>16</sup> Rosemary Hollis, “Capitalizing on Diplomacy”, in Phebe Marr (ed.), *Egypt at the Crossroads: Domestic Stability and Regional Role*, (The Institute for National Strategic Studies, 1999), p. 132.

<sup>17</sup> Ibid., p. 133.

<sup>18</sup> Abdel Monem Said, “The Enemy Brothers; Egyptian-American Relations”, (Unpublished Paper, 1999), p. 9.

<sup>19</sup> Central Bank of Egypt, *Annual Report*, 2000/2001.

<sup>20</sup> *Governance in Egypt*, Report Submitted to the World Bank Symposium on Governance in the Middle East and MENA Region, 2003.

<sup>21</sup> Abdel Monem Said Aly, Egypt in the Post Peace Era, Unpublished Paper, p. 6.

<sup>22</sup> *Arab Strategic Report*, (Cairo: Al Ahram Center for Political and Strategic Studies, 2001), p.450.

<sup>23</sup> For a detailed account on the democratizing role of the judiciary in Egypt, see *Governance in Egypt*, op.cit.