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## The G20 and Global Economic Governance During a Protracted Recession

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# The G20 and Global Economic Governance during a Protracted Recession<sup>1</sup>

Evren ÇELİK WILTSE\*

## Abstract

*Thus far, the G20 represents the most significant collective attempt to address the 2008 economic crisis by the world's largest economies. It is the only global platform that could serve as an institutional panacea for the protracted economic slowdown that has been experienced since 2008. This article analyses the G20 by situating it in the general historical-institutional context of the global economic governance. It compares and contrasts the G20 with the Bretton Woods institutions. Subsequently, some of the most pronounced criticisms of G20 are addressed, including concerns about possible "agenda creep" and the lack of a hegemonic underwriter.*

## Key Words

G20, economic crisis, global governance, Bretton Woods, emerging economies, BRICs, Turkey, Mexico, political economy, development, Eurocrisis.

## Introduction

Despite some harsh criticism, the G20 remains a relevant platform for global economic governance. The emerging

economies particularly benefit from the rotating annual summits and from the less hegemonic distribution of power. Moreover, the G20 generates certain tangible spill-over effects, particularly as it is also a venue for collaboration in diplomatic and non-economic matters. The progressively increasing involvement of global civil society in G20 summits, as well as the US-Russian rapprochement on Syria at the 2013 Russia Summit, demonstrates this capacity. Whether the G20 will be a short-term crisis management organisation or a long-term international governance structure that steers the world economy is still up to the members.

Much ink has been spilled over how the 2008 crisis left the global economy in the lurch. Today, the G20 seems to be one of the rare collective attempts to pull the global economy out of its protracted recession. Despite its sophisticated institutional structure, the EU displays a colossal dysfunction in terms of finding a feasible solution to the eurozone crisis and its "weakest link"

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problem, other than possibly purging the underperformers.<sup>2</sup> Across the Atlantic, the US Congress could not even pass the 2014 budget, and the economy came to a grinding halt due partisan polarisation.

Given the inability of largest global economic actors to act as trailblazers out of the crisis-cum-recession, the G20 remains a critical venue as the only global platform to serve as an institutional panacea for the protracted crisis. This article is an attempt to analyse the G20 by situating it in the general historical-institutional context of the global economic governance. Albeit in a primitive form, the G20 resembles post-Second World War efforts to institutionalise the global economy under the rubric of Bretton Woods system. Important differences remain, however. Most evident is the lack of a natural hegemon that can pave the way and overcome collective action problems.<sup>3</sup>

The second point emphasised in this article is the particular role played by the 2008 economic crisis in the evolution of the G20. Without a doubt the 2008 crisis was a catalyst for the emergence of a new economic platform that brought together world's top 20 economies. Numerous analysts and policymakers have highlighted the fact that the scale and scope of the 2008 crisis compelled

the leading economic actors (the G8) to expand their exclusive club. Emerging economies were offered a seat at the commanding heights of global economy, for they proved to be more resilient than the members of the G8 in the face of this protracted recession.

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Thirdly, this article tackles the power dynamics within the G20. Given the diverse size and nature of the economies that constitute the G20, the organisation embodies significant opportunities as well as drawbacks. Compared to the exclusive league of the G8, which only included the advanced North American and European economies as well as Japan, the G20 certainly has more representative and democratic leverage. However, this greater representation also means addressing a much more diverse set of socio-economic and political concerns. Naturally, an expansion of membership increases the number of items on the agenda, making it harder to

synchronise the priorities of all members and reach an accord.

In the last section, this article concludes with an optimistic note regarding the future of the G20. Upon weighing the pros and cons in the G20 debate, it states that the G20 has the potential to become a viable platform for global economic collaboration. Currently, the G20 is the most high-profile organisation that brings together both advanced industrialised and developing countries on equal footing, in an effort to tackle the pending issues of global economy. Moreover, the issues are not confined to economic housekeeping. G20 Summits might have serious spill-over effects in international collaboration, as seen with the inception of “Business 20”, “Think 20” and “Youth 20” summits. At the 2013 Moscow Summit, diplomatic overtures between Russia and the US on Syria might have very well averted another premature US intervention in the Middle East. This and many other incidents of diplomatic rapprochement at the annual summits illustrate the value of the G20 as an emerging platform of multifaceted global governance. However, it would be prudent to maintain our caution. In the absence of a clear protagonist, the G20 can only achieve the goals to which its members collectively aspire.

If the Doha Round was working marvellously, and if all these institutions

were working well, there would've been no need for the G-20. The reason that there is a need for the G-20 is that the leading economies of the world are no longer compatible, either culturally, historically, or economically. They are very different, and what they have to do is work this out. And that's why the G-20 is absolutely necessary, because I believe they are in the process of working it out.<sup>4</sup>

*Paul Martin, Canadian Prime Minister*

## Why the G20?

A global economy based on free trade among nations has *always* required some form of steering in order to function smoothly. This was perhaps most acutely felt after the Great Depression of 1929. Subsequently, countries in North America and Western Europe got together in an effort to mitigate potentially the self-destructive tendencies of markets. Following the Second World War, they developed a new set of rules and institutions to regulate mutual economic interactions. As one American official at the time simply put it, prosperous neighbours were the best neighbours. Hence, American policy makers, “liberal visionaries and hard-nosed geopolitical strategists” alike, agreed upon building institutions to realise this goal. They established a new trade regime that “embedded” an open international trade regime that the US advocated, as well as supported the European style welfare

states.<sup>5</sup> Named after the idyllic town in New Hampshire where the meetings took place, this new economic regime came to be known as the Bretton Woods system.

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The accumulated wisdom and experience of more than half a century illustrates the fact that, far from being the bastion of the “invisible hand”, an international system of free trade requires certain norms, rules and formal institutional structures in order to function efficiently.

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Two important schools in international political economy (IPE) have competing explanations for the post-war international economic order that emerged under the explicit leadership of the US at Bretton Woods. On the one hand, there is the realist school and its several incarnations. For them, politics and power dynamics are the dominant variable, which grants secondary role to economics in their analysis. As their name implies, the *hegemonic stability theorists* emphasise the role of the US as the underwriter of the new economic order. The US came out powerful and virtually unscathed from a war that destroyed most of the Great Powers of

Europe and obliterated Japan. As such, it was able to craft a system according to its own image, which meant capitalist economy and liberal democracy.<sup>6</sup> The *liberal institutionalists*, on the other hand, counter the hegemony argument and emphasise the convergence of mutual interests and rational collaboration among the key actors. From their perspective, by creating the Bretton Woods institutions, such as the IMF and the International Bank for Reconstruction and Development (IBRD, later the World Bank), the US was not solely trying to perpetuate its hegemony, but was laying the institutional groundwork for interdependence.<sup>7</sup>

Either way, the Bretton Woods regime established a distinct set of rules and institutions, and served the interests of its members rather well. Compared to the rest of the world, the citizens of Western Europe, Japan, US and Canada enjoyed the highest levels of peace and prosperity for decades to come. Alas, the Bretton Woods system did not last forever. Eventually, it gave way to new institutional arrangements among the free market economies. These ranged from GATT (General Agreement on Tariffs and Trade) to the WTO (World Trade Organisation). The accumulated wisdom and experience of more than half a century illustrates the fact that, far from being the bastion of the “invisible

hand”, an international system of free trade requires certain norms, rules and formal institutional structures in order to function efficiently.<sup>8</sup>

Periods of severe economic crisis test the capabilities of existing institutional frameworks. Starting with the 1997-98 economic crises, the top eight economies in the world (Canada, France, Germany, Italy, Japan, Russia, the UK and the US- the Group of 8 or G8) recognised the need to include the voices of the developing world in order to address the problems of a global economy in a more comprehensive manner. However, the 2008 economic crisis proved to be more critical in terms of exposing the shortcomings of the G8 framework. The severity and duration of the 2008 crisis compelled the established rulers of the game (i.e. the US, Western Europe and Japan) to broaden their exclusive circle. In a sense, they accepted a dilution of their powers in an effort to save the system as a whole. Furthermore, there was also a significant change in the participant profile. Starting with the 2008 summit, finance ministers and central bank managers who were the original participants in G8 summits were accompanied by their heads of state/government. The participation of heads of government inevitably increased the profile of the G20 summits.<sup>9</sup> A recent

report by the prominent UN Economic Commission on Latin America and the Caribbean (ECLAC) aptly summarises the birth of the G20 in the following way:

This [2008] crisis has also led to the Group of Twenty (G20), which includes the main emerging countries, displacing the traditional Group of Eight (G8) as the foremost international forum of economic decision-making. The G20 is expected to foster greater coordination as regards fiscal stimuli, financial stabilization and the reform of the international financial system.<sup>10</sup>

Now in its fifth year, the 2008 crisis has revealed both the growing power and significance of developing countries for the world economy. According to ECLAC, between 2000 and 2008, these countries accounted for approximately two-thirds of the growth in world output, “increasing their share from 37 to 45%”.<sup>11</sup> Stronger economic performance brought greater demand for global economic governance. The BRIC countries (Brazil, Russia, India and China) in particular became greater advocates of more representative and fair international institutional frameworks. Table 1 below illustrates the average annual growth rate gap between developing and advanced economies in the last decade.

**Table 1: Average annual GDP growth rates, BRICS, the US, the UK and Turkey (2002-2013)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average
<b>Brazil</b>	2.7	1.1	5.7	3.2	4.0	6.1	5.2	-0.3	7.5	2.7	0.9	2.5	<b>3.4</b>
<b>China</b>	9.1	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.6	<b>10.1</b>
<b>Germany</b>	0.0	-0.4	0.7	0.8	3.9	3.4	0.8	-5.1	3.9	3.4	0.9	0.5	<b>1.1</b>
<b>India</b>	3.8	8.4	7.9	9.3	9.3	9.8	3.9	8.5	10.5	6.3	3.2	3.8	<b>7.1</b>
<b>Russia</b>	4.7	7.3	7.2	6.4	8.2	8.5	5.2	-7.8	4.5	4.3	3.4	1.5	<b>4.4</b>
<b>Turkey</b>	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.8	2.2	3.8	<b>5.0</b>
<b>UK</b>	2.3	3.9	3.2	3.2	2.8	3.4	-0.8	-5.2	1.7	1.1	0.2	1.4	<b>1.4</b>
<b>US</b>	1.8	2.8	3.8	3.4	2.7	1.8	-0.3	-2.8	2.5	1.8	2.8	1.6	<b>1.8</b>

Source: IMF, *World Economic Outlook Database October 2013* (% change in GDP, constant prices).

It is important to understand both the emergence and growing significance of the G20 in this historical context. The fast-paced evolution of the global economy, as well as the changes in relative distribution of power, is straining the existing structures of economic governance. The 2008 crisis and its aftermath triggered an existential crisis in Europe, and caused record levels of unemployment and public debt in the US. However, as Table 2 below illustrates, the same period looks like a boon for countries like China, Brazil, India

and Russia. Despite the unfavourable economic climate, BRIC countries are steadily rising towards the upper echelons of the global economy. According to IMF forecasts, while advanced industrialised countries are expected to grow around 1.4% in 2013, developing countries will have average growth rates of 5.5%. This relative resilience in the face of profound economic crisis certainly augments the powers of developing countries at the table. They demand reforms for greater inclusion in international economic governance.

**Table 2: Ranking of Top 20 Economies According to Size (2003-2012)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1	US	US	US	US	US	US	US	US	US	US
2	Japan	Japan	Japan	Japan	Japan	Japan	Japan	China	China	China
3	Germany	Germany	Germany	Germany	China	China	China	Japan	Japan	Japan
4	UK	UK	UK	China	Germany	Germany	Germany	Germany	Germany	Germany
5	France	France	China	UK	UK	France	France	France	France	France
6	China	China	France	France	France	UK	UK	UK	Brazil	UK
7	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Brazil	UK	Brazil
8	Canada	Spain	Canada	Canada	Canada	Russia	Brazil	Italy	Italy	Russia
9	Spain	Canada	Spain	Spain	Spain	Brazil	Spain	India	Russia	Italy
10	Mexico	Mexico	Brazil	Brazil	Brazil	Spain	Canada	Canada	India	India
11	Korea	Korea	Mexico	Russia	Russia	Canada	India	Russia	Canada	Canada
12	India	India	Korea	Mexico	India	India	Russia	Spain	Australia	Australia
13	Brazil	Brazil	India	Korea	Korea	Mexico	Australia	Australia	Spain	Spain
14	Netherlands	Australia	Russia	India	Mexico	Australia	Mexico	Mexico	Mexico	Mexico
15	Australia	Netherlands	Australia	Australia	Australia	Korea	Korea	Korea	Korea	Korea
16	Russia	Russia	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Indonesia	Indonesia
17	Swiss	Turkey	Turkey	Turkey	Turkey	Turkey	Turkey	Turkey	Netherlands	Turkey
18	Sweden	Swiss	Swiss	Swiss	Sweden	Poland	Indonesia	Indonesia	Turkey	Netherlands
19	Belgium	Belgium	Belgium	Belgium	Belgium	Swiss	Swiss	Swiss	S.Arabia	S.Arabia
20	Turkey	Sweden	Sweden	Sweden	Swiss	S.Arabia	Belgium	S.Arabia	Swiss	Swiss

Source: IMF, *World Economic Outlook Database October 2013* (GDP, current US\$).

## The Formal Structure of the G20

Even though G20 meetings have been taking place since 2000, earlier sessions maintained a technocratic profile, for they were attended solely by finance ministers and central bank directors. The G20 gained a whole new momentum when leaders' summits were introduced after 2008. The first leaders' summit took place in Washington, DC, in November

2008. At the April 2009 London Summit, G20 leaders collaborated to increase the funds available for the IMF. They contributed to extra US \$500 billion to the IMF's expanded New Arrangement to Borrow (NAB). This was an interesting moment, for some members of the G20 (such as Brazil, India and Turkey) had hitherto been *net borrowers* from the IMF, whereas they now became creditors of this mighty international financial institution. After



London, came the much-publicised Pittsburgh Summit in September 2009. Here, US President Obama declared that the G20 would be the “premier forum” for international economic coordination”. He also highlighted the need for a more balanced representation in global economic governance institutions, which culminated in a reallocation of 5% of voting shares from over-represented countries to the under-represented.<sup>12</sup>

The structure of the G20 consists of a rotating presidency among the member nations. The president hosts the summit each year. However, in order to establish continuity a three-member “troika” consisting of the immediate past, present and future presidents coordinates the summit. The 2012 summit was hosted by Mexico, which then passed the banner to Russia to host the summit in 2013. In 2014, Australia will be hosting the G20 summit. Turkey will be hosting the G20 summit in 2015.

Since its inception, G20 summits have been expanding in terms of both number of members and agenda items. Whereas initial meetings convened mostly technocrats in top economic decision-making, recent annual meetings include business, labour, civil society and youth leaders. *Business 20, Think 20, Civil 20, Labor 20 and Youth 20*

are all organisations that have spun off from the original G20 meetings. Critics of the G20 point to this development as potentially distracting. They argue that the agenda of the G20 will become so open-ended that nothing can be accomplished. It dilutes the focus and energy of the organisation. Moreover, the rotating chairs also try to put their imprint on the summit by highlighting an issue that is near and dear to them. At the Seoul Summit, development was added to the G20 agenda. In 2012, Mexico was particularly insistent on “green growth”. The Russian presidency in 2013 emphasised “growth with jobs”. While this “personal touch” is a source of motivation for the host countries, at the same time it might create an inflation of “honourable missions” for the G20 to tackle. It is possible that the rotating presidency aspect of the G20 is partly responsible for the “agenda creep” concerns.

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At Bretton Woods, the hegemonic position of the US provided the economic backing, political will and credible enforcement mechanisms that were believed to be necessary to move forward.

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The *leader-centric* characteristic of G20 carries certain advantages and

disadvantages. At times, host countries and their leaders work hard to put their mark on the event. They choose to emphasise an agenda item and promote the summit in ways that will also promote their country's global presence. This was clearly observed in the Mexican case in 2012. First, Mexican President Felipe Calderon moved the summit to an earlier date- that is, prior to the Mexican presidential elections in 2012- so that he, rather than his successor, could host this prestigious event (the Mexican Constitution bans re-election of presidents). Under Calderon's stewardship, Mexico spent significant effort to augment the institution of G20 by holding the first ever Foreign Ministers' Summit at Los Cabos. This was perceived as a welcome move as it facilitated diplomatic cooperation and collaboration among the G20 members. Even to those who were rather sceptical of the G20 summits gave due credit to President Calderon's performance: "The efforts of the Mexican presidency allowed for limited progress in a number of areas, thereby sparing the summit from being characterized as a total failure".<sup>13</sup>

However, the leader-centric aspect of G20 summits can also go remarkably wrong. France in 2011 is case in point. At the 2011 Cannes Summit, French President Nicolas Sarkozy acted as if the whole event was a stage for his national

re-election campaign. This self-centred attitude undermined the collective purpose of the G20 that year, which was a key meeting in the midst of euro crisis.<sup>14</sup>

## Is the G20 Another Bretton Woods in the Making?

While the circumstances leading to the emergence of the G20 have some similarities with the Bretton Woods era, the differences are probably more pronounced. First, the G20 is not a usual international organisation (IO). It does not have a formal charter. It has no established bureaucracy, no headquarters or standing committees. Each year, one of the members hosts the annual meeting. "Sherpas" from each country act as the country representatives. As it stands, the G20 is a loosely structured and leader-focused arrangement, whereby top leaders of world's largest economies meet annually. The emphasis is on process and consensus building at the top level.

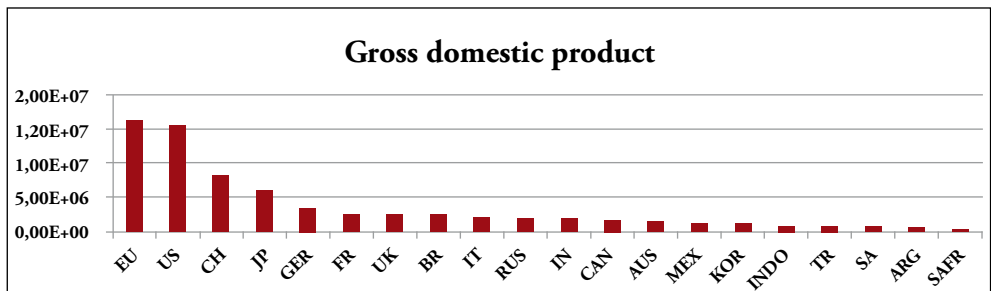
Secondly, there is the issue of relative power distribution within the group. Unlike the Bretton Woods process, the G20 gives equal position to all its members. Advanced economies and emerging economies are on a par with each other. Moreover, there is no overt exercise of US hegemony. At Bretton

Woods, the hegemonic position of the US provided the economic backing, political will and credible enforcement mechanisms that were believed to be necessary to move forward. In the case of G20 however, the absence of a clear hierarchical pecking order makes some analysts rather sceptical. They argue that such a large and diverse set of actors cannot align their competing interests and cooperate on substantive matters. Morgan, for instance, is particularly critical of the new members:

In contrast to the G7, which was composed of states with relatively the same interests and that were accepting of the United States' dominant role, the G20 includes geopolitical rivals and states with widely diverging capabilities and agendas.<sup>15</sup>

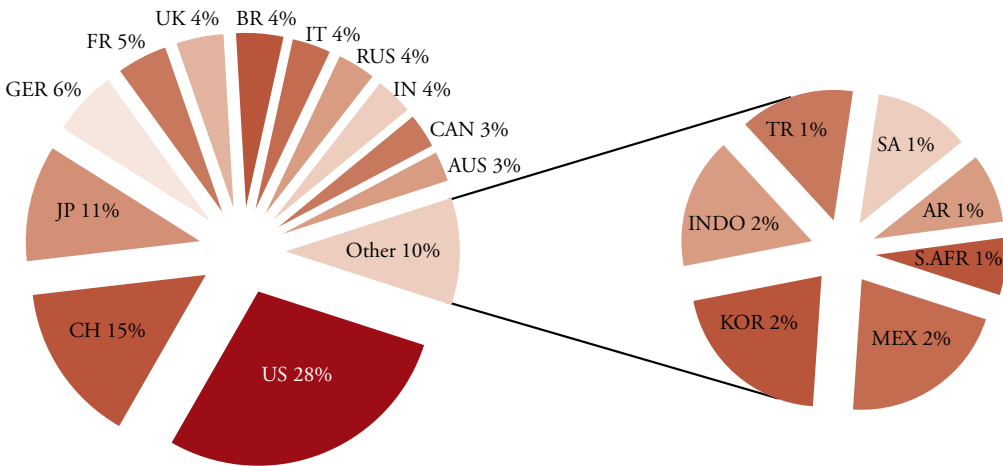
The lack of a hegemonic underwriter for the G20 project is increasingly perceived as a weakness by the sceptics. Among them, the economist Nouriel Roubini, famous for his accurate projections of global macroeconomic trends, has stated that “we are going to G-Zero, with no global economic governance”.<sup>16</sup>

**Chart 1: The GDP of G20 members, including the EU 27 (2012, in current US\$)**



Source: World Bank, *World Development Indicators 2012*, at <http://data.worldbank.org/data-catalog/world-development-indicators/wdi-2012> [last visited 10 November 2013].

**Chart 2: The comparative economic size of G20 members, excluding the EU 27**



Source: World Bank, *World Development Indicators 2012*, at <http://data.worldbank.org/data-catalog/world-development-indicators/wdi-2012> [last visited 10 November 2013].

Charts 1 and 2 above illustrate the relative size of the G20 economies. As seen in Chart 1, the EU is the largest entity, as it combines 27 national economies. However, the EU is far from leading the pack as the hegemon. The eurozone crisis has exposed the EU's shortcomings as an internally coherent economic actor, especially when it comes to coordinating fiscal policy. This leaves the stage open for the US, who is the natural contender for hegemony. Yet, many analysts on various sides of the ideological spectrum concur that, in the last two decades, the US has been experiencing a hegemonic decline for various reasons. Consequently, it is not in a position to lead the way, or absorb the costs of collective action

under the G20 framework. The third in line is China. There has been a cottage industry of scholarship and punditry on the phenomenal growth rates of China's economy. However, analysts have not yet reported serious muscle-flexing by the Chinese single-party rulers in ways that would hint aspirations of a hegemonic role in global economy. Low per capita incomes, massive stockpiles of labour in rural China and the delicate balance between a capitalist economy in a socialist one-party political system make domestic concerns more urgent for the Chinese leaders than underwriting the rules of the game in new global institutions. This then brings us to the mid-level economic powers: from Japan

and Germany, to France, the UK and Brazil. While each is a commendable actor in their respective region, none has the capacity to act as the hegemon on a global scale.

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**The eurozone crisis has exposed the EU's shortcomings as an internally coherent economic actor, especially when it comes to coordinating fiscal policy.**

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In short, Roubini's characterisation of the current global power distribution as "G-Zero" might be apt in the sense that no country enjoys indubitable superiority over the others. This vacuum of leadership, combined with a set of developing countries that lack the economic leverage and/or political will to shape the new global institutional structures constitute significant problems for global economic governance, according to Roubini.<sup>17</sup>

However, the leadership void this may not necessarily be a handicap for the G20. What is considered a deficiency from the (neo)realist perspectives might even be a blessing from a more liberal standpoint. The lack of a predominant player may trigger genuine coalition building across a diverse set of economic actors. These interactions on several

fronts (i.e. business, civil society, youth, etc.) might help the actors perceive the global economic game as a "complex interdependent" exchange<sup>18</sup> à la Keohane and Nye, rather than one of hegemonic domination and subservience. Consequently, the G-Zero environment might very well facilitate the formation of a more democratic and egalitarian global institutional framework. Lack of a hegemonic actor might prove to be an asset for the G20, rather than a liability.

A third important point of deviation of G20 from the Bretton Woods model concerns the agenda setting. In the case of Bretton Woods, the agenda was laid out clearly from the start, largely by the US. In contrast, the G20 has not had an agenda that is set in stone- yet. While it emerged as an effort to address the 2008 economic crisis, the diversity of its members, as well as the rotation of host countries inevitably alter the issues that show up on the G20 agenda annually. This situation invites "agenda creep" criticisms, especially from economic policy technocrats.

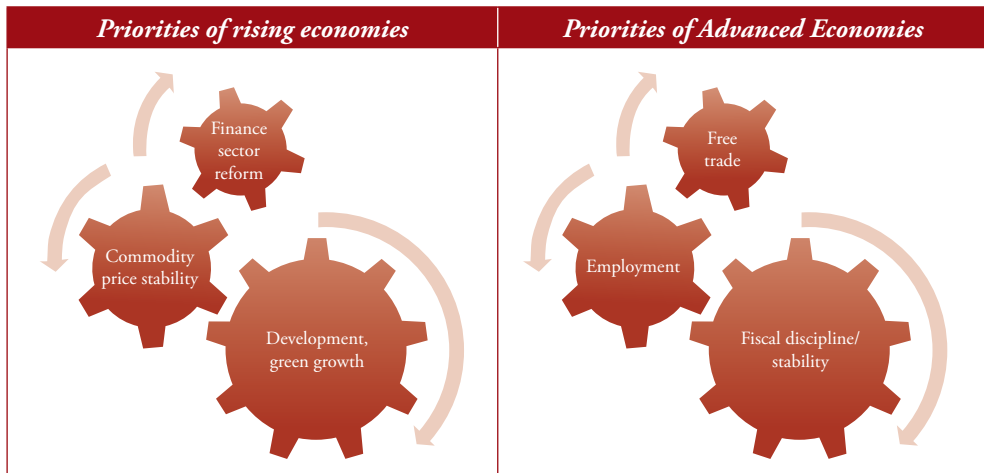
Initially, the focus of G20 was almost exclusively on economic stability and fiscal policy. Given this tight definition of its scope, only finance ministers and central bank directors attended the meetings. As the G20 process has evolved, participation has expanded,

and now includes top political leaders, business elites, think-tanks and civil society activists. These new groups brought with them new issues to be addressed by the G20. A medley of concerns, ranging from green growth to fossil fuel subsidies, and food security to corruption, have been included on the G20's agenda.

The fact remains that the members of the G20 are a diverse group with very different economic concerns. Some advocate a classic neo-liberal economic model, while others like China implement state-led capitalism. The 2008

crisis illustrated that even among the advanced economies there is significant variation. While Europe is trying to save its welfare states, the US is trying to strengthen it with comprehensive health care reforms. Moreover, the absence of a hegemonic agenda setter means that the priorities of all G20 participants may not be perfectly aligned at any given point. When compared to the Bretton Woods system, the G20 displays a significantly different institutional structure and power distribution pattern. The graphic below illustrates the diverse priorities of the emerging economies vis-à-vis the advanced ones.

**Graphic 1: The compatibility of issues at the G20**



## Challenges in Front of the G20:

- *Conflicting national interests:* At the 2012 summit, members of the G20 agreed to subject their respective economic performances to the scrutiny of the group through the IMF. This step will increase the viability of any effort to coordinate the global economy. As such, certain recommendations emerged from the 2012 Los Cabos Summit. The advice was wide-ranging but specific. For example, it was recommended that China bring down its phenomenally high savings rates and slow down its rate of reserve accumulation. Furthermore, most countries agreed that China has maintained an artificially low exchange rate, which gives an unfair edge to Chinese exports. Consequently, they advised China to allow more realistic exchange rates.

At the same time, Turkey and Brazil were asked to do something about their low savings rates. Both countries have impressive growth rates but this performance is not sustainable given the meagre ratio of domestic savings. Germany appears to be doing rather well compared to the crisis-riddled eurozone, but it too was told to

liberalise its services. And the list went on.

However, without a potent mechanism to *enforce* such recommendations, it is not clear whether members would be obliged to follow them. Both Germany and China maintain large trade surpluses, and perceive this as in their own national interests. In contrast many other countries, particularly those in Southern Europe, have bled white under the strain of chronic trade deficits. Kemal Derviş of the Brookings Institute highlights these diverging priorities and potential lack of cohesion among the G20 members as a point of concern. Unfortunately, the G20 has not yet developed the right tool-kit to address this issue of divergent national interests.<sup>19</sup>

- *Changing existing governance structures:* The pillars of today's global economic order were created after the Second World War. Thus, they reflect the power dynamics of that era. Echoing the world of 1945, key international financial institutions, such as the World Bank and the IMF, give significant powers and representation to the Western nations.

In the last decades, many contenders have challenged the superstructures

of the old economic order. The centre of global economic power is rapidly shifting to the Southern and Eastern hemispheres, with the rise of the Asia-Pacific region and the BRICs. Predictably, these emerging countries desire the top international economic institutions to be more representative and democratic. However, such demands come at the expense of the established Western powers.

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Rather than trying to tackle massive financial conglomerates separately countries would be better off by combining their forces and amplifying their power.

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The G20 will be an important venue for negotiating the re-structuring of global economic governance. Emerging economies have already displayed their commitment to global governance. They effectively saved the IMF from obscurity, when they transferred massive amounts of funds to the Fund at the peak of the global recession. Recent assessments note that emerging markets account for more than two thirds of global economic growth. It is only fair that these nations are expecting a more equitable distribution of power in

global economic governance, one that is commensurate with their new economic might.

- *Regulating the financial sector:* The task of global economic coordination and governance under the G20 entails financial regulation of more than 20 banking systems. Today, there is nearly uniform consensus that the economic crisis of 2008 was due to the blunders of the financial sector, which started with the subprime mortgage markets in the US and spread like wild fire. Because the banks were “too big to fail”, the US and other countries devised massive rescue packages to save the banks and their respective national economies.

According to Paul Krugman, banks today are even *larger* than they were during the 2008 crisis. It seems that financial institutions have an insatiable appetite to merge and expand into behemoths. At the same time, their governors are extremely savvy about ways to avoid regulation, public scrutiny and oversight.<sup>20</sup> Yet, problems in the financial sector severely undermine the performance of the real sectors of the economy, creating a credit crunch or overall macroeconomic instability.

Tackling this issue will be a major challenge for the G20. Part of the



problem lies in the varying ideological positions of the G20 leaders. While some of the centrist and leftist leaders are eager to reign in the financial sector, those on the right are not generally enthusiastic supporters of financial regulation. For instance, since London is a major hub of global finance, the conservative Prime Minister of the UK is adamant about blocking any measures that will clamp down on finance capital. Regarding financial sector regulations, Turkey is in the pro-regulation camp, along with most of the emerging markets.

Financial regulation is more likely to be resolved in a collective setting than through action by individual nations. Rather than trying to tackle massive financial conglomerates separately countries would be better off by combining their forces and amplifying their power. If the stars align and a powerful pro-regulation coalition can emerge within the G20, it could offer a great opportunity to address the distortions and malfunctions of the finance sector. Meanwhile, we might have to settle for the *ad hoc* cases of criminal charges, such as JP Morgan's London Whale scandal in 2012, or its US \$13 billion settlement for mortgage fraud in 2013.<sup>21</sup>

## The Future of the G20: Prospects and Drawbacks

Most analysts of the G20 point at “agenda creep” as a major source of concern. As discussed above, the G20 initiative has gained significant momentum after the 2008 crisis, with an overwhelming emphasis on macroeconomic stability and fiscal policy coordination. However, as the emerging economies became more and more involved, issues of economic growth and development have also been added to the agenda. Subsequently, sustainable energy, phasing-out of fossil fuels, green growth, food security and climate change have become part of the G20 agenda.

Critiques argue that the G20 will soon have “agenda fatigue” due to this exponentially increasing list of noble causes. Similar criticisms have also been raised by the technocratic teams of each of the G20 members, who tend to prefer a narrow and tightly defined scope for the G20. Staffs of finance ministries and central banks generally claim that a too diffuse agenda dilutes the effectiveness of the G20. From their perspective, the G20 should “stick to its original agenda”, to have global financial stability and coordination as its foremost goal.

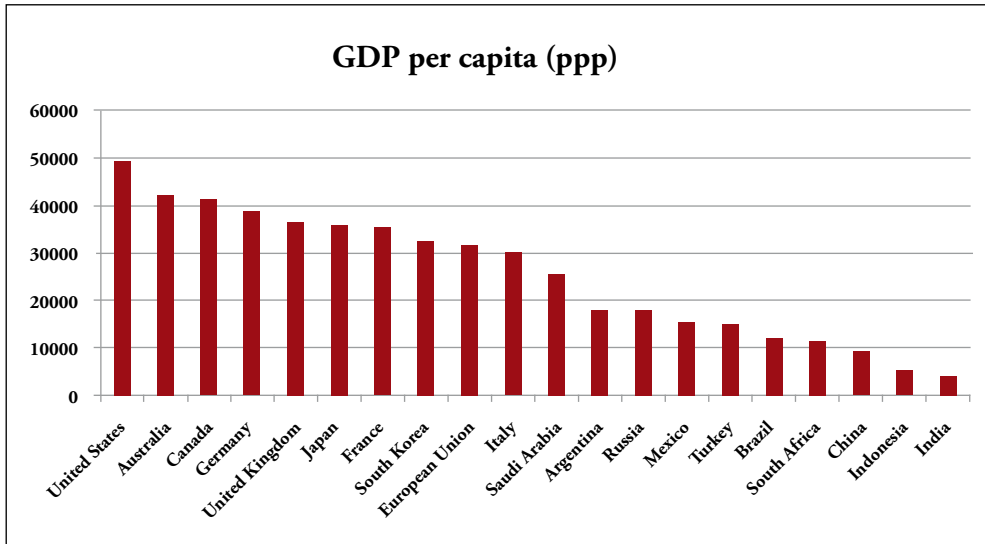
This “agenda creep” criticism does carry some merit. Certainly, the G20

cannot have a completely open-ended approach to agenda setting, wherein new items are added at every summit to an ever-growing to-do list. Yet, this zero-sum perspective also assumes that collaboration in different areas, such as diplomacy or environment, would come at the expense of financial sphere. Essentially, the advocates of a streamlined agenda conceptualise the G20 exclusively in an economic and technocratic manner.

Contrary to the arguments of “agenda creep” critiques, most successful

examples of international collaboration illustrate that cooperation in one area tends to provide positive spill-over effects in other areas. A notable example is the 1950 coal and steel partnership between France and Germany, which paved the way for the EU of today. Consequently, the efforts by foreign ministers, business and civil society representatives at the G20 summits should not be perceived as “distractions” from the main cause. Rather, they should be utilised to amplify the economic collaboration efforts among the member nations.

**Table 3: GDP per capita of the G20 members (2012, in US\$ purchasing power parity (ppp) adjusted)**



Source: World Bank, *World Development Indicators 2012*, at <http://data.worldbank.org/data-catalog/world-development-indicators/wdi-2012> [last visited 10 November 2013].

Another response to accusations of agenda creep can be found in the *diversity* of the G20 members. As Table 3 above displays, the G20 includes countries with per capita incomes of more than US \$40,000 (US, Australia and Canada) to less than US \$10,000 (China, Indonesia and India). The difference between US and Indonesia is nearly tenfold. By their very nature, these economies do not have a singular concern that impacts them across the board equally. As the platform expands, so does the agenda. It is no surprise that at the 2010 Seoul Summit “development” was added to the agenda, since it is a pressing concern for nearly half of the G20 members who have yet to reach the US \$20,000 per capita income threshold.

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**The costs of borrowing remain high for Europe’s debtors, and Germany seems extremely reluctant to allow growth with inflation.**

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A second issue that is frequently cited by the analysts is the eurozone crisis. The ongoing tribulations of the eurozone 17 seem to be hurting the effectiveness of the G20. Since the institutional structures of global economic governance are heavily skewed towards European and North American economies, their troubles are

crippling the international efforts for stability. As seen in Chart 1, the EU, with its 28 members, constitutes the largest economic block in the G20. Almost five years into the crisis, Europeans seem unable to find a feasible solution to the unsustainable gap between its export-oriented, surplus-generating economies and import-oriented, deficit-generating economies. The costs of borrowing remain high for Europe’s debtors, and Germany seems extremely reluctant to allow growth with inflation. Instead, the locomotive of the euro calls for more austerity, choking the overall economic system.<sup>22</sup>

As they muddle through this crisis, Europe is effectively acting as a damper on the potential progress of G20. Nobel laureate Joseph Stiglitz describes a rather frosty exchange, when he comments on the lack of solidarity within Europe:

One very senior government official of a northern European country did not even put down his fork when interrupted by an earnest dinner companion who pointed out that many Spaniards now eat out of garbage cans. They should’ve reformed earlier, he replied, as he continued to eat his steak.

Stiglitz too is among those who observe a gradual shift towards a G-Zero world, but he is optimistic about the performance of the emerging markets. Globalisation brings interdependence of risk. As long as the US and Europe

do not “torpedo developing countries”, global economic growth might resume, despite the “failures of the West”.<sup>23</sup>

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While countries like Mexico, France and most recently Russia strongly endorse regulation, the Anglo-American alliance seems to avoid the discussion at all costs.

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In the early stages of the 2008 crisis, financial institutions were bailed out by sovereign funds, with the excuse that they were too-big-to-fail. Today, they are even bigger and riskier, as the case of banking crisis in Cyprus has tragically revealed. Yet, five years into the crisis, effective regulation of the financial sector still remains on the back burner of the G20 agenda. Financial regulation with teeth, the adoption of some kind of financial transaction tax and the elimination of tax havens constitute the soft underbelly of the G20. While countries like Mexico, France and most recently Russia strongly endorse regulation, the Anglo-American alliance seems to avoid the discussion at all costs.

Reforms in the financial sector carry significant repercussions for the members of the G20. Despite the massive influx of public funds, it is

unfortunate that the corporate culture of astronomical bonuses and lack of transparency or accountability remains untouched, particularly in the US. Even when caught red handed, financial institutions, such as HSBC, are now “too big to jail”.<sup>24</sup> Token penalties do not seem sufficient deterrents to alter the culture of impunity in the financial sector. Even the 2008 crisis could have been used as an opportunity to address the abuses in the financial sector. Earlier in the crisis, small- and medium-sized enterprises (SMEs) were systematically denied credit by large commercial banks on the grounds that they were too risky and not commercially viable. However, in the developing world, SMEs account for nearly half of the labour force in manufacturing. Their access to credit and financial services is a critical component for growth and development. The G20 has multiple members with the experience of development banks and community banks. Canada, India, Brazil and Germany could offer significant experience in terms of SME-sensitive and development-friendly banking practices.<sup>25</sup> Since financial sector reforms are among Russia’s top agenda items in 2013, one can only hope that aforementioned countries will rise up to the plate and come up with concrete proposals.

Interestingly, the activism of emerging economies may become especially significant while Europe is bogged down in an existential nightmare. At the Los Cabos Summit in 2012, emerging economies contributed US \$65 billion to the IMF's emergency funds. The goal of this contribution was to buttress the Fund against an escalation of the eurozone crisis.<sup>26</sup> The seeds of a solution to eurozone problems might already be embedded within the G20. A strong and viable G20 that has an equitable structure of representation between developed and emerging economies would have the wherewithal to pull the eurozone out of this quandary.

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**Despite some harsh criticism, the G20 is still a relevant platform for global economic governance, for it annually brings together top leaders of the world's largest 20 economies.**

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Lastly, the 2013 Moscow Summit may not be remembered for its economic success. However, it certainly will be memorable for the political and diplomatic breakthrough that it catered to. At a time when the US President was leaning strongly towards a military intervention in Syria due to alleged chemical weapons use by the Assad

regime, the Moscow Summit proved to be the perfect opportunity to discuss the issue face to face with the Russian Premier, who happened to be an ally of the Syrian regime.<sup>27</sup> Subsequent to the summit, the US pushed the military option onto the back burner and deferred the subject to a larger international audience, particularly including Russia and China. This is probably one of the most high profile incidents wherein an economic collaboration venue lent itself to collaboration on military/strategic issues.

## Conclusion

It is too early to decide whether G20 actions to date have been a success or failure. Despite some harsh criticism, the G20 is still a relevant platform for global economic governance, for it annually brings together top leaders of the world's largest 20 economies. Moreover, it yields some tangible results as a venue for collaboration on non-economic matters as well. The members of the G20 constitute about two-thirds of the world population and account for 90% of global GDP. Whether it will be a short-term crisis management organisation, or a long-term international governance structure that steers the world economy, is still up to the members.

## Endnotes

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