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G20, Development and Global Governence:

An Assessment

Geoffrey Allen Pigman

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Acronyms and Abbreviations

BRICS	Brazil Russia India China South Africa
GATT	General Agreement on Tariffs and Trade
GNP	Group National Product
HIPC	Highly Indebted Poor Countries
IMF	International Monetary Fund
UK	United Kingdom
US	United States
USA	United States of America
UN	United Nations
WTO	World Trade Organisation

Introduction:

Debating the Effectiveness of the G20 in Global Governance

Since its founding at the end of the 1990s, the G20 has achieved progressively higher visibility in the evolving architecture of global governance, most recently taking a leading role in the management of the global financial crisis of 2008 and in managing policy coordination to mitigate the major recession that followed. The G20, an organization comprised of twenty major industrialized nations and emerging markets plus the European Union, provides a venue for finance ministers and heads of government to meet regularly and to coordinate policies on global issues requiring concerted action. At its inception the G20 was conceived of as an institutionalized sort of 'add on' to the long established G7/G8, a forum of heads of government of industrialized nations (with Russia added in the 1990s) that had been meeting in some form since the 1970s. The need for policy coordination to address the successive Latin American, Asian and Russian financial crises of the 1990s made the point that, in a post-Cold War world of rapidly emerging major new economic powers, there needed to be an established venue alongside the G7/G8 in which leaders of industrialized nations and emerging powers could meet. When U.S. President Barack Obama called for G20 heads of government to meet in November 2008 to confront the rapid collapse of global credit markets, the G20 was catapulted from being an 'add on' to centre stage as a venue for global economic governance. G20 meetings since 2008 have sparked heated debate over to what extent the G20 has been effective in achieving its purposes. This debate, however, presupposes the underlying questions of what purposes the G20 is intended to achieve and the related normative question of what its functions ought to be. Member nations, particularly those from developing countries such as South Africa, must be able to answer these questions if they hope to address the more practical question of how member nations can use the G20 most effectively in pursuance of their own national and collective objectives. In order to facilitate the answering of those questions, this paper seeks to frame the effectiveness debate and the empirical and normative questions about the purposes and functions of the G20 in historical and theoretical context.

The debate over the principal functions and purposes of the G20 is cast primarily between those who see the G20 as a 'talking shop' for leaders of major world powers and those who conceive of the G20 as a sort of nascent economic 'Security Council' in process of assuming more a formalized role in the governance of global finance and the world economy. Those who view the G20 as an economic Security Council in the making are bound to be more disappointed in the progress of the project thus far than those who embrace the talking shop model. But in order to understand the debate and its consequences one has to place it in the context of the history of the emergence of the G20 and the institution from which it emerged, the G7/G8. The G7/G8 originated as a 'talking shop' at the highest level, when U.S. President Richard M. Nixon invited the finance ministers of the UK, Germany, France, Japan and the USA to meet in the library of the White House in March 1973. They met to discuss the future shape of relations between the principal Western allies concerning international trade, finance and exchange rates. It was a moment in history when the post-World War II international monetary regime of gold-backed currencies and fixed exchange rates administered by the International Monetary Fund (IMF) had collapsed. The IMF's resources for lending to nations to promote balance of payments stability had been shown to be inadequate. Severe inflation in many countries posed the risk of redistributing assets from creditor to debtor nations in a disorderly and destabilizing way. Postwar multilateral trade liberalization as promoted by the multilateral General Agreement on Tariffs and Trade (GATT) had stalled and was in danger of reversal in the wake of President Nixon's own 1971 'Nixon Measures', temporary tariffs on European and Japanese imports imposed for balance of payments reasons. Prices of fossil fuels, the lifeblood of the Western economy, were beginning to make a massive secular leap upwards in response to escalating political tension in the Middle East.

■ Evolution of a Diplomatic Venue: Words Begin to Make Realities

Thus at a time of doubt amongst the allies over the wisdom of management of the Western international economy by multilateral institutions with their own managers and staffs of experts, Nixon's famous Library Group meeting in a sense heralded a return to more traditional Great Power diplomacy following nearly three decades in which management of the international economy had been transferred progressively to multilateral institutions such as the IMF and World Bank. Two years later, when the group met as the G6 in Rambouillet, France, with the addition of Italy (Canada would join the following year, making the group the G7), the ongoing shape and format of the venue were already solidifying. An annual meeting of finance ministers would periodically (and with increasing regularity as time passed) be joined by heads of government. The meetings as originally conceived were more about process than product. They were occasions in which ministers could meet, get to know one another and exchange views on a broad range of global issues in a private, informal setting, therein creating the conditions for being able to communicate quickly and effectively when events required them to act in concert. Social theorist Jürgen Habermas's Theory of Communicative Action, which analyzes the conditions under which effective communication between unfamiliar interlocutors becomes possible, argues that one of the conditions for effective communication is the development of a 'lifeworld' of shared meanings and understandings between interlocutors.1 Sometimes lifeworlds occur naturally, as between soldiers from opposing armies who shared the experience of fighting one another in a war. However, lifeworlds can also be generated by creating shared experiences between diplomatic interlocutors in venues such as G7 meetings.

A more effective system of communication between finance ministers and their respective heads of government would rapidly become a requirement of the emerging new international monetary system that succeeded the fixed exchange rates of Bretton Woods. Floating exchange rates needed to be managed actively through cooperation and coordination of monetary policies between major governments. Preventing major monetary and financial crises, which have remained an ongoing feature of the system, from turning into systemic collapses requires swift and effective leadership at the highest level. Hence the G7 functioned for many years very much as a talking shop, creating the conditions for its members to communicate and act in concert when required, but not acting as the G7 as such. As the G7 lacked a permanent secretariat of its own, member countries took turns chairing the G7 on an annual basis and hosting the annual summit meeting. The responsibility of the chair and host to organize the agenda for the annual meeting evolved into an opportunity for the chair to shape that year's G7 agenda priorities. Gradually members began to agree to take up particular agenda items at each year's meeting, with the objective of reaching agreement on action points that member countries would commit to one another to undertake over the following year. This commitment to fellow members and communication to the external world constitutes the core of the G7's policy mechanism. Unlike the signing of a multilateral treaty or other formal agreement, there is no external enforcement of members' G7 undertakings to one another at the end of each annual meeting. Hence agreement, if it is to have any power to compel member countries to act, must be unanimous and commitment to it must be sincere. Members draft a communiqué reflecting their agreement, which they release publicly at the conclusion of the meeting. The communiqué documents members' commitments to one another and in effect invites the rest of the world to hold them to it. Through the setting of global expectations for action, in what has been dubbed the 'Rambouillet effect', talk can become policy, words can make realities. Clearly not all G7 commitments have been met, which has led critics of the mechanism to tag it as just more 'promises, promises' in the absence of a more binding form of obligation. However, when considered in the context of governments' overall track records of meeting their multilateral commitments in a range of venues, the G7 does not fare badly.2

A Bigger Tent? The Membership Debate and Expansion

From the G7's inception, the question of membership, access and participation has always been at the core of its agenda and has been revisited in some form every year. As the G7 came to be perceived globally as an exclusive club in which membership is to be desired, what criteria for membership are and what they should be have been debated, both amongst G7 members and externally. The most commonly cited criteria that have been identified are economic size, market-oriented economic system, and democratic governance. However, a consensus has not emerged, either internally or externally, concerning whether any or all three criteria should be observed. The debate over whether or not to expand the G7 can be seen as a tradeoff between effectiveness and legitimacy. There is anecdotal evidence, which is supported by research in decision theory, that a group size of six to eight may be optimal for small group decision making, and that groups larger than six to eight members face a significantly more difficult time in reaching decisions. However, as the world has continued to change over the lifetime of the G7, perceptions have widened that the original seven members are ever more unrepresentative of the shifting global distribution of power and wealth. After 1976, the only significant formal change in membership of the G7 came with the decision in the early 1990s to admit Russia. G7 members took this decision with the objective of institutionalizing incentives for Russia to create and maintain a market economy and democratic governance institutions. Invited initially to attend the 1994 G7 meeting as a guest, Russia was invited to join the meeting of G7 heads of government annually from 1998, transforming that meeting into the G8. However, Russia's invitation did not include admission to the annual G7 finance ministers' meeting on grounds that Russia's economy was not yet sufficiently integrated into global market institutions. The decision to admit Russia, contentious from the start, has remained contested long after Russia began participating in the G8, particularly in light of Russia's perceived backsliding on democratic governance. Ongoing debate over further expansion tracked the Russia debate in the 1990s and early 2000s, focusing on the possible admission of rapidly growing China and on whether some form of regional representation should be built into the G8. Consensus amongst members did not emerge around either proposal, with China being passed over largely owing to its non-democratic system of governance. However, over these same years, a second tier form of participation in G7/G8 meetings began to emerge through the practice of inviting guests to attend in particular years, including leaders of Spain, the Netherlands and Australia. In a sense this foreshadowed the emergence of the G20 initially as a venue linked to but distinct from the G7/G8.

During the 1990s the global economic boom unleashed by the end of the Cold War and technology innovation was tempered by a series of financial crises in Latin America (1994), East Asia and Russia (1997-98). G7 finance ministers conceived the idea of meeting regularly with their counterparts from major emerging markets as a response to the East Asian financial crisis. Different groupings of ministers met as the crisis unfolded in 1998 and 1999 (G33, G22), with the first meeting of finance ministers of what has become the G20 taking place in 1999. The G20 was seen as a venue to address issues of concern in developed and developing countries alike, but initially was not intended to supplant the G7/G8. Officials of U.S. President George W. Bush pressed for a more central role for consultations between G7 ministers and finance ministers of the BRICs, but the G20's significance was not transformed until the financial crisis of 2008. The seriousness of the 2008 financial crisis created the need to bring together the expertise of finance ministers and central bankers with the policy authority of heads of government at the G20 level, and thereafter the new practice of an annual G20 heads of government meeting was institutionalized.

Membership of the G20

Australia	Argentina
Canada	Brazil
European Union	China
France	India
Germany	Indonesia
Italy	Mexico
Japan	Saudi Arabia
Russia	South Africa
United Kingdom	Republic of Korea
United States	Turkey

Although the G20 was established to serve as a 'talking shop' like the G7/G8, the dynamics of discussing issues and agreeing upon responses are of necessity very different. There are far more members around the table than the putatively optimal number of six to eight for consensus decision making. Moreover, unlike in the

International Monetary Fund and the World Bank, where votes are apportioned according to share ownership, there is greater equality of voice in the room. In practice, these factors make decision making more difficult. However, there is not an obvious 'north-south' or 'industrialized-developing' country cleavage in the G20. As the table indicates, countries in the left hand column are the original G8 plus a formal seat for the European Union and one for industrialized, commodity-exporting Australia. In the column on the right are countries distinguished by a huge range of differences: from poor but rapidly developing Indonesia to industrialized South Korea and relatively industrialized Turkey; from commodity-exporting Saudi Arabia to services-exporting India to manufactures and credit-exporting but energy-importing China, just to observe a few. Hence on any substantive issue that the G20 takes up, cleavages are cross-cutting, frequently setting old G7 members against one another whilst bringing them new allies from the broader G20 membership.

Emerging from these cross-cutting alignments are indications of growing cooperation between the BRICS (Brazil, Russia, India, China, South Africa) members, as evidenced at the June 2012 Los Cabos, Mexico G20 summit by BRICS governments pledging over $55 billion in new reserves to the IMF to maintain global economic stability in the face of the European financial crisis. Also indicative of this new pattern of cooperation is the G20's adoption at the November 2010 Seoul summit of a Multi-Year Action Plan on Development, which is intended to stimulate economic growth in 80 low-income countries. Some months earlier South Africa's government co-hosted a conference in Cape Town that facilitated contributions from civil society organizations in preparation for the G20's adoption of the development plan.3 Notwithstanding criticism of the G20 from the development community for not being more ambitious, the G20's adoption of the plan illustrates the impact of having more powerful big emerging economy allies such as the BRICS backing a more aggressive global development agenda.

Managing a Club of Twenty: Legitimacy vs. Effectiveness

As it has evolved since 2008, the G20 has promoted its own legitimacy as a high level venue for global economic governance. Its legitimacy claims rest upon data indicating that its membership includes 90 percent of global GNP, 80 percent of world trade and two thirds of the globe's population.4 Moreover, G20 meetings include participation of leaders of global and regional governance institutions: the IMF, World Bank, World Trade Organization, United Nations, Organization for Economic Cooperation and Development, International Labour Organization, and the African Union, amongst others. However, this very breadth of participation has made the meetings, already considerably larger than those of the G7/G8, much more crowded and procedures more cumbersome and less efficient. It is perhaps an indication of the perceived legitimacy of the G20 as a venue that heads of major international institutions have arrived at G20 meetings expecting to take a place at the table as of right, even in the absence of a formal invitation. Concern about the G20's effectiveness amongst original G7 members is so sufficient that French President Nicolas Sarkozy, who had contemplated proposing to fold the G7/G8 into the G20 formally in 2011 in recognition of the shifting locus of global power, thought better of the idea and changed his mind. He recognized the value of continuing to be able to meet in the smaller, more intimate venue as well. The debate over membership of the G20 remains unresolved as well, with countries like Spain, which ranks approximately fifteenth in size in the global economy, arguing plausibly that they should have a place at the G20 table. The discussion about further expansion of the G20 largely tracks the debate over expansion of the UN Security Council, with most observers expecting a final membership number either in the low or high 20s to be agreed.

The question of whether the G20 is best understood as a global talking shop or a nascent economic Security Council is very much tied up in how it perceives and addresses its issue agenda. The issue agenda of the G7/G8 and G20 continues to evolve in response to global economic events. Whereas the G7 was conceived of initially to be a venue to facilitate management of the international monetary system, and thus for global financial governance, by the 1990s it had begun to add issues to its agenda for annual meetings that could better be understood as development issues. Bridging the digital divide, bringing the benefits of the revolution in information and communications technologies to developing countries, was one of the first major development issues addressed by the G7 in the 1990s. By the 2000s, the G7/G8 took up global climate change and its impact on developing countries, as well as debt reduction for highly indebted poor countries (HIPCs) and poverty eradication in Africa, with major commitments undertaken at the 2005 G8 Gleneagles summit.5 The G7/G8's move towards addressing development issues begged the question of whether it made sense to address major development questions without having leaders of major developing countries at the table. This served as further impetus for the creation of the G20. Bringing together a larger group facilitated addressing the growing number of issues in which global finance and development converged, such as debt relief and poverty eradication. However, even as the 2008 financial crisis generated a need for G20 heads of government to meet regularly, it also shifted the focus of the G20 more squarely from development to global financial and monetary management. Issues such as global financial stabilization, economic stimulus, trade imbalances, money laundering and terrorist finance have been at the centre of the G20 agenda since 2008.

Conclusions: The G20 an Economic 'Security Council' in the Making?

Ultimately, the ability of the G20, like the G7/G8, to take decisions by consensus on policies to be implemented collectively indicates that the G20 is more than just a global talking shop, even if not yet equipped with the powers over the global economy equivalent to the UN Security Council's powers over global security. However, the UN Security Council also depends upon UN member countries to implement its decisions and is only ever as powerful as the commitment of its members to uphold the UN Charter. The new working relationship between the G20 and the IMF offers the best indication of how the G20's powers may evolve into a more robust form of global economic governance. The G20 work plan, originally proposed by the Bush government in the USA as the 'Agenda for Growth', envisages country pledges to reduce global financial imbalances and improve financial stability. Enforcement of commitments would be undertaken by a process of mutual assessment, with the IMF to act as referee in cases of disputes and with the power of moral suasion to encourage compliance. By integrating the financial resources and technical capacities of the IMF with the perceived global legitimacy of the G20 as a policy making institution, this approach can make G20 policy implementation more effective even whilst granting greater legitimacy to the IMF, oft criticized for its voting by share ownership of the wealthiest countries.

The difficulties that G20 leaders have faced in successive meetings since 2008 over reaching agreement on economic recovery measures such as global fiscal stimulus and completion of the WTO Doha Development Agenda multilateral trade liberalization round indicate the limitations resulting from a larger number of interlocutors and the diversity of perceived national interests. As one former senior U.S. Treasury Department official observed, member states will continue to act in their national interests when those interests diverge from positions held by international institutions. However, one of the principal merits of the 'talking shop' form of global economic governance is that national interests and priorities can and do change as a result of leaders communicating with and learning from each other. The G7/G8 has a proven track record of this, as when UK government persuasion encouraged US officials to raise the priority of poverty eradication in Africa at the Gleneagles summit in 2005. The G7/G8 has continued to be effective at decision making during the post-2008 period. If the members of the G20 aspire for the newer institution to be not only effective at 'talking shop' but also an emergent economic security council for the world, they must not be content merely to have earned a place at the top table of global economies. They must develop strategies and coalitions designed to propose, shape and achieve consensus in decisions that will be evaluated according to their results in solving shared global problems, not by who was present or whose interests prevailed over whom.

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