



FORUM

Unintended Consequences: The G20 and Global Governance

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Abstract: *This paper argues that the change in the nature of the G20, from what was effectively a rapid-reaction force to deal with the immediate aftermath of the financial crisis, into the self-appointed 'premier forum for our international economic cooperation' is an adverse step for all parties involved. It focuses on the agenda and membership of the group, and highlights the limitations of the G20 in terms of both its legitimacy and its efficiency. These limitations generate costs at multiple levels. The paper finally also suggests ways in which the policy relevance of the G20 might be retained and improved within a broader context of global economic governance.*

Keywords: G20; Global Governance; Developing Countries; Legitimacy; Efficiency

The pathway to hell is often paved with good intentions. The financial crisis of 2008 sent shock waves across the global economy, and many predicted that its consequences would be more devastating than those of the Great Depression. It was unlikely that the informal coordination mechanisms of the G7 would suffice to cope with a crisis of such global proportions, and especially a crisis that had originated in the North and had the major developed economies in its grip. So the move to bring together the world's twenty 'systemically-significant' economies (which included some members of the Global South in the form of the rising powers of Brazil, India, China, and South Africa, and also other middle-income economies such as Argentina and Indonesia)

and coordinate policy responses was a smart one. In its capacity as a rapid-reaction force, the G20 was impressively effective. But as the urgency of the crisis has abated (in good measure, thanks to the efforts of the G20), the forum has tried to find a new and more expanded role for itself. An expanding mandate, which goes beyond immediate crisis management, in turn, lacks legitimacy and also places the burden of unprecedented expectations on the G20. The result is not just a less efficacious G20, but also a serious risk that the current system of global governance will become even more prone to entropy.¹

In this paper, I argue that the change in the nature of the G20, from what was effectively a rapid-reaction force to deal with the immediate aftermath of the financial crisis, into the self-appointed 'premier forum for our international economic cooperation'² is an adverse step for all parties involved. In Section 1, I argue that dealing with a multiple and vague set of issues probably does little good for the G20 itself. Section 2 further highlights the limitations of the G20, both in terms of legitimacy and efficiency. In section 3, I investigate the effects of the G20, focusing on the system in its entirety, and then focus on the world's poorest countries. True, the G20 may be a more inclusive body than the G7. But I argue that the creation of this self-appointed 'premier forum' dealing with a wide-ranging mandate of 'international economic cooperation' may generate important and unanticipated costs at multiple levels. In light of this analysis, I offer a concluding section that suggests ways in which the policy relevance of the G20 might be retained without the attendant costs, and also the implications of this for global economic governance.

EXPANDING MANDATE, DECLINING EFFICACY?

The achievements of the G20 in the immediate aftermath of the financial crisis were clear and uncontested.³ The Washington Summit (2008) and London Summit (2009) both came up with concrete plans, which included important steps in improving financial regulation and reforming financial institutions (that included the transformation of the Financial Stability Fund into the Financial Stability Board, with an expanded membership and mandate). Subsequent summits continued to address issues of stabilisation and financial reform. A major achievement of the G20 was to shift financial governance as a sole preserve of the North to a shared endeavour of the North and South. G20 proposals for IMF

reform represented a vital development in global financial governance (the actual paralysis in the implementation of these measures due US Congressional obstacles, notwithstanding).⁴ But the Pittsburgh Summit (2010) took the G20 into several new directions - 'for the first time, the communiqué mentioned at length energy security, climate change, poverty, job quality, and trade and investment'.⁵ In fact, at the closing statement of the summit, the group went so far as to claim, 'We designated the G-20 to be the premier forum for our international economic cooperation'. The expansionist trend in the mandate of the G20, which emerged at Pittsburgh, has largely continued to the present. The Cannes Summit (2011) took place amidst very high expectations, which included managing the Eurozone crisis. The 2014 agenda for G20, while framed seemingly in the tight frame of 'Growth and Resilience', in fact includes an ambitious array of priorities ranging from anti-corruption, tax reform, financial regulation and employment, to trade, energy, and development.

Interestingly, even as the agenda of the G20 has expanded over the past 6 years, at least some accounts have noted a decline in its presence and efficacy. In another article in this special issue, Mike Callaghan recognizes, 'The spirit of cooperation has weakened as the immediacy of the crisis has faded. Its agenda had become long and unfocused'.⁶ Angeloni further notes that compliance with G20 proposals has been the highest from the advanced economies, particularly in areas relating to macroeconomic policy and reform of the international financial institutions. He points to 'the possibility that the degree of ambition of the G20 commitments may have been inversely related to their subsequent implementation... it seems clear at this stage that the G20 is unlikely to fulfill the ambition announced at Pittsburgh to swiftly become, by the mere fact of existing, the central forum of global governance'.⁷ In fact, we might even speculate that the G20 may be caught up in a vicious cycle: As the urgency of the financial crisis has abated, the group has lost its original purpose and has tried to re-define itself with a broader agenda; the broader agenda, however, is also less easily implementable, and therefore further undermines the role and credibility of the group.

International trade is a case in point. At least in some measure due to the efforts of the G20, protectionism and beggar-thy-neighbour policies did not emerge on a scale comparable to their 1930s levels as a response to the 2008 crisis.⁸ In other words, the G20 was largely successful - at least indirectly- in preventing knee-

jerk reactions of extreme protectionism in response to the crisis. But since then, its impact in furthering international trade has been lacklustre. In summit after summit, the G20 has called on its members to complete the current round of trade negotiations – the Doha Development Agenda (DDA) – to zero effect. It has also tried to play an agenda-setting role in the area of trade, again with very limited results. The Los Cabos Summit (2012) turned its attention to the issue of restrictive measures in global value chains and also food security. Both these issues proved to be extremely controversial at the World Trade Organization's (WTO) ministerial conference at Bali (2013); at the time of writing, disputes over the two issues together (in good measure among key G20 members) risk unravelling not just the Bali Package but the entire round.

The immediacy of the crisis and the G20's clear-cut mechanisms to address it may have worked to the forum's advantage. But in dealing with the multiple and wide-ranging problems of the everyday, the G20 has only a blunt and ineffective set of tools. For it to have assigned itself the task of managing general problems of international economic cooperation may have been a serious mistake.

LEGITIMACY AND EFFICIENCY LIMITATIONS OF THE G20

It is perhaps worth bearing in mind that the Leaders' level G20 had a predecessor – the Finance Ministers' G20 that met in the IMF, in the aftermath of the East Asian Financial crisis of 1998. The idea of a leaders' level forum, constituted by a similar group of countries, was first proposed by Paul Martin, Canada's Prime Minister. In the aftermath of the financial crisis, key roles in creating the G20 forum in its current form were played by the heads of state of the US and the UK. It is interesting to note that the initiative did not come from any developing country.

The fact that an idea has its origins in the developed world does not, *per se*, mean that it will lack legitimacy in the developing world. But there are other reasons to view the legitimacy of the G20 with some concern. First, as Anders Aslund has argued, the G20 has no clear criteria for membership, 'only that big countries from different continents, originally selected by the US in 1999, should participate. Amazingly, this group of '20' leading countries is indeterminate in size'.⁹ Not only, as Anders points out, is the European Union a member besides 19 actual countries, but note further that several European countries get double representation

in the forum via their individual memberships and via the EU. Second, as Aslund also points out:

the greatest shortcoming of the G20 is that it breaches the principle of national sovereignty... The G8 claimed to be an informal discussion club, but the G20 has usurped power over global financial governance. It has made decisions that it expects 160 other countries to obey, even though they have been neither represented nor informed, reminiscent of the old days of gunboat diplomacy.... now small countries are treated as international outlaws for whom the self-selected G20 will make decisions – and in the name of multilateralism. This amounts to international gang rule, which is likely to attract neither respect nor obedience from outsiders.¹⁰

Aslund is on the mark in questioning the legitimacy of the G20. Nor is he alone in pointing to the problematic exclusionary membership of the G20.¹¹

One only has to look back on the General Agreement on Tariffs and Trade (GATT), and the WTO in its early years, and recall the amount of flack that they attracted because of their lack of transparency and accountability towards the great majority of developing countries. The GATT was often referred to as the 'Rich Man's Club' where consultations were held in invitation-only 'Green Room' meetings, and where the key decision-making forum was the so-called 'Quad' (i.e. the group of the four large, systemically-significant economies: US, EU, Canada, and Japan). This exclusionary method of decision-making led poor countries to turn to alternative forums – such as the UNCTAD – rather than invest their resources and efforts in the GATT/ WTO.

As the Global South came to recognize that its marginalisation and lack of agenda-setting power were generating high costs for the world's poor, its attack on the opaque and exclusive decision-making processes of the WTO became more aggressive. In large measure, the dramatic collapse of the Seattle Ministerial conference was a product of the dissatisfaction of the marginalized many with the consultative and decision-making processes. Recognizing the damaging costs of its perceived lack of legitimacy, a gradual but critical process of reform was introduced in the WTO. The reformed WTO not only ensures a seat for the rising powers (Brazil, India, and China) at the negotiating table alongside the EU and the US, but also considerably improved transparency procedures that facilitate the access of the smallest and poorest countries.

Importantly, the WTO may be at the forefront in ensuring greater transparency and accountability towards all its members, but other international organizations too are facing increasing pressure to reform their systems of weighted or two-tiered voting (e.g. the Bretton Woods Institutions and the UN Security Council) in favour of the Global South. The G20 – as a formal and self-appointed premier forum for global governance (rather than an informal talk-shop) that explicitly excludes some 160 countries – takes global governance several steps backwards.

While the legitimacy issue should give us cause for concern, there are also problems associated with the efficiency of the forum. As Section 1 highlighted, the record of the G20 in recent years has not been nearly as impressive as in the immediate aftermath of the financial crisis. When attempting to reach consensus on issues that go beyond the immediate task of putting out financial fires, it is perhaps hardly surprising that the G20 has performed less well. Once again, let us return to the example of the WTO. In meeting after meeting, we find that the organization has deadlocked, even whilst trying to build consensus amongst a small but diverse group of some 5-7 economies (that includes the established powers, but also the rising ones). The G20 brings together a much larger and more diverse group of countries than is represented at the WTO's small group meetings. It would not be far-fetched to surmise that if even the 5-7 members of the WTO have failed to reach agreement amongst themselves over the relatively smaller and positive-sum issue-area of trade, the twenty members of the G20 forum will find it much harder to reach agreement on the group's considerably wider agenda (at least some of which includes serious zero-sum issues, such as exchange rates and currency wars).

On the one hand, the G20 is thus ridden with problems of legitimacy (along the lines of 'Who elected the G20 to represent the rest of the world?'). But on the other hand, it is possibly also too large and too diversified to enjoy the efficiency gains that were controversially afforded to the GATT's club-style Quad diplomacy.

UNINTENDED CONSEQUENCES: FOR THE SYSTEM AND FOR THE GLOBAL SOUTH

In the last two sections, I have highlighted two sets of concerns associated directly with mandate and membership, which affect the G20. These problems limit the ability of the G20 to reach effective and implementable decisions (particularly when the decisions go

beyond financial crisis management), and they also mean that its decisions are unlikely to enjoy widespread acceptability. But perhaps even more seriously, the limitations of the G20 have wider ramifications of an adverse nature. I discuss two sets below: one for the sum total of the system of global governance and the other with reference to the Global South.

Systemically, it is not at all clear that the emergence of the G20 as more than a crisis-response force is doing anything positive for other parallel institutions of global governance, or helping resolve deadlocks on critical issues in one way or another. Perhaps less perniciously, G20 summitry and fanfare distracts attention and diverts commitment and political will from the institutions that are actually responsible for making decisions in particular issue-areas. It does not seem far-fetched to argue that rather than spend time and money in coming up with another G20 statement on the importance of completing the DDA, everyone would be better served by devoting their energies to the nitty-gritty of the negotiations that are taking place at the WTO. Perhaps more dangerously, it is possible that the more the G20 gets trespasses into different areas of global economic governance, the more it will step on the toes of formal (international and regional) organizations and regimes. This is more than an issue of turf wars amongst bureaucracies. Rather, the edicts of the G20, when they overlap with the mandates of other existing institutions, risk muddying the waters of the entire system of global economic governance. We saw this, for example, in the effort made at the Los Cabos Summit to focus on the issue of global value chains, that fed into the WTO's negotiating agenda; in fact, this effort was resented not only by non-members of the G20 but also some of its members (most obviously India, but also some of the other rising powers). A deal was reached with much difficulty at Bali that included trade facilitation; dissatisfaction that had simmered away at Bali, however, has now come to the fore and the round now faces an even more difficult deadlock. Agenda-setting, when it comes from an external club and lacks ownership with the majority members of an organization such as the WTO, can worsen existing problems.

Further, the process of 'muddying' can – perhaps already has – been worsened by sub-coalitions and counter-coalitions that have emerged as a reaction to the G20, and sometimes even within it. The BRICS group has not been shy of countering some of the positions that the G20 has taken (most dramatically over the attempt to exclude Russia from the 2014 Summit over Ukraine).

The Global Governance Group (3G) is a quiet but nonetheless alternative grouping to the G20. Within particular organizations, we also see a coalescing of specific, technocratic coalitions. In the WTO, for instance, such coalitions often comprise developing countries (rather than a mix of developed and developing ones). One cannot help but wonder if the G20 process thus risks making politics, at best, more messy and disordered, and at its worst, significantly more polarized and even more deadlock-prone.

The costs of deadlocks are of course high for the system as a whole, but they can be especially high for the developing world. The greatest potential beneficiaries of the Doha *Development Agenda*, for instance, are developing countries; a muddled WTO agenda that is even more deadlock-prone generates a high cost for them.

On a related point regarding the impact of the G20 on the Global South, could it not be argued that if the world's largest economies form a club to coordinate their policies – an effective 'critical mass' of sorts – that could only be a good thing for the world economy (including those countries that do not have official representation in the club, but are nonetheless allowed a free ride on the collective gains achieved)? History suggests, however, that such is not the thinking of the groups that are marginalised from such clubs. Recall, for instance, the example of the GATT discussed in Section 2, and the demand by developing countries for more agenda-setting power (despite the free ride that they enjoyed via the negotiations conducted on the basis of the Principal Supplier Principle in the 'Rich Man's Club'). This is also why ideas of reforming the WTO's gridlocked consensus-based decision-making processes through a critical mass principle have found little support from the majority of the members.¹² Moreover, at least certain aspects of even the core agenda of the G20 requires action and compliance from non-members (rather than just free-riding), such as tax reform, and even more so in the case of its expanding agenda. It is extremely unlikely that these non-members – in this day and age – will readily embrace new rules in which whose making they have had no say.

WHAT MIGHT BE DONE?

The G20, when it arose as a response to the financial crisis, served a vital purpose. It provided timely and urgent direction to the floundering world economy, and it did so via the commitment of the largest economies at a time when such commitment was

essential. However, this paper has argued that the G20 lacks the ability and political support to take on the tasks of more wide-ranging global economic governance. Its attempt to appropriate a more expansive role for itself, particularly since the Pittsburgh Summit, has been a mistake, and risks undermining the authority and credibility of the G20 even in areas that it is well-equipped to deal with.

If the G20 is to preserve and strengthen the advantage that it started out with, a scaling back of its agenda will be essential. This means a return to the original mandate on crisis response, and financial stability and reform.¹³ The message needs to be unadulterated and clear: this is a club of systemically significant economies, which rise to the occasion in times of crisis. But it is not appropriating the functions of day-to-day global economic governance, nor is it seeking to provide moral guidelines or concrete rules that it expects non-members to follow. Its agenda would do well to have clear definitions and boundaries, and these boundaries should be specified in relation to other pre-existing (and ideally, also more universalist) institutions of global economic governance.

Just as important is the issue of membership. As it stands, the G20 is neither as universalist and inclusive (and therefore legitimate) as some of the multilateral organizations, nor is it constituted by a group of even relatively like-minded countries (akin to the G7). As this paper has argued, it is too small to enjoy legitimacy, but also too large and diverse to be really effective (except in conditions of extreme systemic distress). Were the group to narrow its mandate, it may perhaps make sense for it to also reduce its membership to just the critical mass of economies – about 6 or 7 countries that would include the US, China, Germany – which could act swiftly and effectively in times of a major crisis. This group would be responsible for the provision of certain key public goods – such as the avoidance of currency wars in times of crisis – and non-members would be allowed to free ride on.¹⁴ On all other matters though, including those of everyday governance (and indeed norm-setting and rule-making that requires compliance from the great numerical majority of non-members), this small club of global leaders would have little voice. At the most, members could play an advisory role to a more universalist organization, but if and only if called upon by the relevant international organization to do so.

The G20 started out with a comparative advantage in the area of financial governance in times of crisis. Its members, and the system at large, would be well served if it were to stick to this advantage.

ACKNOWLEDGEMENT

The author is grateful to Diana Tussie for her insightful comments on an early draft of the paper, and thanks Matthew Bishop for inviting her to contribute to this special issue. She is very grateful to the Leverhulme Trust for the award of a Research Fellowship, which enabled her to carry out some of the research for this paper.

NOTES ON CONTRIBUTOR

Dr Amrita Narlikar is Reader in International Political Economy, and founding Director of the Centre for Rising Powers, University of Cambridge. She is also a Fellow of Darwin College Cambridge, and a Senior Research Associate of the Centre for International Studies, University of Oxford. She has recently been appointed to the Presidency of the German Institute of Global and Area Studies, and a Professorial Chair at the University of Hamburg. She has nine authored/edited books to her credit, and has also had her research published in nearly fifty refereed journal papers and book chapters. She can be reached on an283@cam.ac.uk

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- ¹ Randall Schweller presents a strong case for this emerging entropy: 'The world is neither going to hell nor being delivered to the promised land. It is, instead, heading for a place akin to a perpetual state of purgatory—a chaotic realm of unknowable complexity and increasing disorder.' See Schweller, Emerging Powers in an Age of Disorder, *Global Governance*, 17 (2011), pp. 285-297. Schweller's causal mechanism for this state derives primarily from the domestic politics of the rising powers, and the interactions between old and new powers. In this paper, I present the flip side of the coin, where the causal mechanism for emerging entropy derives from mismatches and conflicts amongst different levels of global governance. In other words, the mechanism presented here operates more at the international level of various institutions and networks of global governance, i.e. the very forums that were created to guard against disorder.
- ² Leaders' Statement, Pittsburg Summit, 24-25 September 2009, https://www.g20.org/sites/default/files/g20_resources/library/Pittsburgh_Declaration_0.pdf accessed on 3 August 2014.
- ³ See, for example, Ignazio Angeloni, The Group of 20: Trials of Global Governance in times of crisis, *Breugel Working Paper 2011/12*, December 2011. Also, John Kirton, Growing G20 Governance for a Globalized World, *Global Review*, 2013: 5.
- ⁴ I thank Diana Tussie for alerting me to the significance of these reform proposals.
- ⁵ Angeloni 2011.
- ⁶ Callaghan, this issue.
- ⁷ Angeloni 2011.

- ⁸ The data on the direct effect of the G20 on preventing trade protectionism is unclear. But an important and positive difference in the coordinated G20 response to the crisis was quantitative easing as a countercyclical measure, in contrast to the 1930s when all countries adjusted simultaneously. The increase in SDRs also served as countercyclical intervention. Together, this set of measures (along with strong growth rates in major economies in the South) prevented an outbreak of protectionist trade wars. (I am grateful to Diana Tussie for alerting me to this point).
- ⁹ Anders Aslund, The Group of 20 must be stopped, *Financial Times*, 26 November 2009.
- ¹⁰ *Ibid.*
- ¹¹ Bhushan and Tussie, writing in 2010, pointed to the fact that the G20 included no LDCs enjoy actual membership status in the group; this exclusion persists to the present day. See Aniket Bhushan and Diana Tussie, Widening Global Governance: Building on the G20, in *A Global Crisis on Development: Responses and Responsibilities, Canadian Development Report, 2010*, accessed at <http://www.nsi-ins.ca/wp-content/uploads/2012/11/2010-CDR.pdf> on 6 August 2014.
- ¹² At the very least, for a critical mass principle to be palatable to the developing world, one would have to have an additional decision-making rule that required a super-majority vote from the membership in its entirety. See Amrita Narlikar, 'New Powers in the Club: The Challenges of Global Trade Governance', *International Affairs*, 86: 3, 2010, pp. 717-728.
- ¹³ Nor is it that the G20 has run out of things to do on this front. The financial crisis of 2008 was not the first, nor will it be the last, which means that the G20 will have the possibility of remaining in business as a rapid-reaction force. Moreover, even the aftermath of this crisis is not over. Quantitative easing worked to boost recovery, but may have created a potential new bubble; growth in the BRICS economies has been mixed, which affects global recovery; the agenda for reform for the financial institutions still awaits implementation.
- ¹⁴ The incentive for members of the reconstituted club to allow this free-riding would derive from the very large size of their economies, which would still render them the principal beneficiaries of their collective action.