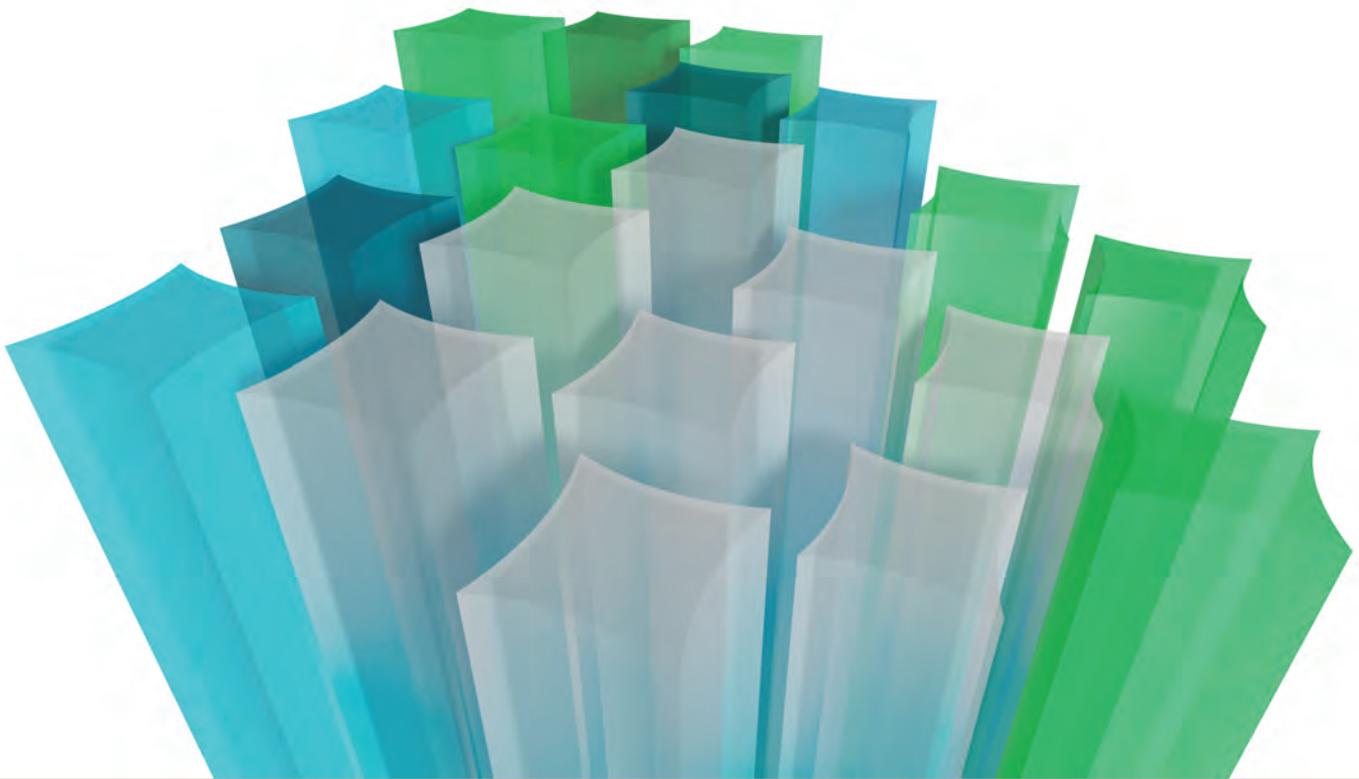


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# The G20 and the Post-Crisis Economic Order



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Addressing International Governance Challenges

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## Summary

The G20 leaders’ forum has proven effective at coordinating a global response to economic uncertainty. Its collective action in 2008-2009, the worst economic downturn since the Great Depression, has helped to mitigate the size of the international economic crisis. With the initial shocks now passed, the G20 faces new challenges as it moves into the phase of post-crisis global economic management.

This paper highlights the G20’s position in the international governance architecture. The paper first looks at “incompleteness” in the G20 process as it moves from the role of a “crisis buster” to that of a global economic “steering committee.” The paper then outlines the tests the G20 will face over the short to medium terms. The focus then shifts to ways of improving outreach to non-members and other stakeholders, and discusses concerns of internal disconnects within the G20 itself. The paper concludes that:

- The G20 must quickly ensure that it does not lose the momentum gained in dealing with the crisis through 2008-2009. Summit leaders should solidify the forum’s role through swift action to prevent backsliding on promises as the immediate effects of the global crisis dissipate.
- The G20 must promote equitable international economic arrangements that provide a larger voice and role for the major economies of the global South. This must include the G20’s own performance and extend to other international forums.
- Avoiding internal fracturing will be essential if the G20 is to move forward. The spirit of mutual cooperation that helped spur the G20’s elevation from a grouping of finance ministers to a meeting of leaders at the summit level must be harnessed. Collective action and problem solving should be encouraged that transcends traditionally like-minded groups of countries.
- To better promote and secure legitimacy, the G20 must reach out to non-member states and non-state actors, giving voice and consideration to their concerns. But this outreach must be done in a way that does not diminish the G20 as a relatively cohesive and effective small group.

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## Introduction

The economic crisis has brought about a transformation in international governance, signalling a break with the established system of institutions for managing world affairs. While at the outset of the crisis, measures taken appeared ad hoc or temporary, the decision at the Pittsburgh Summit in September 2009 to institutionalize the Group of 20 leaders' summit reflects a marked shift in the locus of leadership. New players, new forums and new issues have moved to the centre of global decision making.

Over the course of its inaugural year, the G20 has delivered in response to global economic challenges, at least in a declaratory fashion. However, as we move towards a post-crisis environment, the G20's follow-on year will bring new challenges and scrutiny. In the lead-up to the two 2010 summits — Toronto in June and Seoul in November — the G20 will need to advance its role beyond the immediacy of crisis response, and propel the sense of collective enterprise into solidified ventures moving forward. This paper provides a framework of analysis and sets out proposals regarding the G20's place in the evolving international governance architecture.

Through its dual existence — first as a forum of ministers and then as a leaders' summit — the G20 has shown itself capable of robust action. Rather than sticking to a set formula, when the global financial shocks hit, the G20 effectively re-invented itself. This process has realigned the global economic governance architecture, raising further questions and debates going forward.

## The G20 Today and Moving Ahead

- The G20 is very much a work in progress not only in its technical dimensions, but in terms of its sustained impact on the rules and procedures for a reconfigured global order;
- Tensions in national policy coordination have constrained architectural advancements, creating unanticipated looseness and fragility rather than an embedded quality in the G20's organizational character;
- The G20's ongoing credibility relies on its ability to engage key stakeholders beyond its membership, coordinate major reforms of international financial institutions, develop transparent arrangements for mutual assessment, and ensure coherence in policy development and implementation; and
- Sustaining the attention of leaders on the collective enterprise becomes problematic as the crisis recedes, while the prospective emergence of caucuses within the G20 (based on shared experiences and like-mindedness) further erodes the collective spirit of the forum.

The fundamental challenge ahead — over the short to medium terms — is to not let its successful steps, especially its role as a crisis committee, temper its ability to promote an extended array of bold and creative solutions. Effective mechanisms of global governance are needed to tackle the multitude of economic, political and social challenges that persist.

This paper, while not exhaustive, highlights challenges facing the G20 as an institution with special emphasis on its position in the international governance architecture. First, it examines areas of "incompleteness" in the G20 process as the forum moves beyond the role of "crisis buster" to global steering committee. Second, it outlines tests that remain for the G20 over the short to medium terms. Third, it considers options to better solidify outreach efforts with non-members and other stakeholders, while pointing to internal disconnects with the resurgence of

like-mindedness. And finally, the conclusions consolidate the paper's main arguments and establish policy goals for the G20 as the world economy emerges from the crisis.

## Unfinished Transformation

The image of the G20 has been that of a pivot of concerted global cooperation in extraordinary times. In structure, this forum appears to have the character of a "constructed focal point" by which policy direction is coordinated among key actors at the hub of decision making (Garrett and Weingast, 1993: 176). Some observers have emphasized the sturdiness in the degree of control and command that the G20 exerts throughout the world. Anders Åslund (2009), for example, sees the G20 as a new form of centralized "concert of great powers" with a high degree of global authority.

At odds with this representation of command and control, however, are some important architectural areas within the G20 that reflect an incompleteness of design. Rather than being a robust, finished project, in many ways this forum displays an open plan (and some degree of contestation) that projects institutional thinness and fragility.

This paper highlights areas in which this incompleteness is projected. The first centres on the G20's primary purpose. At the Pittsburgh meeting the dominant scenario was that the G20 had morphed into the primary hub of global economic governance. This opened the way for the G20 to focus on an expanded domain of issues, with its orientation stretching beyond the immediate agenda of "recession busting," to finance, climate change and development.

Yet, to a certain extent, the G20 appears to have contracted — not expanded — its agenda towards a narrow set of issues, such as monitoring national and collective stimulus spending and exit strategies. Some perceive that moving beyond issues connected to the crisis could result in a loss of momentum for the collective action of the G20. The danger, nonetheless, is that such an extended focus on the crisis and crisis management could drain energy from the more ambitious objective of empowering the G20 as a steering committee over a much broader policy agenda.

The second area of incompleteness centres on the G20's status as an international organization. One of the most impressive aspects of the G20 has been the sheer weight of its convening power. Even a proverbial "lame duck" president, George W. Bush, managed to assemble all the leaders he called to Washington for the first leaders' summit in November 2008. Moreover, the G20 has been able to call in (or alternatively sideline) the attendance

of not only individual countries but of international organizations. This demonstration of its convening power does much to reinforce the image of the G20 as a new concert of powers.

Yet the hub image must be judged not only by its "club" but by its "network" aspect, in that the G20 is more fully defining and differentiating the relationship between its responsibilities and those of other bodies, such as the Financial Stability Board (FSB) and the International Monetary Fund (IMF). In doing so, the G20 has helped revive the IMF from its position of relative decline since the time of the Asian crisis in the late 1990s. This relationship also strengthens the G20's position in that the IMF provides the forum with augmented technical support.

The third area of incompleteness centres on the relationship between the G20 and other G groups. The G20's image as a hub or "constructed focal point" assumes that its ascendancy is of such a magnitude that other G groups are in a decidedly subordinated position or eliminated altogether. Yet, contrary to this supposition, other Gs have not withered away. This is especially notable in the G8's staying power thus far, but is also reflected in the caucusing efforts by select states from the global South, encompassing those from within and beyond the G20. Particularly salient is the continued operation of the Heiligendamm-L'Aquila Process (HAP)<sup>1</sup> of structured dialogue on investment, intellectual property and energy efficiency between industrialized G8 countries and emerging G5 countries of the global South despite the overlapping membership within the G20 (see Cooper and Schrumm, 2010). What remains to be seen is the degree to which the G20 can absorb perspectives from other countries into its deliberations and generate inclusive yet clear and strategic guidance for the world on a broad set of global challenges.

These three areas do not exhaust the spectrum of debate about the G20. They do, however, cut into the main sources of debate about the process and progress of the institutional format. The manner and degree to which these issues are settled will influence not just the efficiency but the legitimacy of the G20 project.

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1 At the 2007 G8 Summit in Heiligendamm, Germany, the G5 countries (Brazil, China, India, Mexico and South Africa) were invited to participate in a structured dialogue with G8 countries. Despite some initial speed bumps, the process was deemed a success after its first two-year mandate and was renewed for another two years at the 2009 G8 Summit in L'Aquila, Italy.

## From “Crisis-Buster” to “Steering Committee”

The definition of the G20’s primary purpose will only evolve as its agenda is clarified. Under current conditions, the logic of the G20 concentrating its efforts on its role as a crisis committee is unassailable. At the domestic political level, this focus remains the priority. Most visibly, the coordinated infusion of massive amounts of public money both directly (via national stimulus programs) and indirectly (through increased funding for international financial institutions [IFIs]) has done much to reignite national economies after the “near death experience” in October 2008.

While the Washington summit in November 2009 was symbolic in projecting a united response to the crisis, it was at the London summit in April 2009 where the bulk of corrective measures were adopted and the distinctive catalytic role of the G20 took hold. In accordance with the Washington Plan of Action, officials from each G20 country were active in the four Working Groups<sup>2</sup> to develop policies for global recovery efforts during the three-and-a-half months between the first two summits. By taking these steps, the G20 demonstrated its innovative capacity in spearheading the international crisis response where collective state action was superseded by existing institutional arrangements. Reporting from each Working Group was then made to the leaders shortly ahead of the London summit, culminating in the aggressive leaders’ communiqué (2009), *The Global Plan for Recovery and Reform*.

After only a year, the measures advanced by leaders at the London summit appear to have been instrumental in halting the global economy’s slide, in strengthening the financial and institutional capacity of the international community to address future crises, and in pushing for national and global financial regulatory reform. Notwithstanding this success, the recovery process is still fragile with some problematic scenarios possible, including the prospect of a jobless recovery amid lagging consumer confidence, diminished outputs and tight credit. There is a built-in incentive for state officials to favour holding the course, with no stretching of the agenda until the commitments made at prior G20 leaders’ meetings (Pittsburgh in particular) have been met. The dominant message has largely been that governments need to “finish the job” by implementing the stimulus

measures they promised before putting on the brakes, which, if done too abruptly or sharply, could push many economies back into recession (Beltrame, 2009).

Diplomatically, this concentrated approach also does not disturb the consensus established through the G20 process. At the time of Pittsburgh in late September 2009, the prospect appeared that the agenda could open up in a more ambitious manner. Most notable was the informal deal struck between the US and China that allowed “imbalances” to be placed on the agenda in return for some measure of IFI reform.

In the months since Pittsburgh, any such prospects for an enlarged consensus have eroded considerably. The relationship between China and the US has been severely tested amidst charges of heightened protectionism and currency manipulation. More generally, the G20’s willingness and/or ability to expand its mandate has been curtailed by the immobilization of discussion on issues such as financing options for climate change at the St. Andrew’s G20 finance ministers meeting in November 2009.

That said, the institutional dangers of not progressing beyond the role of crisis committee need to be restated. At its core, the G20 at the leaders’ level was premised on the idea that leaders could do things that finance ministers, central bank governors and other state officials could not, namely, mobilize resources, make difficult trade-offs and demonstrate “compassion” through their involvement in times of economic crisis. Only during exceptional circumstances, however, do leaders immerse themselves in the continuous and deep details of public policy. The economic crisis is one such instance, but there is a limit to this type of personal involvement. The agenda, as it has evolved in the G20 process, is very technical indeed, stretching the limits of intricate personal involvement. One attraction for leaders of the forum’s organizational looseness was that they could mix policy details with political talk with their counterparts.

If the G20 does not expand its mandate, there is a fundamental risk that, as the crisis recedes, leaders could withdraw from it faster than any coordinated exit strategy from the stimulus spending. Without an overriding “lifeboat” mentality, the spirit of cooperation could subside without collective purpose. Again, during times of crisis, leaders, either for economic or political reasons, pick up on issues that would otherwise be under the purview of cabinet ministers, senior officials and other bureaucrats. This is certainly the case in the aftermath of the financial/economic crisis that broke open in the fall of 2008. Leaders are keenly interested in all of the issues — be it bank bonuses, the regulation of hedge funds, new

<sup>2</sup> The four Working Groups established at Washington were: WG1 Enhancing Sound Regulation and Strengthening Transparency; WG2 Reinforcing International Co-operation and Promoting Integrity in Financial Markets; WG3 Reforming the IMF; and, WG4 The World Bank and Other Multilateral Development Banks.

levies or taxation, or the establishment of “living wills” and other forms of regulatory reform — both as causes and effects of the crisis. Yet, the sustainability of such involvement is questionable over the longer term.

## Hub and Spoke Institutions

When the financial/economic crisis hit in full force at the end of 2008, the G20 was in clear ascendancy over other institutions, including the IMF. Indeed, a strong case can be made that of all the international organizations, the IMF suffered from the deepest legitimacy “deficit” over the past decade.

Through *The Washington Plan of Action*, the G20 moved swiftly to position itself as the core crisis committee over other institutions by establishing Working Groups 3 and 4 to develop collective positions on reform efforts at the IMF, World Bank and other multilateral development banks (MDBs). The incremental reforms of the IFIs advanced at the London and Pittsburgh Summits, to update their management committees and increase voting rights of the emerging economies, not only represent a modernization of their governance structures, but also bolster the G20 as a global steering group.

Concurrently, the IMF and World Bank have been called into action before critical governance reforms could be implemented. This situation impeded effective responses at a time of crisis. Both institutions have been poorly equipped to respond to the macroeconomic crisis in developing countries, relying too much on cautionary practices designed to limit risks to the institution at the cost of the countries with the greatest needs. Where the existence of a crisis-ready G20 reduced the immediate spread of the global economic downturn, such innovative governance was not in place to protect developing countries in the same way. Completion of the proposed reforms of the IMF and World Bank is needed to limit the depth of the reverberations of the crisis and to make these institutions “crisis ready” well before the next downturn.

One unanticipated consequence of the crisis, on a functional level, was the re-emergence of the IMF as a credible and pivotal institution. In the week before the Washington summit, US President Bush, along with his Treasury Secretary Henry Paulson, sat down with IMF delegates at their annual meeting (Paulson, 2010: 334-335). Not only did the IMF dramatically move back into lending activity, it was entrusted to establish an early-warning system for crises — in coordination with the FSB — with the argument that, together, these institutions would do a better job than private sector analysts and

forecasters (including ratings agencies) which have severe conflicts of interest.

In a number of declarations, the IMF has continued to state that it is subordinate to the G20. Its role is said to be that of helping the G20 states adapt their policies and to assess the wider implications of these policies. As the director of the IMF’s Strategy, Policy and Review Department, contended, “We see our role as a trusted advisor, with the G20 firmly in the driver’s seat” (cited in Wroughton, 2009).

On some issues, however, the G20 can be viewed as trying to strengthen the IMF. By December 2009, the IMF signalled that it was shifting from “rescue efforts” to ensuring longer term stability. Outlining its work plan for the next six months, the IMF said it would help countries design strategies to withdraw excess liquidity. The IMF also sent some indications that it retained more ambitious objectives. IMF Managing Director Dominique Strauss Kahn told the IMF Executive Board, also in December 2009, that the mix of innovative responses to the crisis was important, he went on to emphasize the enhanced systemic importance of the IMF, positing that: “the formal mandate of the Fund may not fully capture what is expected of an effective guardian of global macro-economic stability” (IMF, 2009).

If this activity demonstrated the IMF’s ambition, it also revealed the current limits of the IMF as a parallel (or even competitive) hub. Pulling back from the suggestion that it was conducting assessments of countries on whether or not their economic policies promoted balanced economic growth as part of any formal surveillance role,<sup>3</sup> the IMF stated it was doing so strictly in a “technical advisory” capacity. Certainly there was no suggestion that the IMF had any legal right or technical mechanism for compelling changes in policy of non-borrowing members. All it could do was to plug the data provided by the G20 countries into a “raw” global scenario, assessing (after reconciling differences in macroeconomic projections) whether additional adjustments were necessary to reach growth objectives and ensure financial stability (Barkley, 2010).

One of the early catalytic functions of the G20 was to create the Financial Stability Board (FSB) — replacing the Financial Stability Forum — and to entrust it with key responsibilities in international financial oversight and monitoring national economic policies to promote balanced and sustainable growth. Heading into the London Summit, it was evident that the G20 was not institutionalized enough to manage policy

3 However the IMF does have a formal surveillance role agreed to by members since 1976.

implementation across all member countries. A decision was needed on what international mechanism should be used to bring about forward movement on strengthening domestic processes, mechanisms and institutions for oversight, supervision and regulation of financial markets. The public was slowly becoming aware that no one was minding the store in keeping an adequate watching brief on financial markets in the US, in other major economies and internationally. The public needed to see that governments are willing and able to take greater responsibility for financial volatility (Bradford, 2009b).

These motivations led to the creation of the FSB, but this innovation was much more than symbolic as it provided a new toolkit and new venue for international financial regulators. However novel, the FSB is not without constraints. As well explored in Eric Helleiner (2010) and Griffith-Jones, Helleiner and Woods (2010), the FSB operates within a limited budget and a small complement of personnel, despite the responsibilities and high expectations placed upon it.

The emerging G20 nexus of multilateralism, with hub and spoke institutions, has been able to locate the IMF and FSB in a far superior manner than other international bodies. The United Nations had keenly embraced the notion of a G20, including apparent signs that Secretary-General Ban Ki-Moon offered the UN's New York headquarters as the summit site (see Hell, 2008). Yet, even after another such invitation, this overture was declined. Instead of establishing itself as a central component of the G20 model, therefore, the UN was gradually marginalized from the process.

Although Secretary-General Ban attended the Washington G20 meeting, some distance appeared between the UN and the G20 approaches on the eve of the summit. In a news conference on November 11, three days prior to the summit, Ban focused his attention on the need for "inclusive multilateralism," with an emphasis on protecting the well-being of vulnerable populations in developing countries, as well as continued support for the UN development goals as well as other pressing concerns, including climate change, food crisis issues and financing for development (Ban, 2008). Laudable as these objectives are, the tangible action of the crisis response remained within the G20.

To some extent this distancing trend was reinforced by the use of the UN General Assembly by specific members to express their discontent. Rather than working more systematically to support or complement the G20 crisis response, the UNGA provided a forum for some of the disenfranchised to voice resistance. Ideationally,

the main source of contest came from the move by the UNGA president to convene a panel of experts, chaired by Joseph Stiglitz, to propose reforms to the international financial and monetary system. Organizationally, the main alternative focal point became the UN Conference on the Global Economic Crisis at the end of June 2009.<sup>4</sup> Both activities can be viewed in contradistinction to the G20. As the G20 moves into its "steering committee" role, it will become important to observe how the UN does or does not adapt to or support G20 initiatives.

## Passing the Tests of Architectural Reform

The leaders' personal engagement combined with the momentum of the G20 offers the prospect of a multi-element grand bargain that has implications for a fundamental redesign for the international organizations responsible for the global economy. Akin to the critical junctures of the Great War and the Second World War, the financial crisis has provided an opportunity to think and act on an ambitious scale. At its core, the sustainability of this vision must be directed not only to get the international economic organizations to work more effectively on an individual basis, but to do so in an interconnected fashion.

The tests that remain for the G20 cover both systemic and institutional dimensions. This section sketches out a set of challenges — over the short to medium terms — for the G20 to effectively manage its transition to become the "premier forum" on international economic cooperation. Despite its early successes, the G20's momentum can be eroded if policy implementation is not delivered in a timely and substantive fashion.

## Short-Term Challenges

### *Regulatory Reform and National Backsliding*

As time passes and momentum fades, the space for concerted efforts by the G20 on the regulatory agenda may be increasingly constrained. The G20 has taken bold steps to counteract pro-cyclical policies and to encourage balanced sustainable growth. While these steps may dampen the height of economic booms, the charge is to limit the depth of busts.

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4 Convened well after two successful G20 summits, the UN conference received muted fanfare as the economic response plan was perceived to have already been developed. What it did, however, was pose a first and crucial test to the unity of the G20 membership — especially of the major economies of the global South — on the bold recovery efforts agreed to in London in the face of scrutiny from non-G20 countries.

True international financial system reform cannot be realized in a short timeline; however, the window of support for the G20 to rally collective action may be closing. Over time, the locus of control of policy initiatives in this domain has shifted back to the national level. The key turning point came in January 2010 with the decision of the Obama administration to advance the bill, “Financial Crisis Responsibility Fee,” designed to recoup taxpayer funds and reduce risk-taking at banks.

This unilateral US action complicated joint action through the G20 for an insurance levy or tax on banks, especially as some other countries also opposed such initiatives. Significantly, albeit with mixed motivations of their own, some prominent voices in the private sector have criticized the US for pushing ahead with its own regulatory reform at the expense of concerted action. John Varley, chief executive of Barclays PLC stated that: “The language of G20 was that we will move in convoy...now what’s happened is a big member of the convoy has left it and gone in its own direction. That is bad for the world, struggling as it is to create consensus around a package of reforms that the world needs” (cited in Slater, 2010).

Stuart Fraser, policy chair at the City of London, added in a similar vein: “The G20 faces a real challenge in getting a global deal that includes America. The Obama plan was a bit of a bolt from the blue. It is regrettable that domestic political considerations appear to have been given precedence over the developing global consensus” (cited in Jones, 2010). From this perspective, going bigger in terms of the G20 has some considerable allure. An atmosphere where various issues and potential trade-offs between issues can be discussed will keep the leaders’ engagement far more than the technicalities of financial regulations and reform.

Within the short term, there will be limits on this “going big” approach. Above all, security issues may be off limits. Still, even with these constraints there is considerable space to expand the agenda.

#### *Setting G20 Parameters*

The CIGI paper, “Making the G20 Process Work: Some Proposals for Improving Legitimacy and Effectiveness” (Carin et al, 2010) on the future of summitry provides some provocative thinking on how the multiple G-summits should be reconciled. These debates have important lessons for the global architecture and underscore the need to provide parameters for the G20 activities. In terms of scope, the G20 needs to showcase its network as much as its club personality. The fact that it has facilitated the renewal (and reform) of such

institutions as the IMF and the FSB should be viewed as a positive benefit not a threat.

South Korea has sent signs that it is contemplating stretching out the agenda for the G20 in November. In his various “outreach” efforts, Dr. Changyong Rhee, South Korea’s Secretary-General of the Presidential Committee for the G20 Summit, has placed high emphasis on efforts to solidify the G20’s role not only as the “premier forum” for crisis management, but also for beyond-crisis economic cooperation. On top of follow-ups to the Pittsburgh Summit on recovery and exit strategies, a framework for sustainable and balanced growth, and the reform of IFIs, other issues such as trade, food and energy security, and climate financing have been highlighted (ASEAN, 2010).

As a collective entity, the G20’s willingness to move beyond its global crisis committee role to embrace a wider agenda is best exemplified by its reaction to the Haiti earthquake. Helped by the fact that the sherpas of its member countries were meeting shortly thereafter in Mexico, the G20 was able to act on a consensual basis with respect to this emergency: “We the G20 reaffirm our readiness and commitment to send immediate economic and in kind assistance to attend to the basic human needs of the Haitian population at this time of hardship” (Mexico Ministry of Foreign Affairs, 2010).

More can be done to redefine the relationship between the G20 as a larger, more representative and diverse grouping than the G8. Yet, questions surrounding the relationship between the G20 and the G7/8 should not be treated with an either/or psychology. The G20 will consolidate its leadership mantle if it shows it possesses instrumental legitimacy, that is to say by working effectively. A major unifying factor of the G7/8 has been the concept of like-mindedness and shared identity among industrialized countries. The unifying factor of the G20 has been the idea that collective action produces better outcomes in the face of crisis. However, as the crisis recedes, G7/8 countries may slide back to their preference for like-mindedness, producing a competitive environment within the G20. If pragmatism trumps like-mindedness as the basis for position-taking, then cooperation rather than competition is more likely to develop which will benefit the efficiency and the effectiveness of summit outcomes. Rather than pushing to tighten the organizational format, the best approach may be to increase the looseness, encouraging the engagement of other external groupings.

## Medium-Term Challenges

### *Coordinated Exit from Stimulus Programs*

What looms largest in the rear view mirror even now is the US\$5 trillion combined fiscal policy expansion by G20 countries, pledged at the London Summit. This action, along with expansionary monetary policies in G20 countries, was the major reason for the bottoming-out of the Great Recession of 2008-2009 and the beginnings of recovery around the world. But it did not seem to be so in the eyes of the beholders of summitry a year ago (for more analysis, see Bradford and Linn, 2010).

Although concentrating on the G20's core agenda, Prime Minister Stephen Harper has highlighted the connection between setting a "credible plan" for an exit strategy with "consequences beyond the purely economic." In his address to the South Korean parliament in December 2009, Harper argued that problems from a lack of sustainable growth would eventually spill over to issues of environmental security as well as peace and security issues (Chang, 2009). Kwak Soo-Jong, an economist at the Samsung Economic Research Institute, has suggested that South Korea, as the host for the November G20 summit, has also emphasized the need for the forum to move to the stage where "global leaders aggressively coordinate their exit plans" (cited in Na, 2009).

Two significant risks related to exit strategies persist. First, there needs to be a highly cautious approach to the issue of when to decide to reach a collective judgement on whether the expansionary fiscal actions taken thus far are sufficient, insufficient or excessive. Despite current signs of recovery, a premature contraction of fiscal policies could well lead to a "W" curve in recovery wherein a dip follows the initial rise requiring another round of fiscal actions, whereas providing a longer interval for the current measures to work their way through the system would enable a "U," or even a "V," type of recovery path. And second, prolonged fiscal expansion — either too long or too much — runs the risk of generating inflationary pressures down the road (Bradford, 2009a). Again, timing is critical, especially with the signs that the European debt crisis that started with Greece is widening. Jumping on an "exit strategy" too early could endanger the recovery, and require a second round of fiscal stimulus which would not only unsettle markets and create a cyclical dynamic in the recovery, but also put into doubt the G20's ability to act as the main shepherd of international economic cooperation.

### *Institutionalizing Flexibility*

If the G20 represents a new steering committee it will not achieve this form via tight control. For example, some thought has been given to having the now advisory International Monetary and Finance Committee (IMFC) become a decision-making body in the IMF and be composed of G20 countries rather than constituencies as a way of achieving greater coherence between summits and international institutions. From the perspective presented here, that proposal may be carrying the coherence argument too far, at the cost of creating organizational walls and alienating non-G20 countries from the strategic leadership emanating from the G20 itself rather than bringing other countries into a broader, more flexible and inclusive summit process. In terms of intensity, it needs to take a flexible approach to the regulatory agenda, allowing a more pluralistic model that accepts surveillance over different economic models.

With a rotational chair, G20 members may possibly only get the chance to host a meeting and thus play an organizational role once every 20 years. The development of institutional mechanisms to sustain interest and input of member countries and participation of leaders and top officials — including the proposed G20 Secretariat — must be addressed in the medium to long terms.

### *Return to Normalcy*

The sustainability of the current G20 format is questionable following any return to "normalcy" and as spirit of collective action abates. Although normalcy as an economic condition will be contested, leaders will be attracted to return to traditional roles once the crisis fades from the headlines. That is, they will want to site themselves as strategic "steerers" not as tactical "doers."

As the immediacy of the crisis subsides, a much longer list of tasks and responsibilities has begun to emerge. While deeply important, attention taken to address private greed in global commerce — through better regulation and institutional reform — has overlooked many of the social challenges amplified by the crisis. At the top of these ensuing priorities — more by default than design — is climate change. Yet, many other pressing and pervasive issues are waiting in the wings for the leaders, from food security to global health to energy security. The G20 must remain in a capacity ready to act in times of crisis, but ideally to avert them before they occur.

## Primacy of Traditional Powers: Problem of Like-mindedness?

The image of the G20 as a tight hub or redesigned “concert of powers” is premised on a fundamental change of identity and sense of interest of its members. What is so different about the G20 is that there is no claim to an embedded form of like-mindedness. These differences are accentuated in the case of China, but the fundamental variance in worldviews between even the liberal democracies of the West and the robust democracies in the global South (particularly the IBSA countries of India, Brazil and South Africa) cannot be ignored (see Cooper, 2010a; and Rachman, 2010). Nor alternatively does the G20 enjoy any sense of an “After Victory” moment. As such any claim that the G20 is at the core of any reconfigured global settlement is very different from the re-orderings that took place in 1815, 1919 and 1945. If the G20 is to “hang together” it must do so through a shared identity and collective interests on the basis of problem-solving.

Such a privileging of pragmatism runs into two sets of problems. First, touched on earlier, is the problem that individual countries within the G20 may prefer to subordinate collective action within the G20 to domestic policy preferences. This problem jumps out in the Obama administration’s Financial Crisis Responsibility Fee. But it is also reflected in the decisions of other G20 members, such as the UK government’s attempt to introduce a one-off tax on bankers’ bonuses, the move by the Australian government to increase interest rates, etc. And second, however, the problems go beyond interests: they underscore the unsettled nature of a shared identity within the G20. Nations can come together in the time of crisis, but are they willing to make the G20 the “hub” of their primary focus in terms of diplomatic activities never mind their primary focus in terms of international organization.

As a problem-solving mechanism, Canada (the co-host along with South Korea) has bought solidly into the G20 project. At Pittsburgh, Mr. Harper lauded the G20 substantive achievements as “historic.” He noted that a year ago, stock markets were falling at a precipitous rate and financial institutions were collapsing in ways not seen since the 1930s, and “now we are seeing signs of growth.” Acknowledging that the G8 is “not a sufficient group [anymore] to deal with major economic and financial issues” the G20 as an alternative forum had worked well as a crisis committee (cited in Raj, 2009). Had it not been possible, for the first time in history, to convene the leaders of the major economies in one room and coordinate their policies, the result could have been very different. Although a bit unwieldy, the G20 had thus proved its value since leaders first met in Washington at the height of the financial shocks (Alberts, 2009a).

Prime Minister Harper also emphasized at Pittsburgh that the G8 would not disappear. While it will no longer be the premier body on economic cooperation, he noted that the G8 also had an active problem-solving role in other areas such as development and international peace and security: “We view it important that these kinds of discussions continue” (cited in Alberts, 2009b).

Since Pittsburgh, however, it is the privileging of like-mindedness that has gained momentum. This approach came to the fore at the February 2010 G7 finance ministers’ meeting in Iqaluit, with its back-to-basics organizational style.<sup>5</sup> The meeting site was small. Moreover, the agenda was to be stripped down, rebranded as a “fireside chat” style with no formal communiqué. Amid the onus on convenience, with an enhanced comfort level, there was no escaping the fact that at its core this approach was premised on a heightened degree of like-mindedness. As one Canadian official was quoted as arguing, such an organizational format was considered to be the model for the ongoing structure: “There likely is merit in making sure those who are like-minded and who rely on each other for trade and commerce and investment have some sort of united front” (Beltrame, 2010).

This image of the G7/8 as a like-minded forum was enhanced further by the agenda-setting process. “Hard” security agenda issues have been given considerable attention, notably Iran and nuclear issues (including “dirty” bombs) and vulnerability of fragile states. Equally, though, high-profile “soft” issues have gained ascendancy, with a heightened focus on the UN Millennium Development Goals generally and maternal and infant health in particular through the provision of clean water, inoculations and the training of health workers.

Looking specifically at the architectural implications of this dual structure it is possible to see a scenario where — assuming the continuing existence of the G20 as a leaders’ summit — the G7/8 effectively becomes a caucus group of like-minded states. In terms of organization, positioning the G8 meeting before the G20 plays into this scenario. So does the G7/8’s focus on developmental issues, particularly on official development assistance commitments and implementation and the G20 taking on a broader, less aid-centric view of development, as seems likely under Korean G20 leadership.

5 As G8 chair, the Canadians have embraced the “back-to-basics” approach, to emphasize the G8’s collective strength. They have also cut back significantly on preparatory ministerial meetings, holding meetings only of the finance ministers (as G7), foreign ministers, and development ministers. In recent years, these meetings have ballooned... where in 2009, the Italians convened eight G8 ministerial meetings; finance, foreign affairs, development, justice, energy, environment, labour, and for the first time, agriculture, in addition to the traditional G7 finance ministers’ and central bank governors’ meeting.

## Outreach Efforts and Internal Disconnects

The unstated but arguably far more serious challenge would be the hardening of the disconnections between the G7/8 and the big “emerging” states within the G20. This interpretation of the scenario puts the emphasis on the competition between potential rival caucuses within the G20 membership. That is to say, a counterpart of the G7/8 caucus could become embedded via some extension of the BRICs and/or IBSA or even the so-called G5 from the Heiligendamm-L'Aquila Process. There is also the risk that, in tandem with internal fracturing, China, India, Brazil and others will start to offset their roles within the G20 towards more accented leadership in alternative organizations whether the Shanghai Cooperation Organization (SCO), the BRIC Summit or IBSA. Such behaviour could eventually lead to the erosion of the G20's centrality.

The emergence of divisions within the G20 would be an unfortunate turn of events. By contrast, the G20's success so far seems to rest in part on the diversity in its membership, which creates a dynamic for shifting coalitions of consensus depending on the issue rather than consistent adherence to positions by bloc or region. Privileging pragmatism by force of interests and thoughtful preparation will, it is hoped, be more important in determining positions than a priori ideologies or bloc loyalties.

While the inclusiveness of the G20 is undoubtedly better than the G8's before it, there is still a glaring absence in representation of the smaller, lower-income countries. Serious arguments can be marshalled to suggest that the G20 grouping of countries needs to be rethought to become fully legitimate in the eyes of the non-represented, especially as/if the G20 moves towards greater involvement in non-financial matters. The G20 has also not developed adequate channels for policy dialogue or outreach with business leaders and civil society, although some steps in this direction have been taken.

The composition of the G20 has implications for its perceived legitimacy. Although some have claimed that the make-up of the G20 more accurately reflects the structural shifts in global power at the start of the 21<sup>st</sup> century, the hold of Euro-centrism jumps out. In addition to the big four established members of the G8 (the UK, France, Germany and Italy), the European Commission president also gained entry. This overrepresentation of Europe is exaggerated by the image of the G20 not being inclusive of enough emerging countries. To be sure, all four BRIC countries (Brazil, Russia, India and China)

are members of the G20, but after that, membership is determined not by the current position of individual countries but by the legacy of the last major wave of financial shocks. The makeup of the G20 at the leaders' level is a carbon copy of the G20 format with respect to finance ministers created in the wake of the Asian crisis in the late-1990s to bring together both problem and solution countries.

The issue of regional imbalance is reinforced by the underrepresentation of Africa. Whereas all three North American Free Trade Agreement (NAFTA) countries as well as the two anchor countries of MERCOSUR — Brazil and Argentina — are included in the ranks of the G20, the Caribbean is without a representative and Africa's participation is minimized. South Africa is the only African country at the “high table.” Regional representation came about only at the second G20 summit at London through an invitation to the chair of the New Partnership for Africa's Development (NEPAD), at the insistence of the UK host.

Still, for supporters of innovation within the G20, there are signs that the summit process can deliver some novel procedures to help close the gap between legitimacy and efficiency.

One significant example about how new types of innovation could be initiated has come with the rapid move by South Korea to embark on new forms of regional outreach — embracing ASEAN (the Association of Southeast Asian Nations) in particular. As his first destination Changyong Rhee visited the ASEAN Secretariat and smoothed any sensitivities with his declaration that: “We are shaping the agenda as early as possible to include the views of ASEAN” (ASEAN, 2010).

One hidden success story of the G20 process has been the South African initiative to engage the regional “Committee of Ten” finance ministers (or C10) ahead of the G20 meetings, providing an indirect form of access to a cluster of other African countries.<sup>6</sup> This creative and structurally advanced form of policy dialogue occurs under the auspices of the African Development Bank, the Economic Commission for Africa and the African Union Commission.

This enterprise, it should be acknowledged, has been a risky endeavour. Not only has it exposed South Africa's position as the one African member of the G20 to increased scrutiny, it has stretched South Africa's resources. Yet,

6 The Committee of Ten includes finance ministers and central bank governors from South Africa, Algeria, Botswana, Cameroon, Egypt, Kenya, Nigeria, and Tanzania, as well as leaders of the Central Bank of West African States (BCEAO) and Central Bank of Central African States (BEAC).

despite these risks, this initiative has worked well. The scope of the membership for this committee is impressive – including some countries which sought membership (Egypt and Nigeria) in a reformed G8 themselves. Indeed, Egypt was embedded as the C10 vice-chair and the host of a follow-up meeting in September 2010 (C10, 2010). Similar approaches could be replicated in other regions or sub-regions via G20 members and regional anchors to gather diverse views from neighbouring countries.

For example, Brazil, Mexico and Argentina could agree among themselves that for each summit, one of them would take it upon itself to use some of its time in the summit meetings to articulate, represent and advocate perspectives and views from other Latin American and Caribbean countries not in the G20. There have been calls for a similar grouping in East Asia (or Asia Pacific), and similar procedures could be implemented in the Mediterranean by Italy or even the Middle East by Saudi Arabia. The principle here is that part of the responsibility of global leadership is to represent not only one's own nation, but the people of other countries as well who have no other means to have their views heard in the G20 forum.

Outreach must also be practised at the non-state level, with business and civil society. Increasingly, private institutions and foundations are competing with traditional national and international bodies. For example, among others, the Gates Foundation in the areas of health and food security and the Clinton Global Initiative in development finance appear to have limitless capacity. South Korea appears to have taken an initial step towards better outreach, as in the lead-up to the Seoul summit they have asked Bill Gates to chair a session on corporate social responsibility at a G20 Business Summit.

## Conclusion

Although not comprehensive, this discussion paper points to the unanticipated looseness and fragility rather than embedded quality of the G20's organizational architecture. As a crisis committee, the G20 can be lauded. Faced with an economic emergency, the G20 quickly established itself as the pivotal go-to forum for collective response management. As a more extended project, however, more work needs to be done by all members to strengthen their own actions within the G20 in order to generate deeper and more significant outcomes. Members should also work to improve the porousness of the G20 by enhancing its ability to absorb and incorporate policy perspectives and views from other countries and actors, without diluting its strategic vision or widening its membership so that dialogue and decisions get watered down.

Of course, decisive moves could be made to allow a transition in the G20 from crisis committee to a bona fide hub of economic global governance. The Pittsburgh Summit demonstrated that such moves are possible, given some degree of concerted will and diplomatic skill.

## Summary of Recommendations

### *Solidify Role Through Swift Action*

The G20 remains a work in progress, yet continued progress on its reform efforts is needed. Much of the G20's substantive agenda, in the areas of international financial regulation and macroeconomic policy coordination, require sustained attention. As it will be the natural impulse of states to look inwards as the crisis recedes, the centrality of the G20's role in global economic governance could erode if its members backslide on reform initiatives. Action then must remain swift if it is to pass the tests of architectural reform.

### *Promote Equitable Institutions*

The G20 must deliver on its commitments to IMF and World Bank reform. Despite reactivation, the IFIs continue to operate on outdated standards. With the forthcoming 2011 quota review, the G20 must be firm in its pledge to increase voting and voice roles for the major economies of the global South. At the same time, the G20 should find ways to work with the United Nations on the wider socioeconomic agenda (see Jones, 2010).

### *Avoid Internal Fracturing*

The G20 was created in a spirit of cooperation in the face of collective threats. The emergence of internal fractures – such as a G7/8 caucus – runs against this principle. The value of a G20 is its strength in diversity, creating a dynamic for shifting coalitions of consensus depending on the issue rather than consistent adherence to positions by bloc or region. Indeed, if the G20 is to “hang together” it must continue to do so through collective interests and problem solving.

### *Encourage Non-Member Consultation*

World leaders turned to the G20 for action at the outset of the economic crisis because it is big enough to be representative while at the same time small enough to be effective. At the same time, if it is to be the premier forum for international economic cooperation, it needs to hear

more voices. Members should be encouraged to consult regional groups and other stakeholders. If the issue demands, ample space and flexibility for 21<sup>st</sup> century forms of outreach to countries on a functional basis should be employed. This could be done through meetings with a troika of sherpas or careful use of variable geometry on key issues. The existence of a permanent G20 Secretariat would facilitate such a process enormously.

## Towards the Post-Crisis Economic Order

There is certainly some sense of relief now in the world economy that the “near death experience” associated with the economic shocks of late-2008 has passed. That state officials fully appreciate the need to look beyond the long moment of crisis is clear from many initiatives in the public record that allow consideration of issues relating to the architectural design. These include the discussion at the Mexican G20 sherpa meeting and to some extent the presentation by French Finance Minister Christine Lagarde of a personal proposal about the future of G7 finance at the Iqaluit meeting.

We have entered an in-between period in which initiatives are possible, but only within the context of what Richard N. Haas (2010) terms “messy multilateralism.” This is due not to the appearance of more formidable domestic political constraints, but because of the association of identities and interests that member countries have with other international forums apart from the G20. These limitations do not induce defection but a myriad of straddling and hedging behaviours.

Over time, the G20 will develop its own identity, organizational culture and practices, while the delicate test of rethinking the concept of the G8 must be a priority. Does it adapt or not, and if so, does it become a caucus for the like-minded western countries? Or alternatively, will the G20 expand its club mandate further to include international public goods, such as health, climate and human development? In either case, the Pittsburgh summit will be remembered primarily as a transformative moment with catalytic qualities for enhanced global institutional reform.

Such a revamped organizational design, nonetheless, should not at all mean a decline of ambition. On the contrary, focusing less centrally on the details of being a crisis committee should allow greater emphasis on getting its functions as a steering committee right. Dealing with the emergency should be the catalyst for ensuring that the G20 acts as a “steering committee” on a sustained basis, not the final objective of the G20.

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