

Competing Gs?: G20, G8 and Crisis Management

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The argument is increasingly made that the G8 is fading in relevance. Amidst the shockwaves of the global economic crisis the need is for authentic global solutions. On top of its well-known flaws concerning legitimacy are its accentuated problems of efficiency. When the financial tsunami hit last fall, it was the G20 — elevated to the leaders' level — that moved to the pivotal position, not the G8.

This paper has two objectives. The first is to look more closely at the flaws of the G8, and so analyze why this institution is vulnerable to competition. The second is to examine whether due to these flaws the G8 may not only be down but completely out. While the G8 has considerable accumulated strengths, the financial crisis on top of its dualistic structural crisis puts it on the endangered list not as an institution per se but as the as the hub of global decision-making.

The G8's Double Crisis

The longstanding structural criticism of the G8 is that it cannot escape its serious double challenge of legitimacy and efficiency. The greatest source of weakness (as well paradoxically as its strength in terms of club cohesion) was its self-selected status. To China, India as well as most other outsiders, it was precisely this feature that demarked the G8 as an illegitimate body in contrast to the universal form of multilateralism via the UN system (with all its formalism).

On top of the legitimacy issue is the build up in the G8's efficiency gap. The G7/8 was meant to function as a body coordinating the practices of its own membership. As Putnam and others described a long time ago, this role was performed in a dualistic fashion: with a keen eye on both the one big G7/8 table and on the individual domestic tables back at home (Putnam 1988). But it has been a role that all of the members have had a huge stake in performing. In terms of managing the affairs of the rising powers, however, the G7/8 has little credibility (as shown by the disconnect between the G7/8 and China on currency questions). The G7/8 could not simply dictate to affect change. It had to engage with the “upstarts” in the system.

From this perspective, the concept of a G20 at the leaders' level had a number of attractions. To begin with, a leaders' G20 has an innovative quality that allows it to transcend many if not all of these deficiencies. The whole premise of the G20 is to go beyond the tightly defined membership limits of the G8.

What is more, this extension is based on an extension of the equality of membership. Operating on the basis of this principle is very different from the concept of "outreach" as advocated by the defenders of the concert in place.

The second feature that adds weight to the progressive credentials of the initiative is the global — and interregional — dimension of the G20. In terms of concert plurilateralism, it is precisely the informality of the crucial top-down case — the G7/8 — that produces the club-like atmosphere of the summit. Although tested by disagreements on a wide number of issues (most divisive, perhaps, on the Iraq war) the glue that has held this forum together has been a shared mindset concerning basic rules and processes concerning liberal democracy, individual liberty, and the rule of law.

Extending the G7/8 to a group of highly "unlike" states therefore is an idea therefore that is both ambitious and risky. At an instrumental level, the logic is unassailable from a reformist (albeit not transformational) perspective to absorb rising powers such as China, India, Brazil and others from the South into the longstanding club with all its informal rules, patterns of socialization, and voice and participation opportunities. This integrative motivation is tied up in turn with the high level of anxiety about the future global order not only from the peripheral actors but the core of the global system. From an institutional point of view it is clear that if these emerging/emergent powers are not brought in and accommodated they could concentrate their activities on other clubs (such as the WTO Group of 20 developing countries and the India-Brazil-South Africa (IBSA) Forum) and competitive activity with respect to rule making (through the rise of the BRICs).

The G20 from Concept to Reality

Given the nature of this double crisis, neither I nor my colleagues who have been advocating for a G20 at the leaders' level have not been surprised that the concept has come into reality.

It had been our assertion that a G20 would only come about through a major structural crisis that reverberated through the entire global system. Many issues that could have provoked such a meeting were deflected into other forums, whether the meeting of 40 health ministers during the Avian flu outbreak or the Major Economies Forum's activity on the climate debates.

However, it was the financial tsunami of 2008 that finally triggered a G20 at the leaders' level, just as the Asian crisis of 1997-98 that triggered the original finance ministers' machinery. If unanticipated, this trigger played to the G20's strengths.

The theme of legitimacy was well rehearsed during this earlier phase of institutional change. Paul Martin, the formal head of the G20 finance at its establishment, picked up on this topic in his campaign for reform: "whatever form the renewed global financial architecture ultimately takes, all countries must 'buy into it' and take ownership. Only then will the framework have legitimacy" (Martin, 1999). But the development of this theme was left to academics, which privileged the legitimacy concept in a number of articles (Porter, 2000; Sohn, 2005).

What the academic literature misses is appreciation of the forward-looking vision driving the G20 finance initiative. With symbolism came a deep concern with efficiency. What should not be missed, however, are the ways this orientation went well beyond 'managing' the fallout from the immediate crisis of 1997/8 to a concern with innovative policy entrepreneurship.

At the core of the G20 finance's novel quality was the institutional design of the forum. Up to that point the post-1945 financial architecture had been almost exclusively the preserve of the Northern industrialized countries. The International Monetary Fund (IMF) and the G7/8 were central pivots to this system, with the G7/8 expanding its role most dramatically after the Mexican peso crisis. However, there were many other important parts to this system as well, including the G10 Central Bank Governors.

The establishment of the G20 set a precedent by opening up membership on a procedural basis to the global South. Not only did a large group of countries from the South — from all quadrants of the globe — enter the G20, these countries gained some significant forms of ownership of the forum. The informal culture of the G20 provided countries from the South with a sense of 'we-ness.' The order and distribution by which countries from the global South took on the hosting function (India in 2002, Mexico in 2003, China in 2005, South Africa in 2007, and Brazil in 2008) showed that the G8 was willing to share in this instrumentation of power. This was, perhaps, a signal of uniqueness of the G20: that it was not only about improving the global financial system, but also about bringing the emerging big powers in specifically as part of a re-arranged system, and more generally into the structure of globalization.

To highlight the point that the G20 was not just a narrow, technical forum, the 2000 meeting in Montreal focused on the opportunities and challenges to globalization (Hajnal, 2007: 154). The equity rationale was compelling. Acting on the wider purview of the 'Montreal Consensus' from the 2000 meeting, the G20 expanded its range of interest

to encompass the UN Millennium Development Goals (MDGs). But the main argument, which also prompted a call for an extension of this forum into a leaders' Summit, was based on instrumental necessity. As the current OECD Secretary General, and former Mexican Finance and Foreign Minister, put it bluntly: "the different fora that deal with globalization are not working" (Gurria, 2005: 63).

Buy-in from the Global South

Reinforcing the visionary aspect — as opposed to simply a sense of pragmatism — about the push to bring in China and the other emerging countries from the South was the appreciation that these countries had other options beyond the ones offered through the G20. It was not simply a case of the G7/G8 'allowing' a country in — China needed to want to be in.

This question of buy-in was not clear cut. China had invested in its reputation as a universalistic-orientated actor consistent with its role as a privileged member of the P5 within the United Nations Security Council and as a country that valued the role of Bretton Woods institutions in China's modernization since the 1980s. Therefore, entering more restrictive club systems, especially those offered by the G7/8, involved some considerable problems. Externally there were abundant reputational sensitivities about China eroding its solidarity with the rest of the global South. Internally there were concerns that China — by joining forums such as the G20 — was making itself susceptible to criticism to its own domestic policies.

The ability to establish the G20 demonstrated quite starkly how much progress had been made on both sides. And with the Asian crisis — and alternative initiatives such as Japan's proposed Asian Monetary Fund (which China opposed) — the incentives for China being brought into the G20 'big tent' gained momentum.

The success of the G20 in building trust and connections between the G7/8 countries and China (along with the other big emerging countries of the global South) needs to be acknowledged. Since 1999, China has actively participated in all G20 meetings — including a successful meeting it hosted in Hebei in October 2005.

Still, the visionary component of the G20 does not end with the mechanisms inherent to that forum. While the substantive details of the G20 meetings deserve attention (preventative technical sharing on codes and standards in transparency and financial sector policy), the forum's catalytic quality elevates it to a higher stratum. In face of global economic catastrophe, the G20 became the natural site for leaders'-level crisis management not only for its capability of technical regulation but because of its representative North-South membership.

Constraints on the G20

The prime task of the G20 finance was inevitably that of seeking solutions to vulnerabilities in the financial system. Yet, in the aftermath of 9/11, the agenda shifted towards security-oriented priorities. The 2002 forum in New Delhi, India, accelerated the fight against the financing of terrorism, while the 2003 meeting in Morelia, Mexico, focused on global poverty as a root cause of terrorism.

Another current that swept through the G20 was recognition that as the financial issues it sought to address were global in nature, so too were many issues on the G8 agenda. Terrorism, climate change, energy security, and health governance were among issues that could not be addressed if left only to the G8 — the traditional ‘steering committee’ of industrialized countries.

Viewed through this positive lens, it is easy to suggest that the G20 at the leaders’ level summit constitutes a mechanism ready to seize the moment, turning a structural dilemma into institutional innovation and creative initiatives. The initial November 2008 meeting in Washington — and the second gathering in London in early April 2009 — has sent a sharp message that world leaders prefer hanging together through collective efforts than hanging separately through instinctive but short-sighted unilateral efforts. With its solid association via the G20 finance machinery and the

International Monetary Fund — another institution that has revitalized itself in a time of crisis — the G20 boasts not only technical capabilities, it is favourably positioned as a catalyst for wider technical reform.

Yet, for all of these positive attributes, some constraints remain before the G20 at the leaders’ level can emerge as the summit of summits. The G20 as a hub of global policy-making and governance is premised on the assumption that leaders (as opposed to finance ministers) will maintain their focus on the solutions as well as the problems associated with the financial crisis. As already recognized, most of these remedies are highly technical, whether dealing with a college of supervisors, Basel, IOSCO on securities, etc. Will this agenda continue to contain the right ingredients necessary to get all G20 leaders to attend? The London meeting banked in part on the star power of its host — UK Prime Minister Gordon Brown — which was only amplified by the first major appearance of US President Barack Obama. But as the crisis deepens, will there emerge a sense of G20 fatigue beyond the April summit?

The G20 summit is not free from critique, particularly of its representational claims or its performance quality. As a replica of the G20 finance, the G20 leaders’ format has the merit of convenience, while glossing over membership conditions. Argentina and

Turkey were included in the G20 finance largely because of their position as debtor nations, but does this rationale still stand up? Or, should alternative criteria, including the inter-civilizational dimension be added (promoting Turkey but not Argentina).

The G20 also privileges Saudi Arabia as a wealthy Arab country, as opposed to others with greater claims of diplomatic representation, most notably Egypt. And the issue of European over-representation continues to be sensitive. French President Sarkozy may be lauded for his diplomatic skills in adding Spanish and Dutch appearances at the Washington meeting — along with the presence of the four European G8 members and the EU Commission President. However, this imbalance creates a backlash, prominently from the African Union (AU) for equal representation and in renewed calls from the global South for IMF reform to address disproportionate European weight.

Another critique is whether or not the G20 has acted as a catalyst for change beyond its immediate mandate. The surprises came in the blend of old and new winners in this institutional evolution. The IMF, which appeared to be nearing obsolescence pre-crisis, has rebounded robustly. Others came out or the shadows, most notably the Financial Stability Board (FSB) which expanded both in membership and in functions.

Of the big emerging powers, China stood out to the point where it rivals the US as the 'indispensable power'. It is only China that has a sufficient amount of material capability to shape G20 outcomes through major financial resource contributions. Indeed many observers have come away from London talking not only about the weight of the G20 but of a new informal "G2" — a new condominium between the U.S. and China.

Yet will these changes lead to further reforms in the international system? As reference to the IMF and the FSB reveal some changes are a foot — but at least so far the G20 has not been proved to be a catalyst for big bang reform

Indeed there are some observers who view the G20 as a status quo not a reformist institution — precisely because it has not triggered new momentum towards UN and IFI reform. As might be expected this view is held most strongly in a country such as Japan, which sees itself a 'loser' with the rise of China in the G20 while unable to move into Security Council itself. As a leading Japanese commentator states: "If the tip of the balance of economic power requires a change in economic dialogue, is it not more important to change the pattern of the international political structure?" [Kazuo Ogoura, political science professor at Aoyama Gakuin University and President of the Japan Foundation, 'whither G7, G8 or G20', The Japan Times, Tuesday, May 26, 2009].

Although there is a self serving component in any specific idea for extended piece of reform (from those with the reward of enhanced status) it does not reduce the importance of the catalytic issue. The ancillary question is whether any reform initiatives

— including those pertaining to the G20 — will simply reinforce club diplomacy. Talk of a G2, or a new concert of nations, simply reinforces this point.

Any notion of the G20 as part of networked diplomacy by contrast must be sharply nuanced with the emphasis being on networking between leaders and their personal advisors. This image may help the technical efficiency but will reduce the legitimacy.

This gap is most widely associated with civil society. But this gap extends to other domains as well, most notably the lack of participation in the G20 activities by parliaments. The call by Brookings expert Colin Bradford, made as part of the project to create the G20, has still not been heeded: “Parliamentarians are more directly accountable to the public than executive administration officials...But parliaments around the world have been less engaged in “foreign affairs” issues than in domestic issues” Anticipating the Future, 55]

The G8 as Resilient or Obsolete Institution?

The ascendancy of the G20 has brought into question the future of the G8 as the established centre of global policy making and governance. On the face of it, the G8 has increasing difficulty justifying itself as the ‘likeminded’ group — due to the presence in its ranks of Russia — particularly in a time of economic crisis with all of its global ramifications. Yet, there are serious reservations about any form of big bang membership expansion along the lines of the move to a permanent leaders’ 20 grouping.

To its credit, Italy has shown some considerable agility — as host of the 2009 G8 summit — in minimizing the deficiencies and maximizing the comparative advantages of this summit process vis-à-vis the G20.

In terms of representation, Italy has emphasized the presence of the big emerging states, namely China, India, Brazil, South Africa and Mexico, the self-described ‘G5’. This group was formally convened at the 2007 Heiligendamm summit with a two year mandate to build an extended dialogue on a number of key issue areas. If low key this process — facilitated by the OECD — has been vital in going beyond the image of ‘outreach.’ The entire second day of the 2009 Italy G8 will be given over to a meeting between the core membership and the G5, with final reporting on the Heiligendamm Process. Significantly, in another break from the G20 formula, Egypt is added to this mix.

The third day will be devoted to extending the discussions both on a substantive and inclusiveness basis. Members of the MEM-16 group — invited to the 2008 Japan G8 — will once again be convened for talks on the climate change agenda. In a sharp differentiation from the G20, the AU President is also invited. This form of participation

gets around some of the problem related to selecting African representation beyond South Africa (and now Egypt). It also signals that Africa will not be forgotten by the G8 amidst the financial crisis.

As the nature of their relationship plays out, some element of tension between the G20 and the G8 is inevitable. If the core components of the G8's traditional economic mandate are carved out to the G20, does this weaken the G8? Or, does this create a better division of labour where the G8 can concentrate on other important areas?

The Italian summit suggests the latter by its focus on select security issues most notably Afghanistan. At one level, the security dimensions of an issue such as Afghanistan reinforces the image of club like-mindedness. But the diplomatic and developmental dimensions reveal the need to build policy on the basis of focused networks.

Or alternatively, if fatigue does set in on the G20 process, will the G8 be able to grab back the economic agenda as an on-going summit process that can deal with the extended financial shock waves? If so, the G8 will also have to regain some of the legitimacy associated with the G20 — due to its more representative membership — and signal that it is ready to provide a comprehensive vision for 21st century policy-making and global governance. With the big emerging powers gaining the status of equal partners in the G20, the G8 will find it difficult to go back to 'outreach' with the leaders of China, Brazil, India, South Africa and Mexico brought in on an asymmetrical basis where they have both a massive stake and contribution. At the very least this means an expansion of the structured dialogue through the Heiligendamm process, in train from 2007 to 2009 on issues such as African development.

The status quo is certainly an alternative, magnifying the sense of image of 'we-ness'. But the risks attached to such an approach need to be appreciated as well. Without some complementary mode of reform in synch with the G20 — whether via an exact replica in membership or through a G13/14 — the G8 (or more accurately a G7) will be relegated to a caucus. Again this may possess some strengths on security issues. But it will provoke a response by the Heiligendamm 5 (or G5) to reinforce their membership in other clubs, whether the BRICs, or IBSA, the trade G20 or the Shanghai Co-operation Organization. Instead of integration there is likely to be fragmentation.

The other option, although arguably more constructive for global governance, also has negative consequences for the G8. This scenario would see the G20 emerge as the undisputed summit of summits. Having proven its effectiveness and legitimacy as a crisis committee — although admittedly there are enormous stresses in achieving this

outcome — the G20 would widen its parameters from its technical orientation to a widened agenda. Any such expansion would come inevitably at the G8's expense.