

The G20: A dangerous ‘multilateralism’?

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»» The G20 – which is about to celebrate another summit, in Pittsburgh on September 24-25 - is defined and interpreted in different ways. Its ultimate significance in international politics remains to be determined, and is the subject of varying opinions. The forum has been fêted over the last year for leading international coordination in response to the financial crisis. Its role is widely welcomed as a new sign of North-South cooperation and as reflecting Western recognition of the role that emerging markets are to play in future deliberations on international finance.

The G20 has indeed been in the vanguard of some notable measures designed to drag the global economy out of recession. But its emerging role is not all good news. Indeed, some major concerns must be addressed if it is not to prove deeply harmful to multilateralism and global good governance. The G20 must demonstrate it is not a new forum with old vices. It still has to prove it does not portend ‘more of the same’ simply pursued with a new set of partners.

STATE OF PLAY

The G20 defines itself as an informal forum that promotes ‘open and constructive discussion’ between industrial and emerging market countries on key issues related to global economic stability. One of its objectives is to promote and support growth and development across the globe. The members are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States and the European

HIGHLIGHTS

- The G20 has usefully broadened out international cooperation in relation to the financial crisis, and this role is likely to expand into other areas of policy.
- This is not necessarily a welcome step towards rebalanced international power, as the G20 raises as many problems as it offers solutions.
- The G20’s potential in the field of governance reform, at both the domestic and international levels, is especially doubtful – something that has so far been hidden by the short term imperatives of dealing with the financial crisis.

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»»»»» Commission. The IMF and World Bank are also represented.

The body was created as a response to the financial crises that hit Asia, Russia and some Latin American economies at the end of the 1990s. Its existence implicitly recognises that the G8 is no longer effective, due to the weight of emerging economies. Decisions are made on the basis of consensus and there is no permanent secretariat.

At the Washington summit in November 2008, five main areas of activity were identified: strengthening transparency and accountability; enhancing sound regulation; promoting integrity in financial markets; reinforcing international cooperation; and reforming the international financial institutions

At the London summit in April 2009 an Action Plan was adopted with the aims to:

- Restore confidence, growth and jobs;
- Repair the financial system and restore lending;
- Strengthen financial regulation to rebuild trust;
- Fund and reform international financial institutions to overcome the current crisis and prevent future ones;
- Promote global trade and investment and reject protectionism, to underpin prosperity, and
- Build an inclusive, green, and sustainable recovery.

The Action Plan committed just over \$1 trillion for a rescue package that included \$250 billion in additional IMF Special Drawing Rights; \$100 billion of additional lending to the Multilateral Development Banks; and \$250 billion of support for trade finance.

In addition, the G20 has made a series of significant policy commitments to clampdown on tax havens; coordinate new financial regulations; double emergency support to central and eastern Europe; give developing states and emerging powers full involvement in a

Financial Stability Board; and to ensure that no new trade barriers are erected. And its stated ambition is to extend its role into wider issues of governance reform and international coordination beyond the immediate exigencies of the financial crisis.

Indeed, it seems clear that the G20 is set to assume a stronger role in international affairs. As happened with the G8, the linkages between issues push towards an expanded agenda. As was witnessed in London, the G20 has already become the focus of civil society protests and NGO campaigns pressing for action on a myriad of issues ranging from the environment, the Millennium Development Goals, nuclear proliferation and arms sales. Much has already been written about the G20 heralding a further shift in international power and foreshadowing a reconfiguration of the multilateral institutional architecture.

But two overarching questions raise serious doubts. First, while the forum has made a range of highly significant commitments, the risk is that these are forgotten as media attention sporadically shifts elsewhere. G20 governments must be held account to their commitments. Leaders gained kudos for the results of the London summit, but will their rhetorical commitments remain just that? Pittsburgh will doubtless witness further promises of resolve and action. The media spotlight will briefly shine. But the situation will remain of an organisation that lacks compliance mechanisms. Clearly, there is a need for systematic monitoring of what remains one of the least transparent international bodies.

Second, while it is widely agreed that the G20 will become more important, debates remain fierce on just how far its role should extend. The G20's rise elicits hope but also concern amongst many countries. Recent G20 debates have begun to address a broad range of more political and strategic issues, well beyond the forum's original post-Asian crisis mandate. The consequences and implications of the G20

assuming such a role need to be explored. And it is here that a series of doubts exist. These doubts can be divided into those related to domestic governance issues and those touching on international governance.

DOMESTIC GOVERNANCE

The November 2008 Washington G20 declaration proclaimed a shared commitment to market principles, open trade and investment regimes, and effectively regulated financial markets. But it must be asked whether such a consensus really exists beyond the mush of summit rhetoric. Do such principles really reign in China? In Saudi Arabia? In France and Argentina?

In fact, for many of its members and commentators alike the G20 appeals as a forum mainly for

tempering 'Anglo-Saxon free market capitalism'. While serious market failure has indeed become a priority issue for financial experts to grapple with, this

is likely to prove a simplistic way of understanding the genesis of the crisis and the policy prescriptions needed in the future. The huge injection of ECB funds at the beginning of the summer suggests that the rigidities of the Eurozone might in fact now be one of the weaker links in the prospects for global recovery.

So far the G20 has focused strongly on the issues of tax havens and banks' compensation schemes – the G20 finance ministers' meeting on 5-6 September again centred on the bonuses question. Important and indeed symbolic issues, undoubtedly. But not the path to a balanced means of re-injecting market dynamism. The G20 needs to prove itself capable of designing not just more regulations, but a better quality of regulatory framework that is more counter-cyclical

and liquidity-centred. And yet discussions at the April G20 summit on tempering the 'procyclicality' of existing macro-prudential rules were amongst the least conclusive.

If the G20 signals a move towards 'bail outs for all' – the West now contradicting its own erstwhile strictures to the developing world – this is likely to be seductive for emerging markets. After suffering Western-imposed economic restructuring conditionality for two decades, the latter's *schadenfreude* is justifiable. But, again, it is not clear how this can translate into a sustainable model of political economy beyond the immediate imperatives of financial rescue.

The G20's adopted agenda now bears resemblance to the long-standing 'good governance' agenda of the World Bank. This was attempted in the 1990s after the failure of IMF structural adjustment programmes. But there is no indication to date of how the G20 can succeed where other organisations failed on this agenda. Is it really set to take forward this political agenda? In practice, its focus has been on only a narrow range of technical financial governance questions.

So far most 'governance' actions are directed at the banks and financial regulators. Financial governance reform has been used as a *lietmotif* to legitimise bank bail-outs, but clearly not to enable workers to hold governments better to account for the explosion in unemployment across the G20 countries. In terms of good governance it must be doubtful that the G20 is a multilateral forum that can go 'beyond the crisis' and extend its remit with any efficacy into the broader realm of good governance.

There is no indication of how the G20 could address the major political differences of its members, several of whom are self-evidently not distinguished by their commitment to transparent governance. Indeed, the sceptic will ask whether the G20 can help preserve the financial system and defend accountable gover-

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»»»»» nance at the same time. By the very nature of its politically variegated membership, it could well signal a downgrading of efforts to protect democratic governance and human rights.

The injection of funds to low income countries is welcome. But the risk is that this will simply empower the IMF even more and lead to a new debt crisis in the future for developing countries. It is not clear from the G20 commitments made so far that the conceptual means of avoiding such a repeat cycle are dominant in decision-making. The new IMF 'flexible credit line' is bereft of the normal conditions applying to loans. More lending to opaquely governed states sounds like a repeat nightmare of the 1980s, not something that analysts should be praising. It risks repeating the whole cycle of moral hazard, leaving markets even more likely again to over-lend in the expectation of government rescue if things turn bad.

It should be remembered that in its early years the G20 talked frequently of transparency, tighter regulation, early warning and shared governance standards. Its failure to progress on any of these issues was stark: an organisation created with the purpose of avoiding financial crisis presided over the worst meltdown for seven decades. Curious then that this dramatic failure should have bred such optimistic hope in the G20 as a forum for balanced international coordination. Many of the lessons that governments insist they have learnt from this crisis are the same as those that they claimed to have taken on board in the late 1990s. One might fear that this simply sets up the G20 to be as blind to the gathering clouds of the next financial crisis as it was to this one. Little the G20 has done this year suggests that it has eliminated the risk that this will be the case.

INTERNATIONAL GOVERNANCE

Many predict that the G20 is a forum that is likely to occupy a pivotal place in the emerging world order. Many, indeed, welcome such a

prospect. The focus of much analysis has been on the positive side of the de facto widening out of the G8 into the G20. But serious concerns remain. Will the G20 lead debates over the broader political re-structuring of the international system? Should it do so? Will it really become 'the new G8'? How will it relate to the United Nations?

It remains to be seen how fundamental the differences are between Western and non-Western understandings of the G20. It has been suggested that the former now promote the G20 as a convenient way of accessing credit, while the latter want it to presage more fundamental international change. To some extent, these divisions have been submerged over the last year under the pressing need for consensus on more immediately operational priorities. But the differences are undoubtedly there.

In a crowded market of international institutions it is still not clear on which future issues the G20 could most usefully 'add value'. G20 members still have not lifted their heads beyond the immediate recovery phase to debate rationally which issues the G20 should and should not get involved with.

One of the points that the G20 has emphasised is the rejection of financial protectionism. Such talk might suggest that Western powers really see the G20 as a convenient tool to maintain their access to the main emerging markets. So far, governments have done little that disabuses such cynicism. Nothing agreed so far in the G20 suggests that the forum will be capable of putting pressure on the EU and United States to temper their own protectionism.

If the G20 is to be ruled by such highly instrumental attitudes its future cannot hold great promise. The G20 will ultimately be less a facilitator of more effective multilateralism than a distortion of this principle in favour of what is little more than a re-jigged 'great powers' format. There exists a real danger that the G20 will prove to be an informal grouping that

empowers big powers to the detriment of genuine multilateralism. The select European participation in the G20 may in addition cut across EU unity – in the eyes of the new member states there is some evidence that it is already doing so.

As the G20 commitments move forward, it remains to be seen whether this forum will really provide a ‘new voice’ to emerging powers. Can it really check the power of the Western-dominated international financial institutions? It has brought forward a slight rebalancing of quotas within the IMF. But, despite all their warm, fuzzy G20 rhetoric, European powers and the United States are still dragging their feet on acquiescing to far-reaching change. The G20 does not appear to offer itself as a route towards the deep democratisation of inter-state relations that is long overdue.

Moreover, a crucial question is what happens to the countries left outside the G20. For how long will they be prepared to follow the recommendations of an arbitrarily self-selecting group of 20 ‘leading’ countries? To them the G20 looks like just another in a long line of elitist groups with no formally-sanctioned power. The G20 talks also about building a new global consensus on the ‘key values and principles that will promote sustainable economic activity’. But it is not clear in what way the G20 is the right forum for this. Indeed, it risks merely creating a New North pitted against a New South.

Debates on ‘global governance’ have so far been focused overwhelmingly on the re-weighting of votes and who gets which top posts in international financial institutions. These are important issues but not the key drivers of a more accountable, balanced and participative multilateralism.

And what if, as the G7 and G8 before it, the G20 extends its deliberations to issues such as global terrorism, nuclear proliferation, endemic poverty, the situation in Darfur, energy secu-

rity, climate change, the threat of global pandemics, the travails of the Doha round of trade negotiations, and whatever other challenge is flavour of the month? Many seem to welcome the prospect, on the grounds that the G20 is at least a broader forum than the G8. But it is another form of arbitrary and ad hoc consultation; it is not the type of rules-based, values-rooted multilateralism that the world needs. As comment flows on what was or was not agreed at Pittsburgh, this sober reality-check should be borne in mind.

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