EUROPE'S DECLINING ROLE IN THE G-20

96

WHAT ROLE FOR THE EU IN THE CLUB OF THE MOST IMPORTANT POWERS?

Juha Jokela

FIIA BRIEFING PAPER 96 ▪ December 2011

ULKOPOLIITTINEN INSTITUUTTI
UTRIKESPOLITISKA INSTITUTET
THE FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

EUROPE'S DECLINING ROLE IN THE G-20

WHAT ROLE FOR THE EU IN THE CLUB OF THE MOST IMPORTANT POWERS?

Juha Jokela
Programme Director
The Finnish Institute of International Affairs

FIIA Briefing Paper 96
December 2011

- Europe and the EU have played an influential role in the development and decision-making of the Group of Twenty (G-20). Europe's influence in shaping the developments in the group and, more broadly, in global governance is, however, declining.

- The G-20 Summit in Cannes provided Europe with an opportunity to re-assert its leadership. Its aspirations were, however, overshadowed by internal divisions heightened by the deepening European sovereign debt crisis.

- Even prior to the current crisis, the increasing global competition and decrease in standing turned EU members inward-looking. Instead of a further Europeanization of foreign policy and external relations, many have observed a tendency to re-nationalize European policy-making.

- This tendency will make it increasingly difficult for Europe to secure its standing and adapt to the ongoing transition of the world's economic and political power. Europe should reinvigorate its commitment to a joint external action as a matter of priority.

- The key question for Europe is whether it will manage to Europeanize the G-20 and gear it towards the multilateral principles which lie at the heart of European integration; or whether we will see the opposite process, namely a 'G-ization' of the EU in the sense of major (European) powers dominating increasingly informal European and global decision-making.

- It is in Europe's interests to further institutionalize the G-20 and tie it to the formal multilateral architecture of the world economy and politics.

The European Union research programme
The Finnish Institute of International Affairs

ULKOPOLIITTINEN INSTITUUTTI
UTRIKESPOLITISKA INSTITUTET
THE FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

The leaders of the G-20 countries gathered for a group photo at the Cannes summit. Photo: Presidency of the Nation of Argentina.

The Group of Twenty (G-20) Summit in Cannes was dominated by Europe – yet not in the way it intended. The meeting of the twenty most powerful heads of state and government was overshadowed by disputes within the European Union (EU) on how to tackle the escalating sovereign debt crisis. In the run-up to the summit, EU members managed to take some significant decisions in the European Council meeting. Importantly, a decisive European action was seen as a prerequisite for the possible global response planned to be discussed in Cannes.

The Greek Prime Minister's announcement that he would call a referendum on the EU deal sent Europeans back to square one on the eve of the summit, however. Even if they managed to get their act together during the summit, Europe's ability to forge a coherent and unitary action was once again called into question. The US president, Barack Obama, noted that he had learned a great deal about the complexity of European politics during the summit.

Europe's influence in shaping the developments in global governance is indeed declining. Some of Europe's current difficulties in emerging as an effective global actor are circumstantial and relate to the unprecedented challenges posed by the ongoing European financial crisis. Other features of the European intricacy, however, point to longer-term changes in global governance, and Europe's failings in adapting to the changing external environment.

The French presidency of the G-20 provided Europe – which still holds five out of the twenty official seats in the group – with an opportunity to re-assert its global leadership by shaping the agenda and decision-making of the world's premium forum for economic cooperation. Moreover, the implementation of the Lisbon Treaty had opened up new prospects for an increasingly coherent and hence more influential European voice in the group, and more broadly in the international arena.

The puzzle presented in this paper is whether the five European seats in the G-20 translate into influence. In providing some answers to this question, the paper focuses on the challenges and opportunities the G-20 process poses for the EU's streamlined external relations. To set the scene, the paper first looks into Europe's and the EU's role in the set-up of the G-20 at the ministerial level in 1999 and the subsequent upgrade to the leaders' level in 2008. It will then analyze the role of Europe and the EU in shaping the agenda and decision-making of the group. Finally, the paper discusses ways in which Europe could shape the G-20 process and global governance more effectively.

The briefing paper emphasizes that the key question for Europe is whether it will manage to Europeanize the G-20 and gear it towards the multilateral principles which lie at the heart of European integration; or whether we will see the opposite process, namely a 'G-ization' of the EU in the sense of major (European) powers dominating increasingly informal

European and global decision-making. Against this background, the paper argues that it is in Europe's interests to link the G-20 to the formal multilateral architecture of the world economy and politics.

Europe and the EU in the set-up of the G-20

The set-up of the G-20 reflects the deepening interdependence and increasing multipolarity of the world economy and politics. The number of countries with systemic importance as well as the interaction among them has increased significantly. These developments underline the need for jointly agreed solutions to the most pressing global challenges. As the formal global governance arrangements and institutions are seen largely as failing in delivering global governance for the twenty-first century, the role of informal groups of major powers and other stakeholders has increased.

Concurrently, European economies have been striving for a more coherent and unitary external action. On the one hand, this development results from the deepened European interdependencies managed by the EU. On the other hand, the integration process itself has been increasingly shaped by global trends and the EU's role has been seen as pivotal in securing Europe's global competitiveness, influence and interests.

European economies and the EU have played a noteworthy role in the formation of the G-20. The group saw the light of day at the ministerial and central bank chief executive level in 1999 in the aftermath of the Asian financial meltdown. The Asian crisis rapidly escalated and sent shock waves through the global financial system. These events highlighted the importance of a broader informal forum within which the Group of Eight (G-8) countries could meet the major developing economies and address the challenges facing the financial system.

While the systemic importance was the key factor shaping the debate over membership in the group, some practical and political factors were also discussed and taken into consideration. First, some of the major economies such as Iran and Taiwan were excluded due to political sensitivities. Second, regional balance played an important role. Consequently, South Africa and Saudi Arabia were included, while some of the larger European economies such as Spain, the Netherlands and Poland were excluded.

Significantly, the EU was included as an official member, yet it was not given the right to chair the group's meetings. While this move could be seen as a concession made in limiting the number of European countries in the group, the EU's membership was also important for the functioning of the new group. The deepening economic and political integration in Europe made it difficult for even the biggest European economies to commit themselves to the decision-making of the G-20 independently of the other EU members and institutions.

The 2008 global financial crisis highlighted the need for a broader informal platform at the highest political level.[1] As the key European economies, namely Germany and France, pushed the US to take the lead in convening an emergency summit, President George W. Bush turned towards the G-20 and called the first G-20 leaders' Summit in Washington in November 2008. In choosing the G-20, the US administration avoided deliberations on the delicate question of who would be in and who would be out of the emergency meeting. Moreover, it was able to postpone the question related to the broadening of the G-8.[2]

The consolidation of the G-20 as the world's premier forum for economic cooperation largely stems from the successful London Summit in 2009. The summit was able to agree on an unprecedented coordinated state intervention in the markets. For many, the

1 The idea to upgrade the G-20 to the leaders' level came up as early as 2005, but concrete attempts to increase the key emerging economies' role in the informal governance groups focused on broadening the G-8 until the end of 2000s. The fuller inclusion of Russia in the club in 1998 was followed by increasing demands to include China and India, among other key emerging powers, in the group. In 2007, the G-8 announced closer relations with the so-called G-8 Outreach 5 countries including Brazil, China, India, Mexico and South Africa.

2 This can be seen as a rather delicate matter as the G-8's agenda is broader and it also include political and security questions. See e.g. Penttilä, Risto E. J. (2009) 'Multilateralism light: The rise of informal international governance', EU2020 essay, Centre for European Reform, London. Available at: http://www.cer.org.uk/publications/archive/essay/2009/multilateralism-light-rise-in-formal-international-governance.

announced support and stimulus package worth USD 5 trillion provided the necessary 'shock and awe effect' and prevented the collapse of the global financial system with drastic ramifications for the global economy.[3]

In the aftermath of the summit, Europe claimed much of the credit for this outcome. First, the role of the European economies was highlighted. In addition to German and French enterprising, the role of the UK and Prime Minister Gordon Brown as the host of the London Summit was flagged. As the former UK Chancellor, Brown was argued to be able to harness the expertise of the UK Treasury in designing the joint action. Second, the European Commission was seen as a source of innovative thinking and expertise in providing the necessary information and concrete solutions for the coordinated action. Commission President Jose Manuel Barroso noted after the London Summit that the G-20 Communiqué reflected many of the Commission's suggestions, which were at times adopted word for word.[4] Third, the role of the EU as a whole also attracted some attention. The EU quickly established a practice to coordinate an 'agreed language', suggesting an EU-wide consensus on the issues on the summit's agenda.

Given Europe's suggested high-level performance in the first G-20 summits at the leaders' level, the new forum has, however, constituted challenges for Europe and the EU in global governance. The increasing importance of the G-20 has been seen as symptomatic of the shift towards a more multipolar world order in at least two ways: first, the number of key stakeholders and major states has increased, and this has made it more difficult for Europe (independently or jointly with the US) to lead the way in addressing global challenges; and second, the informal character of the G-20 envisages a turn towards more state-centric and informal governance structures, which has been seen as a challenge for European aspirations to forge an effective multilateral order and place the EU at the core of joint global action. In terms of the latter, concerns over the future development of the EU's common action in global governance have been voiced and some observers have highlighted an alternative development, namely a re-nationalization of European foreign policies.

Against this background, it is worthwhile discussing the results related to the more or less common European objectives and the position of the EU in the G-20.

More recent developments

While Europe's and the EU's role has been recognized in the set-up and decision-making in the first G-20 summits in 2008 and 2009, more recent observations suggest an opposite development. Moreover, the aspirations for a more coherent and unitary European action forged by the EU have not materialized.

Back in the Pittsburgh Summit in September 2009, European economies and the EU struggled to make themselves heard and secure some key objectives. While European and EU influence in the G-20 is clearly intertwined, it is plausible to distinguish between the two here for analytical purposes.

Europe in the G-20

It is widely noted that Europeans dominate the G-20. The meetings are attended by the heads of state and government from four European G-8 members (France, Germany, Italy and the UK). The EU is represented by two presidents – the heads of the European Commission and European Council – together in one delegation. In addition, the heads of government from Spain and the Netherlands have made it to the Summits due to invitations supported by fellow Europeans.

Some have also pointed out that the heads of the World Trade Organization, the IMF and the Financial Stability Board, who often attend the summits as invited guests, are Europeans.[5] While they represent their respective organizations and not Europe nor any particular European state, their appointment

3 Collin I. Bradford and Johannes F. Linn, 'The April 2009 London G-20 Summit in Retrospect', in Brookings, 201. Available at: http://www.brookings.edu/opinions/2010/0405_g20_summit_linn.aspx.

4 Michaels, Adrian (2009) 'How José Manuel Barroso quietly transformed the world's financial future', Daily Telegraph, 3 April. Available at: http://www.telegraph.co.uk.

5 See, Debaere, Peter (2010) 'The Output and Input Dimension of the European Representation in the G20', in Studia Diplomatica, vol. LXIII(2): 141-154, p. 142.

does reflect Europe's influential position within these organizations, and hence contributes to the argument highlighting Europe's over-representation in the G-20, and more broadly in global governance institutions.

Some European invitees have highlighted that the number of seats in the G-20 will translate into European influence in responding to the changing global landscape. The evidence, however, seems to suggest the opposite. Indeed, the over-representation claim is used rather actively as a yellow or red card in the G-20 and other global playgrounds. A yellow card is used to remind Europeans about the principles of fair play in the sense of emerging economies' inadequate representation in decision-making. A red card is used to exclude Europeans from the main game altogether.

For instance, the Pittsburgh Summit was clearly dominated by the US and China and followed by suggestions that the world is run by a G-2 rather than the G-20 or Europe. Furthermore, since the immediate global financial and economic crisis was averted in 2009/2010, the emerging powers have renewed their call to tackle their inadequate representation in the key global governance institutions, in particular in the IMF. They have also intensified the so-called BRICS cooperation to enhance coordination on this and other key issues. Although the BRICS countries might not behave as a block, they do constitute a network, which is playing a key role in the G-20.[6]

In practice, these developments have resulted in increasing pressure to reduce European seats and votes in the IMF. Europeans were shown a yellow card both in the Toronto and Seoul Summits in 2010 as a package of IMF quota and governance reforms was agreed.

As a result, the Europeans agreed to give up two seats on the Executive Board of the IMF. They also agreed to a shift in IMF voting quotas in favour of the dynamic emerging markets, developing countries and under-represented countries by over 6 per cent in 2012. While the Fund itself sees this as the biggest reform ever in the governance of the institution, further shifts are already planned. The Seoul Communiqué stipulates that these will be addressed in a 'comprehensive review of the quota formula by January 2013' resulting in further decisions by January 2014.[7]

Under the current agreement, Brazil, Russia, India and China have taken their place amongst the IMF's 10 largest shareholders. It has not been resolved how Europe will decide who is to lose its seat on the Executive Board, but pressure is on the Netherlands and Belgium, until now the 11th and 12th most powerful members of the board in terms of voting rights.

In the light of the above, one could expect a rather lively debate over the issue of how European representation will be organized in the IMF or other international organizations in which the Europeans are currently shown the yellow card. Relatedly, one would expect a careful consideration of the possibilities provided by the Lisbon Treaty reforms in doing so.

There is, however, very limited evidence, if any, of an interest to move towards a joint EU representation, even in those organizations within which it would be sensible given the EU competences. While larger EU member states have fiercely defended their position, smaller member states are increasingly discussing new kinds of coalitions to secure their standing. Some observers have pondered the possibility of establishing a joint Benelux seat (which could possibly include Sweden as well) on the IMF's board and others have promoted a joint Nordic seat in the G-20.

The EU in the G-20

In the light of the EU's strategic objective to promote a world order based on effective multilateralism, the informal character of the G-20 and emphasis on great power relations has not been welcomed without reservations. However, as the group's importance has risen, so has the EU's interest in it. While the

6 Keukeleire, Stephan et al. (2011) 'The EU Foreign Policy Towards the BRICS and Other Emerging Powers: Objectives and Strategies', Ad Hoc Study commissioned by Directorate-General for External Policies of the Union, European Parliament, Brussels and Strasburg. Available at: https://lirias.kuleuven.be/bitstream/123456789/321923/1/The+EU+Foreign+Policy+towards+the+BRICS+and+other+Emerging+Powers+-+Objectives+and+Strategies+.pdf.

7 The G20 Seoul Summit, Leaders' Declaration, 11 -12 November. Available at: http://www.g20.org/Documents2010/11/seoulsummit_declaration.pdf.

Is Europe becoming irrelevant in global governance? Photo: Pete Souza / White House Photo.

EU is the only regional organization with permanent membership of the G-20, its position in the group is clearly diluted by the ambiguity over the European representation in the group.

In the run-up to the Pittsburgh Summit, the EU worked hard to include climate change on the summit agenda. The UN-led process to strike a global climate deal in the Copenhagen Climate Summit in December 2009, with binding treaty-based commitments, was faced with significant difficulties. The EU was successful in raising the issue in the G-20 Summit, yet it failed to produce any concrete results in bringing the key stakeholders closer to each other. Subsequently, the Copenhagen Summit failed to match the EU's objectives and many noted that the EU was given a red card in the end game of the negotiations, which led to a political declaration rather than a strong legally binding treaty.

Given the divergent positions among the key emitters, it is plausible to assume that even if climate change had been the number one issue for all European representatives in the Pittsburgh Summit, real progress would have been difficult to achieve in Copenhagen. However, it is also plausible to suggest that European aspirations were at least partly overshadowed by the divergent set of European interests at stake in the Pittsburgh Summit. Even if Europeans had not been able to strike a deal ahead of the Copenhagen Summit, they would have been able to reassert their global leadership and avoid being sidelined in the process.

Moreover, some internal divisions have been exposed within the EU in relation to the G-20 process. While the EU has been instrumental in coordinating a joint EU action in the G-20, thereby also providing an indirect representation for the EU countries not included in the group, the equality between the member states has caused some strain among them. For instance, the Swedish Prime Minister representing the EU in the Pittsburgh Summit due to the Swedish EU Council presidency expressed rather strong concerns over the legitimacy of the G-20 decision-making. He argued that 'it should be self-evident that the countries affected by the G-20's decisions should also have been allowed to have their say in making them', suggesting that an exclusive club of major powers cannot take decisions on behalf of those who are not directly part of the process.[8]

Significantly, the Swedish premier was the last non-G-20 head of government who made it to the summit under the mandate of the EU Council Presidency. The entry into force of the Lisbon Treaty in December 2009 transferred this task to the permanent President of the European Council. Moreover, the Netherlands has had to give up its special status as one of the permanent guests in the G-20 summits. It did not receive an invitation to the Seoul or Cannes Summits.

8 Reinfeldt, Frederik (2009) 'Packed agenda for G20 leaders'. Swedish Presidency of the EU, 25 September. Available at: http://www.se2009.eu/en/meetings_news/2009/9/25/packed_agenda_for_g20_leaders.html.

The country holding the rotating EU Council Presidency has, however, managed to hang on to its right to represent the EU in the ministerial level meetings along with the respective European Commissioner.[9]

Importantly, smaller EU member states are growing increasingly uneasy about the ongoing developments in the crisis-torn EU. Fears that the institutionalization of the European Council with a permanent President would further empower the largest member states have grown stronger under the current crisis situation.

The EU decision-making in the Cannes Summit provided further evidence of these views. In Cannes, the key eurozone economies which were present – namely Germany, France and Italy as members, Spain as a permanent guest, and Greece shiftily ordered to appear to explain the recent turn in its policy – agreed a way forward. While the Presidents of the EU institutions and the chair of the Eurogroup were involved in the decision-making, the other eleven Eurozone countries were merely consulted – if consulted at all – while non-euro members were clearly left on the decision-making periphery.

The Cannes developments are, of course, partly incidental. They resulted from a sudden turn in the agreed common eurozone action by one member state and this required a shift in response. This type of agility is often seen as a strength of the informal forums such as the G-20. However, if it becomes the norm in global governance, the G-20 process could, over time, begin to erode the trust among the EU members largely achieved by the strong commitment to the rules-based multilateralism, clearly stating member states' rights and obligations.

Further evidence could be found by looking into the French Presidency of the G-20. The French Presidency provided the EU and its member states with an opportunity to agree and demonstrate their willingness to work for a common agenda to promote Europe's ideals and interests. The results in doing so are, however, rather modest.

While the EU coordination was highlighted in conjunction with the first G-20 Summits, the EU preparations for the Cannes Summit did not draw any significant public attention before the escalation of the financial crisis towards the end of the summer. This could partly have resulted from the fact that G-20 affairs are now mainstreamed in the EU decision-making. However, some of the key priorities of the French Presidency, such as the Financial Transaction Tax, were not supported by the EU as a whole. While the European Commission has made similar proposals, there was no consensus over the issue within the EU. In this sense, the Cannes Summit was dominated by French rather than EU priorities and to some extent also used to foster consensus in Europe.

Relatedly, there were no significant EU deliberations on the institutional evolution of the G-20, which was another key priority of the French Presidency. Even if the performance of the group has been significant in the resolution of the 2008 global financial crisis, its efficiency and legitimacy has been called into question. Problems have been identified in the preparation of the decision-making and in particular in the implementation of the G-20 decisions. The group has also failed to establish global consensus on some of the key challenges such as macro-economic imbalances and a more adequate international currency system, for instance.

Moreover, the group's exclusiveness and informality have come in for constant criticism. While its members represent 85 per cent of the world's GDP and two-thirds of the population, 173 countries out of 192 United Nation members are excluded from the official membership of the group.

In order to provide a road map for the institutional evolution of the G-20, French President Nicolas Sarkozy tasked the UK Prime Minister David Cameron with reporting on global governance and the G-20 to the Cannes Summit. His report highlighted the 'power of informality' vested in the G-20 process – a view that was also highlighted by many of the emerging economies. The summit also embraced his proposal and decided to keep the group informal rather than making it formal with recognized rights and obligations. Relatedly, proposals to link the

9 The European Commission's attempt to become the sole representative of the EU in the ministerial level G-20 meetings was resisted by the EU Council under the Belgium presidency. Consequently, Belgium made it to the G-20 financial ministers meeting ahead of the Seoul Summit in which the IMF reform was agreed. Belgium has promoted a joint IMF Executive Board seat for mid-ranking EU economies and also suggested that a similar move should be made within the structure of the G-20.

G-20 directly to more inclusive and hence legitimate organizations such as the IMF and the World Bank were turned down, yet the Summit highlighted the importance of cooperation between the G-20 and formal multilateral organizations as well as the transparency of the processes.

The summit also decided to enhance the effectiveness of the group. The presidency of the group will, in the future, take the form of a Troika including the current, previous and forthcoming presidency country. While the proposals to establish a permanent secretariat for the group were seen as overarching, Cameron's report envisages the formation of a small secretariat for the Troika, possibly consisting of seconded officials from G-20 member states. French officials suggested that this could eventually open up a pathway for a full-fledged permanent secretariat.

As an official member of the G-20, the EU was incorporated into the debate and decision-making over the development of the group and its position in the global governance architecture. The preparations were, however, made by the French Presidency and the UK government, and there is very little evidence of any significant engagement with the other EU members and institutions in the process. This is indeed puzzling given the degree of unease caused by the G-20 process within the EU, and the EU's claimed expertise and strategic objective in building global governance based on effective multilateralism.

A way forward for Europe

Thus far, it has been suggested that the G-20 process has emphasized the role of the major European economies rather than the EU in global governance. While the Lisbon Treaty reforms clearly enhanced the institutional set-up for the EU coordination, the political will to utilize the new instruments at hand is clearly lagging behind.

This is a significant observation as many analysts and policy-makers have envisaged a more united Europe and powerful EU as a requirement for addressing global challenges and managing the transition of economic and political power to the emerging powers. The opposite process, however, seems to correspond with the state of the European Union in the field of foreign policy and external relations more broadly. Increasing global competition and a decreasing standing have turned EU members inward-looking, and instead of further Europeanization many have observed a tendency towards the re-nationalization of European policy-making.

This tendency will, however, make it increasingly difficult for Europe to secure its standing as one of the poles of the world in the making. Consequently, it will be ever more difficult to promote European ideals and secure concrete interests if the ongoing European trend is not reversed.

This briefing paper contends that while the G-20 presents several challenges for a more coherent and unitary EU action in global governance, it also opens up possibilities to steer the ongoing developments. One of the key questions is whether the EU will manage to Europeanize the G-20 and gear it towards the multilateral principles which lie at the heart of the European integration; or whether we will see the opposite process, namely a 'G-ization' of the EU in the sense of major (European) powers dominating decision-making. In the light of the above, the latter approach seems to be increasingly in the making.

To do so, the EU and its member states should first and foremost reinvigorate their commitment to common external action. They should sort out the internal challenges related to the set-up of the streamlined external relations as a matter of priority. The EU and its member states should establish internal clarity on which items fall under EU competences and which primarily remain a concern of the member states. The division of labour must be based on the current EU Treaties and it must reflect the outcomes of the ongoing financial and economic governance reforms within the EU. Indeed, there is evidence that the integration in Europe is deepening in the key policy areas of the G-20, namely within monetary, fiscal and economic policies.

Second, the EU should adopt a more assertive approach in the G-20 to enhance its strategic aims and clarify the division of labour between the EU and its member states in global governance institutions and forums. The current developments suggest that the G-20 is here to stay and will play a significant role in global governance in the future as well. Against this background, the EU and its members should support further institutionalization of the group and strive towards formalization of its relationships with treaty-based global institutions, in particular the

IMF and the World Bank. Relatedly, the establishment of a permanent secretary for the G-20 would be a step in the right direction.

The EU's strategic action should not be limited to the major emerging powers within the G-20. On the contrary, the EU should reinforce its activities in promoting regional organizations and interregional relations in global governance. It should seek support from the non-G-20 countries to promote the incorporation of other regional organizations in the G-20 as a pathway to providing the indirect engagement of a greater number of states in the G-20.

If successful, the G-20 will, in the future, work within rather than outside the formal multilateral global and regional governance architecture of the world economy, thereby forming an institution in which the EU's own historical experiences and development will constitute a resource rather than pose a stumbling block to influence.

The Finnish Institute of International Affairs
Kruunuvuorenkatu 4
FI-00160 Helsinki
tel. +358 9 432 7000
fax. +358 9 432 7799
www.fiia.fi

ISBN 978-951-769-331-8
ISSN 1795-8059
Cover photo: Mick Huett
Layout: Juha Mäkinen
Language editing: Lynn Nikkanen