

Revamping the G20

Giovanni Grevi

»» The G20 faces a critical year ahead with the Eurozone crisis far from over, global growth slowing down and unemployment rising, the Doha round almost shelved and global governance reform proceeding at a snail's pace, at best. The recipe for the long-term viability of the G20 requires complementing its crisis-management role with a stronger focus on prevention. The G20 should help bridge normative divides and deliver integrated governance solutions to anticipate future challenges.

The Mexican presidency of the G20 inherited the largest output-expectations gap in the short life of the group's meeting at leaders' level. The epic phase of the Washington and London crisis summits culminated in 2009 in Pittsburgh with the establishment of the G20 as the premier forum for global economic cooperation. The Toronto and Seoul summits in 2010 steered a process of consolidation of the G20 format and working methods. They paved the way for the Mutual Assessment Process and expanded the G20's agenda and outreach. However, these meetings delivered little by way of addressing the root causes of financial turmoil and narrowing the differences between surplus and deficit countries, or partisans of austerity and advocates of monetary easing.

In 2011, the spiraling Eurozone debt and banking crisis largely overshadowed the otherwise ambitious agenda of the French presidency. The Cannes summit delivered piecemeal progress on issues such as a tighter plan for growth and jobs, food price volatility and strengthening the Financial Stability Board. However, it failed to mobilise a common front to respond to the Eurozone crisis and the ensuing risk of contagion to the global economy. Instead, it exposed serious discrepancies between G20 members, including EU member states, on burden-sharing to contain the crisis.

HIGHLIGHTS

- The G20 needs to work out a balance between long-term and short-term focus, economic and non-economic issues as well as crisis response and prevention.
- The leaders' group is well placed to help devise integrated approaches to complex challenges and bridge normative divides among its members.
- The G20 would benefit from more informality at summit meetings, more ownership from national leaders and a more structured outreach process.

»»»»» Early in 2012, it remains unclear whether the G20 will manage to narrow or eliminate the output-expectations gap. Doing so will require both delivering tangible output in the short-term and re-assessing expectations over the medium-term, setting the G20 in a much broader perspective than the pressing Eurozone crisis. If the latter were to spin out of control and harm growth worldwide, the credibility of the G20 would be hit hard. This prospect cannot be ruled out but seems to be receding. However, the sustainability and reputation of the G20 rests on effective crisis prevention, not just resolution. That entails setting global economic coordination on a stable path and shaping integrated approaches to the complex challenges that threaten economic interdependence.

Ahead of the summit in Los Cabos on 18-19 June, the Mexican presidency has undertaken a delicate balancing act between the urgent and the important. Its priorities include structural reforms for growth and jobs, strengthening regulation of the financial system and promoting financial inclusion, reinforcing the international financial architecture in terms of both surveillance mechanisms and resources, food security and commodity price volatility as well as sustainable development. The presidency is 'feeling the stones' while charting new governance ground, whether by prioritising so-called Green Growth (in the run-up to the UN Rio+20 Conference from 20-22 June) or by calling the first informal meeting of G20 foreign ministers. In so doing, there is an opportunity to make the G20 process more resilient and productive.

BEYOND FALSE DILEMMAS

The G20 is burdened by false dilemmas, namely whether it should focus on short- or long-term issues; whether its agenda should address exclusively economic matters or broader challenges, too; and whether the group is just a crisis-management committee or a steering board for the global economy. This is not to say that these dilemmas are fictional, since they actually point to difficult trade-offs. However, the response to those problems lies not in a stark choice between

incompatible options, but in a suitable balance among them.

Pressure should not detract from a sense of context and perspective. Sometimes, quick fixes are short-lived: consider the first bail-out package provided to Greece in 2010. Besides, as interdependence deepens, risks spread fast. The U.S. sub-prime crisis spread through the global banking system, dragged stock markets down and required an injection of public funds that stretched public finances and triggered a sovereign debt crisis in Europe. Preventing crises is cheaper than managing them: consider the spike in energy and food prices in 2008.

Food security offers a good example of the need to reconcile short-term action to curb price volatility with long-term investment in agricultural productivity. With food demand set to grow 30 per cent in the next 20 years, a far-sighted approach is required to support research on climate-resilient and energy-efficient cultivation, help small farmers, provide micro-financing and avoid trade distortions. Perspective is of essence when debating how to restart and re-balance growth as well. A focus on the quality and distribution of growth should complement the obsession with growth rates. Widening inequality in the last three decades has engendered excessive household debt in the U.S. and depressed domestic consumption in China. The long-term challenge is to reverse this cycle and its corrosive effects on societies, which is arguably a condition for sound economic policy cooperation.

Furthermore, alongside tackling the Eurozone crisis, the G20 should anticipate upcoming risks such as the likely slowdown of China's and India's growth rates and its implications for the global economy. Recent joint work by the World Bank and Chinese institutions has exposed the vulnerabilities inherent to China's growth model. The G20 should build momentum for domestic reform and the coordination of national policies with a view to tomorrow's potential crises, not just past or current ones.

A tight distinction between economic and non-economic issues, with the G20 exclusively dedicated to the former, would give a surreal quality to the pro-

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ceedings of the forum. Leaders need not meet to assess the implementation of new financial regulations. At the strategic level where G20 summits are supposed to operate, segregating political and even security issues from economic ones is untenable because international affairs cannot be boxed in pre-determined institutional structures. One should distinguish between preserving the G20's primary economic focus and allowing for the necessary flexibility to tackle other important issues that directly

affect the economic agenda. From this standpoint, the Mexican initiative to host the first informal meeting of G20 foreign ministers was a step in the right direction.

The presidency's approach was reasonably cautious, given the reservations of

some G20 members about tackling political matters in this format. The agenda was deliberately generic, addressing global governance gaps with an emphasis on green growth, human development and the environment. The meeting was presented as a brainstorming exercise, which would not produce conclusions or deliver recommendations to the leaders. Foreign ministers reportedly singled out preventive diplomacy and the links between energy, food security and sustainable development as important issues for international cooperation.

A number of participants suggested that they should gather again in the G20 format. A more targeted focus on transnational challenges and vulnerabilities could be suggested for future meetings. These may address flow security, resource governance, the security implications of climate change and illicit trafficking, in so far as these challenges affect the economic security and prosperity of G20 members. This is not about the G20 shifting its economic focus at the summit level or competing with other bodies such as the UN Security Council, where decisions on international security belong. But the

G20 can enrich the political fabric of economic cooperation and improve mutual understanding with a view to more productive debates in formal institutions.

Whether the G20 is a crisis-management committee or the steering board of the global economy is a less interesting question than how to reconcile those functions in performing a path-finding role. Success in both responding to the crisis and shaping the system, by coordinating national policies and driving the reform of multilateral institutions, will depend on the G20's ability to combine political clout and intellectual leadership. As a path-finder, the G20 can deliver unique added-value in devising integrated policy approaches and bridging normative divides.

Global governance is fragmented and global challenges are connected. Risks such as commodity price volatility, resource scarcity and the disruption of vital infrastructure spread through the fissures of balkanised governance frameworks. Managing these risks requires an integrated governance provider. A body like the G20 is well placed to devise integrated approaches beyond policy divides and stifling procedures.

Concrete opportunities to exert this kind of leadership include resetting the debate on development as a question of home-based economic growth and not just foreign aid; consolidating the fragmented global energy regime instead of sliding into a zero-sum posture to ensure respective supplies; exploring options for upgrading the multilateral trade system if Doha is set aside for good; defining benchmarks to assess the quality of economic growth and not just its pace; focussing on the conditions for jump-starting growth across the Arab world in transition; harnessing the role of education to improve health, good governance and growth prospects; and fostering the responsibility to prevent humanitarian disasters. This is just an indicative list of past, ongoing and possibly future attempts at addressing complex challenges by re-framing them.

Policy divides are often the visible tip of deeper political ones below the waterline. Reducing norma-



»»»»» tive differences is an intensely political exercise that escapes purely functionalist approaches. Confidence and consensus-building within the G20 can provide an important contribution to this process. For example, the G20 can help uncover new deals on mutual responsibilities for global economic rebalancing (the Cannes action plan provides tentative evidence of that), burden-sharing in climate finance (politically critical to follow up on the Durban conclusions), level playing fields in investment (the lack of which puts a brake on growth), pluri-lateral trade regimes (the likely plan B after Doha), and a shared operational definition for green growth (a contested but useful concept). Expectations are to be managed. Bridging normative divides cannot deliver tangible results year on year. But seeking to do so can deliver over time an ethos of cooperation that is conducive to concrete achievements, whether at the G20 level or in multilateral bodies.

IMPROVING THE G20 GOVERNANCE

A new forum for a new world, the G20 needs to experiment permanently with new working methods, too. The track record is significant. The leaders' group has mobilised multilateral institutions by tasking them with reviewing national economic policies, by getting them to work together on issues spanning policy divides, and by providing them with more resources or triggering their reform, such as in the case of the International Monetary Fund (IMF) and the Financial Stability Board. Many working groups have been set up to tackle issues from finance to development, co-chaired by high- and middle-income countries that bring different perspectives to the table. Outreach has extended not only to a handful of invited countries but also to non-state actors such as business (B20), trade unions (L20) civil society and, under the Mexican presidency, think tanks (Think20) too. And yet, the proceedings of the G20 are hampered by excessive formalism at the summit level, the proliferation of roadmaps, action plans and working parties and the fragmentation of the outreach process. The challenge for the G20 is to consolidate as both a leaders' club and a hub, connecting to a variety of stakeholders.

First, adequate room has to be made at summits for informal exchanges to complement set statements. *Tours de table* are useful for signalling purposes since each leader chooses the key message that he or she wants to deliver to their peers. But the point of G20 leaders gathering is not just signalling or posturing but mutual understanding and confidence-building. The G20 would greatly benefit from leaders meeting in very informal, retreat-style brainstorming sessions where they could hold confidential exchanges on issues requiring their attention, regardless of whether they are on the summit's agenda. These could include, for example, geopolitical turmoil threatening their economic security, specific global governance gaps or the repercussions of major natural or man-made disasters. Granted, G20 leaders are numerous, not likeminded and may not enjoy being on their own with colleagues, aside from practical problems such as translation. But these are not good enough reasons not to fully harness the critical mass of influence that leaders can bring to bear, even if that means making summits a little longer.

Second, in the same vein, ways should be explored to generate greater ownership of the G20 process among leaders, beyond summit events. As in the case of the recent report on global governance by British Prime Minister David Cameron, work on topical issues could be delegated to individual leaders, or two of them together, tasked with reporting to successive summits. Issues should be selected based on their strategic – meaning long-term and cross-cutting – nature. Once there is agreement that alternative approaches to the Doha round are to be explored to foster trade liberalisation, for example, leaders could be asked to come up with proposals. Conversely, a leader could be asked to report on the creeping dangers of de-globalisation and how to steer away from them. Cyberspace governance and other widening governance gaps could also be the subject of high-level tasking by the G20.

Thirdly, as is the case within the EU, G20 countries willing and able to commit to more advanced goals, tighten their coordination or join forces should be given the opportunity to do so. That would entail a degree of differentiation in G20 proceedings. At the same time, such avant-gardes should be open, trans-

parent and inclusive, working with relevant multi-lateral bodies and reporting to the entire G20 membership at both sherpa, ministerial and summit level. Suitable issues for such advanced coordination or cooperation initiatives are those engendering positive effects for the G20 and the international community at large. Support for major research projects in renewable energy, the elimination of trade-distorting export bans on food, the adoption of guidelines to facilitate mutual investment and open up public procurement, the elimination of fuel subsidies or the design of a common approach to specific situations of state fragility may fit the bill.

Fourth, when it comes to non-state actors, the group should plug in the 'shapers' of interdependence in a more systematic way. Different outreach tracks such as the B20, the L20 and the Think20 bring distinctive added-value. Having these forums deliver their recommendations well in advance of summit meetings, as the Mexican presidency is doing, would enable officials to process their input. In addition, however, there is a case for a more structured and integrated approach to input-sourcing. G20 members could consider a modest annual investment in the range of \$1 million each, for a total amount roughly equivalent to the cost of the opening ceremony of the 2012 London Olympic games, to set up the G20 House for Global Public Goods.

The G20 House would serve as a sort of 'track II' G20 process directed to build trust and deliver solutions, from the bottom up. With a small permanent staff, this platform would engage governmental and non-governmental stakeholders from G20 and non-G20 countries, public private partnerships and international institutions, as relevant. Its work programme should be established annually by the sherpas so as to assist G20 proceedings but should allow for some autonomy and flexibility. The G20 House would carry out five basic functions, namely informal consultation, sustained outreach, confidence-building, knowledge-and-best-practice sharing and training. It could also host the meetings of some of the G20 working groups, where need be, and enrich their work with informal seminars. Issues such as the future role of IMF special drawing rights, resource scarcity and governance, the security of material and

immaterial flows, carbon pricing and welfare reform could be among the subjects of inclusive deliberations in the G20 House. The latter should also engage sub-national authorities given, for example, the importance of the growing number of megacities to debates on social justice, public health, energy efficiency or organised crime.

CONCLUSION

The G20 was elevated at leaders' level to react to a crisis that threatened the vital interests of all of its members, which few had seen coming. The group must be expected to deliver on crisis response. Today, that means shaping a shared assessment of the Eurozone crisis and a common approach to it. The February meeting of G20 finance ministers and central bankers featured some progress compared to the sorry picture of late 2011 but prospects remain uncertain. However, operating in a crisis management mode only is not a sound recipe for the sustainability of the group.

The long-term viability and also legitimacy of the G20 rests at least as much on crisis prevention as on crisis response. Prevention means looking ahead, connecting issues and seeking to bridge normative divides while doing so. Failing that, successive crises would ultimately topple the collective crisis management capacity of the leaders. Building resilience in the G20 process requires harnessing its unique features as both a leaders' club and a governance hub – the two dimensions being mutually reinforcing – as suggested in this paper. The Mexican presidency and those succeeding it – Russia, Australia and Turkey – should add flexibility to the G20 agenda (which need not entail its permanent expansion). They should also seek to establish the group as a fulcrum of governance integration and innovation. In doing so, they will have to find their path in the shadow of crisis.

Giovanni Grevi is a senior researcher and research coordinator at FRIDE.

e-mail: fride@fride.org
www.fride.org