

# One Year On: The G20 and Economic Leadership

Written by Andrew F. Cooper and Andrew Schrumm

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ANDREW F. COOPER AND ANDREW SCHRUMM, OCT 21 2009

The economic crisis has brought about a transformation in international governance, signalling a break with the established economic architecture. While at the outset, measures taken appeared in an ad hoc or temporary manner, the decision at the recent Pittsburgh Summit to institutionalize the Group of 20 leaders' summit reflects a decided shift in economic leadership. New players, new institutions and new issues have moved to the centre of the agenda.

A year since its inception, the G20 has delivered at least in a declaratory fashion. However, its sophomore year will bring new challenges and scrutiny. In the lead-up to the next summit in Muskoka, Canada, it will need to move beyond the immediacy of the crisis, to propel consensus and goodwill into permanent ventures. Among the lasting challenges for the G20 is, in effect, to overcome its first big task by reconfiguring global economic structures to strengthen long-term, anticipatory processes.

### Addressing Core Concerns

Steps taken by G20 countries at both the national and international levels in order to backstop financial markets and institutions, facilitate ongoing lending, and create common policy responses have likely reduced the depth and scope of the economic crisis. Economic analysis has shown that most G20 economies have begun to stabilize, while some have even witnessed a reversal of decline. However, important structural shoals remain underneath the success of the mass infusions of stimulus funds, and that could yet result in backsliding or another crisis if left unattended

The primary and still most pressing test for the G20 relates to international regulatory reform. Indeed, action taken at both the Washington Summit in November 2008 and the London Summit in April 2009 to restructure global economic decision-making and financial oversight has ushered the international financial institutions into the 21<sup>st</sup> century, notably with the creation of the Financial Stability Board (FSB). However, observers still warn about slippage between G20 declarations and actual implementation.

In the absence of an overarching supranational institution with the capacity to enforce international agreements, implementation of key systemic reforms has been left to "networked governance" via the G20. This process relies on full disclosure and mutual assessment. At Pittsburgh, the G20 leaders agreed to deepen this function, tasking the IMF's International Monetary and Financial Committee to analyse and promote strategies "consistent with more sustainable and balanced" patterns of growth, with reporting at Muskoka.

At Pittsburgh, a major breakthrough came in the area of IMF governance. Comprising the traditional economic powers (US, UK, EU) and the major economies of the global South (China, India, Brazil), it is significant that the G20 agreed on a plan to expedite IMF quota and voice reforms. The outline looks to eliminate four seats from its executive board – addressing European over-representation – and to shift up to 5% of voting share to the emerging economic powers.

### Reconciling the Competing Gs

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The future of global economic leadership is becoming clearer, with the G20 making a “big bang” transformation. Instead of staying the course as a crisis committee, in a trajectory started by the original Washington and London meetings, the grouping was elevated to the level of hub for global economic governance at Pittsburgh. That is to say, the choice was made to institutionalize the G20 as the “premier forum” for international economic cooperation.

The first and most important leadership ingredient was visible though the change of attitude to the G20 by the United States. Despite convening the first crisis summit, President George W. Bush remained far from a champion of this type of multilateralism. He called on the G20 out of a mix of convenience (a desire to signal that he was doing something to deal with the economic turmoil) and legacy concerns (demonstrating action in the dying days of his presidency). That being said, Bush’s decision to convene the Washington Summit confirmed the fact that the G20 remained the globe’s indispensable power. Every leader that was invited came to Washington, while other states that tried to “gate crash” the event.

President Obama waited until he had attended both a G20 (London) and a G8 (L’Aquila) before he made his leanings clear. Looking back, the logic behind his choice was inevitable. The London G20 was hosted by a deeply informed advocate (if a poorly perceived prime minister), Gordon Brown. Focusing on the crisis committee repertoire the London G20 was judged a success, albeit one marred by tight security mobilized against protestors. Obama for his part gave a virtuoso performance especially in his press conference at the end of the summit. At the L’Aquila G8, by way of contrast, Obama appeared distracted. His attendance at L’Aquila was simply one event in a series that included visits to Russia, to Rome (for an audience with the Pope) and his much celebrated visit to Ghana. Moreover, success at L’Aquila was constrained by the Berlusconi government’s favoured treatment to “variable geometry”. Instead of being functionally driven on a selective basis this approach diluted the process by inviting a near limitless number of participants.

From this experience it can be gleaned that President Obama desired a reform of the G-process that would allow some rationalization of time and energy. The question, however, centered on how and when this decision would come about. South Korea pressed hard for another G20 on its home soil in April 2010, but would likely intrude the preparations of the G8 in Muskoka. Complicating matters further, the mercurial French President Nicolas Sarkozy announced that he was ready to call a G14 – the G8 plus the big 5 emerging states of the global South (China, India, Brazil, Mexico, and South Africa) plus Egypt – when France hosted the G8 summit in 2011.

## Consolidating Leadership

Faced with this dilemma, the Obama administration released the G20 transformation announcement on the opening night at Pittsburgh, before the main event on September 25. This decision appeared first in a story to the *Wall Street Journal*, after an impressive form of discipline against leaks by the entire G20 constellation. First among a set of provisos for transformation, such a move was tactically astute as it shifted concentration away from the debate about the detailed agenda and removed the opportunity for dissent. It also ended the debate about architecture to the extent where the schedule of meetings for the next 18 months or so was clear, a hybrid G8/G20 in Muskoka in June 2010, a G20 in South Korea in November 2010, and a meeting in France in 2011.

Second, a key component to solidifying the leadership function of the G20 was the willingness to overlook disagreements on particular issues in the pursuit of a more generalized structure of cooperative behaviour. As in London, the run up to Pittsburgh revealed major differences on the regulatory agenda. The context of much of this tension was the Trans-Atlantic disagreements over bonuses, bank capitalization, and the introduction of the Tobin tax. But these differences did not mar the call by the US host to elevate the G20 to the status as hub of economic governance. Rather than acting as a blocker, France displayed a willingness to be an active player in the creation of the new institution, dropping the notion of a G14 and embracing the G20.

Third, buy-in from the major economies of the global South was critical for G20 transformation. This process was facilitated by the deepening engagement between the established G8 and the G5 of emerging powers through the Heiligendamm Process. But it was also animated by the willingness of both the US and China most particular to trade off issues they wanted to deal with through a framework of problem solving. The US successfully pushed the issue of

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global imbalances; a topic of some sensitivity to China. But in return China successfully pushed the issue of IMF reform, with reference to votes and voice.

Fourth, an active layer of middle power diplomacy bolstered the transformation. In terms of G8 insiders, Canada's model of bank regulation received kudos. In terms of outsiders both South Korea and Australia deserve privileging. South Korea lobbied hard for an April stand-alone G20, which it didn't win, but in compensation gained the right to co-host the June 2010 G20 with Canada in proximity to the G8. Australia's Prime Minister Kevin Rudd acted as an energetic champion of the transformation process.

Fifth, ideational leadership should not be ignored. On top of this state driven component came the mobilization of a loose network of think tanks, including CIGI and its partners. Although the call by President Obama was sudden and decisive, the larger ideational campaign for a G20 was a protracted one.

## Challenges Remain

All of this is not to suggest that the way forward on the G20 will be a straightforward process. Passing all of these tests of leadership does not mean that the G20 can take its legitimacy and effectiveness for granted. As examined in detail in the recent *CIGI Special G20 Report: Flashpoints for the Pittsburgh Summit*, concrete action is still needed on a range of economic and structural issues. Taking on the mantle of the "premier forum", the G20 will need to: reduce the gap between declaration and action on financial regulatory issues, on reform of the international financial institutions, and on world trade; avoid the hidden dangers in the winding down of national stimulus programs, and develop clear exit strategies to ensure they do not compromise sustainable economic growth; and, decrease systemic risks, by improving communications and knowledge-sharing among global and national markets and regulators.

Over time, the G20 will develop its own identity 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? In either case, the Pittsburgh Summit will be remembered as a transformative moment with catalytic qualities for enhanced global institutional reform.

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