

# **Winning Together: The Advanced Countries' Approach to G20 Governance**

Professor John Kirton  
Co-director, G20 Research Group, University of Toronto  
[www.g20.utoronto.ca](http://www.g20.utoronto.ca)

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## **Introduction**

### **The Significance of G20 Governance**

It matters much whether the Group of Twenty (G20) is working well, and is doing so for all its advanced and emerging members and for the global community as a whole. Today's global challenges are great and growing, expanding to include slowing economic growth, mounting unemployment and economic inequality, financial system fragility, stalled reform of international financial institutions and the prospects that the Millennium Development Goals (MDGs) will not be met by their fast-approaching due date of 2015. And if the G20 fails to cope with these challenges, there is nowhere else to go, for the smaller Group of Eight (G8), the BRICS group of Brazil, Russia, India, China and South Africa, or a hypothetical G2 of only the United States and China cannot provide the powerful, flexible global governance that today's world so badly needs.

### **The Skepticism about G20 Governance**

It thus matters that there is much skepticism about how well the G20 is serving as a group of systemically important countries, working as equals across the advanced-emerging economy divide, to fulfill its core mission of providing financial stability and making globalization work for the benefit of all. There is even doubt as to whether the G20 is living up to its proud proclamation at its Pittsburgh Summit in September 2009 to serve as the permanent priority forum for all its members' economic cooperation. The older G8, which many thought was soon due to disappear, has now revived and a new BRICS summit for the big emerging economies has been born. The conventional wisdom is that G20 summit performance has declined since its early crisis-inspired days in 2008–09, especially for the many advanced G8 countries now mired in slow growth, recession and financial system failures, while the big, booming, intact BRICS are turning to build their own club to work for them.

### **The Puzzles in the Conventional Wisdom**

However, this conventional wisdom is wrong in many ways. First, a careful examination of G20 summit performance shows that it is rising and spreading, even as the tasks it takes on are the increasingly difficult ones. Second, the 2008 global financial crisis that inspired its initial high performance has continued within Europe but has now been

prevented from going global, thanks to the good work of a G20 that has done just enough, just in time. Third, in the biggest advanced countries — the U.S. and Japan — growth seems to be returning and financial stability is high, while growth in many of the BRICS members is now slowing down. And fourth, the G8 and BRICS summits have recently had their fair share of failures as well as successes, just as the G20 ones have.

### **The Argument of a G20 Working Well for All**

In all, the evidence shows that the G20 works well, does so for its advanced country members and does so in co-operation with the G8. This conclusion is based on four specific components. First, the 1999 Canadian and American co-creators of the G20 — Canadian finance minister Paul Martin and U.S. treasury secretary Larry Summers — knew that China and emerging countries were central to governing the new 21st-century world of globalized finance, and that advanced and emerging powers had to work together for the benefit of all. Second, the G20 continues to work well for all its members, as amidst the continuing financial crises from Europe, a G20 summit initially led by Group of Seven (G7) countries has increasingly seen shared leadership and cross-cutting winning coalitions arise across a diminishing advanced-emerging country divide, while emerging countries are moving toward complying with their G20 commitments at the same substantial level that the advanced ones always have. Third, the G20 has become the club at the hub of a global governance network, and one that its leaders have slowly come to value as their own. Fourth, the G8 increasingly works well in mutually supportive ways with the older, smaller, richer, more likeminded, democratic G8 club, as both have shared a growing agenda, together doubled the annual number of key global summits and institutionally learned from each other in addressing the most difficult problems in the world.

### **The Canadian-American Co-creation, 1999**

First, Paul Martin and Larry Summers, the 1999 Canadian and American co-creators of the G20, knew that China and emerging countries were central to the new 21st-century world of globalized finance, and that advanced and emerging powers had to come and work together for the benefit of all (Kirton 2013).

### **The New Logic of Systemic Importance**

In conceiving and pioneering the creation of the G20 as a response to the Asian-turned-global financial crisis of 1997–99, Martin and Summers knew that they faced a world where problems and power were shifting from the advanced Atlantic to the emerging Asian region and where the increased connectivity, complexity and uncertainty bred by globalization required all systemically important countries to work together for an effective global governance response. While the advanced countries of the G7 still had the predominant financial capabilities, the rising emerging powers needed to be at the table as equals to shape and accept the rules needed to prevent and contain the next global crisis that would harm all. Martin and Summers thus chose the biggest countries that were systemically significant due to both their capabilities and vulnerabilities and thus their position as providers and consumers of financial security. Beyond the G8 members,

China was the first on the list and its fast acceptance of its invitation meant that the new group could come to life. The 19 countries and the European Union that were chosen as members were equally divided between the advanced and emerging ones. The picks proved to be prescient, as the 20 systemically significant members then are still the ones with that position in the world today.

### **Confronting Common Enemies**

During their first three annual autumn meetings the members worked quickly together to cope with the common enemies they faced, as advanced and emerging countries alike. At Berlin in December 1999, they focused on financial stability and put new principles in place. At Montreal in 2000, they shifted from crisis response and prevention to the larger task of making globalization work for the benefit of all. At Ottawa in 2001, in the immediate wake of the September 11 terrorist attacks on the United States, when all other international financial institutions had stopped meeting, the G20 members focused on the new, non-state security shock from terrorism and personally bonded as one to stop terrorist finance.

### **Cross-Cutting Coalitions and Outcomes**

From the start, G20 meetings saw individual countries come together from across the advanced-emerging divide to create coalitions whose views ultimately prevailed. The first such coalition arose over capital account liberalization, where a U.S.-led proposal to legalize this at the International Monetary Fund (IMF) was successfully countered by a skeptical Canada together with most other emerging countries in the group. By the time China hosted its first G20 meeting in 2005, the group agreed on the first stage of IMF voice and vote reform, as the U.S. and Canada joined with the emerging members to convince the long-resistant Europeans to make this move.

### **Shifting Institutional Leadership by Canadian Design**

As Paul Martin has planned from the beginning, institutional leadership of the G20 soon shifted from the advanced to the emerging members and then became balanced between the two. Germany and Canada had the privilege, power and responsibility of hosting and chairing the meetings for the first three years; hosting then passed to India in 2002, Mexico in 2003, Germany in 2004, China in 2005, Australia in 2006, South Africa in 2007 and Brazil in 2008. A similar shift was seen in the increasing number of official-level meetings and study groups that supported the work.

### **G20 Summitry, 2008–2012**

Second, the G20 at the leaders' level continues to work well today and does so for all its members. Amidst continuing financial crises from Europe, within a G20 summit initiated and initially hosted by G7 countries, coalitions form and win across the advanced-emerging country divide and the emerging countries are moving toward complying with G20 commitments at the same substantial level that the advanced ones always have.

## **G20 Summitry as an Advanced Country Choice**

Martin, who had long thought that the G20 should meet at the leaders' level, proposed a summit when he became prime minister of Canada, and saw first China and then all members agree — except for U.S. president George W. Bush. Yet when the great American-turned-global financial crisis struck in September 2008, it was Bush who chose to respond by hosting a G20 summit, rather than the smaller G8 or G14 one that others had proposed. The logic that had led to the G20 in 1999 was even more compelling in 2008, especially as the G20 had proved its worth after a decade of work.

After the first summit in Washington DC in November 2008 and the second in London in April 2009 hosted by UK prime minister Gordon Brown, the third in Pittsburgh in September 2009, hosted by U.S. president Barack Obama, saw all advanced and emerging leaders agree that henceforth the G20 would be the priority permanent forum for their international economic cooperation. After the fourth summit, held in Toronto in June 2010, hosting increasingly passed to emerging members, to Korea for the fifth summit in November 2010 in Seoul, France for the sixth in November 2011 in Cannes, Mexico for the seventh in June 2012 in Los Cabos, Russia for the eighth in September 2013 in St. Petersburg, Australia for the ninth in November 2014 in Brisbane, Turkey for the tenth in 2015 and a still-to-be-selected Asian country for the 11th in 2016. There has also emerged the troika system where the present, past and next chairs work together to prepare the next summit. And the G20's expanding number of working groups are co-chaired by an advanced and emerging member, notably the Framework Working Group co-chaired by Canada and India.

## **Winning Coalitions Cross-Cut the Advanced-Emerging Country Divide**

Since the start of G20 summitry, coalitions have arisen and won across the advanced-emerging country divide. On a G20-wide bank levy proposed by the continental Europeans, Canada and the emerging countries successfully resisted. On specific targets for deficits and debts, the Canadian and European advocates overcame the resistance of the U.S. and its potential emerging country allies to win in June 2010; while the stimulus-first side gained ground in June 2012 for flexibility and in April 2013 on hard debt caps. On the second stage of IMF voice and vote reform, the U.S., Canada and emerging countries overcame European resistance in November 2010 to have the G20 agree to shift quota shares. On contributing funds for an IMF firewall fund to help Europe in 2012, most emerging and advanced countries came together to win, while Canada and the U.S. refused. And on exchange rates, while China is now allowing a discussion, it is joined by Germany in resisting the analysis and pressure on imbalances favoured by the United States. To be sure, the U.S. has successfully resisted in practice the high-quality, harmonized global accounting standards that a community of all other advanced and most emerging members want. But as the G20 has prevented the trade-protectionist spiral feared by all members, cross-cutting coalitions and a community of all acting in common have prevailed.

### **Compliance Equalizes Upward to Advanced-Country Levels**

Moreover, the record of members' compliance with the commitments they make at G20 summits has shown a trend toward equal performance at a substantial level. With the priority commitments made at the first four G20 summits, G8 members complied at an average of +0.59, while the non-G8 members came in at +0.16, both on a scale from +1.00 for complete compliance and -1.00 for complete non-compliance (Kirton 2013, 441). But as emerging countries took the chair, their compliance began to rise, and the gap between them and the G8 members steadily narrowed. The results of the preliminary interim report on compliance with the 17 priority commitments made at Los Cabos (from the total of 180) suggests that this pattern remains intact.

### **The Continuing Euro Crisis Is Contained Before Spreading Globally**

A key cause of these cross-cutting coalitions, commonality and convergence in hosting and compliance is the fact that the financial crisis that catalyzed the G20 summit's creation and initial high performance has continued, with the Eurocrisis erupting in Greece, then Ireland, Portugal, Spain and now Cyprus. However, this time the crisis has been contained before it has gone global, in sharp contrast to that of 2008–09 and 1997–2001. Its containment within Europe shows the success of the G20 in crisis prevention, and here both advanced and emerging countries have worked well together to produce this result. From the Cannes Summit onward, they have come together to urge the Europeans to go further faster, and the latter have responded with just enough, just in time. The creation of the IMF firewall funds shows how much both the advanced and emerging members have banded together in support of Europe, and of those around the world who its crisis could infect next.

### **The Club at the Hub of a Global Governance Network**

Third, the G20 has become the club at the hub of a global governance network, and one that its leaders have slowly come to value as their own. This is a key cause of why it has continued to work well.

### **Advanced and Emerging Members Overlap**

In their evolving identity, countries that at first glance are clearly and consistently in the advanced or emerging category, on the basic dimensions of the level and change in their economy, considerably overlap upon a closer look. In addition to the advanced G7 members, Australia, Mexico, Korea and Turkey are also members of the Organisation for Economic Co-operation and Development (OECD), colloquially called the rich countries' club. G8 member Russia is a relatively rich country that is still rising when world oil and gas prices do, but is the founding member of the BRICS group of big emerging countries too. And in the other direction, several once-rich members of an expanding European Union, a founding member of the G20, are rapidly becoming poorer, notably Greece, Portugal, Cyprus and even Spain.

### **Advanced and Emerging Members Reverse Roles**

With such an overlap and evolution has come a role reversal, as several suppliers of financial security in the 1997–2001 global financial crisis, starting with the United States and the United Kingdom, have become consumers in the 2008–13 one. Conversely the earlier consumers, notably Indonesia, Korea, Brazil, Argentina and Turkey, have now become suppliers, as seen most recently in their contribution to the IMF firewall fund. And emerging countries are also becoming senders rather than just receivers of foreign direct investment and other financial flows, including assistance to Africa and other developing regions.

### **The Hub of Global Governance**

The G20 has also become the hub of a network of global governance, connecting other plurilateral summit institutions (PSI) where advanced and emerging countries serve as equals from all around the world. The oldest such PSI is the Commonwealth, now dominated by emerging and developing countries, where G20 members UK, Canada, Australia, India and South Africa have an influential place and much experience is bridging old north-south divides. The same is true for the Asia Pacific Economic Co-operation (APEC) leaders' meeting, which is in the middle of a phase of being hosted by G20 members for several years. Canada connects G20 governance with that of the Commonwealth, la Francophonie, APEC, the Summit of the Americas, the North Atlantic Treaty Organization and the Organization of Security and Co-operation in Europe. China does so with APEC, the BRICS, the East Asian Summit, the Shanghai Co-operation Organization and the Asia-Europe Meeting for a start.

Moreover, unlike the G8 or the BRICS, the G20 began with the world's major multilateral organizations — the IMF and World Bank — as members and has added as invitees many others where emerging and developing countries have a majority place. There is also an equality among invited countries, as Spain has become a permanent guest and Singapore a regular one, along with the leaders of the African Union, the New Partnership for Africa's Development (NEPAD) and the Association of Southeast Asian Nations (ASEAN) each year.

### **From an Institutional to an Interpersonal Club**

The G20 is also slowly moving from being merely a compact institutional club, which has added new members in its now 14-year life, into becoming an interpersonal one where its leaders care about one another and the group they value as their own. This interpersonal dimension is evident in the bond at London between the new arrival Barack Obama and Susilo Bambang Yudhoyono, the returning leader of Indonesia, both of whom spoke Bahasa Indonesian, the applause given to Brazil's much-loved Lula at the end of his last meeting and the condolences given to Argentina's less well loved Cristina Kirchner when her husband died.

## **Working Together: The G20, the G8 and the BRICS**

Fourth, the G8 increasingly works well in mutually supportive ways with the older, smaller, richer, more likeminded, democratic G8 club, as they have shared a growing agenda, doubled the annual number of key global summits and institutionally learned from each other addressing the most difficult problems in the world.

### **The G8's Growing Finance and Economic Agenda and Achievements**

The co-operative synergy between the G8 and the G20 arises first from the G8's growing finance and economic agenda. The G20 recognized the value of this at Pittsburgh when its leaders, including all the G8 ones, proclaimed that the now permanent 20 would be their "primary" — not their only forum — to co-operate on economics and finance. At the next occasion when the G20 leaders met, the G8 and G20 summits were held back to back in a single long weekend, in nearby locations in Canada. Even though the G8's Muskoka Summit in 2010 was designed to focus publicly on development and security, leaving finance and economics to the G20, at their opening lunch G8 leaders privately focused on economics, due to the recent Greek financial crisis. They lessened their differences to pave the way for the G20's Toronto terms on medium-term fiscal consolidation through deficit and debt control. Since then, a more self-confident G8 has returned to recording its conclusions about economics and finance in its public communiqué. The culmination of this trend will come in June 2013, when British prime minister David Cameron as host of the G8 will focus its summit on the highly economic priorities of trade, tax and transparency.

On trade, after both the G8 and G20 summits have failed to complete the long overdue and now obsolescent Doha Development Round, there has been a de facto synergistic division of labour between the two. The G20 has retreated to playing defence with its successive, effective anti-protectionism pledges while the G8 has assumed the offensive with its 2013 priority of advancing trade liberalization through big new deals between the EU on the one hand and the U.S., Canada and Japan on the other, while encouraging trade liberalization among Africans, too. And throughout the life of the G20, it has been only G7 finance ministers and central bank governors who have injected emergency liquidity, intervened to manage exchange rates and engaged in quantitative easing in monetary policy when the need appears.

### **The G20's Growing Development and Political Security Agenda and Achievements**

At the same time, the G20 summit has acquired a growing development and security agenda and acted in welcome support of the G8. The G20, along with the G8, has dealt importantly with food security, disaster relief and development, both in support of the UN's MDGs, but then more broadly with its Seoul Development Consensus approved in November 2010. In the security sphere, the G20 has taken up corruption, continued to control terrorist finance and quietly extended its concept of the latter to address the nuclear proliferation problem from Iran.

### **The G8's Contribution to Global Governance as the G20 Retreats**

Institutionally, the annual G8 summit, always predictably taking place in the late spring or early summer, has become relatively more important in filling the global governance gap to meet a growing need. Since 2010 the G20 leaders have retreated to half-time work, by holding only one rather than two summits a year, and lengthening the intervals between them. The same is true for G20 finance ministers and especially for foreign ministers, as the G20 has only managed to hold one such meeting of the latter, in 2012, whereas the G8 does so at least twice a year. It is noteworthy that the G8, as well as the BRICS have repeatedly offered their direct and explicit support for the G20's work.

### **Convergent Institutionalization through Mutual Learning**

Institutionally, the advent of the G20 has not challenged the distinctive identity and mission of the G8 as a concert of likeminded democracies devoted to spreading open democracy, individual liberty and social advance throughout the world. Indeed, its role and sense of accomplishment have been enhanced as political openness has come to the countries of the Arab Spring and others such as Myanmar.

At the same time, both bodies have learned from each other about how to enhance the democracy, accountability and legitimacy of governance within their groups. The G8 pioneered outreach to multilateral organizations in 1996 and African countries in 2001, invited the big emerging economies first in 2003, peaked at L'Aquila in 2009 and invited committed African countries to join it for the food security discussion at Camp David in 2012. Indeed, as the G7 and G8 helped invent and authorize the G20 at its finance ministers' meetings and summit in 1999, the G20 represents G8 outreach in an extended form. The G8 with its Accountability Working Group has led in accountability, a subject of increasing interest to the G20. And while the G8 had pioneered civil society participation in the summit process, the G20 has now taken the lead and become the only one to invite a civil society leader, Bill Gates, to meet with the leaders at a summit session itself (Cooper and Thakur 2013).

### **References**

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