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Research Report

G20: Concert of great powers or guardian of global well-being?

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G20: Concert of Great Powers or Guardian of Global Well-Being?

Summary

Eight years after its formation at the leaders' level, the Group of 20 (G20) has consolidated its status as *the* power centre of global economic governance. The informal club of 19 nation-states plus the European Union has set itself ambitious goals. They want to lead the global economy towards "strong, sustainable and balanced growth". Opinions on the success and the broader implications of the G20 diverge widely in global conversations (Bradford & Lim, 2011). Critical voices point to the fundamental lack of legitimacy for the self-selected group of global powers. Other sceptics call into question the effectiveness of the G20 in balancing national interests and managing the world economy. In a more positive assessment, the G20 is given credit for moderating trade conflicts and averting currency wars. Sympathisers also acknowledge the G20's role in nudging the global system towards a post-Western constellation by integrating large (re-)emerging economies beyond the Organisation for Economic Co-operation and Development (OECD).

Clearly, the G20 is not mandated, nor does it operate under the guidance of the United Nations (UN), the universal body of ultimate legitimacy. Looking at the G20 from the perspective of effective global governance, the big question to ask is: Do member states see their group as a concert of great powers or are they ready to act as guardians of global well-being? The latter would imply that the G20 anchors its entire work in three transformational documents adopted by world leaders last year at the UN: the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda and the Paris Climate Agreement.

The G20 at the leaders' level has come about in response to the severe financial disorder of 2008. It adopted the membership formula of the G20 of finance ministers, which was set up by governments from all parts of the world in 1999 with a similar intent of crisis management (regarding the Asian financial crisis of that time). The 19 member countries plus the European Union represent a diverse cosmos of old and new economic powerhouses, selected more on the economic exigencies of the outgoing 20th century than on the basis of criteria that would reflect representativeness and the preparedness to live up to international responsibilities. While Europe is strongly represented, other regions lack adequate inclusion. From Sub-Sahara Africa, only South Africa was selected, and Saudi Arabia is the sole member from the Arab world (Fues & Wolff, 2010).

The strengths, as well as weaknesses, of the G20 lie in its informality and flexibility. The group has no legal status, no charter and no permanent secretariat. It is driven by annual summits, which are hosted by yearly rotating presidencies. Two parallel tracks – under the guidance of sherpas and finance ministers, respectively – structure the process (see Box 1). Over time, the G20 has established a myriad of working groups and work streams, such as on infrastructure, development, employment and trade. As a result, the overall coherence of the G20 architecture leaves much to be desired (Dubey, 2015). The workload of attending to an ever-increasing number of policy fields stretches the capacities of most national bureaucracies to the limit.

Purpose of the G20

The original purpose of the G20 at the leaders' level was to address the risks of a global meltdown when the financial crisis culminated in 2008. Moving from immediate crisis response into a more systemic approach in global economic governance, the G20 then attempted to shape conducive conditions for recovery and long-term growth. In light of unprecedented global challenges, controversies around the future orientation of the G20 have intensified. The group now has to make a fundamental choice regarding its identity and its core mandate: Are member states ready to align their pursuit of national interests with the overarching goals of mitigating transnational risks and providing global public goods? Only if the G20 acts as the guardian of global well-being will it meet with broad support in the world society and accomplish its original purpose of reinvigorating the global economy.

G20 functions for members

Before assessing the performance of the G20, a more in-depth look at the functions it performs for members and for the world at large is needed. Countries within the G20 use the body for trust-building and mutual learning. They also engage in policy coordination and, to a limited extent, in collective action. States are keen on the reputational gains conferred by membership in the exclusive circle. And they wish to expand the opportunities for forum shopping by accessing an institutional space separated from the multilateral architecture.

Power shifts in the global system carry significant risks of instability and confrontation, particularly when key actors come from different civilisational and historical contexts. It is easy for traditional and new powers to misunderstand intentions and practices of the other side. In a climate of uncertainty and mutual distrust, "we-identities" need to be actively nurtured (Messner & Weinlich, 2016). The G20 provides a protected environment for bureaucrats and political leaders to engage with each other, thereby preparing the ground for mutual understanding and shared perspectives. This, of course, does not automatically lead to converging interests but it lessens the scope for misunderstanding and malicious allegations. A key challenge of the G20 lies in managing the diversity of political systems in its membership, which constrains the convergence of values and worldviews. Despite the manifest differences, the G20 must be able to find common answers to global challenges if it wants to stay relevant.

Experience-sharing and policy-learning are other areas of fruitful interaction within the G20. A current example of joint knowledge-creation by members centres on the 2030 Agenda for Sustainable Development. Working through the G20 Development Working Group, the Chinese presidency has initiated an interactive process across all G20 work streams and all G20 members that will identify steps initiated by the group as a whole and by individual countries regarding implementation of the 2030 Agenda. The knowledge generated by this exercise will, it is expected, enhance the quality of national policy-making and stimulate innovative collaboration across borders.

G20 functions for global governance

Even without explicit intent, the G20 performs valuable functions for global governance. It promotes the transition to a post-Western world and embeds the potentially destructive rivalry of the United States and China into a larger group setting (Cooper & Thakur, 2013). By engaging with international organisations and requesting joint reports from them, the G20 strengthens the cohesion of the global system. In promoting common problem-solving and mobilising collective political will, the group contributes to institutional innovations and global standard-setting. This is exemplified by the G20's decisive role in establishing the Financial Stability Board, which has a more inclusive membership base and an extended supervisory mandate compared to its predecessor. And the G20 is a resolute driver of norm-creation on "base erosion and profit-shifting", which intends to limit the opportunities for corporate tax evasion.

One often neglected positive aspect of the G20 are the dynamics of societal networks built up by non-state engagement groups for, respectively, business, labour, civil society, women, youth and think tanks. Though their working modalities are still largely unsystematic and diffuse, they contribute to the evolution of shared viewpoints and common agendas across sectoral and civilisational divides.

Major shortcomings

Although the G20 has been able to generate tangible benefits for its members and the world at large, its overall performance continues to attract criticism from different quarters (Shome, 2015). One point of contention is the divergence of opinions among G20 members on fiscal and monetary policies. The group has not been able to find a common position on quantitative easing, as practiced by the United States and the European Central Bank in order to stimulate domestic economies. Developing countries feel that such decisions are taken without adequate consideration of their interests, regarding the impact on international capital flows and interest rates. Differences also persist on the need for fiscal consolidation and austerity. Whereas Germany insists on a balanced budget, the United States and others push for increased public expenditures to stimulate aggregate demand.

A further critical aspect is the failure of the G20 to overcome global imbalances. The persistent German and

Chinese surpluses in their current accounts – presently at more than 8 and close to 3 per cent of gross domestic product, respectively – have the effect of boosting domestic employment at the expense of deficit countries. Prolonged imbalances will also make it harder for debtor countries to repay what they borrowed in the past. Due to conflicting interests among members, particularly the United States and rising powers, the G20 has not shown much ambition to stop the erosion of the multilateral trade system through the emergence of mega regionals, in particular the Transatlantic Trade and Investment Partnership and the Trans-Pacific Partnership. Critics also cite the lack of a consistent commitment of the G20 in support of global public goods, such as the stability of ecosystems (climate, biodiversity, water etc.) and enabling framework conditions for shared prosperity and human security worldwide. A particular embarrassment is the implementation gap on the G20's pledge to reform fossil fuel subsidies.

Which way forward?

There are four major challenges that the G20 needs to concentrate on if it wants to act as a genuine guardian of global well-being.

a) Due to the group's unique economic and political weight, the G20 and its member countries hold a particular responsibility for implementation of the 2030 Agenda. The Sustainable Development Goals (SDGs) cannot be achieved globally if they are not realised in all G20 countries – high-income and middle-income alike. At the same time, the SDGs cannot be achieved in low- and middle-income countries beyond the G20 without support and coherent action by the G20 (Grant Makokera, 2016). The envisaged G20 Action Plan on the 2030 Agenda should clearly demonstrate a commitment by leaders for comprehensive implementation domestically as well in their international endeavours. To demonstrate the sincerity of their commitment, G20 countries should ensure coherence across all work streams and report as a group comprehensively to the United Nations High-Level Political Forum. As part of this, the G20 would need to spell out how the group wants to contribute a new quality of global partnership aligned with the Addis Ababa Action Agenda. The G20 should use its collective voice in new and old multilateral development banks as well as with the other international finance institutions to make sure that these institutions work in full coherence with the 2030 Agenda. As a critical step in this direction, the G20 should propose a unified framework for all multilateral financial institutions regarding social and environmental standards.

b) G20 governments should signal their collective support for a transformation of the world economy towards new models of low-carbon, resource-light prosperity. They need to establish coherent policy frameworks for inclusive green growth anchored in a circular economy and renewable energy systems. This, in turn, implies international regimes for trade, investment and finance that nudge private business and individual citizens towards trajectories of sustainable consumption and production, as elaborated in SDG 12. Private sustainability standards and public regulation can – and must – go hand-in-hand to this end. The G20 should, therefore, call on the United Nations Forum on Sustainability Standards to support national efforts and facilitate international collaboration.

c) G20 countries should focus particular attention on managing the process of rapid urbanisation and urban transformation in their own societies and on a global scale. The dynamics in these geographical spaces will determine the success of strategies for sustainable development. Investment decisions for infrastructure, housing and productive capacities need to be aligned with overall sustainability principles. Participatory mechanisms must allow all societal groups to articulate their interests and enjoy their fair share of public goods and facilities. In order to advance urban sustainability, the G20 should boost the status of UN-Habitat and help design the Habitat III follow-up process.

Box 1: Purpose of G20 tracks

Sherpa Track	Finance Track
The Sherpa Track focusses on political and development-orientated non-financial issues. The sherpas delegate policy and technical analysis to working groups drawn from officials from each member country and international organisations.	The Finance Track focusses on financial and economic issues, including: monetary, fiscal and exchange rate policies; infrastructure investment; financial regulation; financial inclusion; and international taxation. The Track is composed of all finance ministers and Central Bank governors.
G20 work streams	
Sherpa Track	Finance Track
• Framework for Strong, Sustainable and Balanced Growth • Employment • Trade and Investment • Anti-corruption • Development • Energy Sustainability • Agriculture • Global Partnership for Financial Inclusion	• International Financial Architecture • Investment and Infrastructure • Green Finance Study Group • Climate Finance Study Group
Source: Authors	

d) The G20 should support the evolution of new global formats and institutional arrangements for knowledge-sharing and joint knowledge-creation to address global challenges. International science networks are mostly dominated by representatives from major OECD countries. From the perspective of the 2030 Agenda, transformative science is an indispensable driver for global problem-solving. However, innovative knowledge can only become effective on a global scale if it is co-created by participants from different world regions and civilisations, and if it reflects ideas and approaches in a pluralist perspective. The G20 should, therefore, initiate a process of establishing an inclusive global knowledge network by the UN High-Level Political Forum, which would support and interact with policy-makers, business and civil society in implementing the 2030 Agenda.

China, which holds the current G20 presidency, and Germany, which will hold the upcoming G20 presidency, have unique opportunities and responsibilities to shape the identity of the G20 (Chen & Schläger, 2015). They should join hands in transforming the G20 into a genuine guardian of global well-being.

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