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G20 and Global Governance: Can it Do Better?

By Stephen Grenville

Synopsis

The G20 convened in Brisbane on 15-16 November 2014 for yet another summit. In the aftermath of the recent global financial crisis, some wonder whether the G20 still has relevance. Can this exclusive group of world leaders be the hope of global governance?

Commentary

THE WORLD needs more global governance than it has at present. At the same time, sovereign countries are reluctant to cede power to a supra-national body. As a result, there are big differences of opinion about just what form this global governance should take.

When G20 Leaders first met in 2008, it seemed that this grouping might be the key institution for global governance of economic issues, taking over from the unrepresentative G7. Its early years were promising. In the aftermath of the global financial crisis, it helped coordinate global fiscal stimulus and pressured countries to resist the sort of protectionist measures that had caused the downward spiral of global trade during the 1930s depression. As the crisis diminished, however, so too did G20's relevance.

Failure of global governance

Today, there are many examples of the failure of global governance, even if we confine the list to economic issues. Voting rights and quotas in the International Monetary Fund and the World Bank have not been properly adjusted to reflect the greatly increased importance of the emerging economies, especially China. The World Trade Organisation (WTO) has laboured on the Doha Round for more than a decade, with no result. The World Health Organisation (WHO) still lacks the mandate and resources to do its job effectively, with the Ebola outbreak reminding us that there is no clear process for dealing with health emergencies.

The UN Framework Convention on Climate Change (UNFCCC) seems no closer to global agreement, despite the high level of scientific consensus that the problem becomes more urgent the longer action is delayed. There is no replacement in sight for the Millennium Development Goals (MDG), whose

timeline ends in 2015. The list goes on: effective international tax coordination; sovereign debt restructuring; and a response to the increasing flood of refugees.

Of course G20 cannot fix all these problems. It began with a narrow focus on macro-economic issues, and these are challenging enough, with the recovery from the 2008 crisis still painfully slow. As well, emerging economies complain about a ‘currency war’ stemming from the unconventional monetary policies in advanced economies.

With so little progress on these issues, it is not surprising that narrower - more ad-hoc - approaches are tried, cutting across the multilateral approach and adding further complexity. The Trans-Pacific Partnership (TPP), the ASEAN-based Regional Comprehensive Economic Partnership (RCEP) and the APEC-sponsored Free Trade Area of Asia and the Pacific (FTAAP) illustrate the over-lapping initiatives on regional trade.

Similar overlap is seen in the development banks: as well as the World Bank, there are regional developments banks (such as the Asian Development Bank, ADB), the BRICS New Development Bank, and China’s recent initiative of an Asian Infrastructure Investment Bank, AIIB). In the area of financial safety nets we have the European Stability Mechanism in Europe and the Chiang Mai Initiative Multilateralism in East Asia.

G20 can do better

G20, for all its weaknesses, presents a unique opportunity to do better. Some of its weaknesses just have to be accepted. It is a distraction to argue about the membership (which reflects the specific circumstances when the original G20 group came together). There is no answer to the unsatisfactory compromise between all-inclusive representation (whose weaknesses are demonstrated in the UN and other universal-representation bodies) and effectiveness. G20 is probably already above optimal size and the issue has to be addressed through outreach and linkages with other organisations, rather than by attempting to restructure the membership.

The central fact is that G20 is the meeting which brings together the top world leaders. G7 no longer represents the global power realities. Other leaders’ meetings have sub-global agendas. Sure, the G20 agenda is at the same time too narrow (leaving out quite a few of the issues mentioned above) and too wide (covering issues which are either covered by other global institutions or are largely domestic matters).

It is also true that when the leaders meet, they will talk about whatever is most on their minds at the time. This means that G20 will often be diverted and distracted by the global political issues of the day, such as Ukraine.

Need to address G20’s unwieldy structure

It would, however, be possible to sharpen the structure, although this would trespass on the fiercely-defended territory of existing global agencies. The short-hand for such a structure might see the G20 as being – to borrow a phrase - “one G to rule them all”. The Leaders could see their role as a steering committee, to offer advice and guidance, making their own priorities clear to the whole range of relevant international bodies.

These groupings, in turn, would retain their own independence and governance structures, but they would know that where there was a strong message with a high degree of unanimity coming out of G20, the voting weight behind this message could, ultimately, determine the attitude in their own institution.

This approach does not require a revolution in global governance. It would be enough to start with a few issues (say, the deficient representation in the IMF and World Bank). The prestige of a near-unanimous call from G20 might shift the domestic blockages which at present prevent resolution. Taxation issues provide another specific example where a clear message supporting the OECD’s existing efforts on this topic should be enough to promote progress on the global front. Climate issues seem ripe for this kind of approach, where the detailed issue stays with the specialized body (in this

case the UNFCCC), but the recalcitrants will be pressured by the potential power of a strong G20 message.

G20 is an unwieldy arrangement, without the continuity of a secretariat or permanent chair. It is, however, the best we have to tackle the long list of global governance deficiencies.

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