

**Research Report  
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**Great Finance, Great Cooperation, Great Governance  
First G20 Think Tank Forum  
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**Abstract**

As requested by the organizers of the forum the present report outlines some ideas on three topics; a) opinion on G20; b) its future prospects – especially on the economic and financial field – and c) the role of China in the group. The content of the paper will be presented at the First G20 Think Tank Forum in Renmin University of China in late August, this year.

It will argue that the G20 represents a significant innovation as a mechanism of Global Governance for the 21<sup>st</sup> century, an opinion based on the relative success achieved by the groups' actions taken to coordinate economic measures to stabilize global macroeconomic imbalances, reform the international financial architecture and improve supervision on financial entities and activities, steering the world economy out of the worst financial crisis experienced in the last 8 decades.

In the second section the paper will consider the growing agenda of the G20 and its potential consequences for its present activities as well as its working mechanisms. To conclude, in section III, some consideration will be given to the role of China in the G20 as a bridge between different countries interests based on its recent experience on self-development, vibrantly lived over the last three decades.

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## ***Section I. G20 Opinion***

The emergence of the G20, at the dawn of the new century, was a clever move towards crafting a new equilibrium in the balance of power at world level.

Its very existence is a sort of recognition that the limited boundaries of the G7 or G8 did not provide enough room – at the end of the 20<sup>th</sup> century – for the relevant actors whose opinions, actions and political will were then – and are ever more now – necessary to address properly the world economic and social problems.

Some analysts, especially at the moment of its birth, consider it a mere enlargement of the G7 to secure broader consensus for its initiatives in a changing world. They even talk about some “G7ization” of the world through the new eleven actors invited to join the grouping “within the framework of the Bretton Woods Institutions”. In their view the non-G7 members would remain just passive spectators destined to influence decisions only on the margin.

Others, later on, had it compared with a sort of “Board of Directors” of the world economy due to the powerful position of G20 countries in it, representing around of 90% of the world’s GDP and 80% of its trade, hosting in its countries two thirds of the world’s population.

During the heated discussions in the context of the – ever-going – United Nations reform process some observers seemed to connect the G20 emergence to the world scene, at some point, with the proposed organization of the UN Economic and Social Security Council, considered by many as a mechanism to democratize top economic decisions on world affairs and to increase the importance of economic and social issues on world negotiations mirroring, in a way, the UN Security Council on matters related to peace and security.

Whether those observers were right or not, the G20 represented a much needed breath of new air to the multilateral system and the way countries used to interact on international affairs.

Unlike the typical UN organizations, the G20 embodies a very interesting concept – quite popular among players of the multilateral system at the end to the 20<sup>th</sup> century – I had the opportunity to explore while reforming the United Nations Industrial Development Organization (UNIDO) from 1998 onwards: the idea that nations can work together on important world issues beyond traditional multilateral country groupings (developed/developing, rich and poor, north and south) around sorts of “coalitions of the willing”, assuming responsibilities to cooperate and leading the process of change.

The issues chosen by the G7 members in 1999 to launch “cooperation to lead the process for change” were quite ambitious, defining the G20 in its own words "as a new mechanism... to broaden the dialogue on key economic and financial policy issues among systemically significant economies and to promote cooperation to achieve stable and sustainable world growth that benefits all".

The informal character of its deliberation was meant to facilitate dialogue stimulating open exchange of experiences among its members and to avoid “hard statements” on political positions.

Two clear phases can be identified over the life cycle of the G20 divided by the financial crisis started in 2007-2008 and the decision taken to upgrade the political might of the grouping moving from finance minister’s gatherings to full fledge meetings at the level of Heads of State and Government in 2008.

The central focus of the first meetings was to coordinate policy responses to the crisis, ensuring financial stability through the coordination and adoption of proactive economic measures to enable the world economy to return to the path of growth and employment generation.

In twenty four month between November 2008 and November 2010 (running from the first meeting of G20 Leaders in Washington to its fifth meeting in Toronto) the Heads of State and Government of the G20 met in five opportunities, an average of around one meeting every four months and three weeks. These series of meeting marked the transformation of the G20 from a deliberative body into a decision-making forum, central to design the way out for the world economy from the worst financial crisis in almost a century.

More recently the G20 Leader’s Summits included a number of innovations bringing business and civil society to the fore.

Starting in June 2010 in Toronto, the G20 summits included Business Summits “called B20” where the representatives of the major industrial and trade unions of the G20 countries gather to consider the global economy challenges and propose ideas and measures to be considered at the Heads of State and Government formal gatherings. Business is celebrating its fifth formal meeting at the Russian Summit.

Last year in Los Cabos, México the academia was gathered at a Think Tank Forum that continued its activities in Russia last December. Civil society summits of G20 countries (C20, first held in Russia last month) also started to work towards preparing and forwarding recommendations to the Leaders meetings.

These process involving business, academia and civil society organizations (including Youth and Non G20 Member States and called Extended Dialogue under the Mexican Presidency) is providing a source of much needed legitimacy and transparency to the G20 decision-making process. Gathering together – rather than lobbying in isolation individual governments – provides also an opportunity for trade unions' leaders, NGO's and the active members of the civil society to live up to the challenge of addressing global problems in a participatory fashion.

Far from perfect, the whole process can be regarded as a reasonable innovation to overcome the limitations of a multilateral institutions architectural design for a balance of power defined for the 20<sup>th</sup> Century's world. Such power relations and economic patterns doesn't exist anymore and the G20 tries to fill the gap in a dynamic fashion.

No doubt, for all its shortcomings, the G20 remains the most significant innovation in Global Governance for the 21<sup>st</sup> Century.

## ***Section II. G20 Future Prospects***

As globalization increases and trade and financial flows became more complex – either due to financial innovations or new technological developments – in the context of global macroeconomic imbalances the capacity of one country – or a concentrated group of them – to influence global economic performance by itself, however great it may be, fades away towards a broader group of leaders, better suited to provide certainty and stability to the modern world economy.

The process was well understood by the first promoters of the G20 in the wake of the currency crisis of the late nineties (the Thai's Bath devaluation, the Russian default, the Brazilian devaluation, etc.). They were probably wondering how to improve global governance without creating a world government.

The financial crisis started in 2007-2008 proved very clearly the point already on the table at the birth of the G20: that an increasingly integrated world economy would require the provision of certain Global Public Goods.

In this particular case, the provision of Global Financial Stability – or the lack of it – showed dramatically the critical importance of counting with effective decision-making multilateral mechanisms to supply much-needed leadership in a collective fashion while building consensus across traditional multilateral divides (of the sort mentioned before, advanced vs. emerging; north and south, etc.). It seems that

there is no other proper way available in the short term to secure those critically important global public goods for managing globalization.

There is considerable literature on the provision of Global Public Goods and, in particular, about the way they can be provided, the characteristics of the international architecture to ensure efficiency and their contributions to development and prosperity.

At the national levels the work to provide public goods is obviously done by local governments. At the international level, however, we can only rely in a patchwork of institutions created more than half a century ago.

In that context, the G20 made significant contributions to bring the necessary changes in multilateral financial architecture, securing new power equilibrium to improve the coordination process for policy implementation and making room for broader mandates giving to those institutions charged with supervision and lending renewed and reinforced responsibilities.

Working as a Board of Directors or – as some said – a “Council of Governors” for the global economy, G20 countries could claim some reasonable success in building consensus around a common set of actions to bring the international financial crisis under control, preventing further damage and minimizing its social costs.

It succeeded in getting emerging economies more engaged and committed to redressing problems at the multilateral level, allowing them to play a constructive and important role when differences between the United States and Europe threaten to cause global gridlock.

It also provided a platform to stimulate certain consideration for a renew process of multilateral cooperation, making room for bringing regional agreements into multilateral negotiations.

In the short term the G20 should have to maintained coordination mechanisms and direct its individual and collective efforts to deal with a three prong economic situation: deceleration of the emerging markets economies, deeper than expected EU recession and a milder than forecasted economic recovery in USA.

In such context the advanced economies would be oblige to sustain a macroeconomic setting to support industrial activity while devising, simultaneously, appropriate measures to ensure debt sustainability. In parallel those countries would need to stabilize companies´ balance sheets and restore credit channels.

Although vulnerability risks vary across emerging markets and developing economies, and they are at different stages of its economic cycles, on their side, they would have to balance emphasis on reinvigorating economic activity with policies to contain capital outflows, probably through the implementation of structural reforms and prudent macroeconomic policies.

Both groups of countries – advanced and emerging economies – are facing recent events of increased volatility in financial markets. Should the forecasts for reduced volatility in the coming months (due to monetary stabilization in USA) do not materialize or take longer than expected, emerging economies should be ready to handle further investment portfolio shifts through macroeconomic policies – essentially further monetary easing –, although weaker growth, price effects of monetary depreciation and low real rates will, most probably, reduce the room for that.

In the medium to long term the G20 would have to continue working towards redressing structural macroeconomic imbalances in the world economy and improving multilateral financial architecture in order to improve global growth prospects and create sustainable employment. The “Los Cabos Growth and Jobs Action Plan” seemed to reflect properly those intentions. Such collection of measures reaffirms, and even deepens, the commitments already assumed by the Group at its meeting in Cannes.

The documents outlining the objectives and focus of the Russian chairmanship for 2013 reaffirm those intentions, clustering the group’s goal on growth around three main pillars, namely quality jobs and investment; trust and transparency and effective regulation.

They further signal eight areas of primary focus (its predecessor at the) building on G20’s agenda: a) Framework for strong, sustainable and balanced growth; b) Jobs and employment; c) International financial architecture reform; d) Strengthening financial regulation; e) Energy sustainability; f) Development for all; g) Enhancing multilateral trade and h) Fighting corruption

It is interesting to recall that the Mexican Presidency outlined just 5, including Food Security. Items a), c), d) are the core of G20’s mandate and item f) was already present as priority in previous meetings.

The Russian proposed agenda items – in growing number – are showing both, a strong commitment to work on decision-making for the short term to consolidate the positive results achieved so far by the Group’s members working together the way out of the crisis; and a certain degree of collective ambitions (mix with responsibility) to translate such good interaction into an effective multilateral tool

for strategic planning, to address the world's most substantive challenges in areas like food security (present during Mexican Presidency), energy security, development for all, trade or corruption.

Is very interesting to note the role that the G20 is gradually taken, for example, at the formulation process for the Development Agenda Post 2015, the year when the international community will have to set up new global targets for development aid and global cooperation for social and economic development.

G20's approach seems active, articulated and committed towards concrete contributions in the formulation process of such agenda, facilitating consensus building and promoting constructive interaction. It shows a new dynamic for multilateral interaction when compared with the formulation process of the Millennium Development Goals currently in place. The G20 did not even exist at that time.

This year, in Moscow, G20 labor Ministers' met for the first time, adding an important new dimension for the Group's attention to job creation and the Russian presidency gave considerable room and visibility to Energy Sustainability (as could have been expected due to its own vision on the subject) to become a central topic for its term.

It seems evident that the G20 agenda is getting larger and deeper aiming to give a stronger mandate for its members, built of the Groups' earlier success on steering the course of the international financial crisis towards safer and calmer terrain.

In a way, such attitude could well be a recognition that systemic crisis need holistic solutions looking beyond the proximate causes and acting on the structural, long term topics.

At the same time it places a challenge to the G20 working mechanisms. Those routines and mechanisms seemed to work reasonable well on decision making to confront concrete and immediate problems as those faced at peak of the crisis; it remains to be seen yet how well would they do for strategic planning to address longer term challenges, such those posed by food or energy security, the environment or development for all.

Giving certain vacuum in multilateralism one could find only reasonable for the G20 to fill the room. The real challenge, however, would be to keep the Groups' focus and dynamism avoiding the temptation to address all the problems at the same time; discerning clearly where there is room and consensus for collective action producing significant results in a reasonable period of time and where it is necessary to refrain from overlapping existing multilateral mechanisms without

failing to the responsibility to act bold and decisively to ensure growth and prosperity.

It would be useful to recall that the Group's effectiveness could be regarded as the result of a bottom-up approach on very specific and relatively immediate problems. The Leader's meetings started as recourse for coordination of the many individual policies adopted by its members separately to address the financial crisis and its main purpose was to adopt common positions on issues that were out of the reach of any single country.

It would be difficult to anticipate how well the Group's dynamics would adapt to treat topics of different nature, urgency and complexity than those that gave birth and mandate to the second phase in the life of the G20, from 2008 onwards, through the Heads of State and Governments Summits and how others, non-members would react to it.

In other words, it would be necessary to assess how if and when the G20 is heading towards a new transition from decision making on crisis related issues to strategic planning on substantive long term challenges.

In such context the key question to respond would be whether the G20 will become the central pillar of an effective multilateral system (and its design architect) to strengthen the supply of Global Public Goods or would attempt itself to replace it altogether. Was it the latter the attitude they were forced to assume during the peak of the financial crisis?

### ***Section III. China's role in the G20***

China has chosen to be a responsible contributor to Global Governance and a positive economic force to pull the world economy out of its crisis.

Its leadership, however, while decided to place China in the spot of the responsible leader state that contributes to global solutions, seem clear on the fact that such role should be played without losing sight from China's status as developing country. In a way, China's dual role at the world stage and his participation in the G20 can be mirror in long and lengthy negotiation to gain access to the WTO. Such a gigantic trade partner entered the stage defending its position as a developing nation.



China's role in the G20 then seems to be twofold: a) that of an engine of growth and stabilizer for the world economy, and b) a showcase and a partner for emerging economies and developing nations in defense of the policy space needed for nurturing development processes, strengthening social assets and living conditions; bridging in that way interests and ambitions of different countries, including advanced ones.

Typically, once they made it to leadership positions in the international arena (not to talk of rising to hegemonic status), countries tend to resist any movement towards strengthening multilateral institutions or mechanisms.

China's singular situation, being at the same time, a leading economy and a developing nation could provide the first opportunity to build a stronger multilateral system without the privileges (like veto powers or special majorities) usually reserved for the "winners" of any international order.

For such outcome to materialize China's partners would also have to play a constructive role. There are no few analysts, still trapped in bipolar thinking, predicting a polarization of power between China and US for the years ahead.

Even conceding that such relationship is already complex and will grow in demands over the next years, and admitting the natural rivalry among emerging powers and dominant ones verified over history, such scenario shouldn't be the single way to see the relationship between these two nations.

China's peaceful rise and the determination of its leadership to stay focus on its many social challenges calls on other major international players to refrain from using China alone to counterbalance US influence and political might. That would be a natural temptation, though one to be resisted for the sake of a stronger multilateral system able to secure the provision of some essential Global Public Goods for development and progress.

How well the G20 completes its move, as mentioned, from decision making to strategic planning, and whether strikes the right cord to build an effective Global Governance system for the 21<sup>st</sup> century depends very much on the degree of basic harmony on the interactions between China and US but also on the way China's partners find the manner to build trust and confidence for the long term using properly the exceptional condition of the latter as a leading power while remains in the real of emerging countries.

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