The Department of POLITICS and INTERNATIONAL RELATIONS
UNIVERSITY OF OXFORD

NOVEMBER 2009

The G20 – the perils and opportunities of network governance for developing countries

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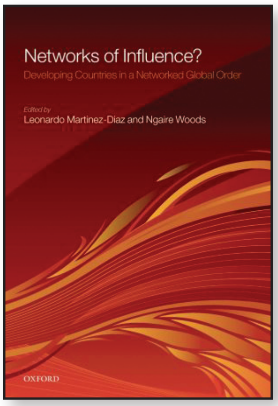
The **G20 Leaders** group burst onto the scene in the wake of the global financial crisis, a network of the world's largest economies coming together to forge a common response. There are some signs that the G20 might become a new global strategic directorate, replacing and even going further than the pre-existing G8 leaders' group. At their first meeting in Washington DC on 14-15 November 2008, the G20 leaders laid out an action plan and tasked specific institutions to take forward elements of the plan. At the London Summit (April 2009) they increased the resources available to the IMF to respond to the crisis. At their third meeting in Pittsburgh (September 2009), they focused on the impact of the crisis on jobs, the real economy, and included climate change and energy policy. They also "designated the G-20 to be the premier forum for our international economic cooperation".



What impact will the G20 Leaders group have on global governance, and on emerging economies and developing countries in particular? In this briefing we draw lessons from our research into eight other networks to examine the likely impact of the G20 on global governance, and on emerging and developing countries in particular. Our research and case studies, published in *Networks of Influence: Developing Countries in a Networked Global Order* (Oxford University Press, 2009), examine how other inter-governmental networks have functioned, what roles they play best, and under what conditions they have strengthened developing country participation in global governance.

What is a network?

A network involves participants in repeated and enduring relations. Its members do not delegate authority to the network to make decisions. Nor is there any designated authority to arbitrate and resolve disputes when conflicts arise.

Unlike formal organizations, in networks there are:

- no formal rules of membership or structure of representation
- no formal decision-making rules
- no authority to make, implement, or enforce rules
- no formal method for resolving disputes

Typically, networks are used for:

- Agenda-setting and consensus-building
- Policy coordination
- Knowledge production and exchange, norm-setting and diffusion

Our study examines eight intergovernmental networks in which developing countries have participated in order to attempt to enhance their capacity or influence over various aspects of development finance.

The G20 and international organizations

Networks of Influence suggests that networks emerge as a response to the perceived failures of formal international organizations—failures to represent their membership, to respond to their needs in a timely way, or to fulfil their mandates effectively. For example, the perceived failures of the IMF in East Asia spurred a series networks for monetary and financial cooperation in that region. The failure of formal international development assistance institutions to respond to changing needs and opportunities in Africa spawned several networks to advocate for Africa's development. The failure of Africa's regional institutions led to the formation of an all-Africa leaders' group (which we call 'Africa's G4'). And the slow and cumbersome nature of formal institutional debate encouraged the formation of the G20 Finance Ministers group.

The G20 Leaders' network was no different. It emerged partly as a result of political pressure on world leaders to 'do something' about the global financial crisis. But it also was a response to the absence of international institutions where international coordination could take place quickly along a broad range of policy instruments, including fiscal and monetary policy, financial regulation, and development financing. The G20—with its unique combination of top-level political authority and decision-making flexibility—proved to be the most effective institutional response to the crisis.

How will the network affect global governance and existing institutions? The G20 Leaders' network will likely have three effects on international organizations. First, it will have a **complementary effect,** generating political support for their activities and exerting pressure to accelerate their initiatives. The G20 is already doing this by providing a flexible, confidential, and non-bureaucratic forum within which the most important economies can exchange views, build consensus, and issue directives to international organizations in a single voice.

However, the G20 is only a network—it has no permanent secretariat, no institutional capacity of its own, and no way to implement policies. It must rely on formal institutions for implementation, but it has only indirect ways to follow up and ensure that its instructions are implemented by international organizations. Also, the G20 is limited by its lack of legitimacy and partial representation.

Second, the G20 Leaders' network will have a **competitive effect.** It is seen by existing institutions as a competitor, wresting authority away from formal bodies such as the International Monetary and Financial Committee of the IMF and the Development Committee of the World Bank. Although ostensibly a network with no formal authority, the G20 has nevertheless made some authoritative decisions, such as the SDR allocation in the IMF and the upgrading

The G20 Finance Ministers - a precursor to the G20 Leaders' Group

The Group of Twenty Finance Ministers and Central Bank Governors (G20 Finance) was established in 1999 as an informal forum for discussion among officials from the G7 countries and 'systemically-significant' developing countries.

Why the new group emerged: Existing institutions and networks were inadequate. After the Asian financial crisis, it became clear that crisis prevention and resolution efforts needed the cooperation and involvement of 'systemically significant' emerging economies. Yet, these countries were excluded from the leading global network of the day, the G7/8. Also, formal institutions such as the Bank for International Settlements and the International Monetary Fund had decision-making bodies which were insufficiently representative, flexible, or independent from a very small group of powerful members.

Successes and failures: As a consensus-building network the G20 Finance Ministers and Central Bank Governors' group had some success. It forged consensus on a framework for debt restructuring (collective action clauses and voluntary standards) and the need for IMF quota reform. On these issues its inclusion of emerging economies (beyond the G7) was crucial. However, once the group exhausted its original mandate of financial crisis prevention and resolution, it found it increasingly difficult to design an agenda that was relevant to all the members, politically acceptable, and yet narrow enough to be tractable. The group continues to meet, but its influence has declined.

Did emerging economies gain influence through the G20? Judging by the contents of the G20 Finance communiqués, not very much. In its early years, the group's formal statements echoed those of the G7 Finance. This may be because the governments of emerging economies preferred to fight policy battles in formal organizations rather than 'taking on' the G7 in the G20 forum. Although they became more active and outspoken as the network matured, this was as the network's influence diminished, and our analysis highlights that where the G7 had strong preferences, their positions prevailed.

Some critics of the G20 Finance argue that it was a creation of the G7 which successfully diluted pressure to reform the IMF. By creating an informal network in which discussions over the international financial architecture could take place without authoritative effect, the G7 was able to forestall any move by non-G7 countries collectively to advocate for a more radical reform.

Replacing existing institutions? Without a bureaucratic machinery of its own, the G20 has always depended on formal international organizations (especially the IMF, the World Bank, and the Bank for International Settlements), as well as other networks (the Financial Stability Forum and the Basel committees), to follow thorough and implement its recommendations. This is unlikely to change in the future.

of the Financial Stability Forum to the Financial Stability Board. At the same time, the G20 Leaders' forum will compete with existing networks, including the G7 finance ministers' network and of course, the G20 Finance network itself.

Finally, the G20 Leaders' network may have a **rebalancing effect** in global governance and international organizations. By bringing emerging economies into discussions of coordination and agenda-setting, the G20 may strengthen the influence of these economies in global governance. However, this will depend on how those new countries use the new forum (or side-forums) to strategize, share information, and coordinate with one another. The G20 may also serve as a catalyst for the reform of formal international organizations, increasing the voice of emerging and developing countries there. For example, the Pittsburgh Summit Communiqué called for a further shift of 5% of voting power from developed to developing and transition economies in the IMF, as well as a similar shift of 3% in the World Bank.

The G20 and emerging economies

The impact of the G20 on emerging economies could go one of two ways. The G20 may provide a forum in which the emerging economies can enjoy more power and influence in global agenda-setting. Alternatively, it might simply be an extended version of the G7, run by a small group of industrialized countries who use it to build greater support for their preferences. This happened in the early years of the G20 Finance group, when there was a significant degree of G7 'capture' of the agenda.

We think that the first scenario is more likely for three reasons. First, as our study on the G20 Finance network shows, emerging economies have used the last decade of G20 summits to learn how to use a forum of this nature to their advantage. Over time, emerging economies have adapted to the rhythm of G20 summitry and have built up specialized capacity in their ministries of finance and central banks to deal with G20 issues. They have also grown more confident and assertive, using the network to put on the agenda issues of interest to them, including standards for sovereign debt restructuring and reform of the Bretton Woods institutions. In short, ten years of practice in the G20 Finance network means that the emerging economies have come into the G20 Leaders' network much better prepared for global summitry than they were in 1999.

The second factor is China. China has been taking G20 Leaders' summits very seriously, mobilizing large teams, coordinating policy positions among its ministries, and undertaking considerable advance preparation. Indeed, aside from the United States, China may have most resource-intensive approach to G20 summits. This suggests that the 'G2' will be operating at the heart of the network, and that US-China negotiations on key issues will be a central factor shaping dynamics and negotiations with other members.

Finally, there is another new element in the mix that was not present when the G20 Finance network started opeating—the BRICs summits. BRIC leaders (Brazil, Russia, India and China) have started meeting and coordinating positions in a summit of their own. For example, they issued their own communiqué prior to the London G20 Finance Ministers meeting in March 2009. In sum, with more informed, prepared, and assertive emerging economies—and with the G2 and BRICs groupings operating on the side—it is unlikely that the G20 Leaders' network will be a vehicle for G7 policy preferences, as was the early G20 Finance network.

The G20 and developing countries

Developing countries, on the other hand, are unlikely to find their interests advanced by the G20 Leaders' network. They may find themselves further marginalized and excluded from the "top table" where decisions are being made. Some African leaders have noted that the G8 was so exclusive that they ended up being invited to give the G8 some legitimacy. But in the G20, many developing countries do not feel represented. They fear that G20 membership simply strengthens the claims of countries such as Argentina, Brazil, India, Indonesia, South Africa, Saudi Arabia, and China, to play the dominant role in their region, further reinforcing their exclusion. In practice, the onus of representing smaller poorer countries has fallen on the UN Secretary-General, the President of the World Bank, and the Managing-Director of the IMF, who participate in the G20 Leaders' meetings.

The emerging economies are unlikely to be strong advocates for the interests of the world's small and poor countries. The emerging economies have been focusing on issue of special concern to them, such as increasing their voice and participation in the IMF and the World Bank. While developing countries would also benefit in theory, by far the biggest beneficiaries will be emerging economies. Other emerging economies, and in particular the European area "transition economies" have had their immediate needs and interests well represented by their European neighbours in the G20 and the international financial institutions. This is reflected in the fact that some 77.4% of IMF lending (as of 2 October 2009) has been committed to European countries while only some 2.4% has been committed to African countries.[1]

So far, the G20 has not delivered on promises to assist developing countries. The financial crisis which began in 2008 has created a "development emergency" which spurred G20 leaders in April 2009 to state that "We recognise that the current crisis has a disproportionate impact on the vulnerable in the poorest countries and recognise our collective responsibility to mitigate the social impact of the crisis to minimise long-lasting damage to global potential." But the evidence to date suggests disappointing actions in terms of finance and instruments to ensure that people in the poorest countries of the world do not suffer disproportionately from the financial crisis, and that their longer-term chances are not blighted.[2] Broad rhetoric has not been matched with concrete actions.

These figures are documented in Ngaire Woods, "Global Governance after the Financial Crisis: A new multilateralism or the last gasp of the great powers?" *Global Policy* Volume 1, Issue 1, 2009.
The gaps are documented in Ngaire Woods, "The international response to the global crisis and the reform of the international financial and aid architecture", Paper for the Directorate General for External Policies, European Parliament at http://www.europarl.europa.eu/document/activities/cont/200909/20090917ATT60857/20090917ATT60857EN.pdf).

What should developing and emerging economies do?

Our study highlights that emerging and developing countries will need to strengthen networks among themselves to lobby the G20, to coordinate their policy-positions, and to build up their capacity in areas in which the G20 pronounces.

1) Strengthen their own intra-G20 networks

Policy coordination within the G20 is crucial. The leaders and finance officials of emerging economies should form a caucus of their own within the G20 to coordinate in a counter-balancing way. In our study we found that even relatively weak countries could gain from quiet informal coordination where countries in the network share a particular opposition to a dominant view: such as the Finance Ministers of countries targeted in the High Indebted Poor Country Initiative; and a small group of four African leaders who coordinated a shared vision for Africa's new relationship with donors.

The **agenda-setting** and **consensus-building** activities of the G20 are important. However, to fully use the G20's agenda-setting power, developing countries may need to form parallel networks. For example, when the G8 seized debt relief and the idea of a new compact with Africa, it was lobbied not just by NGOs and the media, but also by (and through) other networks such as the Commission for Africa , and a small network of African leaders (the NEPAD G4 described in our book). These parallel networks played key roles in shifting the agenda of the G8.

2) Build their own networks to increase capacity

Capacity-building and knowledge creation are stated objectives of many intergovernmental networks, and international institutions. Yet often in both informal networks and formal organizations, powerful states have simply sought to impose their own ready-made solutions in the name of capacity-building or knowledge creation.

Our cases suggest that capacity-building and knowledge creation may work best in networks exclusively comprising emerging or developing countries, such as in East Asia's finance networks. Key to their success has been shared purposes pursued within a network in which there is no one dominating country. A shared leadership (Japan and China) can be mutually restraining and permit smaller states to play more significant roles. Equally important to success is a gradual building of trust and cooperation which can lead to deeper shared purposes and the building of an institutional capacity to back them.

The lessons for developing and emerging economies in the G20 are that to negotiate with the G20 and those international institutions to which the G20 has tasked specific actions takes knowledge, information, and capacity which developing and emerging economies will have to build up. Intergovernmental networks can play a key role in this, and must be carefully structured and resourced if they are to succeed.

The Global Economic Governance Programme

The Global Economic Governance Programme was established by Professor Ngaire Woods at University College in 2003 to foster research and debate into how global markets and institutions can better serve the needs of people in developing countries. The three core objectives of the programme are:

- to conduct and foster research into international organizations and markets as well as new public-private governance regimes
- to create and maintain a network of scholars and policy-makers working on these issues
- to influence debate and policy in both the public and the private sector in developed and developing countries

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