

The G-20 and the Power Club Approach to Global Governance: The Price of Efficiency

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One proposal to address today's global governance challenges is the so-called power club or global executive committee approach, examples of which include the G-8 and the G-20. There is also a plethora of other less powerful 'G' groupings, including the G-2 (the US and China), the G-77 (group of developing countries in the United Nations), the G-24 (group of developing countries in the Bretton Woods institutions) and the G-15 (group of developing countries along lines similar to those of the G-8). Many of these groups emerged during the Cold War, but it seems that the exacerbation of global problems in the aftermath of the Cold War gave renewed stimulus to this mode of governance, both in real world politics and in academic literature. This is particularly true for the last three years, with the prominent example of the transformation of the G-8 to the G-20 after the proposal of the Leading 20 (L-20) of Paul Martin, former Prime Minister of Canada, and other similar proposals.

Ulrich Schneckener, professor in Osnabruck University in Germany, defines global governance clubs as groupings of states, at times with the involvement of multilateral organizations, exercising global governance functions in one or more fields beyond the immediate circles of their members.¹ Their areas of work could include exchanging infor-

mation and expertise, coordinating positions, mobilizing resources, setting norms and standards, carrying out concrete actions and setting up political frameworks or regimes to deal with specific problems. And they represent a middle path between two typical forms of multilateralism from the institutional perspective. One is formal multilateralism, represented by the United Nations (UN), the Bretton Woods institutions and regional organizations, such as the European Union (EU). And the other is informal multilateralism, represented by groups of like-minded players pursuing particular interests, such as the so-called "coalitions of the willing" and international contact groups. These clubs could be forums with clear or loose frameworks, albeit not *ad hoc* as the so-called coalitions of the willing and other similar forums. Some clubs have clear global governance missions and purport to act for the global common good, though their membership schemes could be limited and selective. But not every power club actually exercises or even seeks to exercise global governance functions. In contrast to the G-20, which has a clear global governance agenda, there are various alliances and cartels that publicly seek to advance the interests of their members, such as the NATO and the Organization of the Petroleum Exporting Countries (OPEC).

A large part of the debate on global power clubs or executive committees is focused on the defense and/or justification of the transitioning from the G-8 to the G-20. It highlights

¹ Ulrich Schneckener, "The Opportunities and Limits of Global Governance by Clubs" (*SWP Comments*, No. 22, September 2009).



the three most often cited criticisms of the G-8: It lacks legitimacy because of limited, exclusive membership, it is ineffective in implementing agreements and it lacks the power needed to solve global problems. Notably, these problems persisted in spite of the proliferation of G-8 plus formats to include dialogues with the G-5 (China, India, Brazil, Mexico and South Africa) and selected African countries and the African Union (AU). In response, several alternative proposals had been made, including enlarging the G-8 to G-13, G-14 or G-16; replacing the G-8 with the G-20 or some other similar forum or even resorting to smaller clubs such as the G-2 or G-3 (G-2 plus the EU). In particular, Paul Martin, former Prime Minister of Canada, fueled active debate when he advocated a move from the G-8 to what he termed the L-20.² He argued that in spite of positive contributions by the G-8, the group has failed to develop critically needed global public policy for the 21st century. Consequently, a summit meeting of the 20 most important countries in the world, along the lines of the then G-20 of ministers of finance, could make a significant breakthrough. At the time, the L-20 was envisaged as a forum that could build upon the strengths of informality and flexibility of the G-8, while drawing on the experience of the UN. Henceforth, it took around a year before the proposal was put to practice in November 2008 at the behest of the United States (US).

There is no doubt that the global financial crisis that started in the US in 2007 gave strong impetus to preceding appeals for better regulation and surveillance of financial markets. In addition, the crisis exposed imbalances in the structures of global economic governance and propelled the grooming of the G-20 to replace the G-8 as a hub of global economic policy setting.³ One notable difference between these two forums is the expanded membership of the G-20, where Brazil, Russia, India, China and South Africa (BRICS) are members. Once in action, the reformed G-20 succeeded in projecting a united front facing the crisis, which reassured markets.⁴ It also made modest progress in dealing with older problems, including the regulation of financial markets and reform of the Bretton Woods institutions, and strives in order to reinvigorate world trade and reach consensus on critical environmental challenges.

Unfortunately, the renovated G-20 continues to face a number of challenges. First, past experience indicates that economic decision-making is more of a national subject than an international one.⁵ Thus, the move from the G-8 to the G-20 is no guarantee that economic decision-making will change course in the future, especially given the fact that the two forums are by and large loose, informal ones.

Second, the G-20 has thus far fallen short of addressing the root causes behind recurring financial and economic crises, including the too-big-to-fail corporations, global structural imbalances and beggar-thy-neighbor economic policies.⁶ Notably, some G-20 members opposed calls for deeper reforms, arguing that what is needed is better implementation of existing regulations, not new ones. Third, although the G-20 marked a positive shift in international economic cooperation, some excluded countries continue to challenge its legitimacy and demand admission. Of course, rich economies carry special responsibility in the international financial system, but emerging economies have special interest in an adequately regulated system. Hence, the voices of the latter economies should be heeded. Fourth, an expanded membership has made reaching consensus all the more difficult. Fifth, like the G-8, the G-20 lacks a clear enforcement mechanism to ensure that agreed policies are implemented. Sixth, the G-20's momentum and rising prestige has caused resentment at the UN, because of the resulting marginalization of the organization in international economic decision-making.⁷ These are voices of discontent that should be taken seriously, in view of the long experience, universality and legitimacy vested in the UN.

In particular, it seems that the biggest challenge facing the G-20 is global rebalancing, especially given the current state of turmoil in the world economy.⁸ Of course, rebalancing between the US and China is at the core in this regard. At the time that market demand in the United States is slumping, fast-growing economies in Asia and Latin America are required to reduce their reliance on export-led growth and stimulate domestic demand to sustain their growth. The EU also needs to move forward with structural reforms in the euro zone. The G-20 should address this challenge squarely in order to ensure balanced, robust and sustainable growth in the world economy.⁹ In addition, the G-20 should work in earnest to conclude the Doha Round of trade negotiations. Commitments to combating protectionist measures are important but not sufficient to reinvigorate world trade, especially in view of anecdotal evidence that protectionism is indeed on the rise. Instead, finalizing the Doha Round should be at the forefront of the agenda of the group, for it not only provides a strong cushion against protectionist trends, but also constitutes an important step toward sustainable recovery from the current crisis and holds more fruits for

2 Paul Martin, "Breaking Deadlocks in Global Governance: The L-20 Proposal" (*Global Governance*, Vol. 13, No. 3, July-September 2007), pp. 301-305.

3 Heribert Dieter, "Pittsburgh: A Fresh Start or Cosmetic Tinkering?" (*SWP Comments*, No. 23, September 2009).

4 Brad Setser, "The Shape of Things to Come" (*Finance and Development*, Vol. 46, No.1, March 2009).

5 *Ibid.*

6 See Heribert Dieter, "Pittsburgh".

7 Bruce Jones, "Making Multilateralism Work: How the G-20 Can Help the United Nations" (*Stanley Foundation*, Policy Analysis Brief, April 2010).

8 Wendy Dobson, "Rebalancing Global Growth: The G-20's Difficult Challenge" (*The German Marshall Fund of the United States*, "G-20 in the Global Economy" initiative, June 2010).

9 Paul Blustein, Colin Bradford, Homi Kharas, Johannes Linn, Domenico Lombardi, Eswar Prasad and Ezra Suruma, "Recovery or Relapse: The Role of the G-20 in the Global Economy" (*The Brookings Institution*, "Global Economy and Development" program, June 2010).



developing countries than the declining official development assistance.

However, part of the debate on club governance is generic in nature and focused on setting a general approach for addressing global governance issues. Arguments of this kind are basically meant to advocate creating some kind of core groups for all-encompassing global governance, not one limited to the economic domain. The main rationale behind these arguments is that current multilateral institutions lack representativeness and effectiveness, while proposals to address the deep flaws in these institutions are at best elusive. In other words, current multilateral institutions do not, and are not expected to, meet the required standards of effective representativeness, which deprives the world of a system capable of addressing the challenges ahead. For instance, it is argued that proposals to reform and enlarge the UN Security Council are unlikely to see daylight.¹⁰ Moreover, structural problems in the Bretton Woods institutions, and most particularly the *de facto* veto of the US in these institutions, could at best be marginally mended. Hence, it is incumbent to set up a concert of great powers, with representation limited to members who possess the economic and military power needed to carry out concrete measures. Typical candidates proposed for such a concert include the US, the EU and Japan on the side of traditional powers and China, India and Russia on the side of rising or re-emerging powers.

Obviously, the latest shifts in the balance of power give feasibility for the idea of power clubs, on the basis that with the relative decline of US power over the last few years, the United States needs more help from others. In spite of their obvious differences, it is hoped that an agglomeration of great powers, traditional and rising, could be drawn similar to the concerts of power in Europe in the 19th century. Indeed, a new concert of great powers could be in the interest of those powers and a good recipe for effective global governance, given the current international political environment.¹¹ In contrast, resorting to unilateral policies would be unproductive and could bring more trouble to the world. It is also suggested that a conflict-limiting concert of great powers under US leadership is necessary to maintain order and forestall the evolution of a complex multipolar world order that current multilateral channels are ill-equipped to manage. In general, one of the high-priority tasks for would-be concerts of powers is devising cooperation mechanisms capable of combating transnational groups that threaten established order, with particular focus on terrorist networks.¹²

10 Richard Rosecrance, "A Grand Coalition and International Governance", in Alan S. Alexandroff (ed.), *Can the World Be Governed? Possibilities for Effective Multilateralism* (Wilfrid Laurier University Press, 2008).

11 *Ibid.*

12 Coral Bell, "Power and World Order", in Edward Newman, Ramesh Thakur and John Tirman (eds.), *Multilateralism under Challenge? Power, International Order, and Structural Change* (United Nations University Press, 2006).

The advantages and disadvantages of club governance could be evaluated along the scales of legitimacy, effectiveness, coherence and resource mobilization.¹³ Legitimacy is usually measured against criteria such as participation, fairness, transparency and compliance. On all these fronts, club governance loses to formal governance, as epitomized by the UN, the Bretton Woods institutions and the World Trade Organization (WTO). Effectiveness and problem-solving capacity mostly depend on the collective power of members, the degree of internal coherence and the surrounding environment. Here the comparison is reversed, as formal governance forums are generally more cumbersome than power clubs, where in the latter the focus is kept on the most capable members. Coherence is generally enhanced when the like-mindedness of the members is maintained and decisions are free of contradictions. Here again, the rule is that the larger the forum and the wider the agenda, the more are the complications of consensus building, which often dilutes the essence of decisions. Resource mobilization refers to raising the resources – financial, human and technical – needed to implement decisions. Although formal multilateral forums have more resources, selective clubs could mobilize great, faster resources. In addition to the usual resourcefulness of typical members of power clubs, this is also due to the advantage of having more control over financial contributions, which makes members more willing to contribute in the first place.

In light of the above analysis, formal multilateral structures appear to have a clear advantage when it comes to legitimacy, while power clubs have clear advantages with respect to effectiveness, coherence and resource mobilization. However, it is imprecise to view these four scales as independent of each other, for legitimacy could be both a subject and source of effectiveness, while effectiveness, coherence and resource mobilization are all closely intertwined. In fact, this is all about trade-offs between formality/legitimacy on one side and informality/effectiveness on the other side. Nonetheless, it should be noted, formal multilateral institutions could lose legitimacy over time, while power clubs could fall short of meeting aspirations. Besides, legitimacy and effectiveness should not be mutually exclusive, and there could be – and should be – approaches to avail both of them. Ultimately, the most important criteria of success of any multilateral forum is the willingness of its members to agree on common actions and their ability to implement them on the ground.

There is no doubt that great powers could gain more from cooperation than from confrontation and that the whole world could be better off with great powers taking a cooperative approach toward global challenges rather than otherwise. For instance, great powers share common interests in world peace, economic prosperity, and

13 See Ulrich Schneekener, "The Opportunities and Limits of Global Governance by Clubs".



combating terrorism. Nonetheless, legitimate questions arise as to whether members of power clubs would act for the global good, even when this contradicts with their own national interests, and whether there are reliable guarantees to this effect. By contrast, while the UN is a shackled institution, it remains the best forum available to ensure world common good. In addition, the power club approach risks the proliferation of forums and fragmentation of the multilateral system. Notably, a given power club might be fit to address a specific problem, but its membership might not be inclusive enough to address other problems. As a result, we have seen a reproduction of power clubs and informal groupings over the last few years. Furthermore, setting up new forums to address specific problems may guarantee better effectiveness, but it will surely impose some coordination costs, which could be avoided in the case of established forums. Over and above, one of the most detrimental effects of the proliferation of power clubs is further dilution and marginalization of existing formal multilateral institutions, which might render these institutions irrelevant. In response, a tug of war seems underway between the UN and the G-20, with countries outside the G-20 raising havoc and warning of further fragmentation in world politics. In addition, the power club approach overemphasizes recent shifts in power balances, while ignoring two other important variables. One is the proliferation of actors beyond the nation-state system, whether at international or domestic levels. It is not only state-power shifts that matter, but also power diffusion from states to non-state actors. Indeed, this is one prime difference between the world in the 19th century and today. And this is why it has become hard to imagine how states alone, even if acting in concert, could address current global problems. The

second variable is the complexity of global challenges and opportunities, where forces of globalization transcend state boundaries and erode the conventional notion of state sovereignty. As a result, the challenges and opportunities of globalization have become transnational in nature, and as such require transnational approaches. This is a reality that faces both state and non-state actors and that requires creative adaptation beyond the inherent shortsightedness of power clubs.

Conclusion

Global governance by clubs has clear advantages with respect to efficiency, both in terms of time and resources. On the other hand, this form of global governance has a legitimacy deficit, at least in strict, formal terms. No doubt, effectiveness is the most practical measure of success or failure. In this regard, the experiences of the G-20 and similar clubs present a mixed picture, with better results in dealing with immediate pressures than with deep-rooted problems. It should also be noted, notwithstanding the problems of formal multilateralism, legitimacy is a fundamental source of effectiveness. At least, legitimacy means common ownership and readiness to cooperate, which are lacking in exclusive power clubs. To take this analysis a step further, considering the implications of governance by clubs on formal, multilateral institutions, it is evident that the proliferation of these clubs is marginalizing pre-existing institutions and slowly rendering them irrelevant. Perhaps more importantly, club governance seems a desperate attempt to sail against the wind. It is cumbersome to conceive how a 19th century solution could be used to address 21st century problems.

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