



04
Number

CENTRO
DE INVESTIGACIÓN
INTERNACIONAL

ORDER, CONTAINMENT, AND CHANGE: THE GROUP OF TWENTY

NOVEMBER 2019

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Order, Containment, and Change: The Group of Twenty

In the Twenty First Century, two major structures shape the relations between states: the political structure, mainly determined by the distribution of power in the international system and by the states' quest for supremacy and survival; and the economic structure, based on the capitalist production and exchange system, marked by the interdependence between national economies and competition for markets and investments. Both structures are interrelated; events taking place in one of them have repercussions on the others. This situation is reflected at the Group of Twenty (G20),¹ composed by the world's largest economies, where the line between politics and economy vanishes.

The purpose of this paper is to study the interactions at the G20 summits and to understand why heterogeneous actors coordinate their efforts to shape the international economic system and which are the forces affecting the global order restructuring. This text is divided into three main parts: the first one addresses the G20 as a mechanism of economic coordination; the second one analyzes the struggles impregnating these high

level meetings; and the last one presents those topics, beyond economics, that are discussed during these summits once the crises are over.

The argument goes as follows: at times of economic instability, the preponderant powers, tied by their interdependent relations, gather to coordinate their commercial, financial, and development policies to avoid a catastrophe. The threat to the structure that benefits these countries encourages them to engage for the collective reshape of the international economic order. Nonetheless, such diplomatic processes are not exempt from rivalries; the struggle for power between great powers and the competition for status between emerging countries leave their mark in the policies that are adopted during the G20 summits.

Saving the System, Containing the Crises

The global economy is 1) predominantly capitalist, 2) states compete against each other for relative gains —*i.e.* the utility of their transactions depends on the ones obtained by the other competitors—,² 3) in an environment of interdepen-

[1] G20's members are Argentina, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, and the United States.

[2] Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton and Oxford: Princeton University Press, 2001), 18, 19, 40, and 78 to 80.



dence, where the actions of one country have an impact on the other participants of the system.³ In times of economic stability, states seek to advance their interests through commercial agreements and alliances with their competitors, tariff strategies, or economic policies that are attractive to investment. When the stability of the world economic system is under threat, competing states seek to cooperate and coordinate their economic actions in order to diminish the risk of a shared debacle.

Economic crises are times of uncertainty. In the advent of an adverse scenario, economic powers come together to reshape the economic world order. In the early 1970's, two events

unleashed a time of world economic instability. In 1971, Richard Nixon's administration, contrary to the Bretton Woods agreements, detached the United States from the gold standard, plummeting the value of the US dollar against precious metals and, therefore, plunging the value of the oil contracts held by the members of the Organization of the Petroleum Exporting Countries (OPEC). Secondly, in 1973, as a response to the support granted by the United States and its European allies to Israel during the Yom Kippur War, twelve country members of OPEC, joined by Tunisia, Egypt, and Syria, decided to halt oil exports to those states that had backed the Israeli war efforts. Thus, that year, the American Secretary of the Treasury, George Schultz, convened a meeting with the Ministers of Finance of France, West Germany, and the United Kingdom in Washington D.C. to address the economic

[3] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, 4^o ed. (New York: Longman, 2012), 7.



catastrophe permeating western economies. Two years later, in 1975, amid persisting economic instability, the French President Giscard d'Estaing summoned the leaders of the six most powerful economies of the world to form the "Group of Six" (G6). The next year, Canada joined the annual gatherings, establishing the "G7."

During the 1990s, those states competing for markets faced a common threat that encouraged them to coordinate their actions and, thus, restore the stability of the world economy. The end of the Cold War, the oil shock produced by the Iraqi invasion of Kuwait in August 1990, and the growing influence of restrictive monetary and expenditure economic policy models resulted in a global economic recession. As the number of preponderant participants in the international economic system had increased, it was necessary to include the new emerging powers. Thus, during those years, the members of the G7 invited the Ministers of Finance of the twenty most economically relevant countries in the world.⁴ These meetings continued even after the crisis was over with the objectives of monitoring the international

[4] The combined Gross Domestic Product (GDP) of the G20 countries comprises 85% of the world's GDP (*World Population Review*, "G20 Countries 2019," <http://worldpopulationreview.com/countries/g20-countries/>).

economy and maintain financial and commercial coordination between the twenty powers.

In 2008, the international economic system faced its biggest threat since 1930. The collapse of the American financial system had an impact on every country of the world, dragging economic relations into the "Great Recession." As a response to this critical situation, the G20 evolved from a group of Ministers of Finance to a group of Heads of State and Government. From 2008 to 2010, these twenty economic powers reached agreements to implement expansive tax and monetary policies in their countries to reverse the recessive cycle affecting the economic system.⁵ Mexico was the first country of the G20 to implement the Basel III reforms that were negotiated during the years of the Great Recession to assure bank liquidity in critical situations and to regulate the financial system and international capital flows.⁶ Additionally, between 2006 and 2018, the Mexico implemented reforms that sought to comply with the commitments adopted at the G20 meetings.⁷

[5] In 2009, these countries agreed to triple the reserves of the International Monetary Fund to 750 billion us dollars and in June, by Mexico's initiative, at the Los Cabos Summit, when the European sovereign debt worsened, these same countries decided to contribute with over 430 billion additional us dollars in order to rescue the Euro Zone. Also, the G20 members formulated legal local and international reforms to strengthen investment protection and bank regulations. Even those countries among the Twenty that had not requested their affiliation to key international financial institutions before—like the Basel Committee on Banking Supervision, the Financial Stability Forum, and the Committee on the Global Financial System—successfully entered them.

[6] Lourdes Aranda, "México y el G20," *Foreign Affairs Latinoamérica*, 12 (2012) 2, 6.

[7] Restructuring the tax system, establishing measures to promote the credit available for small and medium

States with political and economic rivalries —like China, the United States, India, and Russia—, tied by the capitalist economic structure of the 21st century, managed to coordinate their actions to maintain the stability of the world economic system.⁸

In sum, the meetings of the G7 and G20 are useful to address economic crises and to promote mechanisms for economic recovery and growth. They also serve as a monitoring body of the international economy, as they seek to prevent further crises. These gatherings, attended by representatives of the world's largest economies, maintain “the system of formal and informal rules regulating the global economy and the set of authority relations that promulgates, coordinate, monitor, or impose these standards.”⁹

enterprises, decreasing barriers to imports and foreign investments—specifically at the energy and telecommunications sectors—, loosening labor law for hiring personnel, establishing an economic competition regulatory body, and increasing investment in infrastructure projects, those were the actions taken by the Mexican government in order to contribute to the recovery of global economy (OCDE, “OECD Technical Report on Progress on Structural Reform under the G20 ESRA,” April 2017, 1 to 8 and 38).

[8] It is relevant to note that the implementation of the resolutions agreed on this kind of meetings is not mandatory for the participants; nonetheless, in times of critical economic circumstances, the G20 countries have voluntarily adopted those measures deemed necessary by the group in order to contain disturbances in international economic stability (Daniel Drezner, “The System Worked: Global Economic Governance during the Great Recession,” *World Politics* 66, no. 1 (January 2014), 135 to 145; Stephen Krasner y Mo Jongryn, “Regime Building in the Competitive World Order: The Case of the G20,” in Mo Jongryn (ed.), *Middle Powers and G20 Governance* (New York: Palgrave, 2012), 85 to 95; Paul Cammack, “The G20, the Crisis, and the Rise of Global Developmental Liberalism,” *Third World Quarterly*, 33: 1, 10).

[9] D. Drezner, quoted article, 123.

Shaping the System While Solving the Crisis

In the G20 summits, political and economic competition does not disappear. When the G20 or the G7 (G8, until Russia's expulsion from the group after the annexation of Crimea) gather in times of crisis, the struggle for power is present —despite the agreements that are reached. Assistants to G20 summits are characteristically heterogeneous. Broad differences regarding capabilities, geopolitical rivalries —for example, the continuous conflictive relations between Russia, the United States, and some members of the European Union, the situation of latent conflict between China and India, or the growing rivalry between the American and the Chinese governments—, and constant economic competition make the G20 an arena of coordination and confrontation.

According to Drezner, there are four possible ways to exercise economic power in the world economy. A country's capability to endure structural economic pressures is called “autonomous power”; the possibility to shape the structures of world capitalism receives the name of “hegemonic power”; the ability to evade the economic influence of others is denominated “autarchic power”; and, finally, the ability to compel other states to alter their policies by means of economic tactics is named “market power”.¹⁰ In the process of decision-making between G20 members during economic crises, despite their common goal of maintaining the stability of the

[10] D. Drezner, “Acerca del poder económico en el siglo XXI”, Virginia Aguirre, trans., *Revista Mexicana de Política Exterior* 94, 75 and 76.



global capitalist system of trade and investments, the most powerful participants compete between them to shape the global economic governance according to their interests.

After the 2008 crisis, the main international financial institutions underwent changes never seen since their creation in Bretton Woods in 1944. On the one hand, China's voting capabilities in the World Bank were reformed and became the third country with the largest number of votes. Brazil, India, and Russia also successfully pressed for changes inside the Bank; their votes were increased, positioning them among the ten countries with the largest voting power. On the other hand, in 2011, the quotas of the members of the International Monetary Fund changed due to emerging powers' demands, benefiting China, Russia, and India. In the meantime, these countries have been able to successfully endure the pressure of the G7 aimed at changing some aspects of their economic policies, which are fundamental for their national development

and commercial exchange strategies. Accusations of exchange rate manipulation and protectionist measures made against China, Russia and India have not resulted in notorious changes in their economic policies; their autonomous strength and autarchic capability have allowed them to maintain their economic development strategies. The American tactics to exert market power to compel these emerging economies to shift their economic policies have not had effective results^[11], nor the possible consequences of the formation financial and commercial alliances to counterbalance them have posed credible threats to these countries.^[12] However, these

[11] Andrew F. Cooper and Asif B. Farooq, "The Role of China and India in the G20 and BRICS: Commonalities or Competitive Behaviour?" *Journal of Current Chinese Affairs*, 45, 3, 88.

[12] A. F. Cooper and Colin I. Bradford, Jr., "The G20 and the Post-Crisis Economic Order," CIGI G20 Papers, no. 3, June 2010, 5.



emerging powers are not the only ones to follow their national interests over the Group's interests; the United States has also used its autarchic power to confront the demands of members of the G20 to strengthen its exchange and tax policies to increase the value of the US dollar.

Thus, the coordination between the most powerful G20 countries is not exempt from frictions. When reordering the parameters of global economic governance, the economic powers aim to establish institutional frameworks that are beneficial to them during the crisis and afterwards. Hence, a question arises: What role do the G20 middle powers play in this mechanism established by the most powerful actors?

If we read opinion columns, it would seem, as argued by Günther Maihold and Zirahuén Villamar, that the "emerging countries" try to participate in these meetings to shape the existing international system towards a more favorable arrangement to them. However, statements of this kind disregard a fundamental feature of these states: they don't have the same economic and political capabilities. For instance, the hegemonic and market power that China and India have gained allows them to advance their agenda and challenge the order previously established by the G7 members. In contrast, Mexico, Argentina, Brazil, Turkey, South Africa, and Indonesia face

more restrained scenarios. Besides, it is not possible to analyze these countries monolithically, as they have different interests, each has specific commitments with other powers, there are relevant divisions between them, and, finally, their capabilities for affecting the international political economy diverge largely from one another.¹³

If the influence of emerging powers in the restructuring of the international economic order is secondary, what is the interest of G20 members like Argentina, Australia, Korea, Brazil, and Mexico to continue participating in these summits? Why do countries that are not part of the G20 seek affiliation to the group? In the first place, the relevance of these swing middle powers is that, although at first they were the ones requesting to be part of the group because the decisions of the G7 affected their policies, nowadays —by virtue of their weight in the globalized international system— the changes they implement on their commercial and development policies have consequences for the world economy. Also, due to their economic and political influence, the policies agreed at the G20 can be implemented in their regions by organizing

[13] See: "El G20 y los países emergentes", *Foro Internacional*, 56 (1), 165 to 211.



other summits and altering how commercial and financial transactions are conducted regionally.

In the second place, being part of the G20 grants middle powers the opportunity to raise relevant issues that great powers would otherwise ignore. After all, who would like to be absent when the parameters ruling the world economy, at least until the moment of the next period of global instability, are decided? By presenting themselves as representatives of the developing countries at the concert of the powerful states, middle powers like Brazil, Australia, South Africa, Indonesia, and Mexico aim to strengthen their image of leadership and influence.

Issues like reducing trade barriers between developed and developing nations, concerns about food security in countries that are vulnerable to natural disasters, and proposals for actions to combat climate change have received greater attention at the G20, due to the agency of the middle powers. South Korea, at the 2010 Seoul Summit, presented a set of parameters denominated the “Seoul Development Consensus for Shared Growth”, in which the subscribing countries denounced the orthodox measures of privatization and deregulation established by the Washington Consensus during the 1980s, and stated that the economic formulas for economic growth were inefficient instruments for development.¹⁴ Mexico,

during its presidency of the Group in 2012, successfully expanded the number of ministerial gatherings at the G20 and organized for the first time with the support of the leaders of emerging countries and despite the G7 members’ reluctance, meetings between the ministers of foreign affairs, tourism, and commerce. Furthermore, Mexico promoted financial inclusion, sustainable development, and food security as priority issues, in line with its national interests. These topics have gained traction at the G20 since the adoption of the 2030 Agenda for Sustainable Development. This was an attempt by the Mexican government to strengthen the country’s international image and to present itself as a state capable of representing relevant issues in the name of the developing world.¹⁵

In the third place, the policies adopted at the G20 regarding the aforementioned issues can unleash favorable effects to the interests of emerging middle powers and the developing world at other international fora, such as the United Nations and the World Trade Organization. International organizations like the African Union and the Association of Southeast Asian Nations participate at the Group of Twenty

[14] Mark Fried, “The G20 Summit: IMF Reform and the End of the Washington Consensus,” *NACLA*, NYU Center for Latin

American and Caribbean Studies, <https://nacla.org/news/g20-summit-imf-reform-and-end-washington-consensus>, accessed in October 2019.

[15] Daniel Antón Aguilar García, “La presidencia mexicana del G20 en una nuez,” *Revista Mexicana de Política Exterior*, no. 105, September-December, 2015, 71, 72 and 79 to 81.

summits. Hence, those holding a seat at the table of the powerful have the chance to raise global initiatives and advance their national and regional interests. Nonetheless, emerging middle powers certainly need the support of the great powers to consolidate their own proposals.

Beyond Economic Stability

Although in recent years the world economy has remained stable, G20 reunions have taken place uninterrupted. After the 2008 crisis, the Group's agenda has expanded, and other issues beyond economics are discussed. For example, Mexico, Australia, France, and Canada have promoted agreements on climate change, gender equality, migration, and sustainable development. Additionally, since the summits gather the world leaders, the G20 has become a meeting point. In the margins of the formal sessions, heads of state and government gather to discuss issues like North Korea and its nuclear proliferation program, the syrian civil war, and the russian operations in Crimea.

In June 2019, the Group of Twenty gathered in Osaka, Japan. The main issues addressed were the stabilization of the world economy, the implementation of the recovery plan addressing the systemic consequences of the 2008 crisis and the Paris Agreement on climate change, the needed reform of the World Trade Organization, policies to tackle economic and social inequalities, the consequences and opportunities of the projections on population ageing in developed and developing countries, among others. Mexico presented its strategy for economic development in Central America and participated in two important side-events: one on electronic

commerce and the digital economy, and other on women empowerment.¹⁶ At the initiative of Australia, topics such as the use of internet for terrorism and hate speech were debated. Moreover, participants discussed possible legal measures, to be implemented by the end of 2020, to prevent tributary evasion by transnational technological corporations; these firms shall thus pay taxes at the places where they make profits for their digital services, notwithstanding their fiscal residence.

Nonetheless, it is relevant to note that non-economic issues at these meetings still have to surpass the barriers of good faith and diplomatic discourses to translate into concrete policies and decisions. While the final declaration in Osaka was reached by consensus, various analyses agreed in deeming it unambitious, since—as also happened in past summits in Hamburg and Buenos Aires—no references favoring multilateralism or denouncing protectionist policies were included. Additionally, it was not possible to advance on fundamental commitments, like those facing climate change; in fact, the United States reasserted its decision to leave the Paris Agreement. Despite the political relevance of these summits, the Osaka Declaration reveals the difficulty of addressing polemic questions like climate change, energy transition and steel production, due to the great powers' reluctance. The Group of Twenty is still mainly a forum to discuss the global economy, which aims to coordinate policies between economically preponderant powers and to maintain the stability of the system that benefits those invited to the G20 summits.

[16] G20, "G20 Osaka Leaders' Declaration," Osaka 2019.



One of the main critiques of the Group of Twenty is its lack of representativity (only 10% of UN members are part of the group). While this remains true, it is relevant to note that one of the key tendencies of the past years has been the diversification of its participants. The adaptability of this group has allowed it to incorporate social organizations that make concrete recommendations and discuss specific topics before the G20 summits. In a trend that seems unlikely to be reverted, the G20 has opened up to social participation.

In the margins of the G20 summits, “engagement groups” (composed by different social strata), inspired by the “G” format, gather to debate specific topics and present their recommendations to the world leaders. The engagement group composed by the most influential business and financial groups in the world —Business 20 or B20—currently receives the most attention from G20 members, as it has contributed with information and counseling for the economic resolutions reached at the G20 summits. Meetings such as Labor 20 on labor issues and Civil 20 comprised of civil society organizations have successfully included issues at the discussions of the Group of Twenty. Other engagement groups, such as W20 on gender topics, Y20 formed by young people from participating countries, or T20 consisting of think tanks, have all faced similar conditions.

The importance of these groups is that, since they meet before the summits, they put forward specific proposals on particular topics. Although the G20 summits are predominantly statist, the recommendations of these actors can be useful during the decision-making process of world leaders. Moreover, their inclusion illustrates the current changing dynamics of the international system, where other actors have gained preeminence.

As may be gathered from this paper, the G20 is a relevant mechanism because the decisions taken during the annual summits have influence over the global economic system, and because its configuration and its internal dynamics are a reflection of the international system. This forum, which at the beginning was exclusively economic, has opened up to other issues of the international agenda, has included diverse actors, and has responded to an increasingly interdependent and interconnected world, where decisions transcend borders.

Final Thoughts

The purpose of this paper was to analyze the interactions taking place at the Group of Twenty (G20) summits and to understand the reasons driving heterogeneous actors to coordinate their economic policies. The issues addressed in these annual gatherings during times of world economic stability and the political and economic struggles permeating these meetings were also analyzed in this document.

The G20 is an informal forum that aims at maintaining the existing economic order and whose resolutions and negotiations on various matters —like environmental protection, economic development, and regional economic

openness— influence other international meetings. The G20 has endured because it is not a coercive body shaping international economic order but a mechanism designed to reach consensus between the most relevant economies of the world to maintain the stability of the system. It is not an organism nor an international institution, but a strategic reunion whose main goal is to save its participants, and the rest of the world, from a shared catastrophe. The factor allowing countries with so distinct capabilities and interests to cooperate is the common threat of economic instability.

Middle powers like Mexico, despite facing structural constraints, have found in the G20 a useful space to promote their interests. These countries are important because their economic policies have an impact in the global economy. Furthermore, these participants can introduce issues and concerns that great powers may otherwise ignore. Mexico, for example, has promoted an agenda of gender equality and climate change in these gatherings.

The G20 summits also reflect the existing frictions and rivalries between its participants, the competition for defining international structures, and the power struggles. However, despite important differences, this mechanism has proven to be efficient to deal with the systemic sources of economic instability. The G20 is a relevant forum because of two reasons: 1) the decisions agreed during the summits do influence the whole international system and 2) this

mechanism is a reflection of the dynamics of this system. The economic and political weight of its members, the logic of inclusion and exclusion, as well as the participation of distinct actors, reveal the current structure of the international system, characterized by the processes of globalization, interdependence, and capitalism.



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