

The Group of 20 and Global Economic Affairs

A New Order in Global Economic Governance

Sadat Preteni

Abstract

The G20 leaders forum was created as a response to the economic and financial crisis of 2008-2009. However, well before the crisis, calls for a new order in global economic governance had mounted as the credibility and importance of existing patterns of global governance had waned. Accordingly, the G20 replaced the G7 for dealing with international economic matters and designated itself as the premier forum for global economic governance. By way of its informal and non-legal structure, the G20 has been able to promote international cooperation between interdependent states in some areas. Among other things, the G20 rapidly coordinated international stimulus packages to contain the recent financial crisis. It also furnished the Bretton Woods institutions with new resources and created a new international financial institution – the FSB. However, the informal, soft-law, nature appears to threaten the effectiveness of the G20, as it leaves it without an effective mechanism for ensuring compliance of its agreements. Due to this, the international financial architecture has not yet been re-regulated. Moreover, despite including the world’s most systemically significant industrial and developing countries in its membership, the G20 is criticized for being undemocratic and self-selected, as well as exclusive and illegitimate for refusing to increase its membership. Against this background, the G20 does not appear to have reduced the global governance deficit, as it does not entirely represent a new, more legitimate and effective order in global economic governance.

Key words: Economic and Financial Crisis, The Group of 20 (G20), International Economic Cooperation, Global Economic Governance, Legitimacy.

Number of words: 10397.

Table of contents

| | | |
|----------|--------------------------------------------------------------------------------------|-----------|
| 1 | Introduction | 4 |
| 1.1 | Problem discussion..... | 5 |
| 1.2 | Purpose and research questions..... | 6 |
| 1.3 | Delimitation..... | 6 |
| 2 | Methodology..... | 7 |
| 2.1 | Motivation for selection of case | 7 |
| 2.2 | Material | 8 |
| 2.3 | Why a single case study? | 9 |
| 2.4 | Validity and reliability | 10 |
| 3 | Theoretical framework | 11 |
| 3.1 | Globalization and interdependence | 11 |
| 3.2 | Regime theory | 12 |
| 3.3 | Organizational design | 14 |
| 3.4 | Analytical framework | 15 |
| 4 | Empirical framework..... | 17 |
| 4.1 | Background | 17 |
| 4.2 | Organizational structure of the G20 | 19 |
| 4.3 | Prospects of the G20's organizational structure..... | 20 |
| 4.4 | Limitations of the G20's organizational structure..... | 21 |
| 4.5 | Leadership within the G20 | 23 |
| 4.6 | The G20 and the global governance framework | 24 |
| 5 | Analysis | 26 |
| 5.1 | Describing the organizational structure of the G20..... | 26 |
| 5.2 | The G20 – an international regime or an informal international institution? | 27 |
| 5.3 | Advantages and disadvantages of the G20's organizational structure | 28 |
| 5.4 | Hegemony versus cooperation | 30 |

| | | |
|----------|-------------------------------------------------|-----------|
| 5.5 | The G20 as a global governance institution..... | 31 |
| 6 | Conclusions | 33 |
| 6.1 | Suggestions for further research..... | 35 |
| 7 | References | 36 |

1 Introduction

The global economic and financial crisis, or the “Great Recession” of 2008-2009, became a painful reality after the collapse of former American investment banking giant Lehman Brothers in September of 2008. Against the background of interdependent financial systems within the domain of global banking, a first effect of the crisis was that of the credit crunch. Subsequently, the effects of the credit crunch spread to the real economy, leading to reduced global trade, slower global growth and, consequently, a worldwide recession. Before the crisis, however, the international political system suffered from a structural crisis of its own, so when the crisis broke out the established institutionalized format was deemed inadequate.

The Group of 20 (G20) was created in 2008 to promote systematic problem-solving, with a view to combating the collective threats and challenges posed by the crisis. It was subsequently designated the premier forum for global economic governance. Beyond the “old establishment” – comprising North America, Western Europe and Japan – emerging market economies have been awarded membership in the G20. Accordingly, the G20 has been able to reach agreement on various measures, such as to generate unprecedented stimulus packages, reinvigorate domestic economies without disturbing global trade, aid the poorest countries affected by the crisis, reform international institutions, and resume the Doha Round of trade negotiations. It has also created a new international financial institution – the Financial Stability Board (FSB) – to prevent the occurrence of similar crises in the future. Despite acting as a hub for concerted measures to combat economic and financial crises, some structural limitations of the G20 may contest considerations of it as a new order in global economic governance. These limitations will be given more attention in the following chapter.

1.1 Problem discussion

Before the recent crisis, there was growing consensus that the G20 should replace the Group of 7 (G7) as the main forum for global economic governance. The G20, with its wider representation and its bridging function between the global north and south, is considered by Cooper (2010 pp. 742-743) to be superior to the G7 in terms of systematic problem-solving. However, the G20 is criticized for representing a new form of “institutional exclusion” rather than a new form of “expanded inclusion”, with bias toward big member countries at the expense of smaller countries facing similar challenges. Nobel Laureate in Economics, Joseph Stiglitz, has noted that while the G7 relied on like-mindedness and shared values, the G20 favors economic weight in the global economic system (Cooper, 2010 pp. 742-743, 750-751; Langmore and Fitzgerald, 2010 p. 392; Ciceo, 2010 p. 124; Payne, 2010 pp. 730-731; Moshirian, 2010 p. 5; Kirton, 2005 p. 6; Kirton, 2010 p. 11). As a result, Antonopoulou (2010 pp. 14-15) and Lesage (2010 p. 95) believe that divergence in ideological and policy issues may threaten prospects for economic cooperation.

Another concern relates to the organizational structure of the G20. Zaring (2010 p. 497), Arner (2011 p. 108) and Cooper (2010 p. 752) argue that the G20 has some structural gaps that mirror an incompleteness of design and institutional fragility. Currently, the G20 is merely informal meetings, and Garrett (2010 pp. 30, 38), Cooper (2010 pp. 756-757), Norton (2010 p. 290), Ciceo (2010 p. 126) and Beeson and Bell (2009 p. 77) say it will have to become more institutionalized if it is to solidify its position as the premier forum for global economic governance.

Moreover, it has been argued that the G20 has been dependent on U.S. leadership. Except for the U.S., neither Western Europe nor any emerging market economy has provided wide-ranging leadership Garrett (2010 p. 31) and Cooper, (2010 p. 754). Speculations of a presumed co-leadership between the U.S. and China have been labeled “G2 in G20”. However, the relationship between the U.S. and China is increasingly conflictual because of massive trade imbalances. American-Sino trade tensions will affect not only their prospects for providing leadership, but the prospects for extensive international economic cooperation within the G20 overall (Garrett, 2010 p. 29; Cooper, 2010 p. 751).

1.2 Purpose and research questions

The purpose of this single case study is to conduct an effect analysis with descriptive ambitions on the G20. More specifically, the purpose is to describe the G20's organizational structure as well as to examine the advantages and disadvantages of this structure in terms of the G20's efficiency and legitimacy. Thus, this thesis seeks to answer the following questions:

1. What is the Group of 20 and how is it organizationally constructed?
2. What are the prospects and limitations of the G20's organizational structure in terms of the efficiency and legitimacy of the G20?

1.3 Delimitation

In conducting this study, focus is on the organizational structure of the G20 leaders summits. When examining the organizational structure of the G20, I refrain from examining potential effects of the organizational structure on individual member states. Neither do I describe individual member states' political ambitions or benefits from participating in the G20. Instead, I focus on describing the prospects and limitations of the G20's organizational structure in terms of the efficiency and legitimacy of the G20 overall. However, a division is made between the U.S., Western Europe and China in order to describe potential alliances and tensions within the forum, and to determine if they – unilaterally or bilaterally – exhibit hegemonic behavior within the G20. Finally, I only focus on the work of the G20 in economic and financial issues.

2 Methodology

2.1 Motivation for selection of case

When selecting a case to study, two criteria must be fulfilled. According to the first criterion – the externally scientific – the chosen case must be relevant and important from a political, economic or social perspective. This criterion is applied as an addition to the first – the internally scientific – criterion, according to which the research must be cumulative, i.e. it has to contribute to previous research (Teorell and Svensson, 2007 p. 19). Furthermore, when conducting a study with descriptive ambitions, four principles may be used to choose a case. The option is between choosing: 1) relevant or important cases; 2) cases with variation; 3) generalizable cases; and 4) cases to complement extensive results (Teorell and Svensson, 2007 p. 222). I choose to study the G20 because it constitutes an important forum that has played a significant role in combating the recent economic and financial crisis. The G20 is particularly interesting to study because it has replaced the G7 as the main forum for global economic-governance, and because it will likely continue to play an important role in international economic cooperation. The externally scientific criterion is fulfilled as the G20 is indeed relevant and because it poses an interesting case to study from a political as well as from an economic perspective. Politically, the G20 has revised the geopolitical balance by including as members emerging economies such as China, India and Brazil, thus reflecting the new power realities of the world. Economically, the G20 has restored balance in the international financial system and reinvigorated international trade, thus revitalizing global growth. The G20 is also important from a social perspective, as it has affected the lives of many people worldwide in its role as “crisis-breaker”. The internally scientific criterion, on the other hand, is fulfilled since there has been little research conducted on the G20 to date, which allows this study to bring new insights into existing research, as well as to suggest areas for further research that may be studied in a cumulative fashion.

2.2 Material

Two methods can be applied when conducting a descriptive case study. The first method is text analysis and the second is the historical method (Teorell and Svensson, 2007 pp. 98-99). Since I primarily use sources consisting of secondary material, the historical method is applied. Four criteria can be used to evaluate the usefulness of sources when describing an event: 1) authenticity; 2) propinquity in time (concurrency) and space (centrality); 3) tendency; and 4) independence. Authenticity refers to whether we can be certain that the source is authentic and not fabricated. The risk for fabrication increases for sources dating further back in time. Propinquity in time (concurrency) refers to the time gap between the source's statements and the occurrence of the event. The smaller the time gap (higher propinquity) the higher the value of the source. Propinquity in space (centrality) refers to the spatial distance between the source and the event. A short spatial distance (high centrality) is to prefer, e.g. a story from an eyewitness. Tendency assesses the truthfulness of a source. This criterion recommends comparing different sources that are making statements about the same event, and thereafter deciding which direction to support. Absence of tendency is the ideal. Finally, according to the independence criterion, a source must be independent of other sources for its statements (Teorell and Svensson, 2007 pp. 104, 106).

The G20 was established in 2008, which does not make the authenticity criterion an issue since all my empirical material on the G20 consists of updated research papers. As these papers are authored within a short time period after the creation of the G20, this reduces concerns related not only to authenticity, but also to propinquity in time (concurrency). The theoretical framework is comprised of literature that is not equally as updated as the empirical sources, but this is not considered to be a problem as it takes a long time for theories to be revised. However, some criticism can be directed toward the choice to rely on secondary material, as caution must be observed with regard to the tendency and independence of the used sources. Since it is difficult to assess the truthfulness of the authors to my empirical material, I collect nearly 30 research papers on the G20 from the Lund University library database "LibHub" and compare their statements to provide balanced conclusions. As LibHub contains a wide range of renowned political and

economic journals, I am confident that the empirical material used in this thesis is of good quality. Accordingly, this reduces risks of biased and misleading information and, consequently, problems of tendency and independence.

2.3 Why a single case study?

The advantage with conducting a single case study is that it provides an opportunity to conduct an in-depth examination of the G20. A single case study allows this to be done over time and space, thus conveying a comprehensive image of the process of combating the recent crisis, as well as of the actors involved in the process (G20 member states, the IMF, the FSB) (Teorell and Svensson, 2007 p. 22).

By asking how the G20 is organizationally constructed, I can describe the G20 and examine the prospects and limitations of its organizational structure in terms of the efficiency and legitimacy of the G20. The activity of examining the effects of something that has been described – in this case the G20's organizational structure – is called an effect analysis (Teorell and Svensson, 2007 p. 27).

The disadvantage with conducting a single case study is that the possibility to explain depends on a good theoretical motivation of the case and requires an appropriate theoretical framework (Teorell and Svensson, 2007 p. 80). Thus, in single case studies there is a risk of generating explanations that conflict with each other without knowing which one to prefer. This difficulty is reduced by defining my research questions as a case of global governance, which facilitates the search for a clear connection to the most appropriate theoretical framework. (The theories used in this thesis are discussed in chapter 3.)

Beyond a clear theoretical motivation of the single case, variation in the variables can be advantageous in order to achieve explanatory power. Comparative case studies are useful as better explanations may be achieved when comparing cases and controlling for similarities and differences (Teorell and Svensson, 2007 p. 83). Despite this obvious utility in conducting comparative studies, this thesis is not comparative since I choose to examine the G20 alone. As the G20 has replaced the G7 in dealing with international economic issues and designated itself as the premier forum for global economic governance, it constitutes a particularly

interesting case in itself. Furthermore, as one purpose is to conduct an effect analysis of the G20's organizational structure, I have no ambitions to generalize the results of this study beyond the context of the G20. Against this backdrop, the single case method appears appropriate for this study.

2.4 Validity and reliability

According to Bryman and Bell (2005), good internal validity is reached when there is a clear connection between the theoretical and empirical framework. An advantage with conducting a single case study is that it is easier to ensure the validity of the research, by carefully selecting the theoretical framework that is applied to the empirical material (Teorell and Svensson, 2007 p. 57). The search in this study for an appropriate theoretical framework is facilitated by defining my research questions as a case of global governance. Accordingly, I consider the connection between my theoretical and empirical framework to be strong and believe that this thesis has a good internal validity. External validity, on the other hand, refers to whether it is possible to generalize the results from one study to a larger population. My ambition is not to generalize because, as earlier stated, the G20 constitutes an interesting case in itself.

According to Bryman and Bell (2005), reliability refers to the possibility of repeating the same study and achieving the same results. This requires that measurements and data sources are reliable (Teorell and Svensson, 2007 pp. 57, 59). As I use updated research papers that have been published in renowned political and economic journals and which do not suffer from issues of authenticity, tendency or dependence, while at the same time enjoying high propinquity in time (concurrency). I consider these sources to be reliable, which solidifies the reliability of this study.

3 Theoretical framework

3.1 Globalization and interdependence

Globalization denotes a process toward an integrated global society, where states, institutions and actors are increasingly interconnected. Interdependence, on the other hand, refers to an increasing societal dependence and mutual sensitivity between states, meaning that the effects of one government's actions depend on societal developments abroad (Zürn, 2005 pp. 236; Tallberg, 2009 p. 198; Robertsson, 2009 pp. 239-240). Globalization and increasing interdependence has led to higher demands for global governance, as failure to address global challenges risks having negative externalities in remote societies across the world (Held and Koenig-Archibugi, 2007 pp. 3-4; Baylis, Smith and Owens, 2008 p. 10; McGrew, 2008 p. 18).

Global governance refers to collective problem-solving between interdependent states in networks of international agreements and organizations (Held and Koenig-Archibugi, 2007 pp. 3-4; Tallberg, 2009 p. 199). Debates on global governance focus on how international cooperation can be organized for it to represent *effective* and *legitimate* governance (Risse, 2007 p. 164; Tallberg, 2009 pp. 212-213). Legitimacy refers to the ability of institutions to solve international problems and can be divided into *output* legitimacy and *input* legitimacy. Output legitimacy refers to whether the design of international institutions facilitates effective problem-solving. It emphasizes the following (Tallberg, 2009 pp. 212-213, 214-215):

1. *Rules*: the ability to solve collective problems is considered to be more effective when setting binding rules rather than voluntary agreements.

2. *Decision-making procedures*: majority-voting as a decision-making principle is considered to be quicker and more effective than consensus voting, while consensus voting is considered fairer and more legitimate.
3. *Monitoring mechanisms*: in the absence of enforcement mechanisms, such as sanctioning, monitoring is essential for ensuring compliance of norms and agreements

Input legitimacy, on the other hand, refers to the democratic qualities of institutions and emphasizes *transparency*, (public) *participation* and *influence* in the decision-making procedures of institutions as important criteria for legitimacy. Governance institutions have been criticized for providing insufficient participation and influence, and critics argue that governance institutions suffer from democratic deficits as final decisions are made behind closed doors. This indicates that increased transparency would reduce democratic deficits. Advocates in favor of status quo accentuate the principle of democratic representation, by including as governors nationally elected leaders, and claim that it is impossible to transfer national democracy to the international domain (Tallberg, 2009 pp. 214-215).

I use this theory to discuss global governance and to determine whether the organizational structure of the G20 renders it an effective and legitimate forum for systematic problem-solving and global economic governance. Focus is on the output and input legitimacy of the G20. To determine the output legitimacy, or the effectiveness, of the G20, I look at the ability of the G20 to effectively solve problems. To determine the input legitimacy, or the democratic qualities, of the G20, I look at its membership and decision-making procedures, with a focus on its democratic and geographical representation and participation.

3.2 Regime theory

International institutions refer to international institutionalized cooperation and cover both regimes and organizations. Emphasis is on how rules and norms govern behavior in an interdependent international political system. International regimes denote international cooperation in the absence of hierarchical structures and refer

to principles, norms, rules and decision-making procedures that guide appropriate behavior (Woods, 2008 pp. 250-251; Simmons and Martin, 2005 pp. 193, 204; Tallberg, 2009 pp. 201-202; Cohen, 2004 p. 246; McGrew, 2008 pp. 17, 24-25; Zürn, 2005 p. 241).

According to realist logic, international institutions reflect existing power structures and are, therefore, subordinated to state power and interests (Tallberg, 2009 pp. 208-209; Simmons and Martin, 2005 pp. 194-195). Realists argue the following: 1) relative-gains concerns constrain intense cooperation; 2) extensive cooperation needs effective enforcement; and 3) powerful states can present initiatives to which other states must adapt, making them worse off than they were before the agreement. Realists explain the relationship between power distribution and the creation of institutions with hegemonic stability theory, according to which dominant powers create institutions during periods of hegemony. Institutions survive as long as the hegemon supports them, by stabilizing cooperation through the use of its vast resources (Simmons and Martin, 2005 pp. 194-195; Tallberg, 2009 pp. 208-209; Cohen, 2004 pp. 220-222).

Despite increased institutionalized cooperation, difficulties with cooperation remain. Among other things, competing national interests may impede agreement; domestic pressures may limit states' maneuvering space and prompt them to renege on their commitments; and occasionally, regimes do not go far enough to solve problems for which they have been created, because participants are reluctant to delegate power and accept rules that limit their maneuvering capability (Tallberg, 2009 pp. 203-205).

Meanwhile, rational-functionalists argue that institutions are created by states desiring to achieve mutually beneficial outcomes, and that institutions can assist states in overcoming problems of collective action by: 1) providing a forum for collective decision-making; 2) maintaining norms and principles that guide behavior toward cooperation; 3) reducing information deficits through information-sharing, thus improving trust and reducing suspicion; 4) reducing transaction costs of cooperation by monitoring compliance to norms and agreements; and 5) preventing participants from reneging on their commitments by providing a sanctioning mechanism (Simmons and Martin, 2005 pp. 195-197; Reiter and Jönsson, 2002, p. 42; Tallberg, 2006 pp. 205-207; Tallberg, 2009 p. 209; McGrew, 2008 p. 25; Cohen, 2004 p. 247). Moreover, rational-functionalists claim that these

institutional functions allow institutions to survive even in the absence of a hegemon, and that cooperation is attractive as long as it generates absolute rather than relative gains (Tallberg, 2009 p. 209). Hence, according to rational-functional logic, international institutions affect states' behavior by fulfilling functions that make them act in a way in which they otherwise would not have (Tallberg, 2009 p. 210).

Regime theory is used to examine whether the G20 may or may not be regarded as an international regime. To decide whether the G20 may be considered a regime, I compare the institutional features of the G20 with the characteristics of regimes described by regime theory, such as if the G20 is non-hierarchical and if there are relevant principles, norms, rules and decision-making procedures that guide the behavior of its members. Regime theory is also used to examine the prospects and limitations of the G20's organizational structure. I do this by comparing the patterns of cooperation and difficulties with cooperation within the G20 with the hypotheses of rational-functional and realist logics of institutionalized cooperation. Moreover, I use regime theory to examine whether or not hegemonic forces are present within the G20, by looking at rational-functional and realist views of hegemonic stability theory and applying their hypotheses to the organizational structure of the G20.

3.3 Organizational design

Koremenos, Lipson, and Snidal (2001) treat institutions as rational and negotiated responses to problems that international actors face. They presume that states create and design institutions to further their individual and collective goals, and argue that "rational design" among multiple participants can help explain various institutional arrangements (Koremenos, Lipson, and Snidal, 2001 pp. 761, 766). Accordingly, the aim of their research is to develop a general framework that guides the empirical analysis of institutions from a rationalist perspective (Koremenos, Lipson and Snidal, 2001 p. 763).

According to Koremenos et al. (2001 pp. 770-773), five dependent variables show up repeatedly when institutions are designed or modified:

- 1) *Membership*: Who belongs to the institution? Is membership restrictive or inclusive?
- 2) *Scope*: What issues are covered?
- 3) *Centralization*: Are important institutional tasks performed by a single focal entity? The term focuses on centralization to collect and disseminate information, reduce bargaining and transaction costs, and to enhance enforcement, without necessarily having centralized adjudicative or enforcement capacities.
- 4) *Control*: How will collective decisions be made? Focus here is on voting arrangements, e.g. if members have equal votes or if a minority holds veto power, and whether a simple majority, a super-majority, or unanimity is required.
- 5) *Flexibility*: How will institutional rules and procedures accommodate new circumstances?

I use this theory on organizational design to describe the G20. More specifically, I apply the institutional features of the G20 to the dependent variables outlined above in order to describe and analyze the organizational structure of the G20.

3.4 Analytical framework

Using the dependent variables developed by Koremenos et al. (2001), and considering the hypotheses from the theoretical overview provided above, it appears that for the G20 to be effective, it should fulfill the following criteria:

- *Membership*: A restrictive membership, with a small group of homogeneous members, may lead to decreased uncertainty about other members as well as decreased problems with enforcing negotiated agreements.
- *Scope of issues*: Issue linkages (linking one issue to another) may be an efficient way to reduce distribution and enforcement problems among a large number of heterogeneous actors, as it may offer an exchange of issues between the interested actors.

- *Centralization*: A high level of centralization – to collect and disseminate information as well as to provide monitoring and/or sanctioning mechanisms – may be efficient when there are many interested actors, as it can reduce uncertainty about the behavior of other members (reduce suspicion), and enhance enforcement by preventing participants from renegeing on their commitments.
- *Control* – To achieve collective benefits when there are many interested actors, majority voting may be more efficient than individual control (veto), and it may also be quicker and more efficient than consensus voting and/or unanimity.
- *Flexibility (Rules)*: To solve collective problems with many interested actors, a lower flexibility may be more efficient, because to enhance enforcement, it is considered more effective when setting binding rules rather than voluntary agreements.

Meanwhile, for the G20 to be legitimate, it appears that it faces a dilemma regarding membership and control:

- Restrictive membership may be more efficient than inclusive membership, but inclusive membership is considered to be more legitimate.
- Majority voting as a decision-making principle may be more efficient than individual control as well as consensus voting and/or unanimity, but consensus voting and unanimity are considered to be more legitimate.

Inclusive membership and consensus/unanimity voting are considered legitimate because of the input dimension of global governance, i.e. they increase the *participation* of interested actors and give them the opportunity to *influence* the process. Thus, to reduce a potential “democratic deficit”, the G20 should be transparent and governed by democratically elected leaders.

4 Empirical framework

4.1 Background

Former prime minister of Canada, Paul Martin, acknowledged early on the risks posed by globalization and expressed the need to manage the resulting interdependence. This acknowledgement raised issues pertaining to the effective governance of the global economy and strengthened the case for international cooperation (Bonciu, 2009 p. 50; Globalization and Summit Reform, 2008 p. 2; Heine, 2010 p. 4; Kirton, 2010 p. 6). Rising emerging economies of the global south, such as China, India and Brazil, had altered the relative power in the international system. Consequently, the G7 realized that for it to enhance not only its legitimacy through broader representation, but also its effectiveness, it was crucial to include emerging market economies in discussions pertaining to the global economy (Norton, 2010 p. 277; Kirton, 2005 p. 1; Moschella, 2010 p. 23). Accordingly, in order to provide more effective economic governance, a new forum for international economic cooperation – the G20 forum for finance ministers – was created in September 1999. The G20 consists of 19 member countries and includes as an additional member the EU, which is represented by the EU Presidency and by the European Central Bank (ECB). In order to link the G20 to the Bretton Woods institutions, the managing director of the IMF and the President of the World Bank are also allotted membership (Moshirian, 2010 p. 5; Norton, 2010 pp. 276-277, 283; Elson, 2010 p. 28; Moschella, 2010 p. 21; Cooper, 2010 p. 741; Payne, 2010 p. 730; Kirton, 2010 p. 3; Ciceo, 2010 p. 123; Globalization and Summit Reform, 2008 p. 3).

As an informal network of finance ministers for consultation on economic issues, the G20 focused on securing global financial stability (Payne, 2010 p. 731; Globalization and Summit Reform, 2008 p. 2; Norton, 2010 pp. 182, 277; Heine, 2010 p. 4; Kirton, 2005 p. 6; Moshirian, 2010 p. 5; Moschella, 2010 p. 21; Cooper,

2010 p. 741; Ciceo, 2010 p. 122). However, the G20 forum for finance ministers was not perceived to be authoritative enough, which is why there were calls for a G20 at leaders level to guide the world economy (Heine, 2010 p. 4; Norton, 2010 p. 182; Globalization and Summit Reform, 2008 p. 4; Cooper, 2010 p. 749).

The collapse of former American investment banking giant Lehman Brothers in 2008 created panic in the global financial markets. It suddenly became clear that unilateral action would not suffice to contain the crisis, and the silver lining amid all the chaos was the acknowledgment among governments that systematic problem-solving through collective coordination was necessary (Woods, 2010 p. 52; Elson, 2010 p. 19; Saccomanni, 2010 p. 6; Moshirian, 2010 p. 502; Moschella, 2010 p. 3). The G20 forum at leaders level was created in 2008 with the objective to agree on a set of principles for managing the international financial system and to support international growth and development by strengthening the international financial architecture (Garrett, 2010 p. 30; Moshirian, 2010 p. 5; Norton, 2010 pp. 182, 277, 281, 284; Cooper, 2010 pp. 745-746, 748; Woods, 2010 p. 51).

Well before the financial crisis, however, there was an inherent structural crisis in the international political system – the pattern of global governance had waned and the international system was increasingly perceived as unfair. More significantly, the inadequacy of existing institutions was reflected by a reduced effectiveness, as their capacity to get things done was undermined (Cooper, 2010 p. 743; Moschella, 2010 pp. 2-3; Elson, 2010 p. 28). According to Cooper (2010 pp. 742-743), the G7's power, legitimacy, and effectiveness was strongly criticized – it was viewed as nothing more than a “club of the rich” and a “talking-shop”. The G20 leaders forum, with its global representation and its bridging function between the global north and south, is considered by Cooper (2010 pp. 742-743) to be superior to the G7 for systematic problem-solving. Accordingly, at the G20 Pittsburgh summit in 2009, G20 leaders replaced the G7 on issues regarding international economic affairs and designated the G20 leaders forum as the premier forum for international economic cooperation and global economic governance (Cooper, 2010 pp. 749; Moschella, 2010 pp. 2-3; Ciceo, 2010 p. 121; Elson, 2010 p. 28; Kirton, 2005 p. 1).

4.2 Organizational structure of the G20

The G20 leaders forum has the same organizational structure as the previous G20 for finance ministers, which was an informal advisory body for consultation on international economic affairs. As such, it operated without a legal status, i.e. it was not formalized by a treaty and it did not have executive or decision-making authority. This means that the G20 at leaders level represents an informal – soft-law – forum for deliberations on international economic cooperation and global economic governance (Zaring, 2010 pp. 475, 477; Moschella, 2010 p. 25; Heine, 2010 p. 3; Kirton, 2010 p. 11). Moreover, it does not have an administrative agency, a permanent secretariat or a bureaucracy. Rather, the G20 is “self-institutionalized” – to ensure continuity, it has decided that from 2011 onward one summit will be held per year. Member countries will rotationally chair and host one summit and at the end of the summit, it will be decided which member will host the next summit. The summits have no formal voting procedures. Instead, within this informal and collegial environment, all members are “considered as equals” and are expected to provide their inputs in order to reach consensus (Norton, 2010 p. 277; Zaring, 2010 p. 496, Moschella, 2010 pp. 21, 25; Beeson and Bell, 2009 p. 77; Kirton, 2010 pp. 7, 11, 16).

Before the summits, mid-level executives (“Sherpas”) meet their counterparts and prepare the agenda (Beeson and Bell, 2009 p. 78). Furthermore, a “Troika” has been instituted, consisting of the present, most previous and future chair. The idea of this procedure is that the present chair, with the assistance of the Troika and with inputs from member states, creates a temporary secretariat during the hosting of the summit, thereby handling administrative issues and coordinating the meetings. The procedure is informal and there is, therefore, neither a constituent document nor a formal structure or process (Norton, 2010 p. 277; Zaring, 2010 p. 496, Moschella, 2010 pp. 21, 25; Beeson and Bell, 2009 p. 77; Kirton, 2010 pp. 7, 11, 16).

4.3 Prospects of the G20's organizational structure

According to Beeson and Bell (2009 pp. 77-79), Heine (2010 p. 3), Ciceo (2010 p. 123), Cooper, (2010 p. 744) and Moschella (2010 p. 22), particular advantages of the G20 are the absence of a formal bureaucracy, the limited number of participants, and the low-key, frank and open discussions. They emphasize that this structure is helpful for fostering debates and breaking logjams by way of informality, identifying areas of compromise, forming consensus, sharing experiences, and increasing coordination. Furthermore, they argue that the structure of the G20 has the potential of breaking barriers of communication among government leaders and developing trust, as well as mutual confidence and reciprocity, which, in their opinion, enhances the effectiveness of the G20.

Kirton (2005 p. 1), Woods (2008 pp. 51, 52), Moschella (2010 p. 23), Norton (2010 pp. 284-285) and Payne (2010 p. 59) believe that a remarkable feature of the G20 has been its swiftness of action and mention, for example, that in the aftermath of the recent crisis, G20 leaders rapidly coordinated stimulus packages to contain the crisis and also served to contain protectionist forces. Beyond being catalytic in terms of coordinating stimulus packages on the domestic level, the authors above underscore that the G20 also furnished the Bretton Woods institutions with vast resources – at the London summit in 2009, \$850 billion was made available through the IMF, World Bank and other multilateral development banks (MDBs). This included furnishing the IMF with \$750 billion. An additional \$250 billion was reserved for increasing world trade and \$100 billion was to be lent to poor countries. Moreover, the G20 reached agreement on tax havens and on capital standards for investment banks. It also created a new international financial institution – the FSB – which was tasked with coordinating the G20's financial regulatory reform, as well as monitoring its implementation (Arner, 2011 pp. 109, 112, 113; Kirton, 2005 pp. 1, 3; Woods, 2008 pp. 51, 52; Norton, 2010 pp. 284-285; Payne, 2010 pp. 59, 731; Moshirian, 2010 p. 5; Moschella, 2010 pp. 2, 12; Antonopoulou, 2010 p. 14; Ciceo, 2010 p. 122).

Against the background of the examples above, Moshirian (2010 pp. 5-6), Ciceo (2010 p. 122), Lesage (2010 p. 95) and Heine (2010 p. 2) believe that the G20 has displayed great effectiveness, both in terms of containing the crisis in a rapid and

coordinated fashion and in terms of formulating and implementing its international financial regulatory agenda – not least through the enhanced role of the IMF and the creation of the FSB.

4.4 Limitations of the G20's organizational structure

Despite the prospects outlined above, other observers believe that the organizational structure of the G20 is subject to a number of limitations. According to Zaring (2010 p. 497), Arner (2011 p. 108); Cooper (2010 p. 752) and Saccomanni (2010 pp. 9, 11), the G20 has some structural gaps that mirror an incompleteness of design and institutional fragility. They believe that although the IMF and the FSB are responsible for surveillance and monitoring, as a direct consequence of its informal and non-legal nature, the G20 lacks teeth in the absence of an effective mechanism for enforcing compliance. In the view of the above authors, the lack of legal force is detrimental for the G20's effectiveness, as it leaves the G20 with a lack of power for coercing implementation of policy agreements, particularly in the area of international financial regulation.

The absence of a permanent secretariat has been perceived as a concern by Garrett (2010 pp. 30, 38), Cooper (2010 pp. 756-757), Norton (2010 p. 290) and Ciceo (2010 p. 126), who believe that the G20, in order to increase its administrative competency, leadership and global authority in global economic governance, must “harden” its informal and soft-law structure. They argue that a secretariat is needed to coordinate future summits, as well as to evaluate implementation of G20 decisions.

By virtue of its increased membership – covering more diverse countries with different political and economic systems, different cultures, interests and approaches to problem solving – Persaud (2010 pp. 638, 645-646), Antonopoulou (2010 pp. 14-15) and Lesage (2010 p. 95) find it more difficult for the G20 to find common ground on policy objectives compared to the G7. Despite the agreements mentioned in the previous section, there have been many disagreements. The G20's promoted “framework for strong, sustainable and balanced growth” has been welcomed, but due to the voluntary nature of compliance, Antonopoulou (2010 p. 14) and Norton (2010 p. 288) remain doubtful as to whether it will be implemented.

The effects of a lacking mechanism for ensuring compliance appear to be most apparent in the area of international financial regulation. Contrary to the belief of Moshirian (2010 pp. 5-6), Ciceo (2010 p. 122), Lesage (2010 p. 95) and Heine (2010 p. 2), who believe that the G20 has been successful in implementing its international financial regulatory agenda, Saccomanni (2010 pp. 7, 9), Persaud (2010 pp. 638, 640, 645-646), (Norton (2010 p. 288), Cooper (2010 p. 755), and Antonopoulou (2010 pp. 14-15) believe that the G20 has not succeeded in re-regulating the international financial system. The latter authors argue that national regulators have acted unilaterally rather than pursuing consensus solutions. They provide two examples to illustrate the shift from adherence to international rules by domestic regulators toward an increasingly national approach to regulation. The first example is the decision by the U.S. to launch the bill on financial regulation without considering the interests of its G20 colleagues. The other example is when the U.S., U.K., Germany and France parted on the issue of bankers' bonuses and decided that limits to bonuses should depend on long-term profit creation, despite bonuses being an area where quick and consensus-based agreement was expected, keeping in mind the public rage about large bonuses and that bonuses were viewed as an underlying reason to the crisis.

Antonopoulou (2010 p. 14) underscores that an important reason for member states acting unilaterally rather than collectively within regulatory issues, is the fear of "regulatory arbitrage". Her view is that since there is no mechanism for ensuring that G20 members refrain from creating arbitrage, suspicion among members remains. Furthermore, ideology appears to be another central issue. According to Persaud (2010 pp. 638-639, 645-646), Antonopoulou (2010 pp. 15) and Ciceo (2010 p. 122), the U.S. and the U.K., based on their wish to save the market system, preferred fiscal stimulus and rejected the idea of stronger international regulation, while Germany and France pursued stricter regulation and focused on market failures, thus reflecting their fragile belief in the market system. Asia, on the other hand, had just implemented the regulatory framework "Basel II" and preferred no regulatory changes. Due to these disagreements, the above authors view the crisis as a "missed opportunity".

4.5 Leadership within the G20

It has been argued that the G20 has been dependent on U.S. leadership, or on a combined U.S. and G7 hegemony. However, as illustrated in chapter 4.4, the U.S. has acted unilaterally rather than leading the G20 toward consensus solutions (Persaud, 2010 pp. 638, 640, 645-646; Antonopoulou, 2010 pp. 14-15, 16; Ciceo, 2010 p. 122). And according to Garrett (2010 p. 29) and Cooper (2010 pp. 746-747), the G7 has been rendered less effective due to the shift in relative capabilities from the global north to the global south, in combination with the increasing systemic significance of emerging market economies. Garrett (2010 p. 31) and Cooper (2010 p. 754) also argue that the ability of European leaders to provide leadership has been restricted by two factors. First, the recent crisis has had detrimental effects on the European Union, making it unable to project leadership within the G20. Second, the different national cultures and interests of EU member states, combined with the fact that individual EU member countries – the U.K., Germany, France and Italy – are members of the G20, have made it difficult for the EU as a collective to speak with one voice.

Emerging market economies, such as China, India and Brazil, do not appear to have filled the leadership gap. Garrett (2010 p. 31) and Cooper (2010 p. 754) argue that these countries have been reluctant to embrace leadership positions within the G20 as they seem to prefer official multilateral organizations, such as the UN and WTO, where they can be developing countries and not be expected to assume responsibilities and obligations they are not yet prepared to take on. For example, they mention that China has been unwilling to provide leadership partly because of its status as both emerging and developing country, and partly because it is more oriented toward domestic growth.

Despite the above arguments that neither the U.S. nor China has assumed leadership in the G20, speculations concerning a G2 within the G20 have surfaced. For example, the president of the World Bank, Robert Zoellick, has stated that “without a strong G2, the G20 will disappoint” (Garrett, 2010 pp. 29) and according to Garrett (2010 pp. 30), a Sino-American hegemony is evolving almost by default, because what the U.S. and China do – unilaterally, bilaterally or multilaterally – will have global consequences. By virtue of their global significance, Garrett (2010

pp. 36) believes that the U.S. and China have informal vetoes in the G20. According to Cooper (2010 p. 751), however, the economic relationship between the U.S. and China is increasingly conflictual against the backdrop of massive American-Sino trade imbalances – the U.S. trade deficit with China is almost equally as large as its deficit with the rest of the world (Garrett, 2010 pp. 30, 32, 34). Accordingly, Garrett (2010 pp. 29, 37) notes that the U.S. and China have denied the notion of a G2 and that they have indicated their preference for investing in their relationship within the framework of the G20 and participating in collective decision-making with other G20 members.

4.6 The G20 and the global governance framework

Paul Martin, former Canadian prime minister, stated that new institutions, such as the G20, “will work only if the developing countries and emerging markets help shape them, because inclusiveness lies at the heart of legitimacy and effectiveness” (Beeson and Bell, 2009 p. 73). Beeson and Bell (2009 p. 73) believe that by including as members systemically important emerging economies, the G20 has reduced the global governance deficit. The G20 itself argues that it “has a high degree of representativeness and legitimacy on account of its geographical composition and its large share of global population”. The membership of the G20 covers nearly two-thirds of the world’s population, 80 percent of world trade and 90 percent of world GDP (Garrett, 2010 pp. 29, 38; Heine, 2010 p. 3; Moschella, 2010 p. 24; Payne, 2010 p. 729; Ciceo, 2010 p. 123; Globalization and Summit Reform, 2008 p. 3).

Despite the G20’s argument that its legitimacy stems from the inclusion of systemically important developing countries and its broad geographical representation, it has been criticized for a lack of representativeness, legitimacy, and resulting effectiveness. The G20 was created by the U.S. together with the G7 countries in a process that is deemed undemocratic and secretive, thereby drawing criticism for a presumed democratic deficit. A related criticism is directed toward the presumed dominance of G7 countries within the G20, with critics arguing that the “neo-liberal” agenda of the G20 serves to support the interests and initiatives of the G7 countries (Cooper, 2010 pp. 743, 750; Ciceo, 2010 p. 124; Payne, 2010 p. 731; Kirton, 2005 p. 6, Kirton, 2010 p. 11).

According to Cooper (2010 p. 751), the establishment of the G20 comes at the expense of the U.N. and universalism. After the U.N. General Assembly appointed Nobel Laureate in Economics, Joseph Stiglitz, as chair of a high-level task force to suggest steps “to secure a more stable global economic order”, Stiglitz criticized the legitimacy of the G20 by saying that the G20 “does not reflect the voice and priorities of the global community”. Stiglitz has noted that while the G7 used like-mindedness, shared norms and values as access criteria, the G20 appears to have subordinated political criteria in favor of economic weight and significance in the international economic system when selecting its members (Cooper, 2010 pp. 743, 750; Ciceo, 2010 p. 124; Payne, 2010 p. 731; Kirton, 2005 p. 6; Kirton, 2010 p. 11). Using economic weight as a criterion for accessibility has been questioned by Stiglitz, who has highlighted the difficulty of drawing a clear dividing line between the power or systemic significance of the 20 countries included in the G20 and the excluded 172 countries (Payne, 2010 p. 738). Due to this issue of selectiveness, with bias toward economically significant countries at the expense of smaller countries facing similar challenges, Stiglitz has criticized the G20 for being self-selected and undemocratic, as well as exclusive for not expanding its membership (Cooper, 2010 pp. 742, 751, 756; Langmore and Fitzgerald, 2010 p. 392; Payne, 2010 pp. 730, 734, 739; Moshirian, 2010 p. 5).

5 Analysis

5.1 Describing the organizational structure of the G20

The research design developed by Koremenos et al. (2001) is useful for describing and analyzing the organizational structure of the G20. By applying the institutional features of the G20 outlined in chapter 4.2 to the dependent variables developed by Koremenos et al. (2001) in chapter 3.3, we find that the organizational structure of the G20 has:

1. *Restrictive membership*: The decision of whether to characterize the G20's membership as restrictive or inclusive appears to depend on what you compare the G20 with. Compared to the G7, the G20 has an inclusive membership as it includes 13 additional members. Compared to the U.N., on the other hand, the G20 has a restrictive membership as it excludes 172 countries. Ultimately, the decision to characterize the G20's membership as restricted is related to the earlier discussion on global governance – by emphasizing economic weight as access criteria, the G20 includes as members only the systemically significant industrial and emerging economies, while excluding smaller developing countries that face the same challenges.
2. *Short scope of issues*: The G20 is an informal forum for consultation on international economic affairs. Thus, as it currently deals only with international economic affairs, it has a short scope of issues. I suffice with characterizing the G20's scope of issues as short as the purpose in this thesis is to focus on the work of the G20 in economic and financial issues, rather than speculating on potential wider tasks for the G20 in the future.
3. *Low level of centralization*: As an informal – soft-law – advisory body, the G20 lacks an administrative agency, a permanent secretariat and a bureaucracy. Thus, it has a low level of centralization. The Sherpas and the

Troika are useful for collecting and disseminating information, as well as coordinating meetings, before and during the summits. However, the lack of a legal status and permanent secretariat means that the G20 summits have no formal structure or process. Neither are there any centralized mechanisms for gathering and sharing information, for coordinating future summits, or for monitoring and/or sanctioning the behavior of members. Thus, the G20 lacks an effective mechanism for evaluating the implementation of decisions and enforcing compliance.

4. *Low level of control*: Due to the fact that the G20 operates without a legal status, it has no formal voting procedures. As all members are “considered as equals” and expected to provide their inputs, its decision-making principle seems to be based on consensus voting. This means that the G20 has a low level of control.
5. *High flexibility (No binding rules)*: As a consequence of its informal and non-legal nature, the G20 has no executive or decision-making authority and, thus, it has no legally binding rules. As mentioned on the note of centralization, this means that the G20 has no effective mechanism for ensuring compliance or coercing implementation of its agreements.

As is seen in the following chapters, these institutional features of the G20 have certain implications for its effectiveness and legitimacy.

5.2 The G20 – an international regime or an informal international institution?

According to regime theory, international regimes denote non-hierarchical international cooperation and rely on principles, norms, rules and decision-making procedures that guide the appropriate behavior of its members. Monitoring mechanisms for ensuring compliance are essential in such arrangements. The G20 constitutes a forum where systemically significant states engage in informal international economic cooperation, i.e. without any hierarchical structures, legal formality or enforcement mechanisms. As all members are expected to provide their inputs to reach an agreement, its decision-making principle is based on consensus-

formation and information sharing. However, whether there are principles, norms and rules in the G20 that have guided the appropriate behavior of its members is questionable.

Taking into account the argument of Stiglitz that the G20 has subordinated political criteria and instead prioritized the economic weight of its members, it appears that the G20 lacks the kind of principles and norms that guided the behavior of G7 members, who relied on like-mindedness, shared norms and political values. Also, keeping in mind the G20's low level of centralization – operating without an administrative agency and secretariat – and its high flexibility – having no binding rules – it currently lacks an effective mechanism for monitoring the behavior of its members and ensuring implementation of its agreements. As a result of these factors – using economic weight as access criteria, the absence of a monitoring mechanism and the absence of binding rules – cooperation within the G20 has been problematic in some areas. As the G20 currently does not appear to have in place the necessary principles, norms and rules for guiding the cooperative behavior of its members, I do not consider it to be an international regime to date. Rather, the G20 may be viewed as an international network of 20 systemically significant states coordinating their economic policies and cooperating on behalf of their countries in an informal and collegiate environment.

5.3 Advantages and disadvantages of the G20's organizational structure

According to rational-functionalists, institutions can assist states in overcoming problems of collective action by providing a forum for collective decision-making. In chapter 4.3, observers argue that the G20 has been effective in overcoming problems of collective action due to its restrictive membership, its low level of centralization (the absence of a formal bureaucracy) and the “low-key, frank and open discussions”, promoted by its informal environment and high flexibility (no binding rules). Hence, by offering an informal forum for consultation on international economic matters, in some areas the G20 appears to have led states to act in a way in which they otherwise would have not. Indeed, the G20 has reached agreement in some important areas, such as coordinating international stimulus

packages to contain the crisis in a swift manner, furnishing the Bretton Woods institutions with vast resources, and establishing the FSB. Despite these agreements, however, the issue of financial regulation has shown that the G20's organizational structure has some limitations that stand in the way of its efficiency.

Regime theory states that institutional cooperation can be problematic when participants are reluctant to delegate power and accept rules that limit their maneuvering capabilities, i.e. when they prefer low levels of centralization. Furthermore, realists and rational-functionalists agree that cooperation is more effective in rule-based institutions where there are effective enforcement mechanisms, such as monitoring and/or sanctions, as they can reduce transaction costs of cooperation. It appears that the low level of centralization, in combination with the non-binding agreements, has rendered cooperation within the G20 problematic. In chapter 4.4, observers believe that the lack of an enforcement mechanism for monitoring the behavior of members and ensuring implementation of agreements is a fundamental limitation of the G20 in terms of realizing its commitments. Thus, it appears that the G20's informal and non-legal structure has left it without an effective mechanism for ensuring compliance, and in the absence of such a mechanism, the G20 seems to lack teeth.

Moreover, realists argue that relative gains concerns and competing national interests impede extensive cooperation. Relative gains appear to have been a concern in the G20, as suspicion among G20 members regarding regulatory arbitrage has created further reluctance to implement financial regulation. It also appears that the increased membership of the G20, covering diverse cultures, interests, political and economic systems, and approaches to problem solving, has made it difficult for the G20 to reach consensus on policy objectives compared to the G7, which consisted of seven rather homogeneous and like-minded countries with similar political systems and values.

Rational-functionalists argue that information-sharing can reduce information deficits and serve to improve trust by reducing suspicion. In the absence of a permanent secretariat, the Sherpas and the Troika are responsible for collecting and sharing information, as well as coordinating meetings before and during the summits, while the IMF and FSB are responsible for monitoring. However, this information dissemination and monitoring does not appear to have reduced the suspicion among members regarding regulatory arbitrage, because the Sherpas and

Troika currently have no capability to monitor the behavior of members on a continuous basis, and the non-legal status of the G20 disables it to enforce or coerce implementation.

5.4 Hegemony versus cooperation

According to hegemonic stability theory, dominant powers create institutions during periods of hegemony. That the G20 was created by the U.S. and the G7 countries in a process that is considered to be secretive and undemocratic, and the criticism that has been raised regarding a presumed dominance of G7 countries within the G20, could be interpreted as an indication that there is U.S. and G7 hegemony within the G20. However, the realist argument that the hegemon stabilizes cooperation does not receive empirical support. On the issue of financial regulation, it appears that there have been widespread disagreements and the U.S. has acted unilaterally on this issue rather than leading the members toward consensus. Moreover, it appears that the EU has been unable to provide leadership within the G20 due to the recent crisis, in combination with the different interests of its member states. Hence, the disagreements on international financial regulation suggest that neither the U.S. nor G7 countries have been able to stabilize cooperation in the G20.

Furthermore, the argument in chapter 4.6 that the agenda of the G20 has been neo-liberal – referring to the stimulus packages and the decision of G20 members to keep markets open, can be related to the realist assertion that powerful states can present initiatives to which other states must adapt. However, I do not believe this to be the case, as the shift in relative capabilities from the global north to the global south and the increasing economic power and influence of emerging market economies – in particular China – has altered the balance of power in the world. Thus, the inclusion of emerging market economies in the G20 weakens the notion of U.S. and G7 hegemony.

Considering the discussion on a presumed G2 within G20, and keeping in mind the effects of the recent crisis on the EU's leadership ambitions, there seems to be more potential for an American-Sino hegemony than U.S. and G7 hegemony within the G20. But due to the potential of conflict between the U.S. and China against the

background of trade imbalances, and due to the wishes of the U.S. and China to embed their relationship within the framework of the G20, the G20 seemingly provides space for other members to influence outcomes – at least formally. Informally, the G20 is not necessarily an even playing field, because the votes of the U.S., China and, to a certain extent, G7 countries are likely to still carry significant weight in G20 deliberations.

Thus, it cannot be concluded that there is no hegemony within the G20. It appears that the G20 is balancing forces of hegemony and cooperation, and as both hegemonic and cooperative forces are at work simultaneously, the G20 may be viewed as an international institution that incorporates hegemony and a new form of informal cooperation. This phenomenon lends support to rational-functional logic of cooperation, because in order to provide collective problem-solving in an institution where hegemony is not absolute, it becomes necessary for the U.S., China and G7 countries to cooperate and well as to share power and decision-making with the other members in the G20. This view underlines the benefit of inclusiveness in terms of increasing the legitimacy and effectiveness of the G20.

5.5 The G20 as a global governance institution

Chapter 3.4 suggests that there is an inverse relationship between efficiency and legitimacy in terms of membership and the level of control. While the G20 fulfills the legitimacy requirement of a low level of control by relying on consensus voting, its restrictive membership goes against the legitimacy requirement of inclusive membership. It seems that this inverse relationship requires a trade-off between input legitimacy (representation and participation) and output legitimacy (effective problem-solving). The complexity of this trade-off underscores the difficulty of designing a global governance body that is globally representative and legitimate, yet at the same time effective.

While both the G7 and the G20 have restrictive memberships and rely on consensus voting as a decision-making principle, the G20 appears to have higher input legitimacy than the G7, because it has wider participation by including emerging market economies in its membership. Taking into account the criticism directed toward the G7's presumed inability to deal with global economic matters

alone, as the economic power and influence of emerging economies is increasing, some observers seem to believe that the inclusion of emerging economies in the G20 also makes it more effective than the G7 in terms of collective problem-solving, i.e. gives it higher output legitimacy. However, while the G20 has been able to operate effectively within a diverse group of 20 leaders in some areas (see chapter 4.3 and 5.4), the heterogeneity among its members, in combination with its low level of centralization and high flexibility (no binding rules), has rendered cooperation problematic in the area of financial regulation. Against this background, it becomes unclear whether the G20 really has higher output legitimacy than the G7.

Although the G20's membership has a geographical representation that mirrors the power realities of today's world, it does not, however, reflect the concerns of all 192 member countries of the U.N., in particular smaller developing countries. Thus, as the universal U.N. has a more inclusive membership than the G20, it has higher input legitimacy. Meanwhile, the U.N. can be considered too large and bureaucratic to allow for effective collective action, which is why the restrictive membership of the G20 makes it more efficient than the U.N. and gives it higher output legitimacy.

Keeping in mind the inverse relationship between efficiency and legitimacy, and assuming that the global economy should be governed by a group larger (with higher input legitimacy) than the G7, yet smaller (with higher output legitimacy) than the U.N., then the G20 does not appear to be a bad bargain. This is not to say, however, that the G20 is the best solution to the global governance deficit to date. As the G20 was created by the U.S. together with the G7 countries, it remains a self-selected institution, and as it appears to have chosen its members based on their economic significance in the international economic system, its membership criteria lack transparency. In terms of its democratic qualities, the inclusion of non-democratic China, for example, as a member means that the G20 is not governed entirely by democratically elected leaders, which lends support to the democratic deficit criticism of the G20.

6 Conclusions

The purpose of this thesis has been to describe the G20's organizational structure, as well as to examine the advantages and disadvantages of this structure in terms of the efficiency and legitimacy of the G20. The G20 has a restrictive membership (it includes only systemically significant economies), a short scope of issues (it deals only with international economic affairs), a low level of centralization (it operates in the absence of bureaucratic structures), a low level of control (its decision-making principle is based on consensus voting), and high flexibility (it has no binding rules). By subordinating political criteria in favor of economic weight, it appears that the G20 lacks principles, norms and rules for guiding the cooperative behaviour of its heterogeneous members. Therefore, rather than an international regime, the G20 may be viewed as an informal network where a concentrated club of 20 systemically significant countries coordinate their economic policies and cooperate on behalf of their countries.

In terms of effectiveness, the organizational structure of the G20 has enabled it to reach agreement in some areas. For example, the G20 coordinated stimulus packages to contain the recent crisis, it enhanced the role of the IMF, and it created the FSB. Despite these accomplishments, however, the G20's status as an informal and non-legal institution – due to the low level of centralization and the high flexibility – appears to threaten the effectiveness of the G20. As it currently lacks an effective enforcement mechanism for ensuring compliance to its agreements, the G20 seems to lack teeth. Despite information collection and dissemination by the Sherpas and the Troika, as well as monitoring from the IMF and the FSB, the lack of an enforcement mechanism seems to heighten suspicions of regulatory arbitrage, as well as to create further reluctance among G20 members to implement international financial regulation.

On the note of leadership, notions of U.S. and G7 hegemony are weakened by, among other things, the negative effects of the recent crisis on the EU's leadership ambitions, disagreements on the issue of financial regulation, and the inclusion of systemically significant emerging economies in the G20, meaning that the G20 mirrors the new power realities of today's world. Meanwhile, notions of a G2 in

G20 are weakened by the potential of conflict between the U.S. and China against the background of massive trade imbalances. As the U.S. and China have expressed their wish to invest in their relationship within the framework of the G20, there appears to be space for other members to influence outcomes in the G20 – at least formally. Informally, there is still reason to believe that the votes of the U.S., China and G7 countries carry significant weight in G20 discussions. Thus, as the G20 appears to be balancing forces of hegemony and cooperation, it may be viewed as an international institution that simultaneously incorporates both hegemony and informal cooperation.

It appears to be a complex task to design a global governance body that is both legitimate and effective, considering the inverse relationship between legitimacy and effectiveness. The G20 has higher input legitimacy than the G7, due to a wider membership, and higher output legitimacy than the highly bureaucratized U.N. due to a more restrictive membership. However, the G20 does not reflect the concerns of all 192 member countries of the U.N., despite including systemically significant emerging economies, which gives the U.N. higher input legitimacy than the G20.

Although the G20 has higher input legitimacy than the G7 and higher output legitimacy than the U.N., the G20 is not the best solution to the global governance deficit to date. Among other things, it remains a self-selected institution, its membership criteria lack transparency, and the inclusion of non-democratic China, for example, lends support to the democratic deficit criticism of the G20. To increase its geographical representation and input legitimacy, the G20 could invite countries outside of the G20 to attend summits on particular areas of interest on an ad-hoc basis. By using variable geometry for different subjects, different countries could attend the summits. And to increase its global authority in global economic governance, i.e. its output legitimacy, it appears that the G20 needs to increase the level of centralization and lower its flexibility (introduce more binding rules). The creation of a permanent secretariat could assist in coordinating future summits, as well as monitoring and evaluating implementation of G20 decisions, while binding rules could reduce problems of compliance created by the absence of an effective enforcement mechanism.

6.1 Suggestions for further research

Further research could focus on developing concrete ideas and recommendations for how the G20 can increase its input legitimacy without becoming too big of a group to allow for effective collective action. Another research option could be to develop a set of recommendations or guidelines for how the G20 can enhance its institutional design to enable the G20 to ensure compliance of its policy agreements.

7 References

- Antonopoulou, Sophia N., 2010. *The Global Financial Crisis*, pp. 1-24 in *The International Journal of Inclusive Democracy*, 2010. Volume 5, no. 4 and Volume 6, no. 1.
- Arner, Douglas W., 2011. *Adaptation and Resilience in Global Financial Regulation*, pp. 101-148 in *North Carolina Law Review*, 2011. Volume 89.
- Baylis, John – Smith, Steve – Owens, Patricia, 2008. *Introduction*, pp. 1-13 in Baylis, John – Smith, Steve – Owens, Patricia (ed.), 2008. *The Globalization of World Politics: An Introduction to International Relations*. Fourth Edition. New York: Oxford University Press.
- Beeson, Mark – Bell, Stephen, 2009. *The G-20 and International Economic Governance: Hegemony, Collectivism, or Both?*, pp. 67-86 in *Global Governance*, 2009. Volume 15. Lynne Rienner Publishers.
- Bonciu, Florin, 2009. *The Global Economic Crisis and G20 Summit of April 2009: A Step Forward Towards Better Global Governance Or Global Government?*, pp. 46-53 in *Romanian Journal Of European Affairs*, 2009. Volume 9, no. 2.
- Bryman, A. – Bell, E., 2005. *Företagsekonomiska Forskningsmetoder*. Liber: Studentlitteratur.
- Ciceo, Georgiana, 2010. *Reshaping the Structures of Global Governance. What Lessons are to be Learnt from the Latest Financial Crisis?*, pp. 116-130 in *Annals of University of Oradea, Series: International Relations and European Studies*. Institute for Euroregional Studies Oradea-Debrecen.
- Cohen, Benjamin J., 2004. *The Triad and the Unholy Trinity: Problems of International Monetary Cooperation*, pp. 245-256 in Frieden, Jeffrey A. – Lake, David A. (ed.), 2004. *International Political Economy: Perspectives on Global Power and Wealth*. Second Edition. London and New York: Routledge.
- Cooper, Andrew F., 2010. *The G20 as an improvised crisis committee and/or a contested “steering committee” for the world*, pp. 741-757 in *International Affairs*, 2010. Volume 86, no. 3. Blackwell Publishing Ltd/The Royal Institute of International Affairs.

- Elson, Anthony, 2010. *The Current Financial Crisis and Reform of the Global Financial Architecture*, pp. 17-36 in *The International Spectator*, 2010. Volume 45, no. 1. London: Routledge.
- Garrett, Geoffrey, 2010. G2 in G20: *China, the United States and the World after the Global Financial Crisis*, pp. 29-39 in *Global Policy*, 2010. Volume 1, no.1. London School of Economics and Political Science and John Wiley and Sons Ltd.
- Globalization and Summit Reform, 2008. *Genesis of the L-20 Project*, pp. 1-5 in *Globalization and Summit Reform*, 2008. International Development Research Centre.
- Heine, Jorge, 2010. *Will they have table manners? The G20, emerging powers and global responsibility*, pp. 1-11 in *South African Journal of International Affairs*, 2010. Volume 17, no. 1. Routledge.
- Held, David – Koenig-Archibugi, Mathias, 2007. *Introduction*, pp. 1-7 in Held, David – Koenig-Archibugi, Mathias (ed.), 2007. *Global Governance and Public Accountability*. Second Edition. Blackwell Publishing.
- Kirton, John, 2005. *From G7 to G20: Capacity, Leadership and Normative Diffusion in Global Financial Governance*, pp. 1-33 in *International Studies Association*, 2005. Paper prepared for a panel on *Expanding Capacity and Leadership in Global Financial Governance. From G7 to G20*, International Studies Association Annual Convention, March 1-5, 2005, Hawaii.
- Kirton, John, 2010. *Assessing G8 and G20 Performance, 1975-2009*, pp. 1-22 in *International Studies Association*, 2010. Paper prepared for a panel on the *Relevance and Legitimacy of the G8 and G20* at the annual convention of the International Studies Association, New Orleans, February 17-20, 2010.
- Koremenos, Barbara – Lipson, Charles – Snidal, Duncan, 2001. *The Rational Design of International Institutions*, pp. 761-799 in *International Organization: The Rational Design of International Institutions*, 2001. Volume 55, no. 4.
- Langmore, John – Fitzgerald, Shaun, 2010. *Global Economic Governance: Addressing the democratic deficit*, pp. 390-393 in *Society for International Development*, 2010. Volume 53, no. 3.

- Lesage, Dries, 2010. *The G8 and G20: How Far Can the Parallel Be Drawn?*, pp. 93-98 in *International Organisations Research Journal*, 2010. Volume 31, no.5.
- McGrew, Anthony, 2008. *Globalization and Global Politics*, pp. 14-33 in Baylis, John – Smith, Steve – Owens, Patricia (ed.), 2008. *The Globalization of World Politics: An Introduction to International Relations*. Fourth Edition. New York: Oxford University Press.
- Moschella, Manuela, 2010. *Delegation to and Discretion for the Financial Stability Board and the G20: Transaction Costs or Legitimacy Concerns?*, pp. 1-31 in *GARNET*, 2010. Working Paper no. 75/10.
- Moshirian, Fariborz, 2010. *The global financial crisis and the evolution of markets, institutions and regulation*, pp. 502-511 in *Journal of Banking and Finance*, 2010. Volume 35. Elsevier B.V.
- Norton, Joseph J., 2010. *NIFA-II or “Bretton Woods-II”? The G-20 (Leaders) summit process on managing global financial markets and the world economy – quo vadis?*, pp. 261-301 in *Journal of Banking Regulation*, 2010. Volume 11, no. 4. Macmillan Publishers Ltd.
- Payne, Anthony, 2010. *How many Gs are there in “global governance” after the crisis? The perspectives of the “marginal majority” of the world’s states*, pp. 729-740 in *International Affairs*, 2010. Volume 86, no. 3. Blackwell Publishing Ltd/The Royal Institute of International Affairs.
- Persaud, Avinash, 2010. *The locus of financial regulation: home versus host*, pp. 637-646 in *International Affairs*, 2010. Volume 86, no. 3. Blackwell Publishing Ltd/The Royal Institute of International Affairs.
- Reiter, Joakim – Jönsson, Christer, 2002. *Handelspolitik i Teori och Praktik*, pp. 19-47 in Reiter, Joakim – Jönsson, Christer (ed.), 2002. *Handelspolitik i förändring: Organisation och Förhandling i Sverige, EU och WTO*. Stockholm: SNS Förlag.
- Risse, Thomas, 2007. *Global Governance and Communicative Action*, pp. 164-189 in Held, David – Koenig-Archibugi, Mathias (ed.), 2007. *Global Governance and Public Accountability*. Second Edition. Blackwell Publishing.
- Robertson, Alexa, 2009. *Internationellt Samarbete*, pp. 239-257 in Gustavsson, Jakob– Tallberg, Jonas (ed.), 2009. *Internationella Relationer*. Second Edition. Lund: Studentlitteratur.

- Saccomanni, Fabrizio, 2010. *Turning the Page on an Era of Irresponsibility*, pp. 5-15 in *The International Spectator*, 2010. Volume 45, no. 1.
- Simmons, Beth A. – Martin, Lisa L., 2005. *International Organizations and Institutions*, pp. 192-211 in Carlsnaes, Walter – Risse, Thomas – Simmons, Beth A. (ed.), 2005. *Handbook of International Relations*. Third Edition. London, Thousand Oaks, New Delhi: SAGE Publications.
- Soederberg, Susanne, 2010. *The Politics of Representation and Financial Fetishism: the case of the G20 summits*, pp. 523-540 in *Third World Quarterly*, 2010. Volume 31, no. 4. Routledge.
- Tallberg, Jonas, 2006. *Internationellt Samarbete*, pp. 195-215 in Gustavsson, Jakob – Tallberg, Jonas (ed.), 2006. *Internationella Relationer*. First Edition. Lund: Studentlitteratur.
- Tallberg, Jonas, 2009. *Internationellt Samarbete*, pp. 197-217 in Gustavsson, Jakob – Tallberg, Jonas (ed.), 2009. *Internationella Relationer*. Second Edition. Lund: Studentlitteratur.
- Teorell, Jan – Svensson, Torsten, 2007. *Att fråga och att svara*. First Edition. Malmö: Liber.
- Woods, Ngaire, 2008. *International Political Economy in an Age of Globalization*, pp. 242-259 in Baylis, John – Smith, Steve – Owens, Patricia (ed.), 2008. *The Globalization of World Politics: An Introduction to International Relations*. Fourth Edition. New York: Oxford University Press.
- Woods, Ngaire, 2010. *Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?*, pp. 51-63 in *Global Policy*, 2010. Volume 1, no. 1. London School of Economics and Political Science and John Wiley and Sons Ltd.
- Zaring, David, 2010. *International Institutional Performance in Crisis*, pp. 475-504 in *Chicago Journal of International Law*, 2010. Volume 10, no. 2.
- Zürn, Michael, 2005. *From Interdependence to Globalization*, pp. 235-254 in Carlsnaes, Walter – Risse, Thomas – Simmons, Beth A. (ed.), 2005. *Handbook of International Relations*. Third Edition. London, Thousand Oaks, New Delhi: SAGE Publications.