

OVERARCHING VISION

Can the G20 Save Globalisation?

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Abstract

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Globalisation is in crisis. The German Presidency of the G20 in 2017 faces an unprecedented challenge. The G20 cannot save globalisation on its own, but it can play a vital role in finding and facilitating the necessary solutions. This Policy Brief analyses why the G20 is well-suited to taking on this task, how it might do so, and the pitfalls it must avoid.

- Globalisation is worth saving, but it needs to be reformed. The G20 might be the ideal forum to achieve this. Its strengths lie in its origins as a crisis management group, its flexible structure, and the critical mass of countries that it brings together along with its outreach processes.
- A G20 negotiation to rescue globalisation could take three shapes: a) Multilateralism is revitalised and globalisation duly reformed b) multilateralism is diminished and we get a lower-scale but renegotiated globalisation c) multilateralism ends and de-globalisation ensues.
- The G20 needs high-level individual and collective political commitment combined with sound issue-specific technical measures to renegotiate the bargain on globalisation. It also needs to address its legitimacy deficit while retaining its efficiency and flexibility.
- The German presidency offers a unique opportunity to make the most of the G20 process and help solve the current crisis.

Policy Implications

For the G20 to successfully address the crisis of globalisation, three measures are important:

a) Visionary leadership from the highest political levels b) issue-specific and research-backed technical solutions c) attention to enhancing the legitimacy of the group through existing outreach processes and greater inclusiveness towards non-members.

Challenge

G20 and Globalisation

Globalisation is in crisis – witness the anti-free trade rhetoric and policies of President Trump, the referendum in favour of Brexit, and the rise of Right-wing populist movements across different countries. The German Presidency of the G20 in 2017 faces an unprecedented challenge. While the G20 – on its own – cannot rescue globalisation, it can play a critical role in finding the necessary solutions. In this paper, I explain why the G20 may be particularly well-equipped to do so, how it might go about it, and the pitfalls that it must avoid if it is to successfully fulfil its potential.

This Policy Brief proceeds in five sections. It offers a brief analysis of the problems that globalisation is confronted with today, and presents the case in favour of saving it (albeit in a reformed version). It then explains why the G20 might be one of the few institutions still capable of doing so, despite its limitations and also the critiques that have been directed against it. In the third step, I explore three scenarios – ranging from the most optimal in terms of global welfare and the least – which are related in good measure on the position that the US adopts, and the strategies that Germany and other G20 members use. The fourth section highlights the risks in this process. The fifth and final section explains why the fact that we have a German Presidency of the G20 might turn out to be particularly important in the current context.

Proposal

1. The Case for Saving Globalisation

Globalisation – the increasing integration among countries and peoples via the movement of goods, services, capital, labour, images and ideas across borders – faces a widespread backlash of unprecedented ferocity today. Britain’s decision to leave the European Union (EU), and US President Donald Trump’s sustained anti-free trade rhetoric, are both striking examples of this backlash. The recurrence of deadlocks in multilateral trade negotiations is another example, as is the case of the Trade and Investment Partnership (TTIP) that has been declared dead by the US and European members even before it was born. Just as serious is the growing popularity of Right-wing nationalist movements across Europe. In developed and developing countries, pundits and activists point to rising income inequalities, and argue that globalisation is failing the world’s poorest and weakest people. Is globalisation really worth saving, in spite of these accusations? The answer is an emphatic yes.

The economic data is unambiguously clear: globalisation has generated growth and prosperity for all countries at an aggregate level. Several processes that constitute globalisation help increase the size of the collective economic pie at a global level and also among the countries that participate in these processes. But within countries the picture is much more mixed. Many competitive sectors and - consumers gain from globalisation, while specific groups often lose out. The losses can be especially costly and pernicious if there are no mitigating national policies in place, which ensure a transfer of a share of the winnings of globalisation to those hardest hit by it. It is the discontent of these groups that fuels the anti-globalisation movement today, and generates the adverse consequences highlighted in the above paragraph. If anti-globalisation does indeed result in de-globalisation – and de-globalisation is far from an impossibility¹ – the costs will be high for the system as a whole. The global economic pie and also the national economic pies will decrease, leaving all countries worse off. And while everyone would be worse off by de-globalisation, the costs will be significantly higher for the poor than for the rich.

¹ Contrary to popular belief, there is nothing inevitable or teleological about globalisation. It is true that one of the drivers of globalisation – technological innovation – will likely retain its momentum; this aspect of globalisation is thus more resilient. But a great many areas of globalisation are driven by policy decisions and choices. In these cases, the threat of de-globalisation is very real. For example, governments can still put up trade barriers and thereby severely restrict the flow of goods and services; they can tighten border controls to curtail the movement of labour; and they can put regulations in place to control investment to reduce capital flows. The resulting dramatic reduction in the flow of goods, services, labour and capital would be an example of de-globalisation.

If de-globalisation is to be avoided, a new multilateral bargain needs to be struck on a reformed globalisation. Such a bargain must do all of the following:

- a) Facilitate a fundamental rethinking of the goals of international cooperation, particularly which global public goods key powers are willing to provide;
- b) include the marginalised many (i.e. countries that have lacked agenda-setting power in shaping globalisation thus far, and also excluded groups in developed and developing countries) in this process of rethinking, rather than be restricted to the global elite of powerful countries;
- c) ensure that any new international rules have sufficient policy space within them to both allow and encourage countries to take on the necessary domestic measures that distribute the gains of globalisation more evenly, as determined by the state-specific social contracts;
- d) be backed by a knowledge-based consensus that is clearly communicated to various stakeholders, and one that offers solid facts and arguments to balance against the often ill-informed but consistently passionate intensity of the anti-globalisers.

This is a tall order, and one that formal international organisations have failed to deliver by large margin. The abysmal progress of the Doha negotiations in the World Trade Organisation (WTO) is one case in point. Certainty of deadlock has paralysed the United Nations Security Council on critical issues such as conflict in the Middle East, leading players of different sizes and types to resort to ruthless power politics in the region. Even the EU – much more of a restricted membership club, and thus less divided by culture and norms than multilateral forums – has had very limited successes in securing more equitable burden-sharing on immigration. A constant state of deadlock and crisis not only undermines the credibility of these institutions themselves, but also threatens the post-war order of prosperity and stability that they were created to preserve. The machinery of global governance seems badly stalled. A turn to bilateralism and unilateralism provides no substitute because the global problems that we face today require coordinated global solutions. Could the G20 help?

2. The Potential of the G20

The G20 might be the ideal forum to take on these difficult tasks, which are necessary steps to renegotiating the globalisation bargain. This is so for three reasons.

First, one of the strengths of the G20 lies in its origins. The group – at the leaders' level – was created specifically to coordinate a response among the major economies on the financial crisis of 2008, which had originated in the US but was having rapid spillover effects worldwide.² The need of the day then was an “agile instrument” that could deal with “emergency economic problems” (Mantega 2008). The G20 proved itself adept in handling the immediate effects of the crisis. It provided a forum for the major economies to avoid the beggar-thy-neighbour policies that had greatly exacerbated the Great Depression in the 1930s. Instead, the G20 facilitated a coordinated response on fiscal stimulus, and helped improve financial regulation. While its subsequent efforts to expand into a “Steering Committee” for the global economy led to multiple criticisms along different lines (which appealed to different normative principles of legitimacy and efficiency) (e.g. Sidiropoulos 2011; Harris Rimmer 2015), its primary and original role as a “Crisis Committee” was much less contested (Cooper 2010). Today, given its original and successful record as a rapid-response, crisis-management group, the G20 may be particularly well-suited to address the crisis of anti-globalisation/de-globalisation that the world faces today.

² Note that the roots of the leaders' level G20 go back to 1999, when the G7 forum of finance ministers and central bank governors was expanded to the G20 in the aftermath of the Asian Financial Crisis of 1998.

The second comparative advantage of the G20 lies in its structure. Always intended as a flexible, rapid and improvised reaction force, it still does not have a permanent secretariat. Its mandate is relatively less regimented than the mandates of formal organisations. The particular country that takes over the Presidency, working in cooperation particularly with the preceding Presidency and the succeeding one (the “troika”), can take the initiative to set the agenda and address the most pressing problems of the time. The face-to-face contact among the leaders, amidst this relatively flexible institutional backdrop and relatively small numbers,³ can be key to trust-building and the exercise of collective leadership. This leader-level diplomacy (backed by the “sherpas” of each country) is accompanied by issue-based processes from different ministries. Depending on the specific issues that the particular Presidency wishes to address, these can include meetings of Finance Ministers, Foreign Ministers, Trade Ministers, Agriculture Ministers and so forth. The combination of leader-level summitry and issue-specific meetings is important because it can help achieve the right mix of visionary leadership and technical implementation.

Third, a necessary condition for successfully saving globalisation by renegotiating it is to have a critical mass of economies on board, even though it is not a sufficient condition. The G20, despite its relatively small number of members, provides this critical mass: together, its members constitute over 80 per cent of world trade and two-thirds of the world’s population. This is a good starting point from an efficiency perspective. Importantly, however, partly in response to some scathing criticisms about its legitimacy (e.g. Aslund 2009), the G20 has also improved its “outreach processes” over the years. Via processes such as T20 (Think 20), C20 (Civil Society 20), B20 (Business 20) and so forth, the G20 has the possibility to gain valuable inputs from non-state actors. While there still remain issues of legitimacy, which I address in Section 4, suffice it to note here that the G20’s networked diplomacy potentially offers more voice to non-state actors – that is to a large proportion of those same stakeholders who have expressed their extreme disillusionment with globalisation – than most other formal international organisations. If it were to use these networks effectively, it could help build a new and sustainable global bargain.

3. Renegotiating Globalisation in the G20

As a relatively lean group that is structurally constituted to combat crisis, and one that brings together critical mass as well as outreach, the G20 may be our best hope. But the crisis that the G20 was created to manage – the 2008 financial crisis – differs from the crisis that globalisation faces today in two ways. First, in 2008, the US had played a major role in triggering the financial crisis, but it also wanted to be a part of the solution. Deep interconnectedness and the risk of contagion made other powers also willing to share the burden of crisis resolution and stabilisation. Today, however, the US is much less engaged; other powers, while willing to still share some burdens, have not shown themselves to be capable or willing to fill the hegemonic vacuum that seems to be emerging. Second, in 2008, one of the reasons why the G20 was able to catalyse sustained crisis management strategies (in contrast to the 1930s) was because of the existence of supportive international organisations (such as the International Monetary Fund, the WTO, and the Financial Stability Forum that became the Financial Stability Board in 2009). In 2017, these international institutions have become greatly

³ The G20 membership comprises 19 states, plus the EU, in contrast to 164 members in the WTO and 193 in the United Nations

weakened as, for example, is the case with the WTO whose credibility has been severely dented by its recurrent deadlocks. This altered context makes the G20's tasks much harder to fulfil. A G20 negotiation to rescue globalisation could thus take the following three shapes, with the first being the most conducive to stability and prosperity, and the last the least so.

3.1 Multilateralism Revitalised, Globalisation Reformed

To achieve the first scenario, a necessary condition will be a renewed commitment of the US to the globalisation agenda and the institutions of global governance that underpin it. Other players in the G20, particularly European member-states, the EU, and the rising powers, could play a constructive role in influencing this outcome, in four immediate ways.

First, all the other players – but especially the European states and the rising powers – could reassure the US by agreeing to greater burden-sharing (akin to the strategies that some European countries are now employing with reference to NATO). Second, these same players – but especially the rising powers whose trade policies have been relatively more protectionist – could offer greater market opening via the reduction of tariffs and non-tariff barriers. This was part of the Doha agenda – a wide-ranging trade round that was not restricted to addressing development concerns but also included some gains for the developed countries – but the WTO failed to deliver. These two steps – of burden-sharing and market opening – would be important in challenging the argument that appeared so forcefully in the US elections last year, but has also been simmering away in many other countries, that globalisation has somehow shortchanged some countries and unfairly benefited others. Third, the globalisation discourse would also need very significant reworking. For instance, it would be very important to demonstrate that a globalised economy is not at odds with an “America First” policy; rather, globalisation produces win-win situations, whereas de-globalisation is a certain recipe for reducing national welfare. The G20 could play an important part in shaping this discourse, particularly with the assistance of solid facts grounded in scholarship. In this context, the T20, which brings in expertise from research institutes and think tanks, could prove to be a valuable resource that G20 leaders could draw on.

Finally, all member states of the G20 must carefully consider the national policies they want to put in place to ensure that the gains of globalisation are shared within their societies. These policies depend on the political cultures of individual countries, and thus cannot be directly regulated by the G20. But working with the C20, that ensures the participation of civil society, the G20 can have a useful impact in norm creation on the broader issue of equitable growth and development, even as member states work out internally the specific strategies to achieve these goals.

Together, these four steps could help bring disenchanted players – including the US – back to the negotiating table, breathe new life into the faltering institutions of global governance, and pioneer a reformed globalisation whose gains are better shared across and within countries.

3.2 Multilateralism Diminished, Globalisation Renegotiated

If the US fails to re-engage, despite the incentives offered under scenario 1, the international system of rules could still be preserved and globalisation could still be renegotiated. This is because the US, while still the largest economy in the world, is no longer in a position of the overwhelming predominance that it enjoyed in the post-World War II era. But there is no getting around the fact that

any bargains struck with the US on the margins would be, at best, a “diminished multilateralism” (Rüland 2012), which would generate a reduced economic pie to be shared among the involved parties. The resulting bargain would not fully revitalise globalisation, but it would allow globalisation to still be constructively renegotiated.

All the four steps outlined under scenario 1 would be just as relevant for scenario 2. Additionally, however, a more concerted effort would be necessary from the remaining members of the G20 to signal their united commitment to the renegotiated bargain on globalisation. Supporting institutions would need to be reinforced and buttressed, for example by strengthening the EU (all the more so in the face of Brexit) and by G20 countries returning to the negotiating table at the WTO and finding new ways to break its deadlocks. Individual countries would have to show leadership, much along the lines that the Chinese president displayed at the World Economic Forum; leadership, moreover, requires not only talking the talk of economic integration but also walking the walk. It is difficult to see how far Scenario 2 could be sustained without at least some consensus on shared values – and this consensus would need to be more deep-rooted among relatively equal partners (than in a hegemonic system that is maintained through a mix of factors ranging from coercion to persuasion, and large allowances for free-riding). Such a consensus will not be easy to forge amidst the diversified membership of the G20, which includes players who have challenged the Western liberal order on normative, geopolitical and economic terms. But here also, were the G20 to use its underlying structural logic to rewrite the globalisation bargain – drawing on the different visions of order that members bring – new red lines would emerge but so would new negotiation space (Narlikar 2016; Narlikar and Plagemann 2016).

3.3 Multilateralism Ended, De-Globalisation Follows

This third scenario is the most likely result of inaction. It is also a likely result if the G20 fails to counter the small but real risk that several of its other members emulate the UK and the US, and give in to short-term populist measures of pulling out of trade deals and other long-standing agreements that promote economic integration. This outcome would be sub-optimal for the individual countries themselves, and would almost certainly have an adverse effect on jobs, productivity, and consumer welfare (i.e. all the problems that such populist measures claim to address would, in fact, be exacerbated). And if a critical mass of G20 countries engages in such behaviour, these negative effects would multiply considerably via retaliatory beggar-thy-neighbour policies. A further casualty would be the severe denting of the already fragile credibility of international organisations. A downward spiral of de-globalisation would ensue. The resulting losses would be high for the system as a whole, but they would be especially high for its poorest people (in both developed and developing countries).

4. Pitfalls to Avoid

If the G20 is to successfully renegotiate globalisation, three potential pitfalls must be avoided.

First, the G20’s negotiated outcomes take the shape of public declarations of its leader-level summitry on the one hand, and detailed reform proposals of supporting technocrats on the other. The temptation to focus mainly on technical aspects of solutions can be especially high when one is faced with a populist resurgence because meticulous detail can help ground impassioned debates in well-researched facts. But even the most carefully constructed, technocratic, issue-specific solutions will fail to address the crisis of globalisation if visionary political leadership is not forthcoming. The effectiveness of this level was most clearly demonstrated in the aftermath of the 2008 financial crisis,

when the commitment to keep markets open and inject much-needed stimulus into them could not have been taken on by even the most skilled technocrats (such as Central Bank officials) on their own. Leader-level involvement can – and indeed did in the early years of the G20 – insert a certain va va voo into otherwise esoteric economic negotiations, and help build public interest and stakes in their success. The commitment of the leaders’ level was also crucial in the implementation stage in three ways: ensuring a balance of gains and adjustment pain within their national economies (something that could not be achieved within issue-specific silos); selling these policies to their populations; and building trust among countries to reduce the risk of defection from agreements for short-term individual gain that would have resulted in collective losses. This is precisely what makes the leaders’ level G20 so important, and presents us with a great opportunity. Every effort should be made to harness this opportunity in Hamburg to ensure that heads of state clearly signal – and concretely engage – with the task of sustaining an updated and reformed globalisation.

That said, the second pitfall to avoid for the G20 is to allow a weakening of its technocratic base. Carefully conceptualised detail must underpin any measures that the leaders recommend. Without this commitment to detail, and associated operationalisation, even the flashiest summits risk relegation to becoming little more than photo opportunities and what game theorists refer to as “cheap talk.” The G20 has a record of quite successfully combining leader-level diplomacy with issue-specific mandarin diplomacy in the immediate aftermath of the 2008 financial crisis. The institution, which brings together high-level summitry (of heads of states but also individual summits of specific ministries) with the sherpa process and also various outreach processes, is structurally conducive to facilitating this. But as with most international institutions, the G20 needs to avoid the risk of “mission creep” and instead stick to a small set of critical issues that are key to preserving the benefits of globalisation and mitigating its adverse effects. Exercising some self-discipline and restraint in mandate expansion is important because it prevents institutions from being saddled with unfair expectations, and also allows them to be held to account. Addressing the crisis of globalisation provides the G20 with a valuable opportunity to return to the fundamentals.

Very importantly, these technical details must be clearly communicated to all stakeholders. Such communication needs to be backed by explanations as to why recommended reform measures are necessary, what benefits they bring to the different constituencies, and how associated costs will be dealt with. Recurrent failures to do this in the past – across international institutions – have contributed significantly to the anti-elite and anti-expert sentiment that accompanies most populist drives (including the Brexit) and to the turn away from liberal institutionalism.

Third, and related to the above point: not even the most efficacious balance of visionary leadership and careful attention to technical detail will save globalisation if the G20 lacks legitimacy. This is one of the most serious accusations that has been repeatedly levelled against the institution, especially as its mandate has expanded beyond the crisis management strategies of the early years. This is why both political proclamations and technical proposals must be clearly communicated to all stakeholders. The outreach process contributes towards improving both the input and output legitimacy of the G20 as far as stakeholders within member countries are concerned. But this is not enough. The G20 – even if it were to come up with the best ideas, in consultation with all its outreach groups – must find a way of including the many countries that are not members. This does not mean direct representation for all countries (which, in fact, would drastically undermine the efficiency of the group). Rather, it requires retaining the relatively small member character of the institution, but also ensuring a

consultation and feedback process with non-members. The G20 already does this partly by inviting representatives of regional groupings like the Association of Southeast Asian Nations (ASEAN) and the African Union to its meetings. Heads of international organisations such as the WTO, the World Bank, the International Monetary Fund (IMF), the Financial Stability Board (FSB), and the International Labour Organization (ILO) are also invited to some of the consultations in advance of the summit. But more could be done to improve the inclusiveness of the group without undermining its efficiency. For example, member countries could take it upon themselves to work in coalitions, and thereby bring in the views of non-member allies to the High Table. There may perhaps even be some merit in the G20’s reconceptualisation of itself from a self-proclaimed self-appointed “premier forum” (Leaders’ Statement 2009) for international economic cooperation to something more modest but also more effective and inclusive that serves as a “hub” of global economic governance. Such a hub model – via processes of internal and external consultations and networks – could bestow far greater legitimacy and sustainability to its proposals than is currently enjoyed by any other international institution.

5. Why a German Presidency Could Make a Difference

A German Presidency of the G20 should offer us considerable hope, especially given the severity of the crisis that globalisation faces today.

First, Germany is not only a major economy, but it has a well-deserved reputation of being an effective and reliable negotiator (as illustrated, for instance, in the role that it played in the Iran negotiations).

Second, the theme of this Presidency, “Shaping an Interconnected World”, offers much potential for the needs of the day, especially if one places emphasis on “shaping.” The subjects covered are illustrated in the following table, and offer an interesting balance between order and stability on the one hand, and reform and change on the other. Germany, moreover, has been a de facto pioneer of an agenda of well-regulated globalisation; witness, for instance, its strong welfare state, its commitment to sustainable growth and development, and its relatively strong regulations on internet governance. A reformed globalisation will need to include at least some such elements, which allow us to preserve the international peace and prosperity that comes with open markets but also to curb the domestic discontent and inequality that unregulated open markets can exacerbate. The German economy may offer the G20 some useful generalisable ideas.

Table 1. Topics of the G20 Summit, 2017

Building Resilience	Improving Sustainability	Assuming Responsibility
World Economy	Climate and Energy	Tackling the Causes of Displacement
Global Trade	The 2030 Agenda	Partnership with Africa
Employment	Digitalisation	Fighting Terrorism

Financial Markets / International Financial Architecture	Health	Anti-Corruption
Tax Cooperation	Empowering Women	Agriculture / Food Security

Source: *The Federal Government (2016)*.

Third, Germany is also the country where discourse flourishes, and where deliberative democracy is taken very seriously. These are valuable assets to have at hand, when one is trying to improve the legitimacy and inclusiveness of an institution like the G20, without destroying its efficiency.

Finally, if the G20 is to save globalisation, it needs to combine self-assuredness with self-critique on how leaders and experts have collectively managed economic integration over the past many decades.⁴ The material and normative worth of globalisation needs to be properly recognised and acknowledged, but several of its processes also need to be improved. Germany seems to bring this mix of approaches very patently into international negotiations, and much more so than the triumphalism that one sees with some other established and rising powers. This G20 process could go a long way in setting the right agenda across member countries and international organisations, were it to adopt a similar mix of self-assuredness and self-critique as it takes on this challenging task.

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⁴ State Secretary Markus Ederer highlighted the importance of both values in approaching global problems; Munich Security Conference, Agenda-Setting Kick-off meeting, 13 February 2017.

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