Multipolarity Without Multilateralism? A Brewing Crisis Within the G20

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At the meeting of G20 finance ministers and central bank governors in Bengaluru on February 25, 2023. Photo: Twitter/@g20org

analysis

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It's been two years since the G20 announced a blueprint for creditor countries to cooperate on debt relief for low-income nations. Not only there is no relief, the agreement on debt relief instead emerged as yet another front in a bitter geopolitical tussle between the US and China.

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The G20 finance ministers are meeting in India now. This meeting is significant for not just G20 countries but also other nations (especially low-income economies).

Back in November 2020, the Group of 20 finance ministers, in a pandemic-era fright, announced a final blueprint plan for the US, China and other relatively new creditor countries like India to cooperate on debt relief for more than 70 low-income nations, facing a collective $326 billion burden, agreeing to deliver it in a "timely and orderly" way.

Now, two years later, the agreement as historic as it was, according to *Bloomberg*, now looks increasingly fragile, with debt relief emerging yet another front in an increasingly bitter geopolitical tussle between the US and China.

If the G20 finance ministers this week can break the deadlock, it could unlock restructurings in Sri Lanka and Zambia – those worst affected by sovereign debt defaults, helping them with immediate aid – while also renewing hope for other nations (like Ghana and Pakistan) seeking desperate debt-relief measures.

Also read: Debt in Developing World, Crpyto, Inflation to Figure Prominently in G20 Finance Ministers' Meet

A larger concern that stems from the gridlock seen in the way G20 functions is evident from the fact countries like Zambia and Sri Lanka appear just as "pawns" in the global cold war seen between the West (anchored by the US) with China and much of the developing world.

At the centre of the current standoff on ensuring debt relief by the G20 are Chinese demands that loans made by the World Bank and other multilateral lenders be included in any "restructuring". That's driven by a dominant Chinese or anti-West view of seeing those institutions as proxies for US power. And somewhere those concerns are understandable.

Chinese and US flags flutter outside a company building in Shanghai, China April 14, 2021. Photo: Reuters/Aly Song/File

In a paper written by Robert Hunter Wade, almost two decades ago, Wade warned of the consequential effects of the coercive US hegemony and the fight seen in the geopolitical landscape over people and ideas, especially in the governing dynamics of most Bretton Woods Institutions like the World Bank, IMF, GATT (later WTO).

Wade made scholars of international relations and economic policy observers aware, way back in the late 1990s, that despite a multipolar world, seen with the rising growth and geo-political influence of developing countries like China and India (and a greater weight of investment in the Global South), multilateralism (or multilateral cooperation) may wane – and interstate conflict may increase. A lot of which may have to do with the residual effects of American hegemonic influence.

US hegemony over ideas versus interests

For context, hegemony may refer to a dominant group's ability to make others want the same thing as it wants for itself.

As per Wade, it rests upon a substantive pillar of the belief that the system of rule created by the dominant group brings material and other benefits to all or most participants and that the feasible alternatives are worse, and a procedural pillar of the belief that the processes and procedures of the dominant system of the rule are fair and appropriate and will be enforced on the dominant group as well as the subordinate group. But the requirements may undermine each other – and this is the hegemon's dilemma.

US intervention in multilateral organisations to strengthen the substantive pillar – the organisations' commitment to the idea of mutual benefits from free markets – came at the expense of the procedural pillar, by breaking collectively legitimated rules of, for example, personnel selection or research independence; and vice versa.

Wade's earlier work helped explore US-World Bank relations in the context of US efforts to influence the statements made by the incumbents of two important ideas controlling positions in the World Bank, the chief economist, and the director of the World Development Report. One can see the firing of chief economist Joseph Stiglitz and the resignation of the director of the World Development Report 2000, Ravi Kanbur, as classical historical case studies to substantiate this.

One can see such acts in context to the broader conclusions drawn about: how US hegemony works; about the extent of World Bank autonomy (and other Bretton Woods Institutions may be similarly affected), and about the debate on development agendas.

It was precisely for reasons such as this that new informalised, plurilateral arrangements like the G20, more as a club, came about and were expected to manage frictions and mediate between the current interests of the developing world vis-à-vis the ideas and interests of the industrially developed Global North.

Still, what we are unfortunately seeing now is a classical multipolar governance model dilemma, which scholars like Wade had warned of.

According to Wade: "(While) Multipolarity generates a higher premium on policy cooperation between sovereign states than a unipolar system does; but larger numbers of states with larger differences in their preferences, interests and beliefs make cooperation more difficult to achieve and sustain. This (would) lead to a *multipolar governance dilemma*".

The current evidence on the nature of inter-state conflict observable between bigger powers like China-US and others, in terms of failing to arrive at a consensus or an implementable strategy for providing debt relief to poorer, less powerful nations in need, is a case in point. The issue of climate financing between the Global North and South, as another case in point, remains another thorn in the flesh for these nations, where consensus building has remained difficult.

Why the G20 seems less *legitimate* and less *effective* now than before?

There are two issues here for the G20 group: a) of legitimacy, and b) of effectiveness. I rely again on Wade's earlier work to explain these points, which appear to be still relevant.

According to Wade, the G20 champions do not make a distinction between efficiency and legitimacy — indeed, the word legitimacy rarely passes their lips, and if pressed, they use it to mean no more than "representative" or "efficient."

Also read: Why the G20 Needs to Go Back to Its Roots

"They pirouette around questions about (1) the legitimacy of the process by which the twenty were selected, (2) the lack of explicit criteria for membership, (3) the principle of exclusive membership (with no rotation), and (4) the thinness of regional representation," observes Wade.

However, many states outside the G20 do question the G20's legitimacy. For example, the Norwegian foreign minister once even described it as "one of the greatest setbacks since World War II".

The UN, as the embodiment of the principle of inclusive multilateralism, was a centre of resistance to the upgrading of the G20 from finance ministers level to heads-of-government level, on grounds that the G20's self-selecting, exclusive, nonrotating membership breaks a fundamental principle of liberalism — universality.

On representation and US-based hegemonic influence

Many of the G20's critics still emphasise that its composition meets no criteria that would justify the inclusion of Argentina (population 40 million) rather than, say, Colombia (46 million), or South Africa (50 million) rather than, say, Nigeria (158 million). They become incensed when they hear the G20 leaders announce from on high, as at the second summit, "We will reform [the international financial institutions'] mandates, scope, and governance."

By what authority do the G20 leaders supersede the legitimate governing bodies of these organisations (the Development Committee for the World Bank and the International Monetary and Financial Committee for the IMF)? The critics may ask.

International Monetary Fund. Photo: World Bank/Flickr CC BY NC ND 2.0

In Wade's reasoning, for most of its history, the finance ministers' G20 functioned toward the hegemonic incorporation end of the spectrum. All the way through, it has been standard practice for the chair country to send proposals for the meeting and the communiqué (drafted before the meeting starts) to the US government first to get its views. For example, a report from the G20 finance ministers' meeting in South Korea in October 2010, chaired by the Koreans, said that the ministers had had "intense talks– built largely around an agenda the United States brought to the meeting."

Not that the United States has dominated in an overt way, its representatives have often played the strong, silent types, content to let US muscle do the talking. The key animators and organisers have been the Canadians and the Australians ("last in the door" of the Anglo states). They repeatedly got the G20 working groups and ministers' meetings to endorse the formula that "globalisation works," where globalisation policies amount to privatisation, liberalisation, and stabilisation, plus social safety nets. The World Bank provided support for this agenda, sending reliable staff to address G20 technical meetings.

At most of these meetings, representatives from developing member nations tended to sit passively, contributing little to the agenda, the debate, or the communiqué. As a result, according to Wade, they felt at a disadvantage because the language of the G20 is English and because they did not have a good feel for the informal ways of G7 diplomacy that the G7 representatives used to run the G20. They had won an important symbolic gain just by being present, "equal" alongside the United States, Europe, and Japan.

On the lack of effectiveness

On effectiveness, as per Wade, for all its ringing declarations about global leadership *("We designated the G20 to be the premier forum for our international economic co-operation")*, the leaders' G20 has no means of enforcing its agreements.

"It decided at the first summit in 2008, in Washington, to eschew trade protection, but some of its members broke the promise as soon as they walked out the door. It decided at the same meeting to boost government spending, but almost all the programs announced after the summit—as evidence of G20 cooperation—had already been decided on before the summit. Similarly, it promised to treble the resources of the IMF up to $1 trillion, making an arresting headline; but as Ngaire Woods reports, 'the new financing for the IMF is mostly credit lines', which allow it to borrow more when it thinks its present resources are insufficient to meet members' demands, and borrow mostly from the G7 states, which ties the organisation back into the G7 orbit," explains Wade.

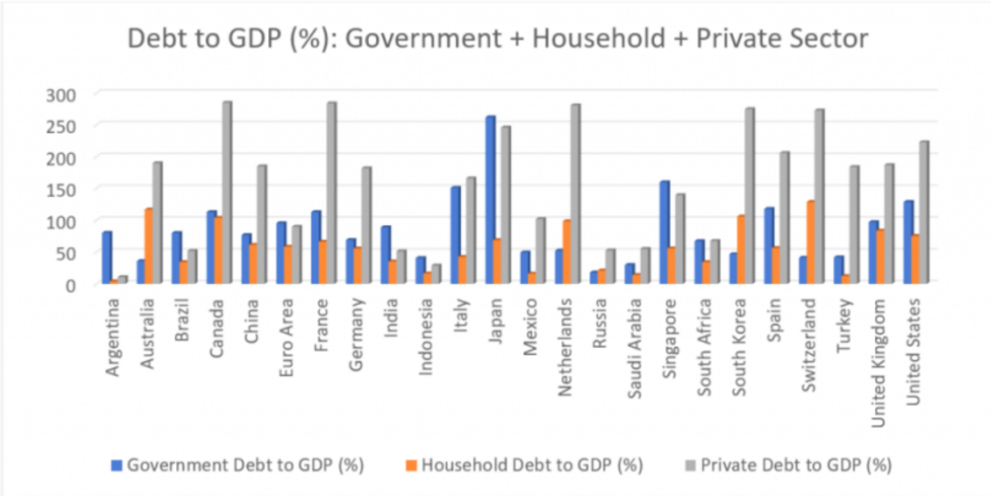
However, in recent years, the United States, and its allies (including the United Kingdom, Canada, and Australia) have by no means get their own way in terms of the internal discussions and agreed-upon conclusions.

Developing country members have not had much role in setting the agenda but have become more active in reacting, sometimes fighting back. China has been a key factor in this regard, applying a veto on much of the West's hegemonic influence in shaping the ideas and interests of the G20, particularly on subjects of "global imbalances" and "exchange rates".

Many developing country members were active in shaping what the G20 said and did not say in the run-up to the Copenhagen climate summit. India's own role in this regard is critical in the future given its own unique multi-aligned foreign policy position and growing geopolitical/geo-economic influence.

Managing G20's own debt in the future

Another critical concern stemming from the G20's inability to address debt relief for other "in-need" countries or implement its own blueprint may come to bite its own members later.



Source: Author's Calculations

Looking at the debt composition of all G20 countries, it is worth iterating the vulnerabilities that exist, from those nations with a high government debt to GDP ratio (for countries like Argentina, Brazil, Canada, China, Euro Area, France, India, Italy, Japan, Singapore, Spain, UK, US) to those with high private and household debt levels.

Given concerns of (a lack of) legitimacy and effectiveness, some might say that till the time the G20 club remained a gathering of finance ministers and central bankers, it had a useful, but minor role in the play of events.

As per Wade, "Once it became clear that the East Asian/Russian/Brazilian crisis would not ricochet out of the periphery and into the West, the G7 finance ministers lost interest in talking about NIFA and began to lose interest in the G20 meetings. They sent ministers and officials of decreasing seniority."

The global crash of September 2008 revived the finance ministers' meetings and prompted the government of George W. Bush in the US to call the G20 leaders (G20L) together for the first time, to constitute an ongoing leaders' forum. It may perhaps happen that another crash – most likely induced by a debt bubble burst at a global financial level, might possibly lead to a similar scenario of events taking place – presenting an opportunity for countries to work together.

Still, if the global pandemic response taught us one thing, it was that ensuring multilateral cooperation in times of heightened multipolarity – and with different centres of power at play, may lead to a 'brewing crisis' of decision-making and implementation of another kind.

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