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The impact of the G20 on the global economy and the role of Australia as a Middle Power

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G20

The Group of Twenty (G20) Finance Ministers and Central Bank Governors was initially established in 1999 to connect leading industrial and developing economies to discuss key issues that are affecting the global economy. The first Leaders' Summit was held in Washington in November 2008.

The G20 replaced the older and more exclusive Group of Seven (G7) nations and Group of Eight (G8) nations and has now established itself as the premier forum for international economic development, particularly in the wake of the economic crisis that affected the world in 2008.

The constituent nations of the G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom and the United States of America. The European Union is also represented, with the Managing Directors of the International Monetary Fund (IMF) & World Bank participating in an ex-officio capacity.

Australia's role in the G20 has grown significantly since 2009, with former Prime Minister and current Foreign Minister, Kevin Rudd, noting the transition to the G20 marked the 'first time ever that [Australia] has had a place at the top economic table of global economic decision-making'.

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Abstract

Through an analysis of past summits and present opinions of the G20, this report assesses whether the G20 has had any impact on the global economy or whether its critics are correct in stating that it is simply a leaders 'get together'. This report also proposes actions that need to be taken in the future in order to ensure the G20 remains influential in the global economy. In addition, the report also analyses the impact of Australia on the G20 as a middle power. While the notion of middle power diplomacy is questioned by some who say that it is ineffective, this report illustrates how among the major superpowers of the world, middle power diplomacy can be instrumental at global summits such as the G20.

Introduction

In September 2008 it was apparent that only a coordinated global policy response would stop the global financial crisis from turning into a global depression. It quickly became apparent that the G8, which was representative of only the major global economies, was no longer equipped to deal with the crisis. Thus the G20, which was originally established as a Finance Ministers meeting was promoted quickly to a leaders meeting. The G20 countries generate 85 per cent of world production and participants include Australia.¹

Since its first summit in Washington DC in November 2008, the G20 has received mixed reviews. While it might be expected that the G20 would be the central international forum to discuss global issues, recent summits have highlighted the lack of consensus amongst the G20 and therefore its inability to enforce policies. This leads to the question of whether the G20 has in fact impacted significantly on the global economy. Closer to home Australian economists have questioned the

¹ K. Rudd. 'The Centrality of the G20 to Australian Foreign Policy', *The University of Queensland Annual Lecture in Politics and International Affairs*, 30 September 2011.

impact of Australia as a member of the G20 and whether Middle Power Diplomacy is truly effective when dealing with the world's superpower economies.

This report will deal with two main questions that have been raised both internationally and domestically. The first question considers whether the G20 has had any impact on the global economy since its creation in 2008; and the second enquires into what impact Australia has had in the G20.

Impact of the G20 on the Global economy

The G20 has had mixed reviews about its impact on the global economy and has received both praise and condemnation. Since the Cannes summit in 2011, criticisms have soared. These criticisms include that the G20 has no power to enforce change, that it has become just a leaders meeting and that it is unable to resolve global issues.

Since the financial crisis in 2008 the global economy has shown significant signs of recovery in some countries while others face the prospect of further decline. However while some nations are out of the 'red zone', the European crisis is fuelling the criticism that the G20 has been unable to mend the global economic architecture. In our interconnected world, what happens in Europe will affect every advanced economy in the world.² Conscious of the criticisms, this section will assess what has been the impact of the G20 in the past, what is the impact of the G20 presently, and what necessary actions are required if the G20 is to continue as the world's central international forum.

Impact of Past Summits

The first G20 summit was held in Washington DC as a global response to the financial crisis in November 2008. In time of crisis it saw a consolidated effort by global economies to put their

² Australian School of business, International Relations: How Much Power Does the G20 Really Hold?, 12 April 2012 from <<http://knowledge.asb.unsw.edu.au/article.cfm?articleid=1521>>.

differences aside and begin a global initiative.³ This agreement led to the creation of the Washington Declaration which saw each nation represented reach a common understanding on the roots of the crisis, review actions that needed to be taken to address the crisis, reach an agreement on principles to reform financial markets, launch action plans to implement these reforms and saw a renewed commitment to free market principles.⁴ The impact on the global economy was substantial. This openness of discussion amongst leaders reminded them not to resort again to protectionism which intensified the problems of the great depression,⁵ but encourage them towards working together to overcome the crisis.

At the second summit in London the G20 became clearly recognised as the forum for discussing, planning and monitoring international economic cooperation.⁶ The effects and initiatives of the last summit were evident. Even though economies were still in significant crisis, there were policies discussions taking place in order to find feasible solutions. London was significant as it saw the financial commitment of members to move forward. Members agreed to inject US\$1.1 trillion into various programs such as the IMF in order to improve economic stability and recovery.⁷ This global coordination of fiscal and monetary stimulus had significant impacts on ensuring that the crisis would not worsen further. Later in 2009, at the G20 summit in Pittsburgh, it was acknowledged that major developing economies such as China and India had to be part of any global solutions.⁸

Leading up to the 2010 summit in Canada there was speculation that the summit would not see the same consolidated outcome that had come from past summits. While the theme for the summit was 'recovery and new beginnings' many believed that because the global economy was coming out of recession, nations would simply turn back and resort to building their own economies, abandoning

³ Cammack, P. 'The G20, the crisis, and the rise of global development liberalism', *Third World Quarterly*, 13 December 2011, pp.1-16.

⁴ Rudd, K. 'The Centrality of the G20 to Australian Foreign Policy', *The University of Queensland Annual Lecture in Politics and International Affairs*, 30 September 2011.

⁵ *Ibid.*

⁶ Abidin, M. 'The G20: Just Another Annual Get-Together of Leaders?', *East-West Dialogue*, 12 September 2011, pp.6-8.

⁷ Rudd, K. 'The Centrality of the G20 to Australian Foreign Policy', *The University of Queensland Annual Lecture in Politics and International Affairs*, 30 September 2011.

⁸ *Ibid.*

global efforts and initiatives. However one of the significant discussions to come out of Canada was the anti-corruption agenda. This aimed to encourage transparency and prevent future crisis. However, with no actual ability to enforce the anti corruption agenda, the G20 was left to allow each nation to be responsible for its own implementation policies⁹. Without enforceability, questions were raised about the power of the G20. These questions continued later in the year at the G20 summit in Seoul, with the vast majority of policy issues remaining unsolved.

Through assessing the impacts of past summits it is clear that the G20 had played a significant role on the global economy during the global financial crisis. Due to the interconnected modern economy, it is clear that only a global effort would have been able to combat the global financial crisis. That is exactly what the G20 provided- and through this global initiative the impact was that many economies were able to eventually recover from the crisis sooner than anticipated. Notwithstanding these achievements, there are still many unsettled issues such as the Euro-crisis, threats to the collapse of the \$US as the world's major reserve currency, and reform of the global financial architecture through strengthened regulations on financial instruments and markets.

Current impact of the G20

The present opinions in regard to the impact of the G20 on the global economy illustrate some disquiet about the influence of the G20 to bring about change. At the latest summit in Cannes expectations were high; however the financial uncertainty in Europe overshadowed the summit.¹⁰ Professor Moshirian from the Australian School of Business stated that by the conclusion of the summit nothing substantial had come out of the G20 in order to move forward in the next 12 months.¹¹ The main reason for the concerns about the G20's effectiveness is the ever growing fact

⁹ Australian School of business, International Relations: How Much Power Does the G20 Really Hold?, 12 April 2012 from <<http://knowledge.asb.unsw.edu.au/article.cfm?articleid=1521>>.

¹⁰ *Ibid.*

¹¹ *Ibid.*

that the G20 has no power in order to ensure that policies are implemented and introduced at national levels.

Because the G20 holds no executive power, they rely solely on individual nations to implement these policies themselves, with no accountability if they choose not to. However, as the global economy recovers it is speculated that nations will focus less on the global economies agenda and more on their own national ones.¹² This is because with no major crisis to avoid, the major economies will once again fall back into pursuing their own interests and rebuilding their own economies. Thus, the ability of the G20 to make an impact in the future is questionable, having regard to the lack of enforceability.

A further complaint about the G20 is that it is not representative of the entire global economy and favours the major world economies.¹³ Thus the impact of the G20 on the global economy will always be questioned for its lack of full representation while it excludes nations from membership.¹⁴ Therefore present opinions of the G20 and its impact have been challenged significantly.

Future Impact of the G20

In order for the G20 to have any impact on the global economy in the future, what is called for by many observers is to give the G20 the ability to enforce their policies.¹⁵ This would mean giving the G20 significant power in order to ensure that policies discussed are put in place. Until policies become enforceable by the G20 its influence and impact will continue to be challenged as nations will always choose to pursue their own domestic interests in front of global ones.¹⁶ However, such power would seriously undermine national sovereignty. For example, the Euro-zone countries have

¹² Gillard, J. Each Nation Must Reform to Restore World Growth, 10 April 2012 from < <http://www.pm.gov.au/blog/each-nation-must-reform-restore-world-growth>>.

¹³ Abidin, M. 'The G20: Just Another Annual Get-Together of Leaders?', *East-West Dialogue*, 12 September 2011, p6-8.

¹⁴ *Ibid.*

¹⁵ Australian School of business, International Relations: How Much Power Does the G20 Really Hold?, 12 April 2012 from <<http://knowledge.asb.unsw.edu.au/article.cfm?articleid=1521>>.

¹⁶ *Ibid.*

given up their sovereignty over monetary policy and the exchange rate. There are now calls for individual countries to give up their independent fiscal policy. These moves are being resisted as a threat to national sovereignty and a direct attack on democratic governance.

Furthermore it has also been suggested that unless the G20 turns into the G193 its true impact on the global economy will always be limited.¹⁷ Calls for a G193 would make it similar to the UN and encourage the consensus that policies created by the G193 should be enforceable in order to avert further global financial crisis.¹⁸ This is because it would truly be representative of the global economy. However, it is unlikely that a collection of representatives from each country's financial sector would be seen as truly representative of societal views. This is a very narrow, if influential, component of stakeholders. Much wider representation, like the UN, may be needed. If so, would it not just be a duplicate?

In conclusion, it is undeniable that the G20 has had a significant impact on the global economy since its formation in 2008. During the global financial crisis it was instrumental in implementing policies and actions to enforce that the crisis did not turn into a depression. However, in present times the inability of the G20 to be able to enforce policies has diminished its impact. While it is undeniable that a global body like the G20 is beneficial to every economy in the world, the popularity of the G20 will continue to rise and fall among people until it once again is needed to combat global problems in crisis situations.

The impact of Australia as a Member of the G20

As a member of the G20, Australia prides itself on its ability to impact the G20 as a middle power. The concept of middle power diplomacy has been central to Australian foreign policy since Prime

¹⁷ Abidin, M. 'The G20: Just Another Annual Get-Together of Leaders?', *East-West Dialogue*, 12 September 2011, pp.6-8

¹⁸ *Ibid.*

Minister Kevin Rudd came to power and the concept was exercised predominantly at the G20.¹⁹

However while middle power diplomacy is integral to Australian foreign policy, its effectiveness to bring about any sort of influence, and in particular impact, on the G20 has been questioned.

The concept of middle powers refers to nations that are neither great nor failing but which occupy this middle territory.²⁰ They are typically defined by their behaviour which sees them defend their national interests on the global scale rather than simply obey the major super powers of the world²¹.

Another indicator of Australia's ability to have influence as a middle power is that we have been described as an honest advocate.²² This is predominantly because of our history with traditional world powers and because of our smaller economy. Therefore, it is argued, we are trusted to provide honest advice and lobby between the larger nations in order to seek the most beneficial solution of all parties. Prime Minister Rudd at the time of the first G20 summit saw this middle power position as a means of enhancing Australia's national interests.²³ However there is debate as to whether the approach to our foreign policy has been successful.

At the first G20 summit in Washington DC the influence of middle power diplomacy was at its greatest. Beeson (2011) stated at 'if middle powers can't be influential at a time when the underlying structure of the international system is changing before our eyes... they are never likely to be'.²⁴ The impact of Australia as a member of the G20 was most apparent at this summit.

Past Impacts of Australia as a member of the G20

¹⁹ Rudd, K. 'The Centrality of the G20 to Australian Foreign Policy', *The University of Queensland Annual Lecture in Politics and International Affairs*, 30 September 2011.

²⁰ Beeson, M. 'Can Australia Save the World? The Limits and Possibilities of Middle Power Diplomacy', *Australian Journal of International Affairs*, 19 October 2011, pp.564-577.

²¹ *Ibid.*

²² Yi-Chong, X. 'Australian Participation in the G20', Griffith University Print, 2 November 2011, pp.11-19.

²³ Rudd, K. 'The Centrality of the G20 to Australian Foreign Policy', *The University of Queensland Annual Lecture in Politics and International Affairs*, 30 September 2011.

²⁴ Beeson, M. 'Can Australia Save the World? The Limits and Possibilities of Middle Power Diplomacy', *Australian Journal of International Affairs*, 19 October 2011, pp.564-577.

The fact that Australia is a traditional ally of the old world powers such as the United Kingdom and United States of America, and is such a close neighbour of the emerging economies such as China, meant that it was able to play a significant role at the very first summit by bridging the gap between these nations.²⁵ Due to our good relations with these nations, Australia was able to bridge the gap between the two as an honest advocate seeking the benefit of the global economy. It may have also been an advantage that Australia weathered the GFC far better than most other industrialized countries.

One of the greatest impacts of Australia as a middle power was demonstrated by the lobbying efforts with China. This led to the president of China acknowledging China's responsibilities as a great nation before the G20 summit in Pittsburgh in 2009.²⁶ The impact of this was significant as it meant that China began to seriously realise their role in the global economy as a significant player.²⁷

Furthermore, as a well established middle power, Australia has acted as a 'go between' with other middle power nations such as Canada and Japan.²⁸ This credibility given to Australia meant that these middle powers were able to discuss the issues presented by one another and unify opinions when approaching major economies. This is another significant impact of Australia on the G20.

Finally, because of the return to Keynesian policy demonstrated by Australia with its stimulus packages at the very start of the crisis in 2008, and the success that Australia received from its implementation, Australia was able to talk with some authority on economic policy.²⁹ Economic modelling appeared to indicate that the policies undertaken in order to combat the crisis largely succeeded. This may have convinced other countries to apply similar expansionary policies to combat the crisis.

²⁵ *Ibid.*

²⁶ Rudd, K. 'The Centrality of the G20 to Australian Foreign Policy', *The University of Queensland Annual Lecture in Politics and International Affairs*, 30 September 2011.

²⁷ *Ibid.*

²⁸ Yi-Chong, X. 'Australian Participation in the G20', Griffith University Print, 2 November 2011, pp.11-19.

²⁹ *Ibid.*

Criticisms of Middle Power Diplomacy

Despite the praise afforded to Australia as a middle power there are those who criticised the then Australian Prime Minister, Kevin Rudd, for over-emphasizing the importance of middle power diplomacy in foreign policy. The high hopes held by the G20 to reshape the international financial architecture were not fully realised.³⁰ These critics also stated that while middle power diplomacy was able to influence nations, there was no real and tangible impact. These criticisms stem from those who believe that the role of any other nation, apart from China and the United States, known also as the G2,³¹ is questionable.

As a middle power Australia has on balance been able to have some impact on the G20. While some challenge and question the true amount of power that middle powers have in order to influence larger members of the G20, it is undeniable that Australia's ability to negotiate and liaise as a middle power has been beneficial on the world stage. Therefore Australia's impact on the G20 is evident but that is not to say that there are still not many important global issues yet to be resolved.

Overall Conclusions

In conclusion, the G20 has significantly impacted the modern world. From initiating consolidated global efforts to counteract crisis, to becoming a major component of developed economies foreign policy such as in Australia, the G20 in only a few short years become an instrumental global forum. While there are currently criticisms suggesting that the G20 lacks power to enforce change, it is evident that during crisis, even without enforceability, the G20 was able to encourage consolidated global efforts for change. Thus the G20 will continue to impact the global economy as it is the sole outlet for leaders to discuss these issues with one another. By expanding from the G8 to the G20, it

³⁰ Beeson, M. 'Can Australia Save the World? The Limits and Possibilities of Middle Power Diplomacy', *Australian Journal of International Affairs*, 19 October 2011, p.564-577.

³¹ *Ibid.*

now represents a major proportion of the global economy where through middle power diplomacy even smaller nations are able to ensure that their opinions are heard and considered. While many criticise the legitimacy of middle power diplomacy, Australia's role in the G20 has illustrated otherwise. Therefore the G20 has had a significant impact on the global economy and will likely continue to maintain an influential role in the future.

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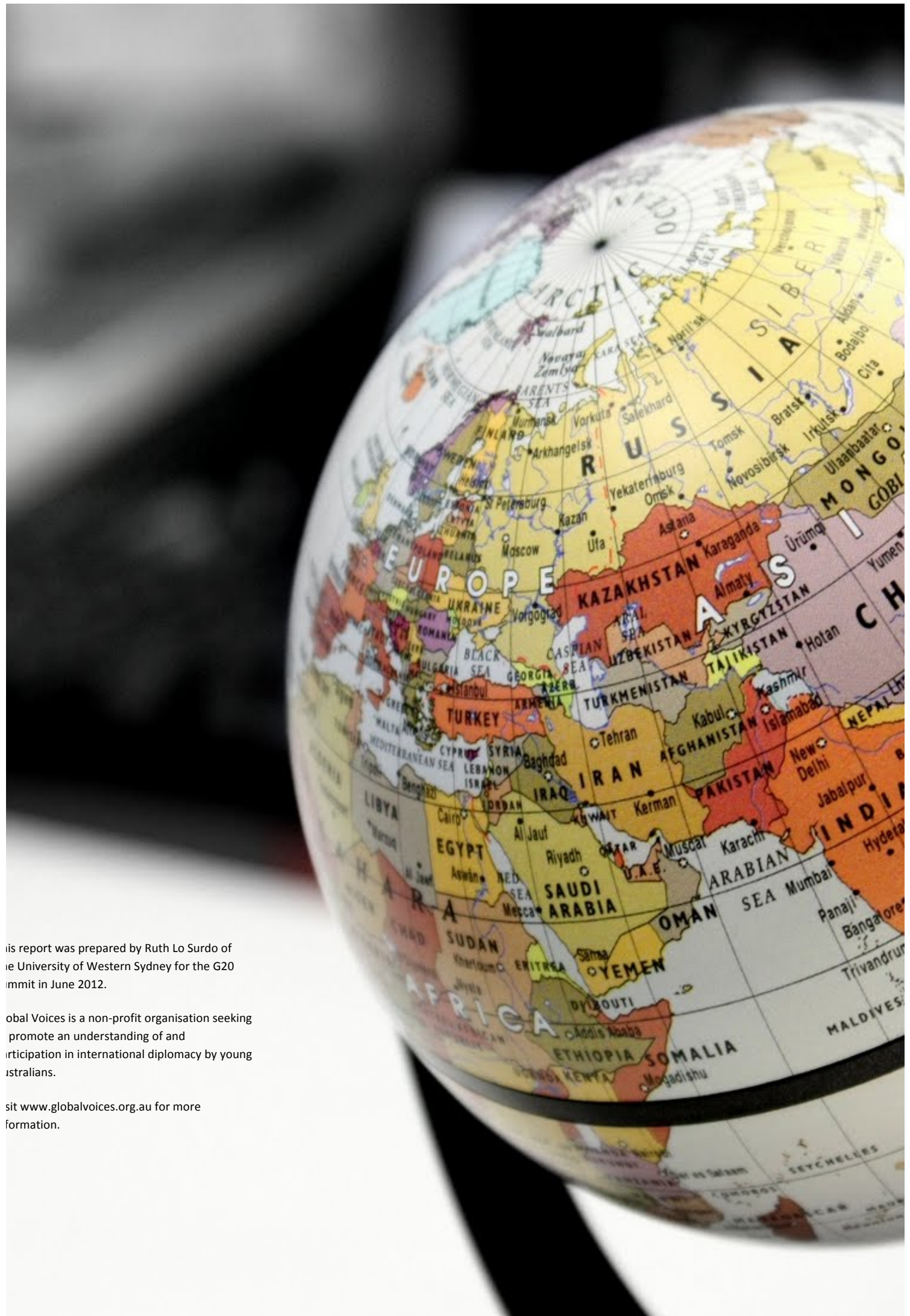
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