The G20, G7 and BRICS. What Model of Partnership for Global Economic Governance?

Introduction

Geopolitical tensions and the pressures of rising protectionism exacerbate existing risks to sustainable development and economic growth, such as the [high level of public and private debt, persistent current accounts imbalances, volatility of financial flows,] mounting anthropogenic strain on the ecosystem, increasing competition on energy and technological markets, economic inequality and digital divide.

Global governance institutions do not cope with the challenges, and the multilateralism [in the international relations] is unprecedentedly tested.

The G20, [the crisis management mechanism and the premier forum for international economic cooperation,] is not immune to the challenges and is often criticized for inefficiency, illegitimacy and failure to provide the leadership in reforming the international institutions, respond to demand in global governance and promote a new economic order. Though some of the critique is fair, the G20, as the hub of network governance, remains the most authoritative institution, bringing together the leading advanced and emerging economies, international organizations, members of the G7 and BRICS, the oldest club of developed industrial states and the youngest club of the largest emerging economies.

However, many scholars assert that the G7 has promoted the G20 as a convenient mechanism to retain their command of global economic governance and the tiller of the main multilaterals – the IMF and the World Bank to the detriment of genuine multilateralism. Others argue that in the process of consensus-building in the G20, advanced and developing countries form new ad hoc groupings on specific issues, which temporarily supersede the existing alliances, such as the G7 and BRICS, and allow them to pursue decisions conforming to their national interests and responding to the demand for global governance.

Indeed, has the decision making and consensus building in the G20 superseded existing alliances? And will the G20 be able to transcend the rooted dividing lines to forge collective responses to the existential threats?

To reveal if the ad hoc groupings of advanced and developing economies indeed replaced the traditional alliances, we have reviewed the G7 and BRICS members' coalition-building in the process of decision-making on the issues historically central to the G20 agenda: international financial institutions reform, macroeconomic policy and financial regulation.

International financial institutions reform

The G20 was the preferred choice of the USA and the UK and in itself helped avoid the deeper restructuring of the global economic governance recommended by the Commission of Experts on Reform of the International Financial and Monetary System, convened by the UN President under the leadership of Chairman Joseph Stiglitz. The Western states, led by the US and UK, wanted the G20 and the IMF, in which they have much more influence, to take charge of a global response.

On the IMF reform consensus to increase the Funds' resources by 750 Billion USD, to ease conditionality for some of its lending programmes, and to shift quotas in favour of emerging economies was relatively easy, though the shift in quotas demanded pressure from the BRICS, and the comprehensive review of the quota formula is still pending six years after the decision was made.

However, China and Russia envisioned a much deeper reform of the international monetary system including establishment of a new SDR-based reserve currency managed by the IMF which would help create and improve control of liquidity. Neither the G7 nor BRICS had a consolidated approach on transforming the SDR into a full blown reserve currency. Though France and Germany supported the idea, no cross club ad hoc groupings emerged. The US position and G7 allegiances prevailed.

Macroeconomic policy

[On macroeconomic policy assessments vary from a claim that the Framework for SSB growth became an effective mechanism of coordination and adjustment to opinions that the Framework and the MAP exerted limited influence over the G20 members' policies, while the G20 decisions legitimized the members measures on stimulating economies, ejecting liquidity and strengthening their financial institutions].

The BRICS members were worried about the stimulus through quantitative easing (QE). Contradictions were clear between the G7 members, with the USA and the UK promoting stimulus and the EU and Japan – monetary and fiscal prudence. These contradictions did not result in emergence of an ad hoc grouping, which would exert pressure on the USA and the UK. A compromise was brokered within the G7 stating already in June 2009 "the need to prepare appropriate "exit strategies" for unwinding the extraordinary policy measures …once the recovery is assured". It was further consolidated in the Toronto G20 declaration.

On the related issue of exchange rates and competitive devaluation though the BRICS and six of the G7 members' positions were broadly aligned, most of the consensus building in 2009 and 2010 was done within the G7 and then taken up by the G20. After Japan launched its quantitative and qualitative easing policy in April 2013, the G7 ministers made a statement agreeing not to target exchange rates, which the G20 members reiterated in the Saint Petersburg Declaration, pledging to refrain from competitive devaluation and not target exchange rates for competitive purposes. Though the BRICS members were concerned over the adverse effects of the exchange rates devaluation the issue was not explicitly mentioned in their documents. In the case of exchange rate the G7 acted as a caucus group mediating a commitment supported by the BRICS.

Financial regulation

The G7 met almost every month during the 2008 and in October it approved the Plan of Actions prepared by the Financial Stability Forum. The plan became a blueprint for the Washington G20 summit reform programme, including expansion of the FSF and its transformation into the FSB.
The US, UK and continental European governments faced intense pressure to strengthen financial regulation at home. Aware that unilateral tightening risks undermining the international competitive position of the financial sector, the G7 led the push for the creation of the FSB and strengthening compliance with international standards. [International regulatory coordination in the G20 helped the G7 policy makers meet the twin goals of stability and competitiveness.]

The BRICS saw the benefits of a better regulation for the stability of the financial markets, but their priority was the spillover effects of the reform for developing countries. Members of the Basle Committee reflected subsequently that the BRICS helped prevent or at least decrease back-sliding in the design of the new capital and liquidity standards when the G7 major financial sector actors began to lobby against regulation. Thus, though the G7 and BRICS were driven by different interests, their goals converged and the financial regulation is often cited as one of the

G20 greatest successes. The G7 members used their club for coordination and decision forging, while the BRICS mostly acted in the framework of the G20 and the standard setting bodies.

Conclusion

The findings show that, despite contradictions within the alliances and common interests between the BRICS and some G7 members on a number of issues, ad hoc groupings of advanced and developing countries did not replace the existing clubs.

The G7 members successfully used coordination within their club to resolve internal contradictions, develop a common position and jointly promote it in the G20. The G7 ensured strengthening of the IFI system and its influence in it through cooperation with new centers of power, with a slight increase in the IMF and WB quota and votes shares for the BRICS; their minimum reduction for the G7; and maintaining control over the IFIs governance.

Both alliances influenced the G20 decisions to stimulate economic growth while maintaining price stability and financial sustainability. On managing the exchange rates and financial regulation, the BRICS and G7 acted as partners in the G20. However, the G7 demonstrated leadership in building consensus to address competitive devaluation and drove the G20 financial regulation agenda.

The G20 had a huge credit of confidence and potential for transforming the global economic governance system. However, the outcomes are modest. Might a coalition of the BRICS and G7 members supporting a deeper reform of the international monetary system including establishment of a new reserve currency or multiple international currencies have helped address one of the core causes of the crisis – the dominance of the dollar as the international currency and related asymmetrical vulnerabilities to economic and financial shocks? We do not know. But we know that the existential threats the world is facing require that consensus building and decision making in the G20 supersede existing alliances.