

# Global Power Shifts and G20:

## A Geopolitical Analysis at the Time of the Seoul Summit

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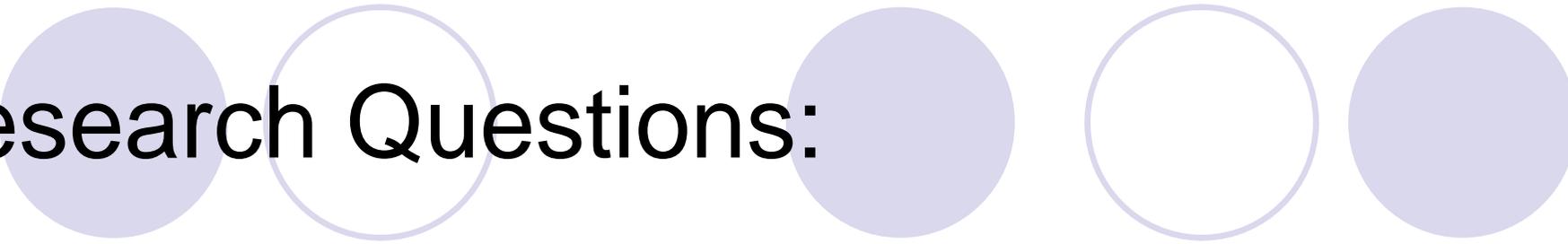
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The 12th Smart Talk Forum*

# Objective Today:

- Presentation of a “big picture” political analysis of the G20 process - *preliminary work / feedback much welcome*
- Part of larger project on analysis of politics of global governance with focus on domestic policy formation in China (and Japan, EU, Korea as secondary cases) – funded by SSHRC (Canada)



# Research Questions:

- What is the nature of the G20? Does it matter and does it have the ability to change the behavior of major states and induce them into durable cooperative?
- *And if the ability of the G20 to shape global politics is as limited as most analysts observe, why do states and many sub-state actors seem to care so much about it?*

# G20 – An Impressive Attempt at Global Coordination?



# “All of us working together”

(credit: Mike Weisbart)



# Another view on the G20 (FT)



# The New Great Game – great Pull of G20



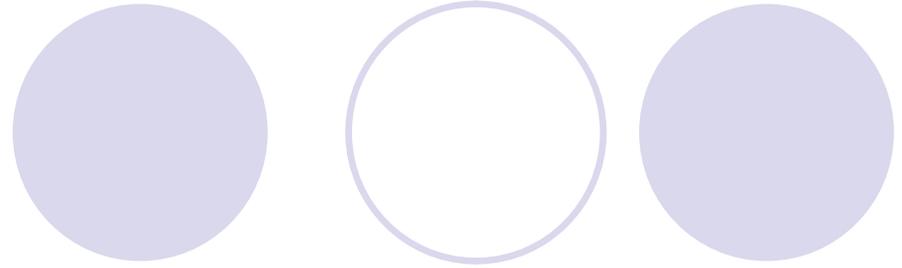
# A New link?



# Secondary Puzzle (in my research)

- *What are China's preferences toward global governance and what factors may explain its behavior on various dimensions of global governance?*
- Observation 1: a novel problem for China – emerging response
- Observation 2: a diverse response across domains (ie not simple realist, liberal, constructivist model)

# Arguments (1):



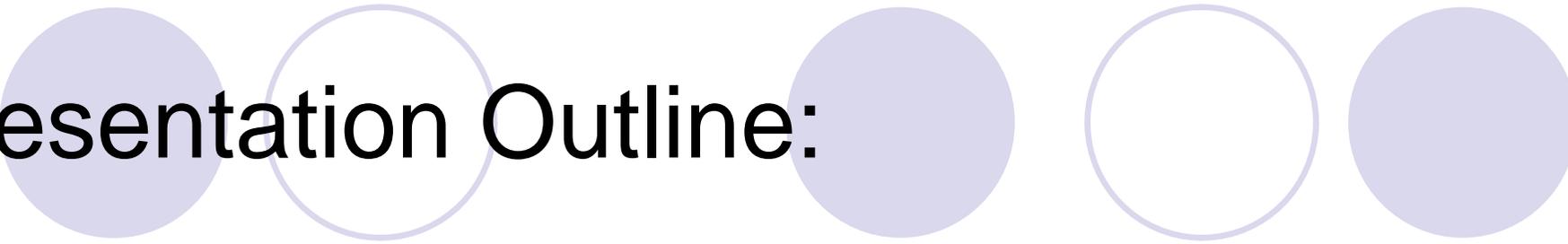
- The G20 is not just about technical coordination. The G20 process presents the most systematic effort since 1971 to rebalance the relation between market and governance and to establish an integrated structure of global governance.
- The potential stakes are high
- Alternatives: G2 or uncoordinated market corrections (with overshooting)

## Argument 2 – Three simultaneous concentric circles

- *Level 1: risk management and economic problem solving;*
- *Level 2: global governance and institution-building;*
- *Level 3: managing uneven gains and power transition from OECD countries to emerging powers*

# Argument 3: Triad at the Core of The G20

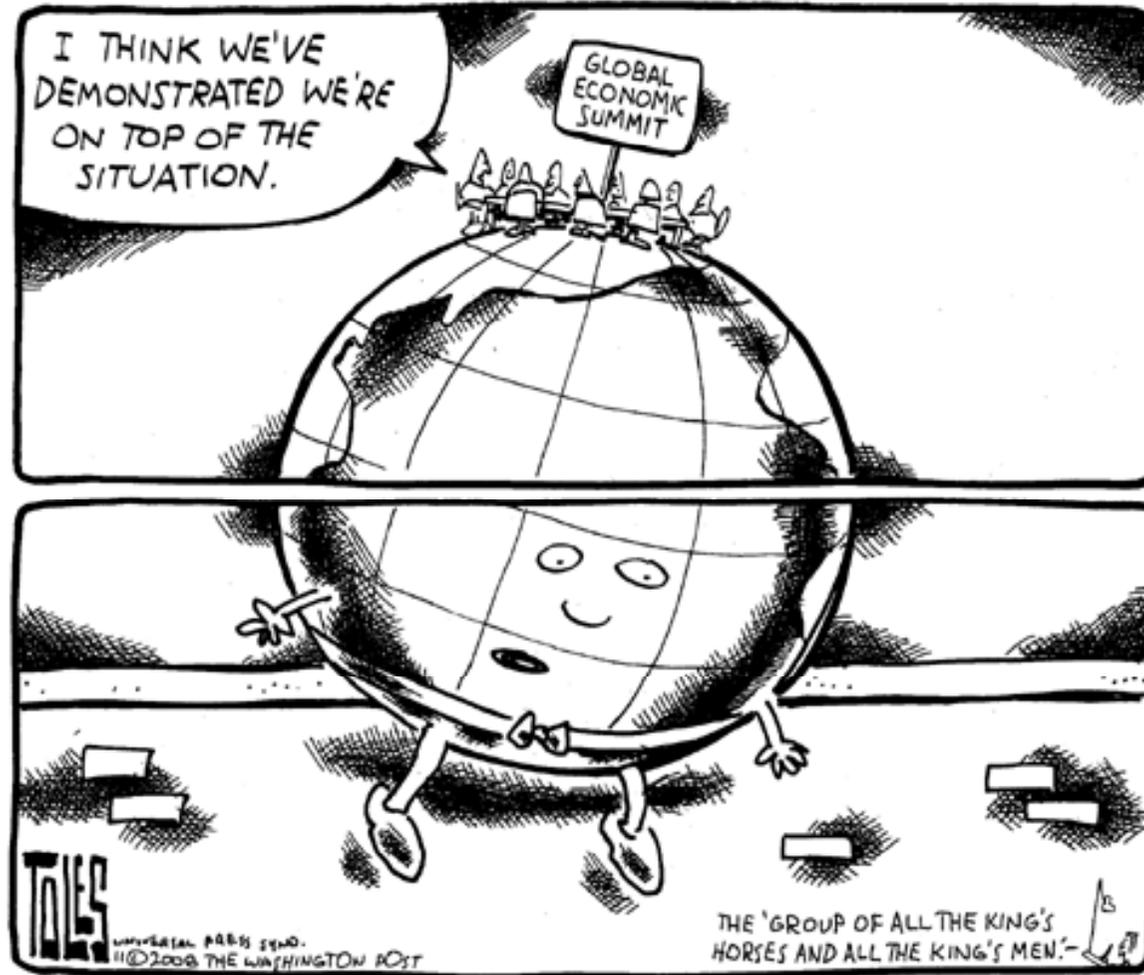
- The initial summits of the G20 were fundamentally a three-power game between Europe (the initial first mover), the US (the hegemon at the core of the system), and China (the future hegemon and emerging creditor of last resort).
- While the US has the power of veto and dominant voice in the G20 process, the actual linchpin may be China.



# Presentation Outline:

- 1. Global Governance and Hegemonic Transition
- 2. The G20 Process: Three Concentric Circles and New Geopolitical Relationships
- 3. Emerging Empirical Patterns and Lineups in the G20 Process
- 4. Some Thoughts on China's Preferences

# 1. Global Governance Dilemmas

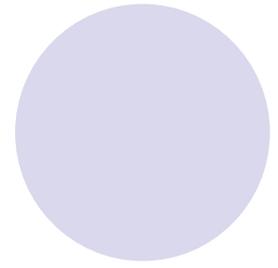
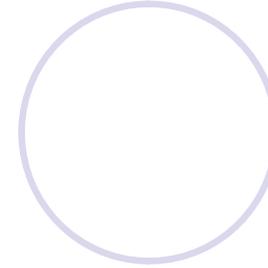
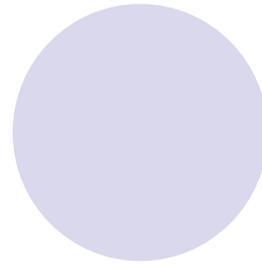


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# The Global Governance Paradox:

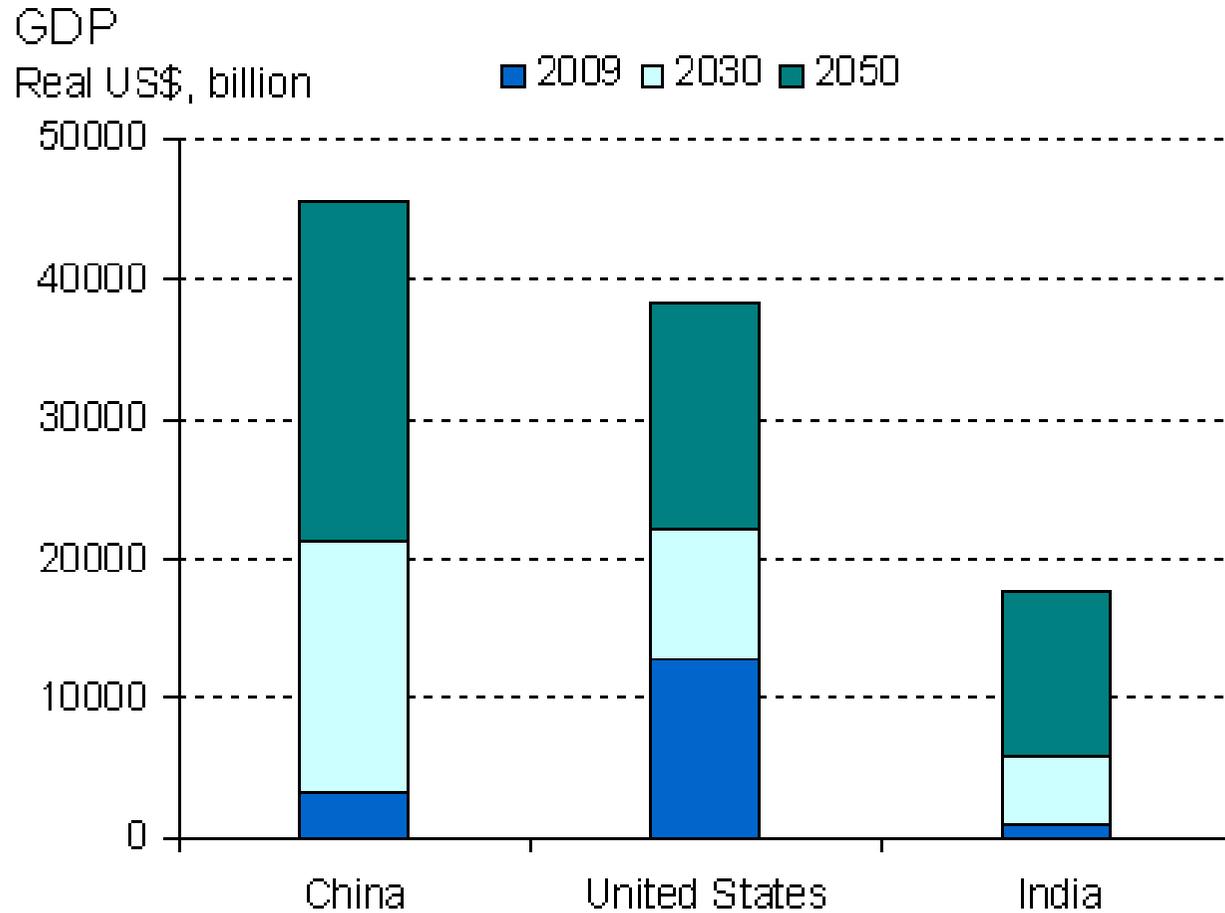
- More global governance needed:
  - Accelerating and more complex global markets (finance, trade) – monitoring and rules necessary [balance markets vs institutions]
  - Managing the uneven distributional impact of global markets
  - New complex issues (market failures): climate change, food safety, technological regulation
- More difficult to achieve:
  - Multipolarization / great rebalancing
  - Hegemonic transition toward large emerging powers, particularly China : greater uncertainty

Is this a match?



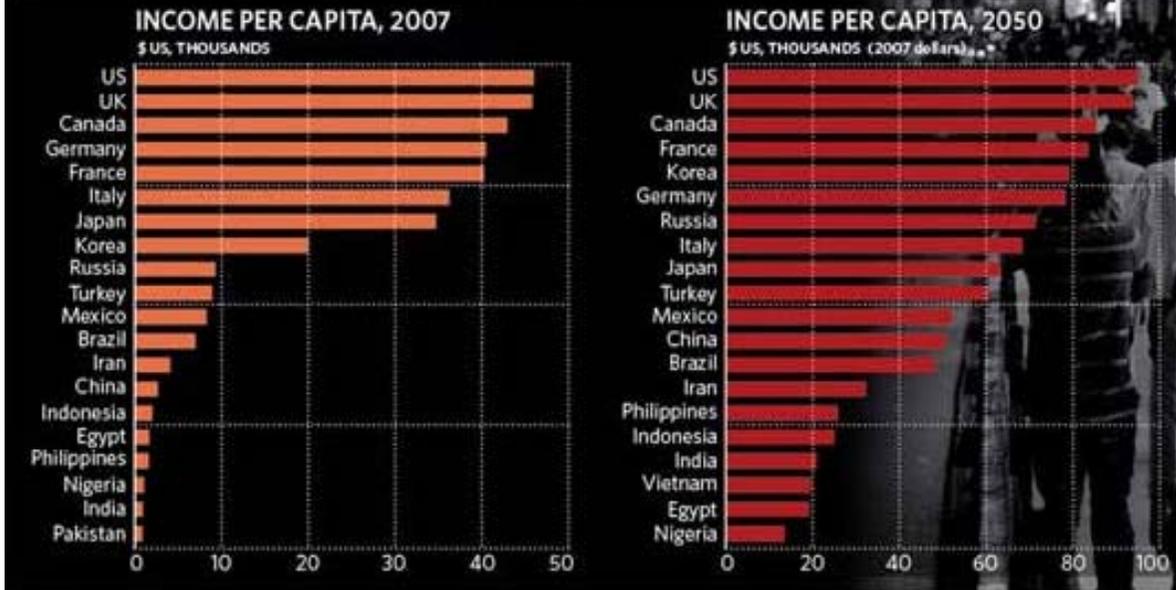
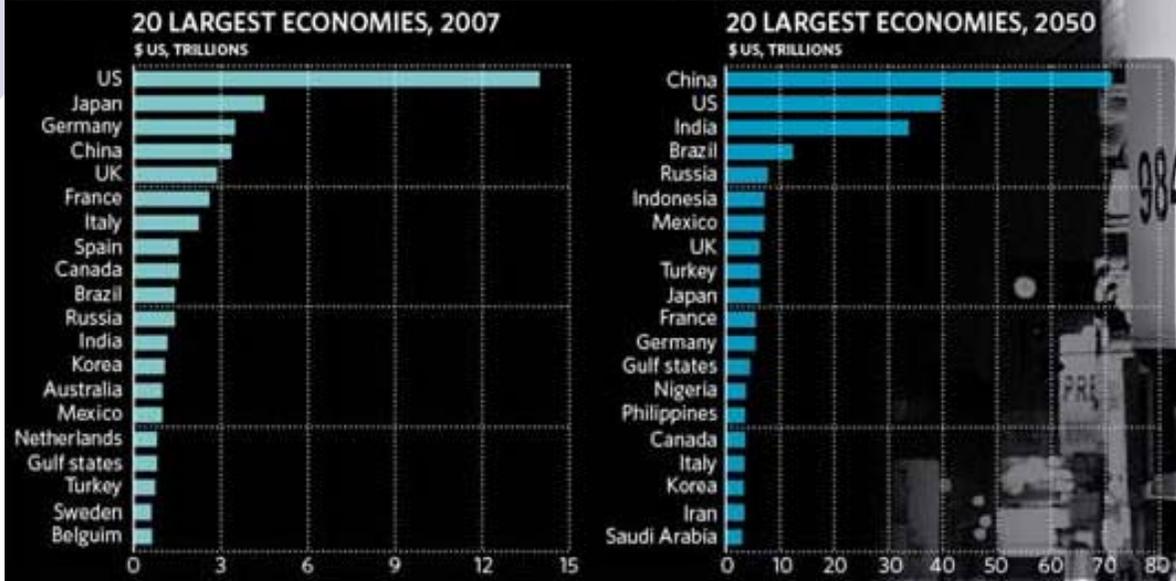
# The Big Rebalancing:

Dadush 2009, International Economic Bulletin  
(November)



Source: Author's projections

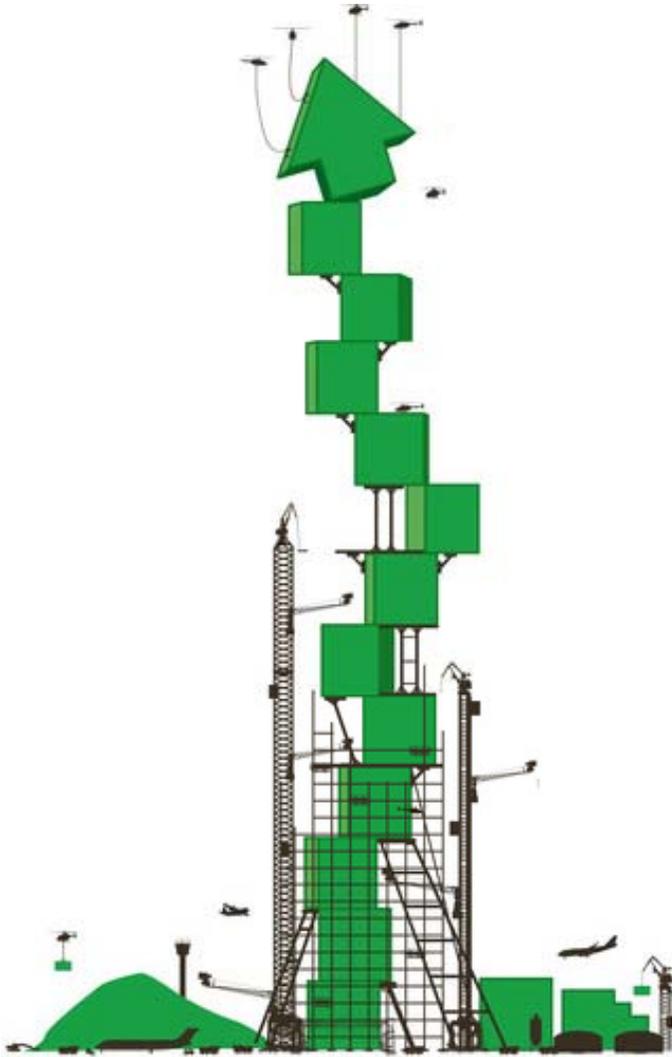
# Economic power shifts to the booming middle class of Asia



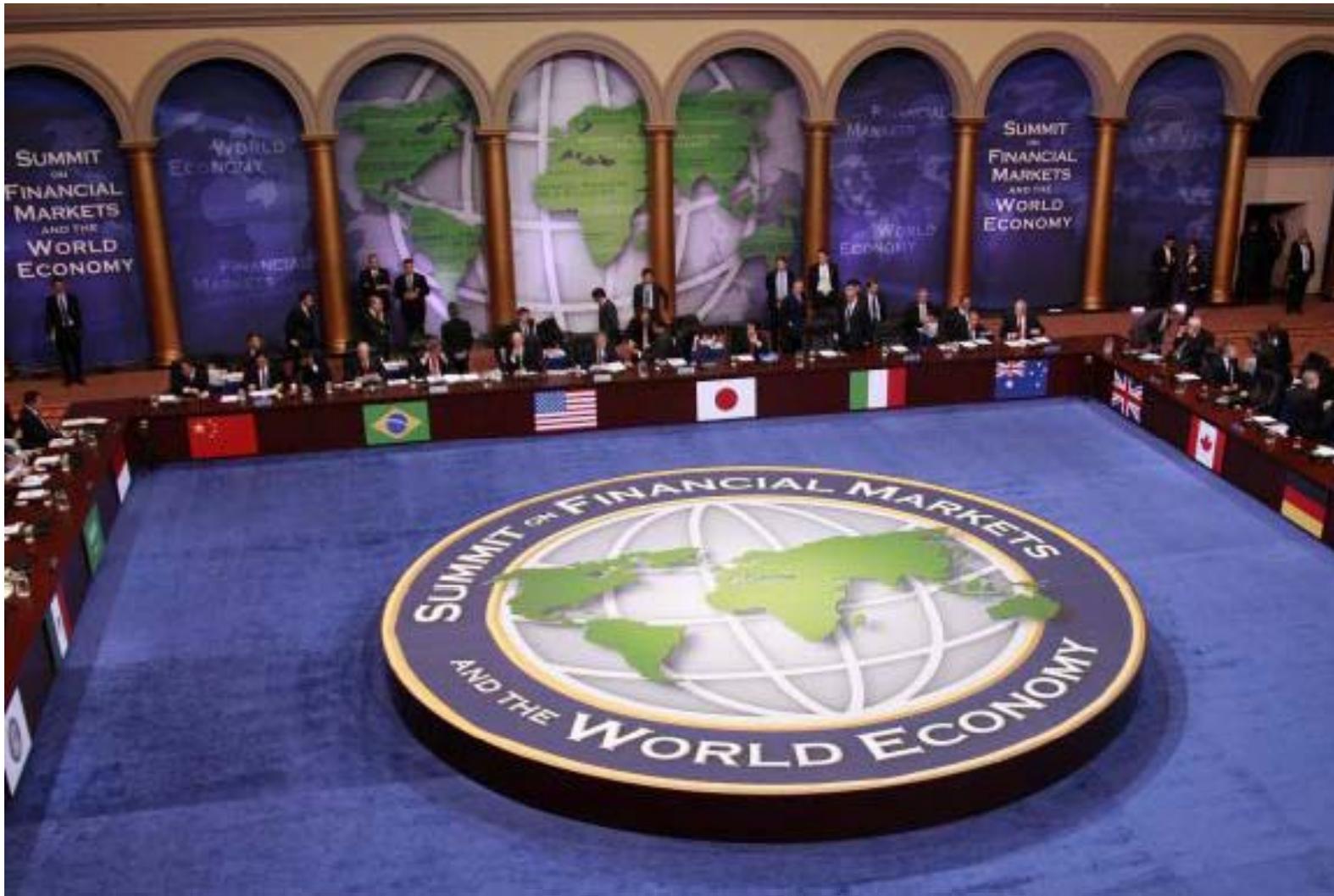
Source: Goldman Sachs

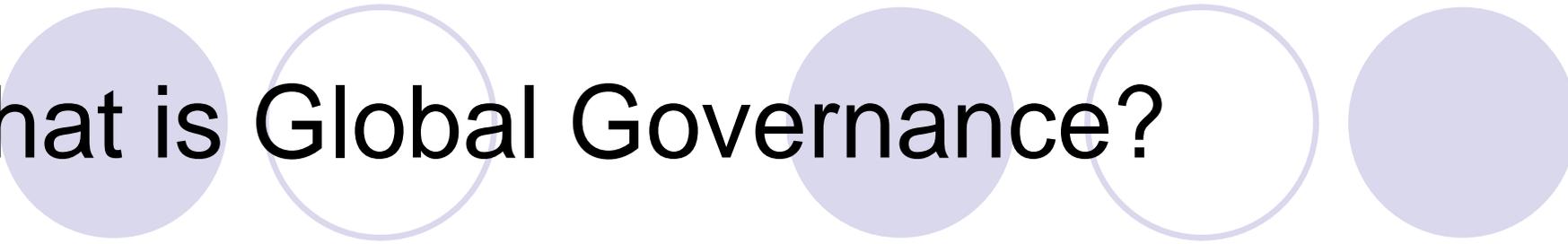
Photograph: URIEL SINAI/GETTY IMAGES

# Our Tools of Global Governance



# Meet the New Weapon: the G20

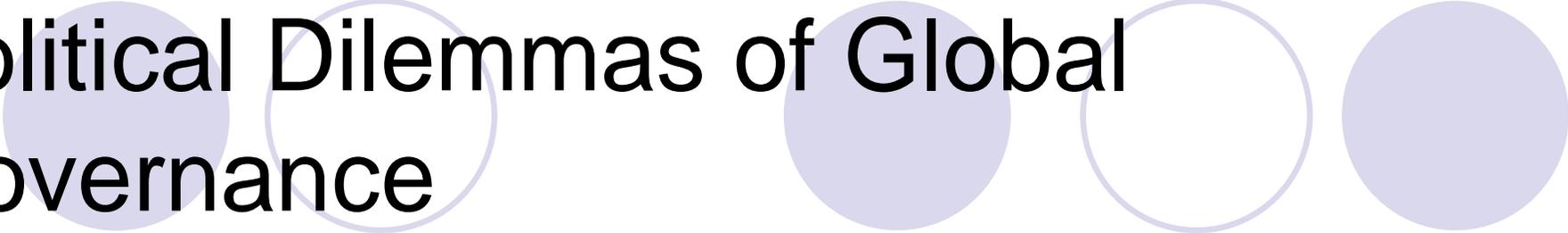




# What is Global Governance?

- Global Governance: collection of international rules, treaties, and institutions that help states coordinate actions at the global level in the context of fragmented sovereignty and the absence of world government.
- Observation: *bric a brac*, haphazard collection of national rules, bilateral agreements, multilateral treaties ,and international institutions (IOs).

# Political Dilemmas of Global Governance



- Classic collective action dilemma on a huge scale. Avoiding cheating. Tragedy of the Commons.
- Distribution Dilemma: uneven gains of trade or finance – everything has distributional consequences
- Credible commitment dilemma for national leaders (particularly democratic leaders) due to leadership instability – negative cycle
- Democratic accountability dilemma (Keohane 2003): unwillingness to commit sovereignty to institutions with low democratic responsiveness.

# Table 1. Overview of Global Governance Clusters as of 2010

Issue Area	Type of Global Governance	Locus of Power	Degree of Stability
Global Security	UN; Alliances	US Hegemony, Regional Powers	In flux, Low coordination
Trade	WTO, G8, G20	Quad facing G22 (China, Brazil, India)	Stable basis, in transition, paralysis
Currency	US Hegemony	US, China, Japan, EU	In flux, tensions
Finance	IMF, US-UK, G7, G20	US, UK, Japan, China	In flux, China rising
FDI	Bilateral FTAs	Diffuse	Fragmented
Climate	Kyoto P – UN context, G20	US, China, EU, BASIC group	Under negotiation, paralysis
GMO/Biosafety	UN Biosafety Protocol vs WTO	US vs EU, China and India balancers	Fragmented, disputed

## 2. Framing the G20 Process



# G20 within Three Concentric Circles (3 simultaneous games)

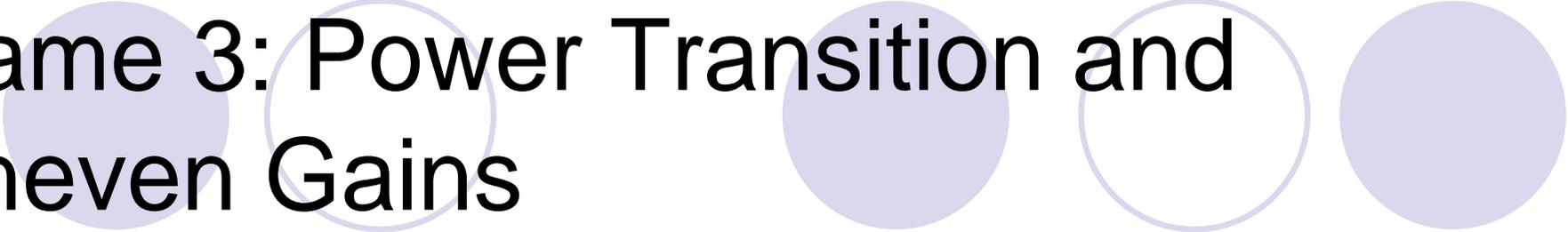
- Game 1: Technical coordination to ride out of the global crisis (urgent, visible, yet short-term game) – Saving the System
  - coordinating fiscal policy in time of crisis
  - coordination around resulting debt financing
  - dealing with consequences for LDCs
  - protecting the trading system (vulnerable to beggar-my-neighbor chain reactions)
  - plugging regulatory holes (basic financial regulations)

# Game 2: Global Governance / Institution-building



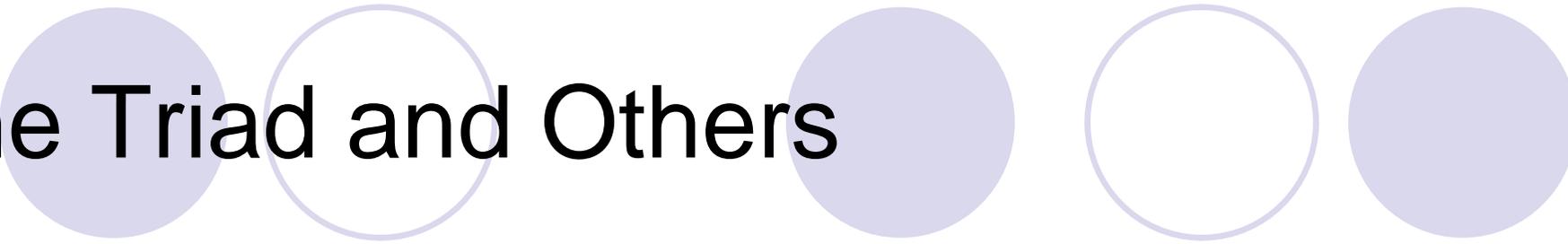
- Big Picture: talk of new “Bretton Woods” system (Beijing system?)
- Redressing the balance between global markets and regulation through major buildup of regulation and governance
- Key areas: banking regulations, capital flow regulations, hedge funds, derivatives, rating agencies, Tobin tax / bank tax
- Other areas: climate change, raw material prices, energy, food crisis..

# Game 3: Power Transition and Uneven Gains



- Over the past decade, the acceleration of globalization has had uneven consequences.
- Rising China, India, Brazil
- Global institutions need to adjust to the new power relationships. The institutional game itself affects the process of power rebalancing. Tug of War
- Every decision has distributional consequences

# The Triad and Others



- G20 is often presented as a decentralized multipolar arena with a consensual search for public good
- Core is Triad: US-EU-China
- The EU-US axis launched the G20 (in hope to embed China)
- The EU-US debate (with buy in from Japan, Canada, Australia, Korea) has dominated the early G20s (except Pittsburg)
- Japan punches under its weight

# Core Underlying Trade-Offs

**Table 3. Major Fault Lines in the G20**

	High Financial Regulations	Low Financial Regulations
Macro-Eco coordination and Current Accounts	Brazil	US, Canada, Japan
Savings and Debt	EU	China

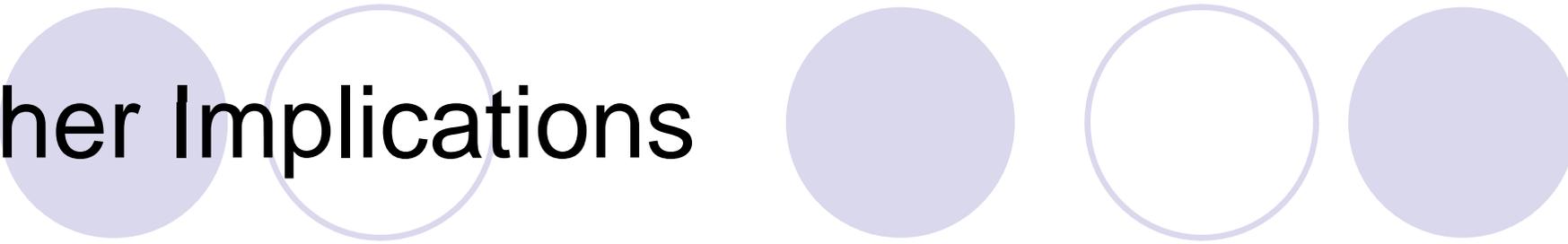
# Basic Policy Spectrum in the Triad

- EU = one end of the spectrum of positions
  - with focus on high governance/regulation and tougher approach on debt
- The US defines the other end of the spectrum
- That puts China (but also Japan, Korea, India) in key pivotal positions.

# Result: China as Linchpin in G20



# Other Implications



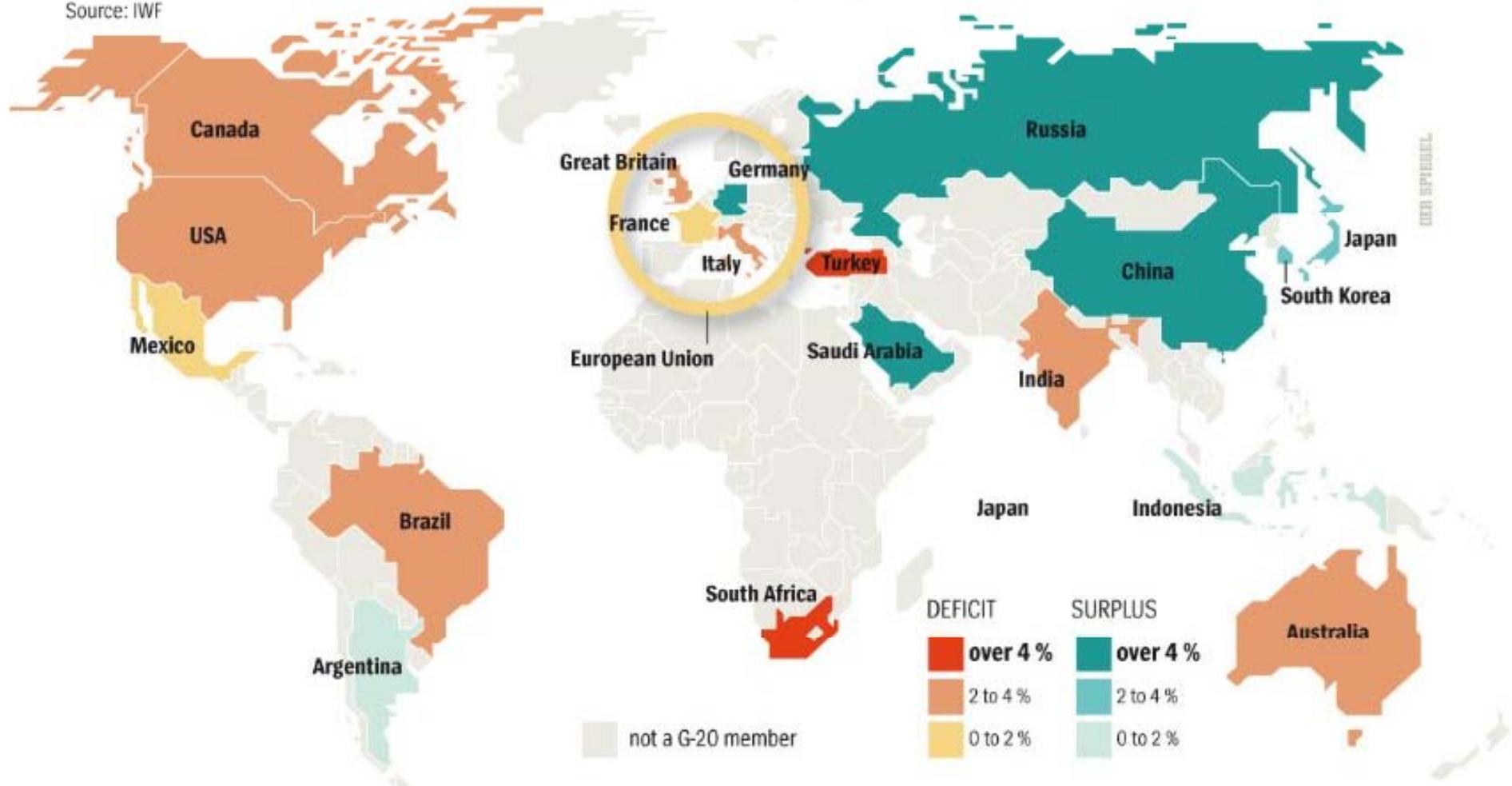
- EU – a weaker pole in the triad – occasional unity (London, to some extent Seoul), but weaker moments
- UK as linchpin within EU
- Uneven coalitions, fluidity overall and per issue area, lots of uncertainty
- Key stake for mediators: keeping the US in (by bringing China in)

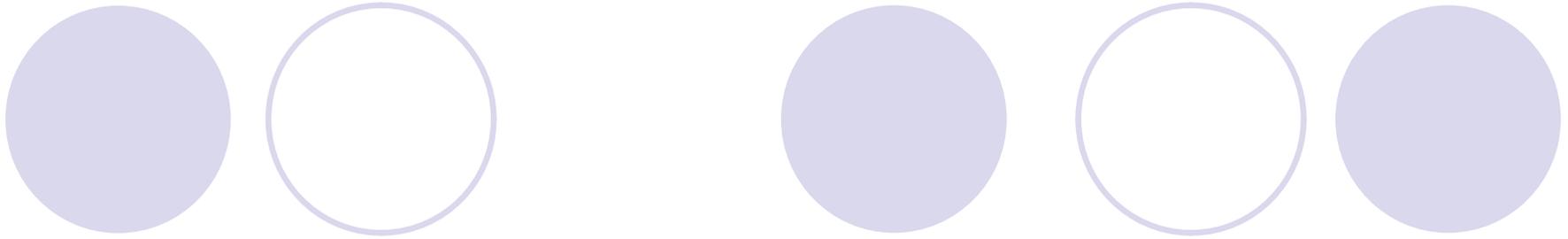
# 3. Emerging Empirical Patterns

(credit- Data from der Spiegel)

**Trade Balances of G-20 Member States** Forecast for 2010, as a percent of GDP

Source: IWF

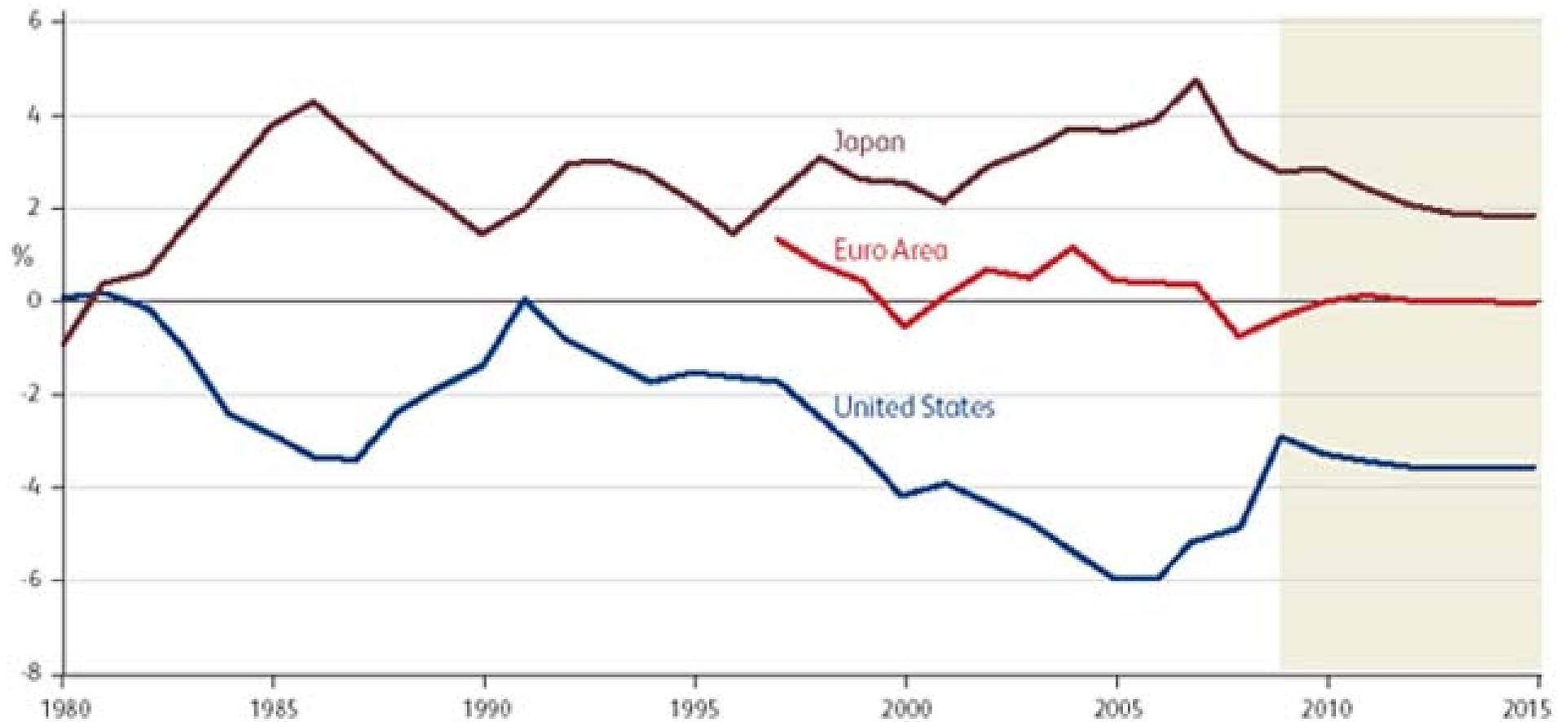




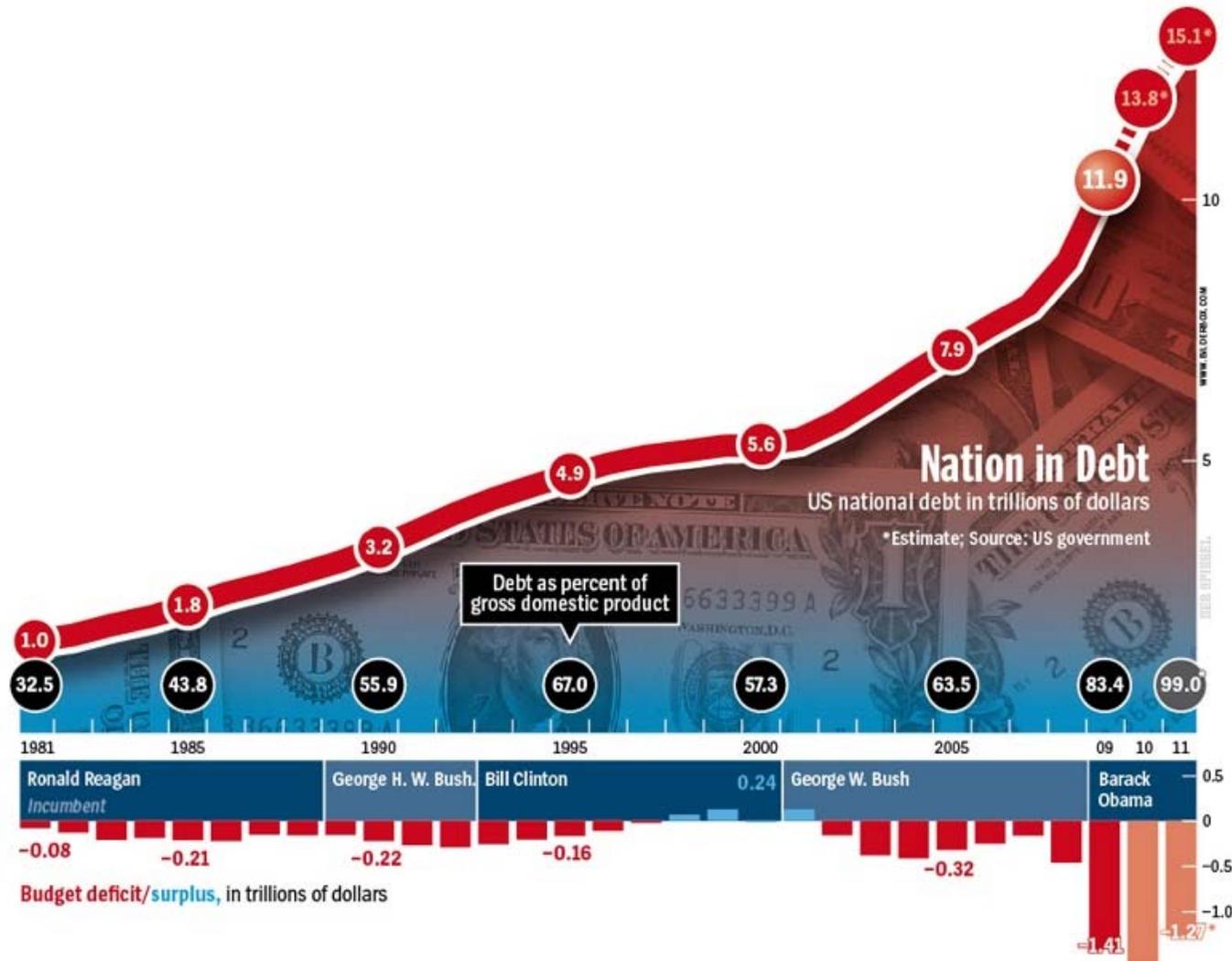
**FIGURE 3 CURRENT ACCOUNTS AS A PERCENTAGE OF GDP: US, EURO AREA & JAPAN**

Shaded area denotes forecasts.

Source: IMF, World Economic Outlook (April 2010)

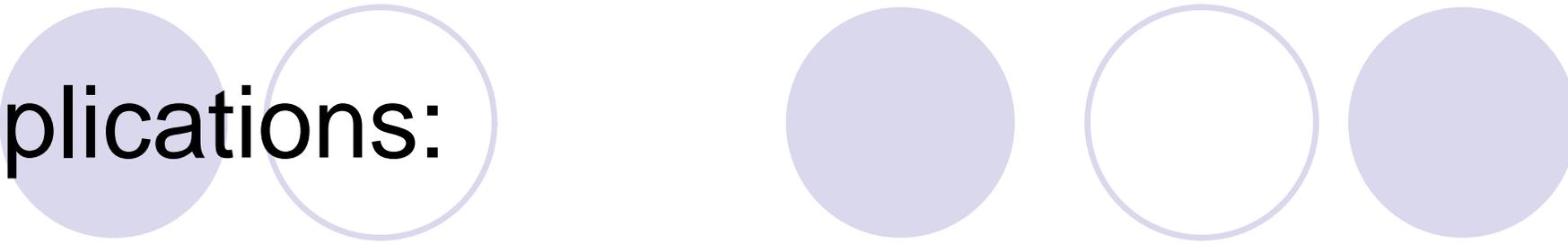


# Other context- Rising US debt (Source: Spiegel)



**Table 2: Positions of Key Countries on Key Dimensions of the G20 Debates**

	US	China	EU	Japan	India	Russia	Brazil	Can	Korea
Banking Regulations/ Basel	1	0.2	1	1	0.2	0	0.5	0.5	0.5
Financial Regulations	0.5	0.3	1	0.5	1	0.5	1	0	0.5
Transaction Tax	0	0.5	1	0.5	1	0.5	1	0	0
Macro-Economic Imbalances and RMB	1	0	0.2	0.5	0.5	0	0.5	1	0.5
Revamp Global Currency System, \$ supremacy	0	1	1	0	1	1	1	0	0
Reducing Sovereign Debt / Deficits	0	1	1	0	1	0.5	0.5	1	0.5
Stability of Sovereign Debt financing	1	0	1	0	0	0	1	0.5	0
Trade-anti-protectionism	0.2	1	1	1	1	1	1	1	1
Climate & Energy	0	0.2	1	1	1	0.3	1	0	0.2
G20 Institutionalization	0	0.2	1	0	0.5	0	1	0	0.5
IFI Governance - change	0.5	1	0	0	1	0.5	1	0	1
Development	0	1	0.8	0.3	1	0.2	1	0.2	1



# Implications:

- Tenuous buy-in from US
- Intermediate buy-in from China
- Critical path in 2-3 summits ahead
- Dilemma: slow institutionalization process vs urgent large issues that are too large for the G20 at the current stage

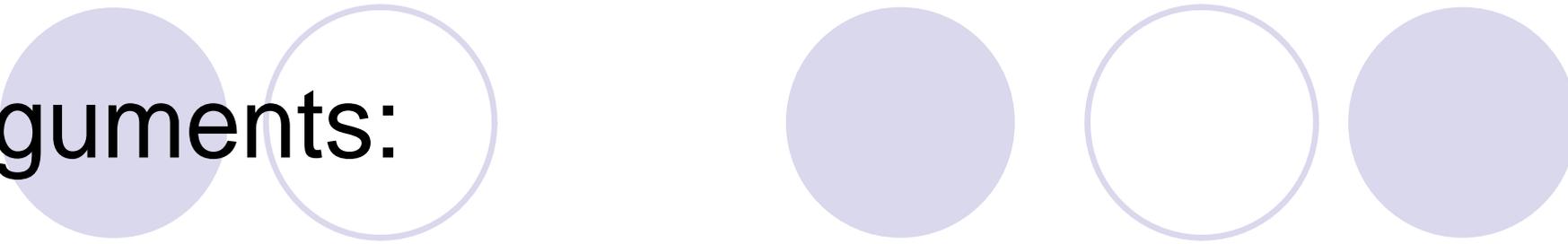
## 4. Some Thoughts on China and Global Governance

- What explains the positions of rising powers such as China with respect to global governance?
- Under what conditions, does China choose to go along with the hegemon, protect itself, seek multilateral alternatives, or offer an alternative global path?

# Table 2. Policy Choices with Respect to Key Dimensions of Global Governance: Case of China

Behavior	Reactive	Active
Focus		
Multilateral	<b>1. Bandwagoning</b> [FDI Regime, WTO agreement 2002, TRIPS, Foreign Reserves, <b>G20, Forex 2005-2009</b> ]	<b>2. Balancing</b> [ <b>Biosafety/GMOs</b> , Biodiversity, partial on Climate Change (CDM) until 2009, ]
Unilateral	<b>3. Stonewalling</b> [Capital Account, Energy policy, Internet governance, indigenous innovation, <b>WTO Doha 2008</b> , global food policy, <b>Copenhagen 2009</b> , Forex 2010]	<b>4. Innovating</b> [SEZs; “Beijing Consensus” on Development, new ODA approach, <b>Sovereign Wealth Funds</b> , National Champions/SOEs]

# Arguments:

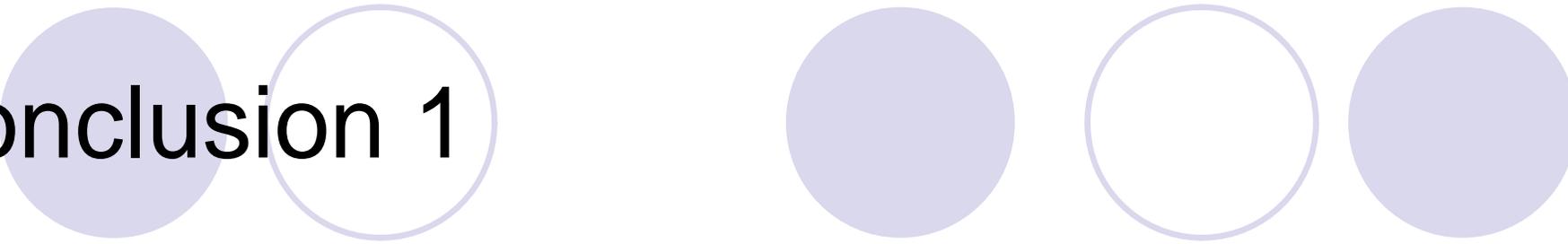


- China's response to global economic and environmental issues is the result of domain-specific fragmented governance and is primarily driven by two domestic variables:
- 1. The balance of power between domestic coalitions (affected by the degree of international normative socialization), and
- 2. The degree of public openness and public deliberation involved.
- 3. Wild card: degree of PBSC involvement

# Model of Chinese Policy-Making

- Chinese policy-making as fragmented and relatively open to a variety of influences.
- Each policy arena has its own constellation of coalitions and influences- quite autonomous.
- In most recent arenas of global governance, the intervention of political principals, namely the key leaders of the standing committee remains light, given the novelty and technicality of these arenas.

# Conclusion 1



- The great gravitational pull of the G20 is connected to a larger underlying need for global governance. The G20 represents a major attempt to rebuild the global regulatory infrastructure that is necessary for global markets to function.
- The G20 game embeds three concentric circles
- At the core of the G20 power games lies a US-China-EU triad.
- The key actors in the game are the US and China, because their buy-in is both necessary and partly problematic. The linchpin of the G20 process is China, because Chinese cooperation will deliver US participation.

# Conclusion 2 – Seoul Summit Overview

- 1. Effectiveness of Korean presidency: no hitch, hospitality, credibility as link between N-S, and East-West..
- 2. Difficult outcome on top item: currency system and current account deficit. Impossible mediation between US and China.
- 3. But a lot of institutional progress with long-term potential: IMF governance, IMF monitoring, Seoul Development, Basel...

# In closing

(credit: Mike Weisbart)



OR.. The emergency spot if things don't work out.. (credit: Mike Weisbart)

