

**The Group of 20 and its contribution to the reform of the
global financial architecture**

by

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ABSTRACT

The 2008 global financial crisis prompted an extensive re-evaluation of the effectiveness, legitimacy and relevance of the institutions that governed the global economy since the end of the Second World War. This re-evaluation resulted in various attempts to improve the formal and informal structures of global financial governance in order to avoid similar shortcomings in the future. As a result, the G20 developed from a mere suggestion at a G7 Summit in 1999 into a significant society of states ranging from highly developed states to developing states. The G20 is a deliberative forum representing 19 of the world's leading industrialised and emerging economies and the European Union. Global financial instability resulting from the 1997-1998 Asian financial crisis triggered the establishment of the G20 and informed its mandate to promote international financial stability. Consequently, the G20 became the key agent for the reform of the international financial architecture and has been described as an international steering committee, a premier forum and a cornerstone for international financial cooperation. This study is grounded in the constructivists' assumption that the international environment should be explained as a social structure constructed by a normative framework. This non-material framework provides both agents (actors, such as, but not limited to, states) and the material environment social identity and legitimacy. Crises in the material environment, however, can result in new identities, interests and norms, a new normative platform for the reform of the system. This study found that the G20, represented by members from the global North and the global South, focused on the reform of the IMF, overseer of global financial processes. Yet, a main finding in this study is that the urgency to reform the IMF disappeared as new global issues emerged on the global agenda. This study also asks how the G20 can become a more effective global actor, an agent of long-term change driven by shared understandings and new norms to ensure the reform of the global financial architecture to increase its stability.

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ABBREVIATIONS

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AU	African Union
BRICS	Brazil, Russia, India, China, South Africa
CMIM	Chiang Mai Initiative Multilateralisation
CRA	Contingent Reserve Arrangement
EFSF	European Financial Stability Facility
ESM	European Stability Mechanism
EU	European Union
FSB	Financial Stability Board
FSF	Financial Stability Forum
G4	Group of Four
G5	Group of Five
G7	Group of Seven
G8	Group of Eight
G20	Group of Twenty
G22	Group of Twenty-Two
G33	Group of Thirty-Three
G77	Group of Seventy-Seven
GAO	Government Accountability Office
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GPFI	Global Partnership for Financial Inclusion
IBRD	International Bank for Reconstruction and Development
IBSA	India-Brazil-South Africa Dialogue Forum
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
LDCs	Least Developed Countries
NAB	New Arrangements to Borrow

NAFTA	North American Free Trade Agreement
NAM	Non-Aligned Movement
NEPAD	New Partnership for Africa's Development
NIEO	New International Economic Order
OBOR	One Belt One Road
OECD	Organisation for Economic Cooperation and Development
SDRs	Special Drawing Rights
SIVs	Structured Investment Vehicles
SRF	Supplemental Reserve Facility
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organisation
US	United States
WEF	World Economic Forum
WTO	World Trade Organisation

CHAPTER 1

INTRODUCTION

1.1 Introduction

In his budget speech to the American Congress on 12 February 1945 President Franklin D. Roosevelt motivated the establishment of the International Monetary Fund (IMF) as part of the Bretton Woods Institutions and stated:

“In a nutshell, the Fund agreement spells the difference between a world caught again in the maelstrom of panic and economic warfare ...or a world in which the members strive for a better life through mutual trust, cooperation, and assistance” (Roosevelt 1945).

For decades the IMF played a dominant role in the international financial system but the 1997-1998 Asian financial crisis¹ and the 2008 global financial crisis became the proof of the foresight demonstrated by President Roosevelt during the same speech when he said:

“I do not want to leave with you the impression that these proposals for the Fund and Bank are perfect in every detail. It may well be that the experience of future years will show us how they can be improved”.

Even though the 1997-1998 and 2008 financial crises did not lead to economic warfare, they contributed to instability, uncertainty and immense poverty due to unemployment. Again, as was the case in the post-war era of 1945, the norm of global financial stability demands the comprehensive reform of the international financial architecture.

Following the fall of the Berlin Wall in 1989, the world’s attention shifted to globalisation which brought about an integrated global society characterised by increased interaction

¹ In July 1997 the Asian financial crisis manifested in Thailand and quickly spread to countries in East Asia. By 1998 it reached Latin America and Eastern Europe while raising fears of a worldwide crisis (Moschella 2010: 98).

between international actors, greater economic interdependence, and the integration of financial markets. Economic globalisation led to higher demands for effective global financial governance because, as Held and Young (2009: 14) explain, “the costs of governance failures are widely dispersed across extremely vulnerable segments of the world population”. Yet, recurring global financial crises since the late 1990s, have indicated an inability to secure a more inclusive and stable global financial system.

Consequently, the Group of 20 (G20) was established in Berlin in December 1999 as a Ministers of Finance and Central Bank Governors forum in response to the global financial challenges. But it was the 2008 global financial crisis that prompted an extensive re-evaluation of the effectiveness, legitimacy and relevance of the fundamental concepts, rules, and institutions responsible for global financial governance. The spotlight fell on the IMF, mandated to ensure global financial stability, and its inability to anticipate and prevent severe global financial turmoil. The G20 was, therefore, raised to a forum that meets annually at Heads of State and Government level, with the inaugural G20 Summit hosted in Washington in November 2008 (Helleiner 2010: 630-631).

As a result, the G20 developed into a significant society of states with the aim to address matters of mutual concern within the framework of the liberal international economic order, and the challenges of increasing global inequality due to the marginalisation of the global South. The reform of the global financial architecture is still one of the major global economic challenges highlighted by the leaders of the G20 in their declaration during the Hamburg Summit in 2017. Leaders undertook to “enhance the international financial architecture and the global financial safety net with a strong, quota-based and adequately resourced IMF at its centre” (European Commission 2017).

Therefore, this study assesses the contribution of the G20 to the reform of the global financial architecture, particularly the IMF, motivated by the G20’s aim to build global financial resilience. This study focuses on the attempts of the G20 to create “strong, effective and representative global economic and financial institutions”, as announced during the G20 Summit held in Hamburg on 8 July 2017 (European Commission 2017). The

reform of global financial governance concerns both the global North and the global South, as discussed in the research theme and rationale below.

The aim of this chapter is to provide a background to the study by means of identifying the research theme and rationale, providing a literature overview and explaining the aims and objectives of the study. The chapter further outlines the problem statement and research questions, as well as explaining the research methodology and motivation for the qualitative research approach. In addition, the main research concepts are introduced and discussed while the theoretical framework and the motivation for grounding the study on constructivism is explained.

1.2 Identification of the Research Theme and Rationale for the Research

Mosley and Singer (2009: 420) mention that the 2008 global financial crisis opened the door for political scientists to focus on the “patterns of cooperation and discord within global regulatory bodies” with a particular focus on the involvement of developing states in these institutions. Therefore, broader global economic governance and in particular global financial governance is delineated as the phenomenon of the study within the discipline of International Relations and the subfield of International Political Economy. This study thus focuses on the ability of the G20 to contribute to global governance as an effective instrument for global financial reform in general, and the reform of the IMF in particular.

The composition, global aims, and objectives of the G20 related to the reform of the global financial architecture, provide the rationale for this study and selection of the topic. The G20 consists of the world’s leading economic players, ranging from highly developed states to developing states, representing the global North and the global South. Members of the G20 account for 80 per cent of global Gross Domestic Product (GDP), 75 per cent of global trade, and 66 per cent of the global population, the significance of these statistics cannot be over emphasised (G20 2017b).

Within this context, it is important to also note the emergence of the Brazil, Russia, India, China, South Africa (BRICS) group and the One Belt One Road (OBOR) initiative launched by China. Though more limited in numbers, both are agents of change in the global economic arena because they provide alternatives for emerging countries tired of being dominated by the advanced industrial countries of the global North. The development initiatives of BRICS are to overcome the lack of financing for infrastructural development and to finance their growth with their own New Development Bank. They thus challenge the dominance of the World Bank and the IMF and provide a framework for South-South cooperation. OBOR, on the other hand, was announced by President Xi Jinping in 2013 and signifies China's objective to create a modern Silk Road through an infrastructure investment and development drive to an estimated value of US\$900 billion, spanning from East Asia to Western Europe and south to Africa. This initiative, the largest investment drive by a single state, includes 40 per cent of the global GDP, 65 per cent of the global population, and 75 per cent of the world's energy resources (Campbell 2017; Hofman 2015). Both BRICS and OBOR give more prominence to China and other emerging economies in the global economic arena and should be taken seriously as alternative initiatives to change the status of emerging economies, because their demands for proper representation in the financial arena are legitimised by their financial capacity and the diminishing economic and political power of the advanced industrialised economies of the global North.

In 2009 the G20 proclaimed itself as the "premier forum for international economic cooperation" (G20 Information Centre 2009a) during its Pittsburgh Summit with the objective to ensure global financial stability by promoting the inclusion of emerging states in the global financial architecture. The G20 uses various Working Groups, such as the International Financial Architecture Working Group and the Trade and Investment Working Group, to coordinate policy aimed at achieving global financial and economic stability; promoting sustainable growth; improving financial regulations; reducing risks and avoiding future financial crises and contributing to the reform of the global financial architecture (G20 2013; Yong 2012: 10).

1.3 Literature Review

Numerous academic texts focus on the period after the devastation of the Second World War, when the over-arching quest for security and stability mobilised a growing number of states to solidify their cooperation by establishing permanent structures, such as the Bretton Woods Institutions. These institutions either reinforced old norms and rules or established new ones, but they all required leadership and the United States (US) and its allies eagerly accepted the obligations and privileges associated with international leadership. Thus, cooperative leadership, an essential part of global governance, has since the end of the Second World War provided strategic direction and harnessed the collective energies of national governments and multilateral institutions, in order to achieve common objectives in a sustainable, fair, and just manner (Lamy 2010). In the debates about global governance, the normative requirements underlying effective and legitimate governance in international cooperation and institutions are often raised and can be found in various qualitative sources in the International Relations discipline. Constructivism focuses exclusively on the normative frameworks underlying the relationships between actors in the international arena, a refreshingly 'new' approach introduced in a variety of sources, as discussed below (Puchala 1981: 152-153).

After the end of the Cold War, constructivists, such as Emanuel Adler, Martha Finnemore, Nicholas Onuf, Christian Reus-Smit, John Ruggie, Alexander Wendt and Ernst Haas, wrote qualitative books and articles and thus introduced constructivism to the International Relations discipline. They emphasised the importance of the relationship between the normative and the material structures, as actors and structures are mutually constituted through social constructivism. In other words, material resources only obtain meaning for "human action through the structures of shared knowledge in which they are embedded" (Wendt 1995: 73). Balaam and Dillman (2014: 103) explain that constructivists view states not only as political actors, but as social actors who adhere to norms and institutional concepts reflecting the society's beliefs and values (Adler 2005: 11; Adler and Barnett 1998: 8-10; Reus-Smit 2013: 224; Vesa 1999: 19).

Jackson and Sørensen (2013: 227-228) posit that although constructivism shares essential elements with critical theory, as both are socially constructed, constructivism has its own distinctions that make it a unique approach in the International Relations discipline. Constructivism is also presented as either problem solving (conventional) or critical. An in-depth analysis of constructivism and critical theory is provided in Chapter 2 of the dissertation. It is, however, important to mention for the purpose of the study, that a conventional constructivist, such as Adler, (2005: 95) advises governments to seek “communities of intersubjectivity in world politics, and domains within which actors share understandings of themselves and each other, yielding predictable and replicable patterns of action within a specific context” (Hopf 1998: 181-199). Adler’s advice serves as a guiding principle in the assessment of the normative strengths of the G20, a “community of intersubjectivity”, representing the “shared understandings” of its members.

It is furthermore important to note the contribution of systemic constructivists, such as Martha Finnemore, to the normative focus in this study. Finnemore (1996b: 128) emphasises the impact of the “norms of international society and the way in which they affect state identities and interests”, as opposed to analysing the social interaction between states. Finnemore (1996b: 128) proposes that “state’s behaviour is defined by its identity and interest, identity and interests are defined by international forces”, through the “norms of behaviour embedded in international society”. Finnemore (1996b: 128) explains that the “norms of international society” are transferred from international institutions to states with a view to “shape national policies by ‘teaching’ states what their interest should be”. Finnemore’s approach thus explains how norms in the external environment motivate states to align their aims and objectives to establish communities of intersubjectivity (Balaam and Dillman 2014: 108; Heywood 2014: 321; Jackson and Sørensen 2013: 218-219).

Heywood (2014: 433) posits that globalisation and interdependence increased the number of international actors, which in turn led to questions about the legitimacy of these entities and their ability to effectively solve global issues. In their seminal article, *Accountability and Abuses of Power in World Politics*, Grant and Keohane (2005: 35)

distinguish between *input legitimacy*, which refers to the democratic qualities of the entity's membership and decision making procedures (legitimacy), and *output legitimacy*, explained as the democratic or representative quality of the particular entity's decisions to address the collective goal and goodwill of the community (effectiveness). The link between *input legitimacy* and output effectiveness is also a main concern for Fritz Scharpf (1999: 6) who warns of the link between the decreased democratic legitimacy of individual governments that participate in European integration and ineffective European policies. The potential discrepancy between the legitimacy of members and the effectiveness of the collective entity is also a main theme for Axel Marx (2012: 68-69) who focuses on the legitimacy of national regulations and their impact on the effectiveness of global food standards. Marx again underlines the importance of *input legitimacy* to ensure output effectiveness in the global arena. While Scharpf warned against the decrease in the democratic legitimacy of governments participating in European integration in his 1999 book, *Governing in Europe: Effective and Democratic?*, these authors highlight an important focus which also guides this study: *input* and *output legitimacy* are basic requirements for all social, economic and political collective entities. Furthermore, *input legitimacy* is not merely based on the quality of membership, but also on the normative requirements and standards of behaviour to be found in the structural-functional make up of global actors, such as informal groups and forums and formal governmental and non-governmental organisations.

The 2008 financial crisis highlighted the flaws in the global financial architecture and triggered a variety of excellent contributions on the topic. Various academic books, reports and articles have been written and published by experts since 2008. For example, Malcolm Knight (2014) contributed an insightful view on the challenges facing the IMF due to the nature of the external financial system and the IMF's own internal flaws. Kirton (2016), Helleiner (2014), Trichet (2009) and Curran (2017) also focus on the inability of the IMF to predict and prevent recurring global financial crises since the late 1990s. Insightful explanations of the IMF's effectiveness since the 2008 global financial crisis can also be found in these sources. Eric Helleiner (2010: 630-631) explains that the 2008 global financial crisis prompted an extensive re-evaluation of the effectiveness, legitimacy and

relevance of the fundamental rules and institutions responsible for global financial governance. Knight (2014) identifies several alternative efforts to improve the formal and informal structures of global financial governance to avoid similar shortcomings in the future.

Many authors, such as Helleiner (2014), West (2017), Curran (2017), and Cooper (2010), focus on the legitimacy, role and status of the G20 before and after the 2008 crisis. The status of the G20 as the representative of both the global North and the global South is highlighted by Maxi Schoeman (2015: 143) who points out that the establishment of the G20 was based on the notion that the expansion of the global economy necessitated a more representative governing structure, as opposed to the small Western-centric Group of Seven (G7) that dominated the global financial scene. Kirton (2016: 227) also indicates that “an effective response” to the global financial crisis was needed beyond the “broadly multilateral old” Bretton Woods Institutions or the “exclusive G7”. The other authors mentioned at the beginning of this paragraph also note the significance of the elevation of the G20 from the level of Ministers of Finance and Central Bank Governors to Heads of State and Government in November 2008, when the first G20 Leaders’ Summit held in Washington addressed the 2008 global financial crisis. According to the G20 Antalya Summit’s official website (G20 2015a) the G20’s “decisive and coordinated actions” contributed to increased business and consumer confidence, which played a crucial role in addressing the consequences of the 2008 global financial crisis. The G20 consequently developed into a significant society of states with the aim of promoting global financial stability. Langmore and Fitzgerald (2012: 46) criticise the G20 for not adequately addressing the long-term causes of global financial instability after the 1997-1998 Asian financial crisis, which contributed to the 2008 global financial crisis.

Nevertheless, the drive behind the G20 as the most important agent for the reform of the global financial architecture and the IMF in particular, is slowly dying down. Laurence Boulle (2011: 15) describes the G20 as a significant “coordinating forum of governance” linking and legitimising global governance institutions in promoting global financial stability, as well as contemporary issues such as “climate change, clean energy, anti-

corruption and aid for development". In addition, Viola (2014: 119) also finds that the G20 has become "intentionally broad", as its agenda evolved to include global issues of concern ranging from environmental concerns, such as climate change and clean energy, to anti-corruption, anti-terrorist funding, and aid for development. Inan (2016) indicates that the 2016 G20 Summit surpassed the purview offered by other global financial governance entities, and that the G20 developed into a "truly effective global governance institution" with an "institutional vision and institutional values of integration, openness, and inclusiveness that are formulated to catalyse new drivers of growth and to bring together the diverse interests in the world economy". Thus, sufficient qualitative sources exist to paint the picture of the G20 and its impact on the global financial arena since its inception.

This preliminary literature review confirms the existence of numerous publications concerning the changing nature of the global financial architecture, the flaws highlighted during global financial crises and the importance of the G20 as an agent of reform. Many sources also contribute to insight into the constructivists' conceptions of ideas and norms, their impact on the material world and the role they play in providing meaning to the activities and decisions of actors, such as the G20. For the normative framework of this study, special attention will be given to the sources of Finnemore (1996a and 1996b), Finnemore and Sikkink (1998 and 2001), Adler (1997 and 2005), and Wendt (1992 and 1995). Yet, it seems that very few publications assess the normative contribution of the G20 to global financial governance, and how its structural and functional nature contributes to its effectiveness concerning the reform of the global financial architecture. This dissertation will accordingly endeavour to fill this gap to improve the role and function of the G20 in the global financial arena.

1.4 Justification, Aim and Objectives of the Research

As mentioned, the 2008 global financial crisis prompted an extensive re-evaluation of the efficiency, legitimacy and relevance of the fundamental strategies and institutions that have governed the global economy in the second half of the 20th century. This assessment

has introduced a number of efforts to reconsider and improve the formal and informal structures of the global financial governance system in order to avoid similar shortcomings in the future (Cooper 2010: 741). Accordingly, this study focuses on the G20, an informal structure in the global financial governance system.

Haggard and Simmons (1987: 491-492) attribute the establishment of informal global financial groups, such as the G20, to the “dissatisfaction with dominant conceptions of international order, authority, and organisation”, such as the G7 and the IMF, which fell short of adequately addressing the financial challenges of the 1997-1998 Asian financial crisis that contributed to the 2008 global financial crisis. In addition, the G7 established the Financial Stability Forum (FSF) in 1999 to promote global financial stability through enhanced information exchange and international cooperation. A new Financial Stability Board (FSB) was, however, established in April 2009 by the G20 as a replacement of the FSF to include all G20 members as well as Spain and the European Commission. The FSB monitors the global financial system and assists and advises the G20 on stabilising the global financial system (FSB 2017; Kirton 2016: 62; Moya 2009).

The primary aim of this study is to assess the contribution of the G20 to global financial governance from 2008 to June 2018. Underlying this, the dissertation specifically assesses the effectiveness of the G20 to promote the norm of global financial stability by contributing to the reform of the global financial architecture. The objective of the study is to make recommendations aimed at improving the effectiveness of the G20 as an instrument of global financial reform.

1.5 Problem Statement and Research Questions

The identity of the G20, its interests and priorities and its effectiveness as an instrument in the reform of the global financial architecture are determined by four factors. The first factor is the (internal) *normative framework* underlying the G20 which manifests in its institutional design (aims, structure and functions). The second factor is the (external) *normative structure of the global financial system* where changes result from the

introduction and acceptance of new norms. International cooperation between the G20 and other actors creates *shared knowledge*, the third factor which, combined with the first two factors, creates the basis of the *input legitimacy* of the G20. The fourth factor is the output of the G20 which takes the form of *policies* and manifests for example in the priorities given to specific global issues. The *output legitimacy* of the G20 is determined by factors one to three and must answer to the requirement of effectiveness.

Thus, the internal legitimacy of the G20 is determined by its normative framework, institutional design and the demands underlying norms in the external environment as communicated to the G20 during its interaction with the external environment. The *output legitimacy* of the G20 is determined by the effectiveness of its policies, the latter a manifestation of the G20's ability to effectively contribute to the reform of the global financial architecture. Thus, cooperation in the global financial system forms the basis of this study which focuses on the impact of the G20's (i) normative framework and (ii) institutional design and in cognition of the (iii) the normative framework of the external environment on the (iv) ability of the G20 to effectively contribute to the reform of the global financial architecture.

The core research question of the study is:

Do the norms underpinning the G20 enhance its ability to effectively contribute to global financial governance?

The sub-questions of the study are:

- i. To what extent can constructivism be applied to explain the contribution of norms, represented by the G20, to the reform of the global financial architecture?*
- ii. Does the G20, as an informal forum, have the ability to effectively contribute to the reform of the IMF, the key institution responsible for global financial stability?*
- iii. To what extent does the G20 attempt to enhance its own inclusivity with the aim to strengthen the global financial architecture?*

1.6 Research Methodology

This research is conducted through a qualitative desktop study and critical literature review as described by Grant and Booth (2009: 93-97). The selection of the qualitative research approach is based on its ability to provide a deeper understanding of international cooperation within the framework of global financial governance, identified as the research phenomenon. A critical literature review thus enables an in-depth study based on the analysis of qualitative material from eclectic sources published on the topic and main themes. It also provides the opportunity to identify gaps in the existing literature and to attempt to focus on those aspects that did not receive the necessary attention. The time lapse between the manifestation of global financial crises since the last decade of the 20th century and 2018, the date of this study, provides the perfect motive for a more extensive literature review because over time new insight and understanding is gained of the real essence and long-term impact of these crises. In addition, this study follows the theory-before-research approach grounded in constructivism which allows for the study of ideas and norms.

Inan (2016) indicates that the G20 exceeded the purview offered by other financial governance institutions by developing into a “truly effective global governance institution” with an “institutional vision and institutional values of integration, openness, and inclusiveness that are formulated to catalyse new drivers of growth and to bring together the diverse interests in the world economy”. Therefore, in order to examine the G20, the study analyses and compares the G20’s structural characteristics against the dependent variables of an international institution, identified by Koremenos, Lipson and Snidal (2001: 768-773) as membership, scope, centralisation, control, and flexibility.

The units of analysis are the norms underlying the effectiveness of the G20, which either limit or enhance its ability to contribute to the reform of the global financial architecture. The units of analysis in effect determine the G20’s relevance and authority in contributing to the reform of global financial governance, assisting in answering the research questions.

1.7 Research Concepts

The study operationally defines the research concepts using academic texts, to enhance the understanding, conceptualisation, and operationalisation of the main concepts. Accordingly, the study will operationally define terms relevant to the research and may include, but not be limited to, global financial architecture and governance, and the G20.

With reference to the conceptualisation and operationalisation of global financial architecture and governance, Moschella and Weaver (2014: 4) define the concept as “the international rules-based framework through which economic actors” coordinate and manage the international exchange of financial goods and services, as well as address issues of mutual financial concern. Therefore, global financial architecture and governance is operationalised as actors’ international cooperation to support the global economy and to enable financial stability with the aim to avoid a global financial market failure, such as the 2008 global financial crisis.

Concerning the G20, Viola (2014: 115-116) posits that the forum’s establishment in 1999 was in the wake of the 1997-1998 Asian financial crisis with the mandate to promote and ensure global financial stability. Originally the G20 consisted of the Finance Ministers and Central Bank Governors of the 20 most significant economies² in the global financial system, namely: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom (UK), the US, and the European Union (EU). This grouping makes the G20 an important global actor representing around 80 per cent of global GDP, 75 per cent of global trade, and 66 per cent of the global population (G20 2017b).

The G20 Finance Ministers and Central Bank Governors met annually between 1999 and 2007 as the only G20 structure and acted as a central player (agent) in the global financial realm (structure). As mentioned in the introduction, however, the 2008 global financial

² It is important to note that the G20 consists of 19 states and the EU, which is represented by the European Council President, the European Commission President, and the European Central Bank (European Union 2017).

crisis prompted an extensive re-evaluation of the effectiveness, legitimacy and relevance of the fundamental concepts, rules, and institutions responsible for global financial governance. In 2008 the G20 was elevated to Heads of State and Government level, and developed into a global governance institution with an institutional vision and values to catalyse new drivers of growth and to bring together the diverse interests in the global economy.

1.8 Ethical Considerations

Because this is a qualitative desktop study and a critical literature review, this study does not involve human participants and is not based on research where animals are involved. The only ethical risk related to the study is plagiarism. Accordingly, all rules and procedures are followed to comply with the requirements of the University of Pretoria.

1.9 Theoretical Framework

Contemporary economic and financial globalisation and interdependence caused an increased demand for effective and legitimate global governance, a process of cooperative leadership that provides strategic direction and harnesses collective energies of national governments and multilateral institutions, in order to achieve common objectives in a sustainable, fair and just manner. For this reason, the study is based on the theory-before-research approach grounded in constructivism which allows for the study of ideas and norms.

Finnemore (1996b: 128) suggests that a state's actions are defined by its identity and interest, which in turn are defined by international forces, through the "norms of behaviour embedded in international society". However, a reconstructed structure based on new norms develops when the norms of the structure and those of agents differ. Accordingly, constructivism explains what motivates states to align their aims and objectives to establish communities of intersubjectivity (Balaam and Dillman 2014: 108; Heywood 2014: 321).

In addition, to address the research questions, this study aims to determine how the normative framework and institutional design of the G20 serve as independent variables to reform the global financial architecture as the dependent variable.

1.10 Research Structure

The following section provides a structural overview of the dissertation through a brief summary of the chapters' composition.

Chapter 2: Theoretical Framework

Chapter 2 highlights the theoretical framework of the study and focuses on the creation of a framework for the assessment of the G20's effectiveness as a reform agent in a changing normative global financial landscape. The chapter furthermore sets out the dependent variables of an international institution, identified by Koremenos, Lipson and Snidal, to analyse and compare with the G20's institutional characteristics.

Chapter 3: The G20 in the Global Financial Architecture

Chapter 3 assesses the evolution and development of the G20, since its establishment in 1999 to its current form in 2018, based on the theoretical framework provided in Chapter 2. The chapter further examines the institutional design of the G20, and assesses the advantages and disadvantages of its structure in global financial governance.

Chapter 4: The Contribution of the G20 to Global Financial Governance

Chapter 4 assesses whether the G20's contribution to the reform of the global financial architecture is effective in relation to the demands of the global financial architecture and the dependent variables of an international institution described in Chapter 2.

Chapter 5: Conclusion

Chapter 5 provides the research findings on the G20's institutional structure and its effectiveness as an instrument to assist in the reform of the global financial architecture. This chapter also elaborates on the recommendations to improve the relevance and

functioning of the G20 in global financial governance, serving as the conclusion to the study.

1. 11 Conclusion

The chapter established that numerous publications exist relating to the constructivist conceptions of ideas and norms, their impact on the material world and the role they play in providing meaning to the activities and decisions of actors, such as the G20. The global financial governance system, as well as the G20, also became the focus of numerous academic texts.

Nevertheless, it seems that few publications exist which evaluate the normative contribution of the G20 to global financial governance, and how its structural and functional nature contributes to its effectiveness concerning the reform of the global financial architecture. This dissertation will accordingly endeavour to fill this gap to improve the role and function of the G20 in the global financial arena. Through a qualitative research approach and a critical literature review, this study follows the theory-before-research method grounded in constructivism and assesses the contribution of the G20 to the reform of the global financial architecture. The constructivists' assumption that the international environment should be explained as a social structure constructed by non-material elements, forms the basis of the research's theoretical framework. Constructivism serves to give agents (actors, such as, but not limited to, states) and the material environment a social identity and legitimacy.

Therefore, this study evaluates the contribution of the G20 to the reform of the global financial architecture motivated by the G20's aim to build global financial resilience. This study focuses on the attempts of the G20 to create "strong, effective and representative global economic and financial institutions", as announced during the G20 Summit held in Hamburg on 8 July 2017 (European Commission 2017). The primary aim of this dissertation is to assess the contribution of the G20 to global financial governance from 2008 to June 2018.

Underlying this, the study specifically assesses the effectiveness of the G20 to promote the norm of global financial stability by contributing to the reform of the global financial architecture, as well as to make recommendations aimed at improving the effectiveness of the G20 in the global financial arena in order to address the core research question: *Do the norms underpinning the G20 enhance its ability to contribute to effective global financial governance?*

CHAPTER 2

THEORETICAL FRAMEWORK

2.1 Introduction

The pursuit of peace, justice and prosperity have dominated relations between groups, cities, kingdoms and empires since the beginning of time. Consequently, fundamental issues, such as war, peace and the acquisition of power and wealth, became dominant themes in the epistemological foundation of the International Relations discipline. Scholars continuously ask questions about the allocation of power and how to ensure the fair distribution of wealth. They thus attempt to determine the causes and consequences of shifts in the diffusion of power and wealth. For example, as Andrew Hurrell (2016: 8) argues, in international relations power shifts from one actor to another are due to the inevitable “rise and fall of Great Powers”, but also because of changing social and economic realities and new normative interpretations of the notion of legitimate power. These changes have over centuries forced scholars to ask what the nature of international relations is, how to ensure peace, how to study international phenomena and events, what role norms should play in the discipline and whether scholars should aim to provide solutions to solve problems and preserve the *status quo*, or rather to create new theories to drastically change the *status quo*. These fundamental questions have driven the development of the theoretical foundation of the International Relations discipline.

Dividing up disciplines, each with its own complex set of theories, provides an opportunity to gain practical knowledge according to Robert Cox (1981: 126). Theories are abstractions of reality, they have different purposes and rest upon different assumptions and epistemologies and thus provide unique frameworks to study and explain phenomena and events. Moreover, selecting a particular theory to guide the theoretical design of the study, impacts on the concepts used, the variables to be investigated, and the methodology that will be followed. The International Relations discipline consists of a variety of theories, each with its own philosophical foundation, purposes and limitations

and as Karl Popper, (2002: 37-38) posits, they all serve as “nets cast to catch what we call ‘the world’: to rationalise, to explain, and to master it”. Theories provide frameworks to understand, explain, and assess the meaning of events in the context of a larger theoretical framework (Walt 1998:29).

The status, purpose, role, and key features of international relations theory have been motivated and described from different angles. Furthermore, the intent and purposes of theorists and the uniqueness of the subject matter require international relations theories to fulfil particular roles and functions because, as Robert Cox (1981: 128) explains, “Theory is always for someone and for some purpose”. Theories have meaning, and purpose and are “...always traceable to an historically-conditioned awareness of certain problems and issues: a problematic” (Cox 1981:128). Dunne, Hansen and Wight (2012: 4 and 8) also add that to be useful, theories must provide generalisations and predictive capacity while Lake (2013: 580) requires theories to clarify facts, but also warns against blind preferences for a particular theory, because there is no proof “that any one kind of knowledge generated and understood within any one epistemology or ontology is always and everywhere more useful than another”.

Fundamentally, the differences between theories in the International Relations discipline rests upon three questions. Firstly, what is the nature of the social world (the reality) that forms the focus of the study? Secondly, how can the researcher obtain knowledge about that reality? Thirdly, what should the aim of the researcher be? Theory’s ontological foundation informs the first question and results in two extreme types of realities: an objective reality ‘out there’ (positivism) or a subjectively experienced reality (post-positivism). The second question is informed by the epistemological foundation of a theory and results in two alternatives: scientifically explained (rational) knowledge or knowledge based on understanding (reflectivist knowledge). Positivism relies on an empiricist epistemology and takes as its ontological point of departure the existence of an observable reality (for example the anarchical international system), to be studied with scientific methods to ensure the predictive validity of the theory (Lamont 2015: 19). The ontological position of interpretivists (post-positivists/reflectivists) is that there is no real

world about which they can make statements. There is also no distance between object and subject, because “the researcher intervenes in, or creates, observed social realities through their own role in knowledge production and thus alters the object under study” (Lamont 2015: 20). For interpretivism, understanding the meaning of events and the roles social actors play determine their knowledge of the social environment. Their focus is on the impact of underlying norms, identities and interests on the nature of international relations. Many theories, however, such as realism and constructivism, are in the middle of the positivist/post-positivist ontological and objective/subjective epistemological foundation when they argue that the real world exists, but that the scientific method does not provide an answer to all international relations.

Furthermore, the third question on the aim of the study is informed by Cox’s two distinct categories of researchers. Cox (1981: 128-129) distinguishes between problem-solving and critical theories but also concedes that the two are not mutually exclusive (Cox 2010). Problem-solving theories are conservative, they have a limited mandate and operate within the limits of their application. The latter is the consequence of their point of departure: the preservation (and improvement) of the *status quo*. Their functions are to provide clarity on the issues under investigation, to indicate ways to solve these issues and to contribute to the preservation of the existing order with its underlying power relationships. A main point of criticism against problem-solving theories, according to Cox (1981: 130) is that by accepting and reaffirming the prevailing order, these theories are value-bound and will resist drastic changes. They will, therefore, “be biased towards perpetuating those relationships, thus tending to make the existing order hegemonic” (Cox 2010).

Then, there are those researchers with a different focus and purpose in mind. They critically reflect on the nature of the *status quo* and reject it when they find it unacceptable. Critical theorists not only question the status of the theory but also investigate existing power relationships and the institutions that support these relationships (Cox 1981: 129; Cox 2010). They are more reflective and focus on ways to change the *status quo* and to predict outcomes, such as the establishment of a new world

order (Cox 2010). Ashley (1981: 227) explains critical theories' aim to emancipate as "securing freedom from unacknowledged constraints, relations of domination, and conditions of distorted communication and understanding that deny humans the capacity to make their future through full will and consciousness".

Yalvaç (2017: 4) posits that the critical tradition is based on "the idea of critique" as a "product of the heritage of Enlightenment". In essence, critical theories use reason and critical insight, and state the opposition between reason and belief. As will become clear, mainstream international relations theories can be classified as problem-solving theories because they must preserve the *status quo* (Patrascu and Wani 2015: 392). Yet, international relations theories are most often more complex and not easily classifiable, and as Cox argues, a theory or approach often manifests elements of more than one category.

But first, the aim and purpose of this chapter is set against the background of the classification of theories in the International Relations discipline. As already indicated, this study asks how the G20 can fulfil its role of effective global financial stabiliser by promoting the reform of the IMF. Thus, the intersubjective identities and norms which construct the G20 and the relationship between the G20 (the agent) and the global financial system (the structure) motivate the choice of constructivism as theoretical framework. Therefore, this chapter assesses the status and position of constructivism within the broader context of the International Relations discipline and aims to indicate how constructivism can provide a theoretical framework for the explanation of change in the global financial system. The objective of the chapter is to provide information that assists in addressing the first sub-question of the study, together with information provided in Chapters 3 and 4: *To what extent can constructivism be applied to explain the contribution of norms, represented by the G20, to the reform of the global financial architecture?* This sub-question is addressed in Chapter 4 after additional information is provided.

The chapter is divided into four categories with the first briefly introducing the basic features, role, status, and purposes of theories in the International Relations discipline. The second category explains the development and current complexity of international relations theory, while the third focuses on constructivists' explanation of the international arena as a social structure that can be changed and re-constructed by intersubjective ideas, norms and other non-material elements. In the fourth category the dependent variables for an international body, membership, scope, centralisation, control and flexibility, identified by Koremenos, Lipson and Snidal (2001: 768-773) are discussed, which are then linked to the norms of international bodies.

2.1.1 Origin and Establishment of International Relations as a Discipline

The fall of the Roman empire resulted in disorder and political disintegration in the empire's western regions, but out of this chaos the European state system eventually developed as the basis for the contemporary international system. Thus, the Western dominance of the International Relations discipline stems from events that followed during and after the middle ages in Western Europe. Gradually states with monarchs emerged along the north Atlantic rim, each with its own political power, quest for economic development and mercantilist trade endeavours. New developments, such as the printing press and the introduction of gunpowder from China, gave the Europeans the means to discover new territories, claim their own spheres of influence in the 'new world' and eventually colonise new territories. The knowledge to produce gunpowder also gave European monarchs the military ability to centralise their political power and to fight wars against each other. One example is the Thirty Years' War, the last religious war to be fought in Europe, but also the war that had far-reaching implications for the future nature of the international system (Knutsen n.d.; Spruyt 2009).

Emphasising the state system as the subject matter for the discipline, many international relations scholars accept the 1648 Peace of Westphalia, which not only ended the Thirty Years' War, but also gave recognition to the sovereignty of European rulers within their own territories, as the benchmark date for the establishment of international relations.

The peace treaties signed in 1648 emphasised the importance of treaties and conventions in legalising the relations between states, thus creating a balance of power to ensure peace in the European state system. In addition, the treaties freed European governments to focus on their trade expansions into new territories where they created spheres of influence and colonies thus forcing the European state system on the Americas, Africa, and Asia (Chatterjee 2010: 2). Vladislav Sotirovič (2017) posits that the Peace of Westphalia provided “the foundations of global politics and IR up to 1945 and became revived after the Cold War in the updated form”.

The use of 1648 as a primary “benchmark date” for the International Relations discipline is, however, inappropriate according to Barry Buzan and George Lawson (2012: 4 and 17) who instead prefer the year 1500 because it falls between 1487 and 1522, a period of “the rapid opening up of the sea lanes from Europe to Southern Africa, the Indian Ocean, the Americas, and across the Pacific” (Buzan and Lawson 2012: 19). Representing an economic determinist perspective, Immanuel Wallerstein prefers the end of feudalism in Europe and the onset of the world capitalist system as the formal onset of international relations while Kayaoglu (2010: 195-196) rejects the ‘Westphalian narrative’ as “slanted history” which only perpetuates the notion of Western exceptionalism and superiority and prevents “the accommodation of pluralism in an increasingly globalised world”. Be that as it may, the Peace of Westphalia signified a break with feudalism, recognised state sovereignty while forcing European monarchs to sign treaties which became instrumental in creating a sense of order in an anarchical system. The Peace of Westphalia, however, also created a theoretical and practical duality between Western nations and the ‘other’, non-Western territories, a division which still characterises both discipline and practical realities.

Moreover, attempts to create an independent discipline with its own theoretical foundation and a separate academic field of inquiry described by Knutsen (1997: 11-12) as “a sustained intellectual connection across the ages along which scholars stipulate certain

concepts, themes and texts as functionally similar” has a shorter timeline than expected³. The devastation of the First World War undoubtedly spurred the establishment of the International Relations discipline. In their quest for peace post-war leaders, such as President Woodrow Wilson, agreed to follow the advice of German philosopher Immanuel Kant: “Real peace...requires the rule of just laws within the state, between states, and between states and foreigners, and it requires that this condition be a global one” (Kleingeld 2006: xvi). They thus worked to establish an international state system with its own rules and institutions. Buzan and Lawson (2012: 5-6), however, argue that the International Relations discipline has a distinct American origin since it had already been founded during the last years of the nineteenth century and not in Britain at the end of the First World War (Waever 1997: 10 and 14).

Nevertheless, the basic features of International Relations as a discipline spring from the dominance of Western nations and the European state system, the anarchical nature of the system and the dominance of American, British, and European scholars. As Alex Young (2014) states: “Most contemporary international relations theory, though, is tainted by a major source of bias: it is produced in western nations by western authors for western readers”. This is a dominant feature of the discipline, as is the contention that the international arena can be described as an anarchical system with no central authority above the states. Both these features became targets of critical theorists, a theme that will receive more attention in this study.

2.2 Paradigmatic Debates and Dominant Themes in the Development of International Relations Theory

How to explain the development of a complex network of theories in the International Relations discipline?⁴ Many International Relations scholars use the idea of a tradition of

³ In 1789 Jeremy Bentham coined the term ‘international’ relations in his book *Principles of Morals and Legislation*. The first official use of the concept “international relations” was in 1880, according to a United Nations Educational, Scientific and Cultural Organisation (UNESCO) publication (Kumar 2016).

⁴ For an in-depth discussion on the debates in IR, see Balzacq, T. and Baele, S.J. 2017. The Third Debate and Post-positivism. They identify three debates: (i) The realist – idealist debate; (ii) The behaviouralists – traditionalist debate and (iii) positivism-post-positivism.

great debates to assess conflicting theoretical approaches, provide an overview of the development of the discipline and to explain their own world view. Each debate is then characterised by its own dynamic discussions, rigorous argumentation, and intense academic rivalry. These debates highlight the differences between rival theories and approaches, and also serve to thematically structure the history of the discipline (Jackson and Sørensen 2013: 33-34). Scholars, such as Waever (1998: 715) argue that, "...there is no other established means of telling the history of the discipline". Yet, scholars do not agree on how many debates there were, and the development of theories was not always the main motive of these debates, as Lake (2013: 568) explains, "the focus was less on how to explain world politics and more on which set of assumptions best captured the inherent nature of humans as political animals or states as political organisations". The debates clarify the differences between theoretical approaches, even though they are most often inconclusive and overshadow other theories (Lake 2013: 568). Nevertheless "the role, place and function of theory has been an integral part of all of the 'great debates'", according to Dunne, Hansen and Wight (2012: 2). The aim of this discussion is to explain how different theories and approaches formed the building blocks of contemporary international relations theory in general, and constructivism in particular.

2.2.1 Liberal Idealism versus Realism

Scholars, such as Peter Wilson (1998), Lucien Ashworth (2002) and Ole Waever (1997) warn against presenting liberal idealists and realists as rivals in a theoretical debate after the end of the First World War. They argue that such an approach can be misleading and will result in an oversimplification of two timeless theoretical traditions. Thus, to avoid generalisations while explaining the impact of liberal idealism and realism on the period between the two world wars, it is best to analyse both in a broader and a narrower sense.

Broadly speaking, classical liberalists such as Aristotle, Jean-Jacques Rousseau and John Locke, focused optimistically on the primacy of the individual, the good side of human nature and the importance of a social contract to regulate the relationship between rulers and citizens. Classical liberalism provided the framework for the basic viewpoint of this intellectual tradition which is, as explained by Wilson (2011) that peace in the

international arena depends on the ability of states “to transcend the international anarchy and create a more cosmopolitan and harmonious world order”. In the interwar period (1919-1939) a particular, narrower brand of liberal idealism was popularised by President Woodrow Wilson, John Hobson and Alfred Zimmern. For them, the international anarchical system will only become stable, peaceful and prosperous if states use the institutional framework provided by international organisations such as the League of Nations, to promote liberal democratic values (Vohn 2016: 55). President Wilson considered the realists’ balance of power to be avoided at all costs because its failure caused the First World War. Consequently, the idealists established the first modern theory of international relations known as liberalism in the 1920s.

Classical realism can be found at the other end of the ideological spectrum. It is an intellectual tradition that can be traced back to Thucydides⁵, Thomas Hobbes and Machiavelli, even though, none of them considered themselves to be realists. The first post-First World War realist critique of idealism originated in the 1930s and was advocated by scholars such as Edward Carr, Martin Wight, George Kennan, Kenneth Waltz, and Hans Morgenthau. They explained international relations as relations between states pursuing their own interests defined in terms of power in a zero-sum game. Before the outbreak of the Second World War Edward Carr (1946: 84) criticised liberalism in his book, *The Twenty Years’ Crisis* for its inability to address the main issues in international relations and claimed that it is ‘utopian’ to envisage that the League of Nations had the ability to exercise real influence over states bent on maximising their own interest at the expense of international peace (Brown and Ainley 2009: 28; Kegley 2007: 18). The outbreak and devastation of the Second World War supported the realists’ unease about the role of the League of Nations and vindicated their view that the relations among nations are barely more than a struggle for power. International organisations and international law thus have no impact on relations between the states in an anarchical arena because, for realists, the balance of power is the only way to create order.

⁵ Core realist principles can be found in the books of classical realists such as Thucydides (*History of the Peloponnesian War*) and Thomas Hobbes (*Leviathan*). Thucydides argues that the strong will rule over the weak and changing power relations caused the Peloponnesian wars. Thucydides’ Melian Dialogue can be seen as the first realist-idealist debate. For Hobbes the ‘state of nature’ is in essence a ‘state of anarchy’. Both view the international arena as without values and norms (Stanford Encyclopaedia of Philosophy 2010).

Undeniably, realism provided a more appropriate explanation than liberalism for the political conflict before and during the war and subsequently also appeared to be more relevant to explain the bipolar balance of power during the Cold War. The intense rivalry and ideological differences between realists and idealists have softened and by 2001, a former American Secretary of State, Madeleine Albright, expressed the need for the two to combine and added: "I sometimes call myself an idealistic realist or a realistic idealist. I believe that you have to have an overall set of goals and principles" (Albright 2006).

Both realists and liberalists, however, soon found themselves being criticised as 'traditionalist' by a new challenger: the behaviouralists who claimed the superiority of the scientific method, accused 'traditionalists' of storytelling, their concepts poorly defined and their research based on an ambiguous methodology (Choucri 1991: 273). This debate continues to have a profound impact on the division of the International Relations discipline between normative and empirical studies.

2.2.2 Traditionalists versus Behaviouralists

Differences in the appropriate methods of inquiry explain international relations theory's second debate between the traditionalists and the behaviouralists. The traditionalists, the first generation of international relations scholars and trained as historians, diplomats or lawyers, adopted an interpretative method. These scholars were either realists or liberals and they based their research on norms, values and historical knowledge (Jackson and Sørensen 2013: 45). From the late 1950s the behaviouralists entered the study terrain of international relations as a new generation of scholars with a background in political science and economics. Behaviouralists, such as Kaplan, Singer and Vital, declared values as mere speculation and instead demanded a positive approach characterised by the study of scientifically explained patterns of behaviour and the collection of observable and verifiable data (Kurki and Wight 2007: 17-18; Waever 1997: 12). The demand for objectivity and value-free research at the expense of traditional approaches was challenged by theorists such as Hans Morgenthau and Hedley Bull.

The second debate highlighted the differences between an empirical (positivist) approach, which is concerned with explaining '*what is*' through observation and a normative (non-positivist) approach, which focuses on '*what ought to be*'. Reus-Smit and Snidal (2010: 16-20) criticise the separation of the normative and empirical for severely limiting the ability of international relations to address practical concerns. They claim that empirical scientists are unwilling to address ethical and apparent unscientific issues, while the normative scholars lack the empirical knowledge to make well-informed decisions. Erskine (2013: 36-37) posits that international relations does have an "unavoidable ethical dimension" which is evident in the judgment of wars as *just* or *unjust*, the actions of actors as *moral* or *immoral* and the acceptance of the *moral obligation* of all actors to act in preventative and remedial ways to address issues of mutual and or international concern. Nonetheless, the positivist approach of the behaviouralists unequivocally changed international relations into a scientific discipline and laid the foundation for new interpretations and methodological approaches to both liberalism and realism (Burchill 2001: 20). What 'ought to be' as the motive for the recognition of the 'unavoidable ethical dimension' of international relations, formed the platform for the constructivists' focus on underlying norms structuring the identity and actions of both actor (agent) and the international system (structure).

2.2.3 A Triangle of Theories

At the beginning of the twenty-first century Schmidt (2002: 15) posits that the International Relations discipline is becoming "increasingly pluralistic" and confusing due to the "plethora of debates" between and within approaches that characterised the 1980s.

Although clashes between realism, liberalism and structuralism are often described as the third debate, the 'paradigmatic war' between the three theories was informed by their different ontological and epistemological foundations. Most scholars agree that these inter-paradigmatic disagreements do not present the character of the three classical international relations debates. Nevertheless, realism, liberalism and structuralism differ in terms of their units of analysis (states, non-state actors or class) and the nature of

interactions and relationships (conflict, cooperation or economic exploitation). This triangular 'discussion' is aptly explained by Waeber (1997: 14) using three images, the "billiard-ball" (neorealists), the "cobweb" (neoliberals) and "the octopus" (neo-Marxists) to explain the ontological differences between the theories. Neorealists have an objective view of the existing reality: an anarchical international system, dominated by states and their actions, the latter determined by the states' national interests and capabilities. Neoliberals view international relations as an existing network of criss-crossing relations to be rationally explained and objectively studied. Both these theories are positivist, but neorealism is in essence confrontational while neoliberalism focuses on cooperation. Structuralists understand international relations subjectively, and their aim is to unmask the global domination of capitalism and the exploitation of the periphery by the core. Structuralism provides the platform for a post-positivist selection of theories because it not only criticises the Western dominance of the International Relations discipline, but also focus on the inherent flaws of the capitalist system, the driving force of international relations, and argues that the marginalised periphery can only escape when the system is radically transformed or overturned. Structuralism informs the dependency theorists' accusations of exploitation and underdevelopment, which manifest in unfair trade practices and the unequal nature of the international economic order due to the dominance of Western nations. The periphery and semi-periphery's demand for radical change, formulated in their New International Economic Order (NIEO) blueprint, also characterises the membership and aims of the G20.

2.2.4 Positivists/Rationalists versus Post-Positivists/Reflectivists

This debate has its roots in the behavioural revolution of the 1960s and the dominance of neoliberal and neorealist rationalism until the early 1980s (Kurki and Wight 2007: 20-21). Post-positivists find their philosophical roots in Kant's view of the Enlightenment as "humanity's emergence from self-imposed immaturity" and the view that human beings should apply "human reason to the project of human emancipation" (Brown and Ainley 2009: 53). Thus, the fourth debate pitted the positivists, 'mainstream' scholars, focusing on the maintenance of the *status quo* and the separation of facts from values, against the post-positivists, a heterogeneous group including feminists, interpretive theorists and

critical constructivists who prefer radical social transformations to create a better world. Post-positivists (reflectivists) criticise the neoliberal and neorealist distinction between empirical facts and normative judgments which underlies their rigid application of scientific methods. Positivists separate the subject from the object and attempt to predict and prescribe while post-positivists, such as post-colonialists and feminists, argue that power-free knowledge does not exist and that the focus should be on the liberation of knowledge from the Western power base. They question the use of concepts, such as 'state', 'sovereignty', 'modernity' and 'international system'.

Schmidt (2002: 16) notes that realism has been the main object of the critique of the post-positivists, but also admits that realism still shows theoretical resilience and immunity to criticism, due to its traditional importance as the most important theory in the International Relations discipline. Lake (2013: 570) explains that this debate (which he describes as the last debate) has not reached a conclusive end and that all that was accomplished, was "the fracturing of the field into multiple, overlapping identity groups, each seeking to bolster and affirm its own theoretical 'turf'". Yet, even though there are many differences between post-positivist approaches, they do agree that established international relations theories failed to explain the post-Cold War changes on the international stage. Post-positivists endeavour to escape from the rational, positivist theories that dominated the discipline for so long (Brown and Ainley 2009: 49). Balzacq and Baele (2017) point to one of the most important consequences of the third debate when they state that "IR is now more open to 'foreign' theoretical inputs... the discipline is more keen to investigate nontraditional issues than it was in the early 1980s". Consequently, at the other end of the field of international relations, constructivism would develop as a rather new approach to the discipline.

The Cold War era also witnessed the arrival of constructivism, an approach to international relations that highlights the importance of ideas, norms, and interests in the construction of structures and the interaction between agent and structure. This approach is most often described as, similar to the English School, occupying the middle ground between mainstream traditional theories and critical theories. Constructivism does share

essential elements with critical theory, as both are socially constructed, but there is also an undeniable link between the first wave of constructivism and neoliberalism. Nicholas Onuf, the scholar responsible for coining the term 'constructivism' in his book *World of Our Making* (1989), refers to constructivism as "a liberal-institutionalist renaissance". Nevertheless, it is crucial to clarify why constructivism, with its focus on the intersubjective meaning and power of norms as driving forces for human interaction, became important in international relations theory.

2.3 Constructivism

The rise of constructivism can be attributed to several reasons. Firstly, rationalists challenged critical theorists to advance beyond theoretical critique to the substantive analysis of international relations which motivated critical constructivists to demonstrate the practical power of non-rationalist perspectives. Secondly, events at the end of the Cold War, after the collapse of the Berlin Wall, exposed the explanatory shortcomings of neorealism and neoliberalism as neither anticipated nor predicted the end of the Cold War. They also did not sufficiently understand the systemic transformations reshaping international relations. Thirdly, scholars in the post-Cold War years embraced critical theory but identified the "potential for innovation in conceptual elaboration" to revisit old questions viewed through the new lens of constructivism, instead of through the lenses of neorealism or neoliberalism (Reus-Smit 2001: 216). Even though the introduction of constructivism in international relations seemed to be effortless and even eagerly welcomed by the field, it was not presented as an alternative for existing theories and cannot be added to "the opposite end of a spectrum from realism or liberalism" because as Hannes Peltonen (2017: 5) explains, "...it is not a theory of politics, but a social theory", more often referred to as a social approach to international relations. Nevertheless, constructivism was mainstreamed and presented by international relations scholars, such as Adler and Wendt, as part of the "middle ground" international relations theories (Peltonen 2017: 3).

2.3.1 Philosophical Roots of Constructivism

Constructivism can be linked to Aristotle's view that man does not exist in isolation and that his behaviour will inevitably be influenced by the social context in which he lives. Constructivism, however, is also seen as part of a philosophy that is based upon the belief that humans construct their own reality. The more radical version of this argument traces back to the work of Italian philosopher, Giambattista Vico⁶, considered by Ernst von Glasersfeld (1984: 1) as the "first true constructivist" and German philosopher, Immanuel Kant⁷. Mainstream international relations theorists assume that knowledge is derived from what humans discover of what already exists. Humans are therefore not responsible for what they find, they are uninvolved and therefore objective observers who derive their knowledge of their reality from their analyses and assessment. Vico, on the other hand, distinguished between two realities, the natural world, created by God, and the historical world, created by man. Vico posits that humans will never be able to understand God's reality because only God can understand his own creation, but they will be able to understand the reality that they have created themselves. Furthermore, as Von Glasersfeld (1984: 1) posits, "...one need not enter very far into constructivist thought to realise that it inevitably leads to the contention that man – and man alone – is responsible for his thinking, his knowledge and, therefore, also for what he does". Thus, "we have no one but ourselves to thank for the world in which we appear to be living" (Von Glasersfeld 1984: 1). The argument that truth or knowledge does not exist outside humans' own experience is indeed a radical approach which is in stark contrast to the idealists' focus on the world of ideas and the realists' assumption that states function in a real world devoid of subjectivity. Nevertheless, Vico's assumption that knowledge is derived from cognitive construction is supported by constructivists who contend that there is no objective truth, but a "cognitive truth" which is the product of a "goal directed consciousness" (Von Glasersfeld 1984: 10).

⁶ Vico's work, *De antiquissima Italorum sapientia* was first published in 1710 (Von Glasersfeld 1984: 15).

⁷ Immanuel Kant's work *Prolegomena zu jeder künftigen Metaphysik*, was published in 1783.

This interpretation also forms the foundation for Immanuel Kant's views, when he states that "our mind does not derive laws from nature, but imposes them on it", which is radically opposed to the conventional assumption that "knowledge is knowledge only if it reflects the world as it is" (Von Glasersfeld 1984: 3). According to Jackson and Sørensen (2013: 211) Kant acknowledges that humans do have the ability to acquire knowledge about the world but also posits that the knowledge will always be subjective as it is filtered through human consciousness. It may therefore be highlighted that the social world is fundamentally different from the natural world, and that humans depend on the understanding of one another's actions to allocate meaning to these actions to understand the world. With reference to Vico and Kant, states are the artificial creations of humans who can alter their creations should they so wish. Vico and Kant's work can thus be related to constructivism as both postulate that humans construct their environment through knowledge.

2.3.2 Constructivism, Rationalism and Traditional Normative Concerns

The basic concern of constructivism is the normative nature of international relations, as Adler (1997:322) explains, their focus is on "the manner in which the material world shapes and is shaped by human action and interaction depends on dynamic normative and epistemic interpretations of the material world". The material world is framed by humans because they attach meaning to how they perceive the material world to be. Intersubjective knowledge and collective understanding therefore play a crucial role in how constructivists understand international relations and the institutions that "were conceived by human understanding" (Adler 1997: 322). Constructivism is a social approach with specific views about the nature of social life and social change but it does not make any specific claims regarding the content of social structures or the nature of agents in the social life. Consequently, constructivists, as opposed to positivists, do not create exact predictions about the outcomes that could be tested in social science research (Price and Reus-Smit 1998: 259; Behraves 2011).

Finnemore and Sikkink (1998: 888), however, mention that many early constructivists acknowledge the connection between norms and rationality, and claim that similar to rational choice theory, constructivism offers a framework for empirical research, labelled “strategic social construction”. They argue that applying empirical standards to normative research not only focuses the researcher’s attention on the need for theoretical and conceptual clarity and proper research design, but also contributes to the generation of systematic evidence of human behaviour (Finnemore and Sikkink 1998: 890). Yet, Dale Copeland (2000: 187) posits that neorealist supporters of Kenneth Waltz’s work, “has been a particular target for constructivist arrows”. Wendt rejects the neorealist assumption that international behaviour is the direct result of anarchy and the power capabilities of states. He opposes the notion that anarchy has its own logic and claims that “anarchy is what states make of it” (Copeland 2000: 188). Neoliberal and neorealist theories focus exclusively on the material power of states, measured in terms of economic and financial capabilities and military strength. Nevertheless, Wendt and the neorealists do agree on states as primary actors in international politics and that states have basic needs, such as survival and economic development (Copeland 2000: 192). Schmidt (2002: 16) postulates that the theoretical debates are still dominated by the assumptions of realism which is the main reason why Wendt’s constructivism dominates because he attempts to “entertain the role of ideas, norms and the process of identity-formation while at the same time subscribing to a realist world-view and a positivist epistemology” (Schmidt 2002: 16).

For constructivists, ideas and norms constitute the identities and behaviour of actors (Copeland 2000: 190). They therefore focus first and foremost on agents and their norms and principles, the latter providing the intersubjective framework used by the agent to give meaning to and construct the environment. Thus, constructivists explain the relationship between agents (individuals, states, and non-state actors) and structures (the environment) where the environment is socially constructed, the product of agents’ identities, values, and beliefs. Constructivism emphasises both normative and material structures in international relations but maintain that the normative process of construction dominates. Material resources only obtain meaning for “human action

through the structures of shared knowledge in which they are embedded” (Wendt 1995: 73). Reus-Smit (2001: 195) explains that constructivists support the view of early critical theorists that humans are of key importance because they are “socially embedded, communicatively constituted and culturally empowered” to play a role in international relations.

2.3.3 Classification of Constructivism

Since its inception in the International Relations field, “the IR constructivist family tree has had many roots and (intertwined) stems...” (Peltonen 2017:3). The lack of clarity on what constructivism is, is evident in the different epistemological and ontological premises which all found a place under the umbrella of constructivism. One reason for this confusion is provided by Adler (1997: 323) who explains that constructivism finds itself in the middle ground, “between rationalist approaches...and interpretive approaches”. Constructivism thus finds itself between positivist theories and the post-positivism of critical theories.

Furthermore, two aspects inform the differences between constructivists, according to Adler (1997: 335). The first is the priorities constructivist scholars give to either structure or agent, and the second is their preference for either discourse or material aspects. Therefore, based on the different conceptual and epistemological constructivist frameworks and approaches, two main categories can be distinguished, the first being the systemic/structural/conventional and the second the critical constructivists.

2.3.3.1 Structural/Systemic/Conventional Constructivism

This category forms the first wave of constructivists that presented their alternative views to the scholars in the International Relations discipline. Adler (2005: 95), Hopf (1998: 181-199) and Jackson and Sørensen (2013: 227-228) label this category ‘problem-solving’ or ‘conventional constructivists’ and identify Wendt, Katzenstein, Reus-Smit, Ruggie, Adler, Hopf and Finnemore as members of this category. Adler (1997: 335) also refers to this group as modernists based on their acceptance of both objective and interpretative

methods. Structural constructivists focus on norms and identities, accept the *status quo*, and thus restrict the researcher to a minimalist reflectivist role. Checkel (2008: 72) labels them positivists due to their focus on uncovering causal relationships. They explain the impact of structural elements, such as the existence of the state and its power capabilities on collective identities and the construction of national interests. They thus argue that governments should seek “communities of intersubjectivity in world politics, and domains within which actors share understandings of themselves and each other, yielding predictable and replicable patterns of action within a specific context” (Hopf 1998: 174). This statement can be directly related to the functioning and cooperation of states within the G20 to promote the norm of global financial stability.

Wendt, for example, focuses on identity formation as the product of a cognitive process and highlights the importance of institutional norms in the construction of the collective meanings states give to their identity and to the (anarchical) nature of the system (Das 2009: 969). Peltonen (2017: 5) posits that for Wendt “power and interest are not simply in the domain of materialism, because their meaning and content are constituted by ideas and culture”. Wendt (1992: 394-395) rejects the neorealist assumption that anarchy leads to self-help, and claims that it is the interaction between states “that create and instantiate one structure of identities and interests rather than another; structure has no existence or causal power apart from process”. Wendt’s constructivist approach is therefore systemic as it highlights the interaction between states in the international system and disregards the role of domestic factors. Adler and Reus-Smit acknowledge that states are more than political actors, they are also social actors that abide by norms and institutional concepts reflecting the society’s beliefs and values (Adler 2005: 11; Balaam and Dillman 2014: 103; Adler and Barnett 1998: 8-10; Reus-Smit 2001: 224).

2.3.3.2 Critical Constructivists

Critical theorists, for example, oppose the view that the actions of states are determined only by their position in the international system and their self-centred quest for gains which imply that there are no normative constraints on their behaviour. They argue “that actors are inherently social, that their identities and interests are socially constructed, the

products of inter-subjective social structures" (Reus-Smit 2001: 192-193). Thus, critical constructivists reflect on the *status quo* and find it needs to change. Moreover, Dornelles (2002: 16) states that the post-modern approach of critical constructivism is underlined by their ethical approach, which is not surprising because they consider scientific objectivity as a ploy to manipulate and to gain more political influence. Critical constructivists deny the existence of a reality and instead argue that reality is socially constructed and that there is no such thing as objectivity which they condemn as "omitted variable bias" in mainstream international relations theories (Das 2009: 974). Critical constructivists also focus on the "cultural production" of insecurities. They explain that both insecurities and identities are created during conversations and that it happens in a cultural context (Das 2009: 974).

Post-modernists, such as Derrida, underline hidden power and shifting power relations. Post-modern constructivists, such as Doty and Campbell, allow the researcher a more reflectivist role as they critically evaluate how power for example impacts on the identities of subjects (Das 2009: 964). Doty (1993: 317) criticises the construction of a particular concept (giving it a derogative meaning) which is then attributed to a geographic area. She offers an alternative way of analysing foreign policy and focuses on the role of linguistic meaning in foreign policy and criticises "...the discursive construction of a particular kind of nation-state, i.e., the Third World state." Doty (1993: 305) criticises the hierarchical nature of power and the role of "self-serving images" when she proposes "a more critical approach to the analysis of foreign policy practices, one that examines the social construction of 'us' and 'them'..." (Doty 1993: 317). Thus, while conventional constructivism refrains from criticising the norms and practices which they apply to explain international relations, postmodern constructivists reject uncritical knowledge and deconstruct texts to find the hidden meaning of symbols (Dornelles 2002: 5). They would, therefore, focus on the hidden symbols and key concepts in primary documents of international organisations and financial institutions, such as the IMF and G20, to expose hidden power relations.

2.3.3.3 Mainstream and Consistent Constructivism

Peltonen (2017: 7) refers to a new classification of constructivism by Kurowska and Kratochwil, who distinguish between mainstream and consistent constructivism. Mainstream constructivists are convinced of the applicability of hard data to settle (scientific) questions, while consistent constructivists argue that even so-called hard data are “based on conceptual choices and do not speak for themselves” (Kurowska and Kratochwil 2012: 88). As Kurowska and Kratochwil explain, unlike mainstream constructivism, consistent constructivism argues that we never test against “the world,” “reality,” or “the things themselves,” but only against other theories or conceptions about the world or reality. For consistent constructivists, then, “truth is not a property of the ‘world out there’ but is always relative to the system of meaning within which particular actors are embedded” (Kurowska and Kratochwil 2012: 90).

2.3.4 Constructivism and the Norms Underlying International Relations

Martha Finnemore, the first constructivist scholar who endeavoured to provide an empirical analysis of norms as determinants of behaviour in international relations, posits that a state’s behaviour is defined by its identity and interest, the products of the interaction between international forces and the norms of behaviour rooted in international society. Finnemore and Sikkink (1998: 893) concede that domestic norms are important considering that many international norms originated in the domestic realm of specific states. They also argue that the interests of states are shaped by norms that develop at the systemic level and can be structured by international institutions to become influential collective norms. Thus, the norms of international society are transferred through international institutions to states only to “shape national policies by ‘teaching’ states what their interest should be” (Finnemore and Sikkink 1998: 888). Therefore, according to constructivists, national interests should not be treated as a given, they only exist because they are constructed by intersubjective norms. Finnemore’s approach thus explains that states align their aims and objectives to establish communities of intersubjectivity because they are driven by the norm dynamics at play in the international society.

Finnemore and Sikkink's (1998: 891) typology of norms includes regulative, constitutive, and evaluative or prescriptive norms. Regulative norms are to be found in rules and aim to constrain behaviour, such as the norms represented in the quota system of the IMF, while constitutive norms serve to create new actors, such as the G20. Evaluative and prescriptive norms are intrinsically part of critical theory and serve to inform on how a theory 'ought' to be and how the global arena should be transformed to be fairer. Finnemore and Sikkink (1998: 891) explain that norms function as prerequisites because they involve standards of "appropriate" or "proper" behaviour, which imply that "both the intersubjective and the evaluative dimensions are inescapable when discussing norms". Finnemore (1996a: 22) also explains norms as "shared expectations about appropriate behaviour held by a community of actors". Norm dynamics, and in particular the identification, evolution and influence of norms, is the main focus in Martha Finnemore and Kathryn Sikkink's seminal 1998 article, *International Norm Dynamics and Political Change*.

To explain the origin and evolution of norms, Finnemore and Sikkink (1998: 895-896) developed a "norm life cycle" comprising three stages, with the first labelled "norm emergence", the second "norm acceptance" and the third "norm internalisation". They also introduce norm entrepreneurs whom they describe as "agents having strong notions about appropriate or desirable behaviour in their community" and "they call attention to issues or even 'create' issues by using language that names, interprets, and dramatizes them" (Finnemore and Sikkink 1998: 897).

From a critical angle, Charlotte Epstein (2017: 2-3) focuses on the power of norms and acknowledges that constructivists do ask why, despite the absence of a central ordering mechanism, international actors observe common rules to cooperate in the anarchical international system. She, however, reiterates the criticism of critical constructivists when she posits that an inherent shortcoming of conventional constructivists is that they ignore the entrenched unequal power relations that enforce norms in the international system. This criticism is very important for this study due to the highly unequal nature of power relations in the global financial system and the hegemonic status of the US in the IMF, and

as a result in the global financial architecture. The result is the strengthening of the power of certain groups in the international arena because these groups dominate the “specific forms of knowledge-power that have been institutionalised as a result of conventional constructivism’s success in adding norms to IR’s established tool-kit” (Epstein 2017: 4). In terms of limitations on behaviour, Epstein (2017: 4) agrees with Foucault’s distinction between *laws*, which function as external limitations on behaviour and *norms*, the internal, “chosen” prescriptions. Thus, according to Epstein (2017: 4) the power of norms is derived from “this taken-for-granted unquestioned quality they command”.

While Finnemore (1996b: 128) highlights the importance of the international environment in shaping states’ identities, Ted Hopf, rather gives more emphasis to the importance of the domestic environment in this regard. Although constructivists differ somewhat concerning the dominance of external or internal environments in shaping states’ interests, they agree on the importance of culture and identity as expressed in social norms, rules and values, and that the political and social world is created through beliefs rather than physical entities (Jackson and Sørensen 2013: 223).

In this study, Finnemore and Sikkink’s research on norm dynamics provide the theoretical framework for assessing the origin, development, nature and strength of norms in the G20 with the aim to evaluate the effectiveness of the G20 to promote the norm of global financial stability by contributing to the reform of the global financial architecture, in particular the IMF, the main focus of Chapter 4. This approach is based on the notion that the international environment plays a role in shaping states’ identities and interests. It also explains why states from different socio-economic and financial backgrounds cooperate to address issues of mutual concern, in this case global financial stability (Balaam and Dillman 2014: 108; Finnemore and Sikkink 2001: 394; Heywood 2014: 321). Ultimately this study is concerned with the ability of international institutions to change according to the demands of new norms in the global system or whether, as Andrew Linklater, a critical theorist explains, it would be necessary “to construct new forms of international political relations that are able to include all people on equal grounds” (Griffiths and O’Callaghan 2002: 60).

2.3.5 Constructivism and International Organisations

According to the realist approach, international organisations exist to perform important functions for states, such as to collect information, monitor agreements, and assist states in addressing collective problems. The constructivist approaches to international organisations, however, are two-fold. On the one hand, international organisations are autonomous actors that exercise power, while on the other they create the social world in which cooperation takes place and define the interests of states. Therefore, constructivists recognise the ability of international organisations to influence states and other actors with material power. The United Nations (UN) may, therefore, exert a certain amount of pressure on a state to conform to the international expectation of acceptable actions and behaviour (Barnett and Finnemore 2005: 161-162).

2.3.6 Limitations of Constructivism

According to Reus-Smit (2001: 220) constructivism suffers from one major limitation: the notion that states are socialised by the norms in international society while states are in reality also the creators of these norms. This limitation restricts the processes shaping international societies in an unnecessarily and unproductively narrow realm. In addition, constructivism finds some common ground with neoliberalism and neo-Marxism in terms of intellectual cooperation, thereby rendering neorealism as the main critic of constructivism. Jackson and Sørensen (2013: 227) mention that neorealism's scepticism of constructivism is mainly directed at the latter's naïve belief in the sincerity of states' intentions and motives and their emphasis on norms. Even though neorealists agree that such norms exist, they are of the opinion that they will be disregarded by powerful states should it be in these states' interest. Neorealists are furthermore weary to accept that states will thus become allies based solely on their social interaction and similarities. Neorealists are also concerned about the inability of constructivists to analyse anarchy and claim that constructivism downplays anarchy, a major problem facing states according to neorealism. Furthermore, neorealists contend that it is unwise to believe that states genuinely attempt to understand each other's intentions and motives.

Against the background of Cox's argument that human beings basically organise themselves in three spheres, the material conditions, ideas, and institutions, more attention should be given to the institutional arrangements in the international arena. Based on constructivism, the ideational framework for the study, the following subdivision of the chapter, also focuses on the dependent variables for an international governmental organisation (body). This discussion is important for this study as constructivists, such as Wendt, Finnemore, and Sikkink, explain the relationship between agents (individuals, states and non-state actors) and structures (the environment) where the environment is socially constructed, the product of agents' identities, values and beliefs as explained earlier.

2.4. International Bodies and their Structural Characteristics

In order to contextualise the structure of the G20 for the purpose of this dissertation, the study first elaborates on and differentiates between *international governmental organisations*, *international non-governmental organisations*, *international financial institutions*, and *informal international governmental organisations or groups*. For the purpose of this study, these categories of organisations will be referred to as *international governmental bodies* in order to explain their general characteristics.

2.4.1 International Governmental Organisations

According to Heywood (2014: 433) the earliest form of an international governmental organisation can be traced back to the end of the Napoleonic Wars, when the Congress of Vienna established the Concert of Europe in an attempt to create and maintain a balance of power until the outbreak of the First World War in 1914. After the end of the First World War the number of international governmental organisations increased to approximately 83, and between 1945 and 1949 to approximately 123. Since the end of the Second World War the increase in and importance of international governmental organisations has been one of the most significant characteristics of international relations. The number of international governmental organisations kept on increasing as the interdependence among states increased in areas such as international relations,

economics and trade, and environmental issues, and by the mid-1980s approximately 378 international governmental organisations were in existence. This number only increased after the end of the Cold War when globalisation truly took effect, resulting in international governmental organisations being considered important actors in contemporary international relations and vehicles through which states can advance their international interests and objectives, while achieving some form of international order. States therefore dedicate extensive amounts of resources designing, establishing, and maintaining international governmental organisations.

States are the only members of international governmental organisations which are usually established by a treaty and consist of more than two states. International governmental organisations are thus governed by international law and they possess their own international legal personalities. Members determine the method in which organisations function and they determine aspects such as voting procedure and funding. The UN is an example of an international governmental organisation with virtually worldwide membership. Nearly all international governmental organisations are intergovernmental, meaning that their power resides with the members, and not with the organisation itself. The EU, however, is unique as it is categorised as a 'supranational' organisation, which has supranational powers and has a degree of independence from its members. In reality, the EU can "exercise a degree of sovereignty over its members" through "law-making powers in certain areas that its members agreed" on at a supranational level (Abidin 2016).

The specific topic that a particular international governmental organisation deals with is usually reflected in the organisation's name e.g. the World Trade Organisation (WTO) that deals with matter of international trade. As a result, these organisations are issue-oriented and their members are worldwide. In addition, there are international governmental organisations specific to regions, such as the African Union (AU), and the Association of Southeast Asian Nations (ASEAN). The Commonwealth of Nations, for example, is an organisation whose membership is restricted to former colonies of the UK and has its own permanent secretariat.

2.4.2 Non-Governmental Organisations

International non-governmental organisations can be defined as private or non-profit organisations which operate independently from governments, with the objective to address a social or political issue (Heywood 2011: 6). Kegley (2007: 566) defines a non-governmental organisation as a transnational organisation of “private citizens maintaining consultative status with the UN”. Baylis, Smith and Owens (2011: 17) state that non-governmental organisations include foundations, multinational corporations, professional associations, and other internationally active groups in areas such as environmental affairs, human rights, and even terrorist organisations. A clear distinction is, however, made between international governmental organisations, discussed above, and non-governmental organisations based on the notion that the interaction between states grounded on diplomacy are different from other transnational relations. Yet, there are certain international organisations in which states and non-governmental organisations cooperate, and include the International Red Cross and the International Air Transport Association (Baylis, Smith and Owens 2011: 337). Dar (2015: 1) posits that non-governmental organisations have gained considerable power and influence in the past few decades due to the increasing activities of civil societies on the international stage.

2.4.3 International Financial Institutions

International financial institutions fulfil the same requirements as international governmental organisations, have states as members and are established with members signing treaties. International financial institutions, however, focus on providing expert advice and financial support, and promote socio-economic development activities in developing states, as well as international economic cooperation and stability. The term international financial institutions usually refers to the IMF and the five multilateral development banks, namely the International Bank for Reconstruction and Development (IBRD) (known as the World Bank), the European Bank for Reconstruction and Development, the Inter-American Development Bank, the African Development Bank, and the Asian Development Bank (Bhargava 2006: 393; Bank Information Center 2018).

Although international financial institutions only acknowledge states as members, these institutions are all characterised by a broad membership that includes both developed donor states and borrowing developing states, and membership of the regional development banks may include states from the region as well as states from around the world – similar to international governmental organisations such as the UN. Each international financial institution has its own self-regulating legal and operational status, but because a large number of states have membership in several international financial institutions a high level of cooperation is maintained among members. This is based on the economic analysis, policy expertise and knowledge products, as well as considerable development assistance that international financial institutions can offer members (Bhargava 2006: 394; United Nations Development Programme 2018).

2.4.4 Informal International Governmental Organisations or Groups

In addition to formal international governmental organisations, non-governmental organisations, and international financial institutions, a fourth category of informal international governmental organisations have developed. These informal international governmental organisations or groups, such as the G20 and the BRICS, have developed into significant societies of states with the aim of addressing global matters of mutual concern within the framework of the liberal international economic order and the challenges of increasing global inequality due to the marginalisation of the global South.

Accordingly, international bodies cover eclectic topics ranging from trade and investment, peace and security, health and labour, terrorism, and environmental affairs, and therefore have gained significance on the international relations stage becoming important topics for research.

2.4.5 Structural Characteristics of International Bodies

As mentioned, informal groups have developed on the international relations stage, and the G20 falls into this category. The G20 is classified as an informal international governmental organisation or group because it has no permanent staff or secretariat,

while its presidency rotates annually between members, based on a Troika system⁸. Presiding over the G20 and hosting the annual Summit provides members an opportunity to set the agenda and lead discussions; an aspect that enables discussions around contemporary global issues, but on the other hand hinders continuity and long-term progress. This aspect is analysed in Chapter 4, with recommendations made in Chapter 5 on the improved functioning of the G20.

While most research assesses the relevance of international bodies, few examine the structural characteristics, and effectiveness to address the relevant issues in the respective structures whether formal or informal. In general, international bodies are structured in a variety of different ways based on numerous structural characteristics, such as global, regional or restricted membership, different voting requirements, and formal or informal institutions with permanent secretariats or ad hoc secretariats. Each international body is therefore designed to address a specific area or areas of concern of its members.

As international bodies are specifically designed and established to address particular issues on an international or global level, the structural characteristics of international bodies vary. Koremenos, Lipson and Snidal (2001: 763), however, identify five structural characteristics of international bodies which are practical, measurable and comparable within and across international bodies. These characteristics can also be applied to most, if not all, international bodies: membership; the scope of topics to be addressed; the centralisation of tasks; the guidelines and rules to govern its functioning; and the flexibility of arrangements. Heywood (2014: 433) also refers to characteristics of international bodies which overlaps with Koremenos, Lipson and Snidal (2001: 763) and lists the following: membership, whether restricted or universal; competence, the ability to

⁸ The Presidency of the G20 rotates annually to ensure a regional balance across its members. Based on its structural characteristic as an informal intergovernmental forum, the G20 also does not have a permanent secretariat. As an alternative, the G20's rotating president is responsible for drafting the Summit agenda, in consultation with other members and in response to current developments in the global financial system. To ensure continuity, however, the G20 presidency is supported by a Troika, consisting of the immediate past, the current, and the next rotating presidency (G20 2015c).

address and resolve the issues of responsibility; function and operational framework; and decision-making authority and arrangements.

The membership of international bodies is always a contested issue with choices to be made between the advantages of restrictive versus inclusive membership. Limited membership can result in a more homogeneous international body with better opportunities for more cohesion, less conflict, easier negotiated agreements and quicker implementation of decisions. Larger and more heterogeneous international bodies may have more challenges, such as difficulty in finding consensus and reaching agreements on a topic. Membership is also determined by global, regional, or topical criteria.

The scope or competence of international bodies determines which topics or issues are addressed by the respective body. Different international bodies address different topics, while topics may range from general to specific issues. Centralisation of international bodies relates to the collection and distribution of information regarding the scope of the body in order to reduce bargaining and transaction costs, while enhancing administration without necessarily having enforcement capacities. The centralisation of an international body does not impede states' sovereignty as it only relates to the functioning and administration of the body.

On the topic of control, numerous factors are considered, such as the guidelines and rules for nominating and electing the actors, or how voting is conducted. Voting arrangements, however, are an important and observable characteristic of control in international bodies and the rules of the international bodies determine the voting procedure. Members can either have equal votes or some members may have the right to a veto power, or a simple majority is sufficient to pass a resolution in one institution, while a super-majority is required in another.

Flexibility in international bodies relates to the rules and procedures (ability) to accommodate and address new issues falling outside its original scope. In this regard, it is important to distinguish between two kinds of institutional flexibility, adaptive and

transformative. Adaptive flexibility can best be described as 'escape clauses' in international bodies, allowing members to respond to unexpected events or circumstances while maintaining the existing institutional characteristics. Transformative flexibility refers to built-in arrangements which enable international bodies to transform in order to increase their ability to address issues at hand.

The impact of globalisation led to more focus on global governance, which can be described as a process of cooperative leadership that provides strategic direction and harnesses collective energies of national governments and multilateral organisations to achieve common objectives in a sustainable, fair, and just manner. International bodies have therefore created a framework for cooperation among states to address issues of mutual concern on the international relations stage. Legitimate and effective governance in international cooperation and bodies is discussed in section five of this chapter (Baylis, Smith and Owens 2011: 10; Boughton and Bradford 2007: 11; Lamy 2010; Puchala 1981: 152-153).

In Chapter 3, the G20's structural characteristics are compared to the dependent variables of an international body, identified by Koremenos, Lipson and Snidal (2001: 768-773) as membership, scope, centralisation, control, and flexibility.

2.5. Legitimacy and Effectiveness

Due to increased globalisation and interdependence, the number of international bodies also increased which in turn led to the questioning of the legitimacy and effectiveness of these bodies and their ability to solve global issues. A distinction is made between *input legitimacy*, which refers to the democratic qualities of an international body's membership and decision-making procedures (*legitimacy*), and *output legitimacy* which refers to the democratic or representative quality of the particular international body's decisions to address the collective goal and goodwill of the members (*effectiveness*) (Grant and Keohane 2005: 35; Marx 2012: 68-69; Scharpf 1999: 6). These criteria for *effectiveness* are applied to the organisational structure and functioning of the G20 in Chapter 4. Focus is therefore on the *output legitimacy* of the G20, with the objective to

assess the effectiveness of the G20 to promote the norm of global financial stability by contributing to the reform of the global financial architecture, particularly the IMF.

2.6. Conclusion

This chapter firstly discussed the broader history and background of international relations theories, and as the research illustrated there is no single international relations theory but a complex set of theories, each with its own philosophical foundation, purpose and limitations. A visual description provided by Karl Popper, (2002: 37-38) postulates that theories function as “nets cast to catch what we call ‘the world’: to rationalise, to explain, and to master it”. According to Stephen Walt (1998: 29) theories are concepts of reality that is formulated to assist researchers in understanding, explaining, and assessing the meaning of events in the context of a larger theoretical framework. Since the end of the Second World War, liberalism and realism dominated the realm of international relations theory, although the normative approach of constructivism is gaining ground.

Secondly, this chapter discussed the rise of constructivism, which may be attributed to several reasons, including the rationalists’ challenge to critical theorists to advance beyond theoretical critique to the substantive analysis of international relations; the collapse of the Berlin Wall that exposed the explanatory shortcomings of neorealism and neoliberalism; and scholars in the post-Cold War years who embraced critical theory but identified the “potential for innovation in conceptual elaboration” to revisit old questions viewed through the new lens of constructivism, and that constructivism is therefore regarded as the most influential post-positivist approach to international relations theory (Reus-Smit 2001: 216). Furthermore, the chapter analysed constructivism as an approach to international relations grounded in the assumption that the international environment is explained as a social structure constructed by non-material elements, focusing particularly on Martha Finnemore’s systemic constructivism as the theory applied in this study.

This chapter assessed the position of constructivism within the broader context of the International Relations discipline and indicated how constructivism provides a theoretical framework for the explanation of change in the global financial system. This chapter thus concludes with the view that the critical, post-positivist nature of the constructivist approach provides an ideal background for a discussion on the function of norms, as seen by Finnemore, linked to the effectiveness to promote the norm of global financial stability. The chapter additionally elaborated on the dependent variables for an international body, identified by Koremenos, Lipson and Snidal, which are linked to the effectiveness of international bodies, and applied to the G20's structure in Chapter 3.

CHAPTER 3

THE G20 IN THE GLOBAL FINANCIAL ARCHITECTURE

3.1 Introduction

The 2008 global financial crisis prompted an extensive re-evaluation of the effectiveness, legitimacy and relevance of the fundamental concepts, rules, and institutions responsible for global financial governance. This evaluation introduced several efforts to reconsider and improve the formal and informal structures of global financial governance to avoid similar shortcomings in the future. One of these efforts culminated in the establishment of the G20 in December 1999 as a Ministers of Finance and Central Bank Governors forum to address the global financial uncertainty caused by the 1997-1998 Asian financial crisis. The G20 developed into the “premier forum for international economic cooperation” (G20 Information Centre 2009b) at Heads of State and Government level. The G20’s objectives are to promote “policy coordination between its members in order to achieve global economic stability, sustainable growth”, and “promoting financial regulations that reduce risks and prevent future financial crises”, as well as “modernising international financial architecture” (G20 2013; Yong 2012: 10).

This study is grounded in social constructivism which, as explained in Chapter 2, focuses on the relationship between international agents and the structure, the latter explained as constructed through intersubjective values, norms, identities and interests. The aim of this chapter is to discuss the establishment of the G20 as the agent, and assess its evolution since 1999 to its current form in 2018, as well as its role and function within the global financial architecture, as the structure. The constructivist explanation of the international system, as a social structure constructed by non-material elements, forms the broad framework for this chapter. The objective of this chapter is to address, together with Chapter 4, the second and third sub-questions of the study: *Does the G20, as an informal forum, have the ability to effectively contribute to the reform of the IMF, the key institution*

responsible for global financial stability? and To what extent does the G20 attempt to enhance its own inclusivity with the aim to strengthen the global financial architecture?

As detailed below, the IMF was established as the agent within the structure of the post-1945 global financial architecture to ensure global financial stability and the reconstruction of Europe after the Second World War. Numerous sources, however, confirm that the IMF has been unable to predict and prevent recurring global financial crises since its establishment, manifesting an inability to secure a more inclusive and stable global financial system. This inability exacerbated the 2008 global financial crisis, but the IMF does not deserve all the blame attributed to it, because it had no control over the challenges in the international political-economic arena. Pan (2010: 245), identifies three features of the global financial architecture that contributed to the inadequate global response to major financial crises. The first feature is the limited role of formal, treaty-based, international financial institutions, such as the IMF. The second is the global financial architecture's reliance on "state centric forums", such as the G7 and the G20, with their less formal structures and transgovernmental networks that can at most coordinate and harmonise standards, but are unable to supervise "cross-border financial institutions and systemic risk regulation" (Pan 2010: 246). The third feature is the absence of an "administrative international law body" with sufficient "resources, independence and authority" (Pan 2010: 283). Pan thus focuses on impediments to the effective management of global financial processes and decisions rather than the internal weaknesses of the IMF. Yet, destabilising events in the macro arena of the post-war international system indicate that the financial system was fragile as political events, such as decolonisation, the Cold War, and the end of the Cold War overshadowed attempts at maintaining global financial stability.

3.2 Main Characteristics of the Post-1945 Global Financial Architecture

After the Second World War, the global financial architecture was dominated by the idealists with their liberal institutional approach to the global economy and financial markets. They established the IMF as the only international "financial institution to preserve stability and order in the exchange rates between different moneys", according

to President Roosevelt (1945). By the beginning of the 1970s, however, the IMF lost its status as a dominant force in the international financial system when the Bretton Woods exchange rate system collapsed, leaving the IMF to become more involved in the macroeconomic policies of its members. The IMF again became an important international actor in the period 1979-1998 when “a confluence of disturbances propelled the institution into a more central and pervasive role than ever before” (Boughton 2000). The following section discusses the main characteristics of the post-1945 global financial architecture to provide a background for the creation of the G20 as the main focus of this study.

3.2.1 Establishment of the Bretton Woods System

The contemporary global financial architecture can be traced back to the disastrous economic and political consequences of a world in turmoil from 1918 until the eve of the Second World War. Mercantilism/economic realism motivated countries, such as Germany and Italy, to compete for more colonies. Their actions destabilised the European state system and contributed to international instability (Balaam and Dillman 2014:80). By 1933 the inability of the major industrialised states to maintain macroeconomic and international political stability, led to a chain of events that contributed to the outbreak of the Second World War.

During the Second World War John Maynard Keynes⁹, advisor to the British Treasury and the most influential economist during the two World Wars, chaired the World Bank Commission in the 1944 United Nations Monetary and Financial Conference (also known as the Bretton Woods Conference). Keynes argued for a radical transformation of the global financial system based on liberal institutionalism, as well as for the management of currencies, while proposing the creation of a common world unit currency. As a result, world leaders signed the Bretton Woods Agreement in 1944 during the Bretton Woods Conference, establishing the three pillars of the Bretton Woods system: *the IMF, the*

⁹ Keynes acknowledged the inability of the “invisible hand of the market” to prevent global financial crises and introduced what came to be known as the Keynesian compromise which had a far-reaching influence in the international financial system from the 1930s until the 1970s. Keynes popularised international liberal economic values in this period (Balaam and Dillman 2014: 55-59).

World Bank and, *the General Agreement on Tariffs and Trade (GATT)*¹⁰. The Conference also addressed the economic and financial recovery and reconstruction of Europe after the Second World War, which was only possible through a massive capital injection. In order to facilitate this reconstruction, a global financial architecture enabling the free flow of currency exchange across borders was needed and that need was fulfilled by the creation of the Bretton Woods Institutions. The free movement of capital across borders, however, was progressively separated from political control as governments, international finance, and international banking were separated into different spheres (Snowdon and Vane 2006: 1-3; Ravenhill 2005: 421-422; Cooper and Thakur 2013: 10).

3.2.2 The IMF and Global Financial Stability

The establishment of the IMF during the Bretton Woods Conference in 1944, enabled world leaders to introduce and promote the norm of financial stability through the IMF (the agent) within the global financial system (the structure). The promotion of the norm of financial stability can be linked to and explained through the origin and evolution of norms, elaborated on in Chapter 2. Financial stability entered the norm life cycle long before the end of the Second World War, but it *emerged as a dominant norm* when it became one of the driving forces of the post-war international monetary system because financial stability was *accepted* as a crucial determinant for effective post-conflict reconstruction and development. The *internalisation* of the norm of financial stability coincided with the acceptance of the fixed exchange rate system and the recognition of the dominant role of the IMF. Monitored by the IMF, each individual state promoted the norm of financial stability by accepting applicable domestic economic and financial policies.

In practice, the negotiations of a new international monetary system after the Second World War was driven by the consequences of the currency and trade wars that led to the First World War, the demise of the gold standard in 1914 and the Great Depression. The

¹⁰ Founded after a failed attempt to establish a World Trade Organisation (WTO) as a specialised agency of the UN, GATT existed from 1948 until 1995 as the only multilateral instrument to govern international trade (World Trade Organisation n.d.). GATT's main objectives were to reduce tariff and non-tariff trade barriers and to ensure equal treatment for all nations (Cohen and Zysman 1983: 2).

creation of the Bretton Woods system was an unprecedented cooperative effort between states that had established economic and financial barriers between them during the decade preceding the Conference. As a result, the members sought to establish a new international monetary system that would not only prevent the rigidity and instability of the previous international monetary systems, but simultaneously enhance cooperation between members (Ghizoni 2013). This new global financial system not only cemented the dominance of the US and its Western allies, but also excluded the needs of the global South, partly because most of the global South were still colonies and thus dependant on the colonising states in the global North. The Cold War, an ideological conflict between East and West, also contributed to the exclusion of the Soviet Union and its allies and the Western dominance of the global financial system. The dramatic increase in the membership of the IMF, from 38 members attending the March 1946 meeting, to 68 in 1960, 184 in 2006, and 189 in 2017, indicates the increasingly complex nature of the world economy and the need to focus on new challenges (Krueger 2006).

The fate of the colonies, however, began to change after a wave of decolonisation from 1945 to the 1960s. The global South found its political voice and formed the Group of Seventy-Seven (G77) and the Non-Aligned Movement (NAM) to challenge the intellectual and material foundation of the post-war liberal capitalist system. They also used collective action at the UN, and particularly in the General Assembly and the United Nations Conference of Trade and Development (UNCTAD) to demand a NIEO. According to Golub (2013: 1000) the intention of the NIEO “was to complete the ‘emancipation’ of the ‘global South’ by creating binding institutional frameworks, legal regimes and redistributive mechanisms correcting historically constructed core–periphery disparities”. This ambitious effort failed in the face of national divisions within the NAM, as well as resistance to change by the global North. Nevertheless, by the beginning of the 1970s the IMF lost its status as a dominant force in the international financial system when the Bretton Woods exchange rate system collapsed leaving the IMF to become more involved in the macroeconomic policies of its members. Nonetheless, the IMF again became an important international actor in the period 1979-1998 when “a confluence of disturbances propelled the institution into a more central and pervasive role than ever before” (Boughton 2000).

Boughton (2000) explains the radical changes in the international economic system as a silent or a quiet revolution and posits that “the world economy changed diametrically from the beginning of the decade to the end, and that drift ultimately wore a revolutionary cloak”. Low growth rates during the 1970s were followed by a period of economic growth characterised by low inflation rates in most advanced economies and increased economic growth in the Asian economies. A debt crisis has raged in developing countries since 1982 and by the end of the decade economic stagnation contributed to high unemployment and attempts were made to stabilise the international financial system. As Boughton (2000) explains, “By 1989, however, the objectives of stabilizing exchange rates and reducing imbalances were less easily reconciled, and cooperation in policymaking became less well focused”.

Over the past 15 years, there has been a change of actors in the global arena as East Asia became the main source of global economic growth, emerging as the locomotive for new transcontinental South–South trade and investment relations. The slow economic recovery in the global North has likewise accelerated the influence of the global South in contemporary global economic and financial relations, causing a gradual reordering of international relations through the growing influence of the global South in international governmental bodies such as the IMF, the WTO and the G20. Emerging economies also showed their ability to out-perform members of the global North and formed groups such as the India-Brazil-South Africa Dialogue Forum (IBSA) and BRICS in an effort to create alternative financial structures in the global arena and to increase cooperation within the global South. The BRICS’ New Development Bank is seen as an important international financial institution of the global South (Golub 2013: 1000-1001).

These developments can be seen as systemic changes at a political-economic level, another ‘silent revolution’ which is furthermore evident in the diminishing relevance of small Western-centric clubs, such as the G7, and in the new influences in the setting of the global economic agenda. The economic problems faced by the former dominant states and blocs of the global North, including the UK, the US and the EU, as well as the international regimes that reflect the preferences of the global North, receive far less

attention than was previously the case. Golub (2013: 1001-1002) suggests that the world is currently observing the end of an historical era in which wealth and power are concentrated in a small number of states from the global North. The states of the global South are re-emerging in a more effective and fruitful attempt to exert influence and change the international financial system by claiming a central place in the global capitalist system.

3.2.3 Establishment of the G7

The G7's origins can be traced back to the first informal meeting of the Group of Four (G4) Finance Ministers that met in 1973, and included France, West Germany, the UK, and the US. The addition of Japan in 1974, created the Group of Five (G5) and in 1975 Italy joined the first informal meeting at Heads of State and Government level with Canada joining the grouping in 1976 at the request of the US to counterbalance European dominance, thus establishing the G7 (Smith 2011: 4). The G7 members were all dominant economic powers in the 1970s. They shared a democratic orientation, an Atlantic focus and they all were important allies of the US in its competition with the Soviet Union. The fall of the Berlin wall created the opportunity for Russia to join the G7 in 1997, thus forming the Group of Eight (G8). From 2005 the G8 extended invitations to Brazil, India, Mexico and South Africa to participate in parts of G8 Summits. The G8 aimed to coordinate macroeconomic policy that would lead to sound monetary policies, stable economic growth, low inflation rates and currency stability. The G8 also wanted to liberalise international trade and coordinate with states from the global South. In 2014, however, Russia was expelled from the group due its annexation of Crimea, which again confirmed the dominance of the G7 as an exclusive club of self-selected states. The G7 had little legitimacy in the global financial system due to its narrow membership base and lack of transparency, legal framework and criteria for membership (Cooper and Thakur 2013: 10-12).

The 1997-1998 Asian financial crisis catalysed the creation of numerous ad hoc international institutions at Ministerial and Senior Officials' level, under the leadership of the US and the G7. The first was the Group of Twenty-Two (G22), established in Canada in November 1997 during the Asia-Pacific Economic Cooperation (APEC) meeting. Former

President Clinton of the US announced the establishment of the G22 with the aim to address the ongoing Asian financial crisis and to identify strategies to strengthen the international financial architecture in response to the crisis. The Group of Thirty-Three (G33) was created to include developing states in the procedure to review the international financial architecture. At the IMF a new 24 member International Monetary and Financial Committee (IMFC) was created in 1999. In addition, the G7 established an advisory group, the FSF in 1999 to promote global financial stability through enhanced information exchange and international cooperation (Kirton 2016: 55; Moya 2009). Nevertheless, it was the 1997 financial crisis in Latin American and Asian countries that forced the leaders of the G7 to consider including the global South in one forum to assist with coordinating a global response to the crisis (Smith 2011: 5). This decision also signified an acceptance of the global South's increasing influence and importance in the global economic and financial system (Golub 2013: 1001-1002). As a result, the G7 created the G20 in 1999 to improve global economic and financial governance and included countries from both the global North and the global South.

3.3 Establishment and Evolution of the G20

This section explains the formation and development of the G20 from its inception in 1999 to its current form in 2018. The rationale of this section is to explain why the G20 was created and how the G20 developed from being the global coordinating forum in 2008, created to address the global financial crisis, to evolving into a truly effective global actor and an intersubjective society of states, discussing global issues of concern.

3.3.1 Establishment of the G20

The most determined effort to launch a new forum for global economic and financial governance came with the formation of the G20. Mr Paul Martin, a former Minister of Finance of Canada, and Mr Lawrence Summers, Treasury Secretary of the US in 1999 suggested the creation of the G20 with the mandate to promote and ensure global financial stability. This suggestion was subsequently endorsed by the G7 leaders at the Cologne Summit in June 1999, which resulted in the establishment of the G20 in Berlin in

December 1999. The G20 took the form of a forum of Ministers of Finance and Central Bank Governors and included Finance Ministers and Central Bank Governors of the 20 most significant economies in the global financial system, namely Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK, the US, and the EU (Kirton 2016: 62-63; Viola 2014: 115-116). The following map illustrates the G20 members. The map provides a clear indication of the diversity of the G20, representing countries from both the global North and the global South.

Figure 3.1:



(Eezy Inc 2018)

In order to address the ripple effect of the 1997-1998 Asian financial crisis, the G20 Finance Ministers and Central Bank Governors met annually between 1999 and 2007 and acted as a central player (agent) in the global financial realm (structure). It is also important to note that at the 2004 World Economic Forum (WEF) Mr Martin, then Prime

Minister of Canada, mentioned the idea of a G20 forum at Heads of State and Government level, recognising that the global economic and financial dynamic was changing and that it was becoming essential to include emerging powers and the global South, such as China, India, and Brazil. After Prime Minister Martin's Liberal Party lost power in 2006 the drive to establish a G20 at Summit level was lost (Cooper and Thakur 2013: 13). The establishment of the G20 was, therefore, in response to both the financial crises of the 1990s in significant emerging economies of the global South, as well as the acknowledgment that some of these countries were not adequately represented in the global financial governance system. Accordingly, the objectives of the G20 are firstly to promote "policy coordination between its members in order to achieve global economic stability, sustainable growth", secondly "promoting financial regulations that reduce risks and prevent future financial crises" and thirdly "modernising international financial architecture" (G20 2013).

In 2008, however, the worst global financial crisis in 80 years was triggered by the collapse of Lehman Brothers Holdings Inc., a reputable international bank and fourth largest bank in the US, and nearly caused the failure of the entire global financial system. In retrospect the 2008 global financial crisis was caused by a number of factors including the subprime lending rates in the US housing market (Baily, Litan, Johnson 2008: 26), years of low inflation and steady growth that raised complacency and risk-taking in the financial markets, and a savings glut in Asia which caused a decrease in global interest rates. Although financiers' risky lending was the main cause of the global financial crisis, central banks and regulatory authorities too have responsibility in the origin of the crisis due to misgovernment during the years preceding the crisis. This was mainly due to the central banks and regulatory authorities' failure to keep economic and financial imbalances in check, as well as for failing to apply the necessary oversight of financial institutions, such as Lehman Brothers. In order to cushion the repercussions of the 2008 global financial crisis on the global economy, massive monetary and fiscal stimulus packages were implemented by governments across the world (Mathiason 2008).

The severity of the 2008 global financial crisis, prompted an extensive re-evaluation of the institutions responsible for global financial governance. None of the existing institutions such as the IMF, G8 (at the time), or the G20 at Ministers of Finance and Central Bank Governors level, proved adequate to the task of coordinating a response to this financial crisis. The spotlight fell particularly on the IMF, mandated to ensure global financial stability, and its inability to anticipate and prevent severe global financial turmoil. The IMF illustrated more determination and skill at prescribing to the global South on financial matters than persuading the global North to cooperate to address the shortcomings of the global financial system. The G20 was, therefore, raised from a Ministers of Finance and Central Bank Governors level, to a forum that meets annually at Heads of State and Government level, with the inaugural G20 Summit hosted in Washington in November 2008, in an attempt to address the ripple effect of the 2008 global financial crisis.

The 2008 crisis necessitated a more representative governing structure and effective response, as opposed to the small Western-centric G7 or broadly multilateral old Bretton Woods Institutions, that dominated the global financial architecture before the financial crisis. Furthermore, the crisis' impact on global financial markets truly illustrated the level of global interconnectedness between states. As a result, world leaders were faced by unprecedented challenges and the only viable response to the challenges caused by the global financial crisis was through socially constructed approaches, as proposed by constructivism, to navigate the global economy through the uncharted and stormy waters of the crisis (Helleiner 2010: 630-631; Schoeman 2015: 143; Kirton 2016: 32 and 227).

The creation, and specifically the elevation, of the G20 has some similarities to the establishment of the IMF in 1945. Both the IMF and the G20 were created out of global turmoil, the Second World War and the 2008 global financial crisis. From a theoretical point of view, both the IMF and G20 signify the idealists and the liberal institutional approach to turmoil and conflict. As mentioned in Chapter 2, however, Wendt opposes the notion that anarchy has its own logic and claims that "anarchy is what states make of it" (Copeland 2000: 188). Constructivism claims that the consequence of crises in the

material environment can result in new identities, interests and norms and a reconstructed environment which can serve as a normative framework that embodies these new norms. Therefore, both the Second World War and the 2008 global financial crisis renewed the importance of financial stability as a guiding principle for the relationship between agents and structure. The basic concern of constructivism can also be applied to both cases as “the manner in which the material world shapes and is shaped by human action and interaction depends on dynamic normative and epistemic interpretations of the material world” (Adler 1997: 322). Thus, the material world is framed by humans attaching meaning to how they perceive the material world to be, while intersubjective knowledge and collective understanding play a crucial role in how constructivists understand international relations and the institutions that “were conceived by human understanding” (Adler 1997: 322).

3.3.2 The Evolution of the G20 since the 2008 Global Financial Crisis

The rationale for this section is to illustrate the evolution of the G20. By discussing the highlights of each G20 Summit, the study demonstrates how the G20 developed from being the premier global coordinating forum to address the 2008 global financial crisis, to a truly effective global actor discussing policy around global issues of concern, ranging from environmental matters to anti-terrorism funding, as well as other humanitarian, political, and socio-economic issues as mentioned below.

3.3.2.1 The Washington D.C. Summit (2008): Financial Markets and the World Economy

The inaugural G20 Summit took place in Washington D.C. from 14 to 15 November during the height of and in response to the global financial crisis. The Summit was significant because it symbolised the need to have the global North and the global South cooperate in order to address a global problem. The G20 embraced its role and responsibility as the premier global economic and financial coordinating forum and concentrated on reviving the global economy and the financial system. This objective was to be accomplished through the launch of massive and coordinated fiscal and monetary stimulus packages, and the coordination of policies to restore financial stability and correct the global

financial imbalance between the global North and the global South (Cooper and Thakur 2013: 104).

According to Kirton (2016: 263), the Washington Summit was deemed a success when the G20 emerged as the summit configuration of choice to address the 2008 global financial crisis. This Summit performed well to promote fiscal stimulus, domestic political management, trade liberalisation, and G20 institutionalisation, as well as on the development of G20 governance. Yet, as Kirton (2016: 263) explains, the Washington Summit lacked progress in areas such as the management of exchange rate regimes and financial regulation and furthermore lacked the drive to establish a new international monetary system resulting in modest progress in developing global economic and financial governance. Nevertheless, the inaugural G20 Summit marked a turning point in the global governance system highlighting global interdependence and ushering in a new era of more inclusive economic and financial governance. The G20 brought together diverse states from the global North and the global South to address the global financial crisis and to negotiate the governance of the global economy. The stage was therefore set to continue with global cooperation to address the global financial crisis in the G20 Summits to follow.

3.3.2.2 The London Summit (2009): Strengthening the Financial System

At the first 2009 G20 Summit, hosted in London on 2 April, leaders from both the global North and the global South committed to actions to ensure the recovery of the global financial architecture by maintaining domestic and global capital flows through coordinated expansionary fiscal and monetary policies. The leaders undertook to “...take action to build a stronger, more globally consistent, supervisory and regulatory framework for the future financial sector, which will support sustainable global growth and serve the needs of business and citizens” (G20 Information Centre 2009b).

Accordingly, these actions and the US\$1.1 trillion fiscal expansion contributed to the quicker than anticipated recovery of the global economy. The G20 further realised that the global economy and financial system necessitates greater global governance, and that

such governance is only possible through global cooperation and the reform of the global financial architecture. As a result, the G20 agreed to new domestic and global initiatives to enhance the oversight and regulation of the global financial markets and institutions, and to reform the IMF, while providing additional funding to strengthen its role in the global financial system (IMF 2009).

Commitments made during the first two G20 Summits concerning the monitoring of financial regulations were met with the establishment of the new FSB in April 2009. The FSB replaced the FSF to include all G20 members, as well as Spain and the European Commission. The FSB monitors the global financial system and assists and advises the G20 on stabilising the global financial system. The London Summit furthermore signalled the end of the old Washington consensus in the global financial governance system, and it changed the roles of the World Bank and the IMF in the sense that these financial institutions would no longer encourage the deregulation of economies, but would serve as financial regulators and safety nets (FSB 2017; Kirton 2016: 293; Moya 2009).

3.3.2.3 The Pittsburgh Summit (2009): From Crisis to Recovery

The third G20 Summit and second meeting for 2009 was hosted in Pittsburgh, from 24 to 25 September, and marked an important transition from crisis to recovery. The Summit mainly focused on policies and institutional measures to avoid a reoccurrence of the global financial crisis, through the reforms of the global economic and financial system. Commitment to the monitoring of progress on financial regulations was reiterated through the G20's support of the FSB. For the first time a large number of states agreed to cooperate on and to assess each other's economic and financial policies with the aim of reaching consensus on the best solution for the needed reforms to the global economic and financial system for the greater good of the global economy and financial markets. The G20 leaders in addition agreed to broaden the forum's agenda to include other global issues such as climate change, food security, and nuclear proliferation (Cooper and Thakur 2013: 106-107; OECD 2009).

The Pittsburgh Summit was also hailed a success based on the establishment of the *Framework for Strong, Sustainable, and Balanced Growth* to guide members' efforts at coordinating macroeconomic and structural reforms. In addition, bent on "reforming the mandate, mission, and governance of the IMF", the G20 agreed to shift five per cent of the IMF's quota to rapidly emerging states to further promote economic and financial recovery (G20 Information Centre 2009a). Further contributing to the Pittsburgh Summit's success was that virtually the same Heads of State and Government had attended all three G20 Summits up to this point, creating a sense of success, ownership, and continuity within the group. The most significant statement and outcome of the Pittsburgh Summit was the declaration that the G20 had become the "premier forum for international economic cooperation" (Kirton 2016: 317 and 321).

3.3.2.4 The Toronto Summit (2010): Containing the Euro Crisis

The first G20 Summit in 2010 was hosted in Toronto, from 26 to 27 June and marked another point of evolution in the G20's development. During this Summit the G20 underwent a metamorphosis in that the forum moved away from its heroic mission during the previous Summits of saving the global economy, and was characterised by major protests and clashes between massive numbers of protestors and police. Nevertheless, during the Summit the IMF reported that the global economy was recovering at a faster rate than expected. The downside was that global risks also increased in the sense that global imbalance between areas was rising and that the Euro crisis could potentially cause a double-dip global recession (G20 Information Centre 2010a).

This Summit managed to cope with the aftermath of the global financial crisis which originated in the US and led to the Euro crisis that erupted in its wake. The Euro crisis also contributed to the shift in approach from group-specific to country-specific assessments of economic and financial polices (Kirton 2016: 363-364).

3.3.2.5 The Seoul Summit (2010): Framework for Strong, Sustainable and Balanced Growth

The second 2010 G20 Summit was hosted in Seoul, from 11 to 12 November and was significant because it was the first Summit to be hosted in a non-G8 member. This Summit focused more on the global South's concerns and European states agreed to give up two seats of the 24-member IMF Executive Board to states of the global South. The G20 further agreed to the development of stronger bank liquidity standards to be developed by the Basel Committee on Banking Supervision and to reflect the global South's perspectives in the development of new financial regulatory reforms and tools aimed at mitigating the impact of uncontrolled capital flows. Appropriate to the needs of the global South, the non-G8 members succeeded in including issues of economic and infrastructural development and financial safety nets on the agenda of the G20. The Seoul Development Consensus not only relegated the Washington Consensus on neoliberalism, but also successfully managed to shift the developmental debate in the global North from the strategy and level of aid packages to rather concentrate on structurally essential aspects of development, such as infrastructural development, private sector-led economic growth, and education and skills development (Cooper and Thakur 2013: 107-109; G20 Information Centre 2010b).

In addition, the Global Partnership for Financial Inclusion (GPII) was also launched at the Seoul Summit. The GPII is a comprehensive platform for G20 members, interested non-G20 countries, and applicable stakeholders to promote the Financial Inclusion Action Plan, endorsed at the Seoul Summit, through coordination of policies, knowledge sharing, peer learning, and policy advocacy. The GPII further aims to strengthen cooperation and coordination between the different national, regional and international stakeholders to assist countries to apply the G20 Principles for Innovative Financial Inclusion (GPII 2018).

3.3.2.6 The Cannes Summit (2011): New World, New Ideas

In 2011 the G20 Summit was hosted in Cannes from 3 to 4 November. This Summit took place during a time of uncertainty in the global economy, characterised by downward

revisions for economic growth forecasts, the prevailing crisis in the Eurozone, and increasing global unemployment. The multiple banking, fiscal, and institutional design crises in Europe had the potential to extend to the rest of the G20 members. As a result, the European leaders agreed to adopt a new set of financial reform measures, such as reducing Greek debt and leveraging the European Financial Stability Facility (EFSF) in an attempt to calm the volatility in the financial markets to stabilise the situation. In practice, however, neither the EFSF nor the IMF was equipped to deal with the crisis in states such as Italy, Ireland, and Spain (Cooper and Thakur 2013: 110-112; OECD 2011).

Although the G20 committed to coordinate national actions and policies to address rising unemployment levels, stimulate economic activity and growth, implement credible and specific measures to achieve fiscal consolidation, and structural reform of the global financial system, the assessment of the Cannes Summit is that no real effort was made to reform the global financial system, and that the Summit only issued an action plan that repeated policies previously agreed upon (Cooper and Thakur 2013: 112).

3.3.2.7 The Los Cabos Summit (2012): Confidence, Stability, and Growth

The 2012 G20 Summit was held in Los Cabos, from 18 to 19 June. During this Summit the G20 established country-specific measures intended to strengthen confidence, demand financial stability, and growth under the Los Cabos Growth and Jobs Action Plan. The G20 further committed to increase the IMF's resources by US\$456 billion, as well as to implement the quota and governance reforms in the IMF. Global trade and investment were acknowledged as key drivers for economic recovery and growth, and accordingly commitments were made by G20 members to withstand and decrease protectionist trade and investment measures to the end of 2014. In addition, it was agreed that an in-depth analysis by the WTO, the Organisation for Economic Cooperation and Development (OECD), and the UNCTAD should be conducted on the impact of restrictive trade and investment measures on global value chains. Commitments were also made to further the WTO's Doha Round negotiations and to push for outcomes concerning the accession procedures for Least Developed Countries (LDCs). In line with the developmental needs of the global South, it was agreed that increased progress was needed regarding the G20's

development agenda, particularly concerning financial inclusion, sustainable development, food security, and inclusive growth (G20 Australia 2014a; OECD 2012).

3.3.2.8 The Saint Petersburg Summit (2013): Achieving Balanced and Sustainable Growth

In 2013 the G20 Summit was hosted in Saint Petersburg, from 5 to 6 September and resulted in the launching of the Saint Petersburg Action Plan which established reforms for achieving balanced and sustainable growth, combined with an accountability assessment of the progress made on past commitments. The G20 further extended its commitment to withstand new trade or investment protectionist measures until the end of 2016, and reaffirmed its commitment to the reform of the IMF. In further addressing global economic recovery and stimulating global trade and investment, the G20 agreed to identify and implement collective country-specific policies in order to improve domestic investment environments (G20 Information Centre 2013).

3.3.2.9 The Brisbane Summit (2014): Global Growth, Improved Living Standards and Quality Jobs

The 2014 G20 Summit was held in Brisbane, from 15 to 16 November and pledged to achieve sustainable economic growth to assist the sluggish global economy and financial market. As a result, the G20 set a target for members to achieve two per cent annual economic growth by 2018, which could lead to adding an additional US\$2 trillion to the global economy and could create millions of employment opportunities based on the Brisbane Action Plan. The Summit also acknowledged that the global investment and infrastructure development shortfalls needed to be addressed as they were crucial in stimulating economic growth and employment creation. As a result, the Summit endorsed the Global Infrastructure Initiative, a multi-year programme to increase public and private infrastructure investment. The G20 leaders again reiterated that the IMF needs to be quota-based in order to be adequately funded, supported by governance reforms (G20 Australia 2014b).

3.3.2.10 The Antalya Summit (2015): Collective Action for Inclusive and Robust Growth

In 2015 the G20 Summit took place in Antalya, from 15 to 16 November and adopted a comprehensive agenda on the implementation of past commitments and increasing trade and investment to stimulate and promote inclusive economic growth. Again, commitments were made to implement financial regulations and to reform the IMF. The 2015 G20 Summit, however, was also characterised by other international issues of concern. This included the fight against terrorism following the terrorist attacks in Paris. Reaffirming the need to consolidate international cooperation, the G20 adopted a statement highlighting the need to address the funding of terrorism, the root causes of terrorism, as well as the global threat based on the increase of foreign terrorist fighters. Leaders also agreed that a long-term coordinated and comprehensive response was needed to address the refugee crisis and irregular migration, which also had humanitarian, political, and socio-economic consequences (G20 Information Centre 2015; G20 2015b).

3.3.2.11 The Hangzhou Summit (2016): Towards an Innovative, Invigorated, Interconnected and Inclusive World Economy

The 2016 G20 Summit was hosted in Hangzhou, from 4 to 5 September when the G20 agreed to strengthen its economic growth agenda, pursue innovative growth concepts, and policies and create an open world economy. Members also expressed the need to utilise monetary, fiscal and structural tools to achieve sustainable and inclusive economic growth. As a result, the Hangzhou Action Plan was launched calling for the swift and full implementation of its growth strategies. The Summit further introduced cooperation on innovation, support for the new industrial revolution and the development of the digital economy. Commitments were also made to build an open and resilient global financial system based on the reforms of the current global financial architecture. In addition, the G20 focused on other matters of global concern and included decisions on the effects of migration and the root causes of the migration crisis. Calls were also made to strengthen humanitarian assistance and refugee resettlement. The fight against terrorism was also placed on the agenda, with a reaffirmation to tackle terrorist financing (G20 2016).

Clearly, global financial stability became less important as other crises engulfed the members of the G20.

3.3.2.12 The Hamburg Summit (2017): Shaping an Interconnected World

The city of Hamburg hosted the 2017 G20 Summit from 7 to 8 July where leaders adopted a declaration focusing on sharing the benefits of globalisation by assuming responsibility for inclusive economic growth, building global economic and financial resilience and improving sustainable livelihood. The G20 further committed to enhance international tax cooperation and financial transparency. Of great importance to the global South, and in particular to Africa, is that the 2017 G20 Summit highlighted the importance of Africa's development. Accordingly, the G20 Africa Partnership was launched and is designed to improve economic growth and employment creation in Africa. This includes the G20 initiative for rural youth employment, aimed at creating more than one million new employment opportunities by 2022 (G20 2017a).

3.3.2.13 The Buenos Aires Summit (2018): Building Consensus for Fair and Sustainable Development

The 2018 G20 Summit will be hosted in Buenos Aires, from 30 November to 1 December. It is expected that the 2018 G20 Summit will focus on previous G20 Summits' agreements to emphasise continuity in the work of the group and will focus on three key issues: the future of work, infrastructure for development, and a sustainable food future (G20 2018). It, therefore, seems that the 2018 G20 Summit will continue the process of moving away from directly focusing on promoting global financial stability and will rather focus on addressing developmental issues.

3.4 Function and Assessment of the G20 Summits

The establishment of the G20 can thus be attributed to the “dissatisfaction with dominant conceptions of international order, authority, and organisation” (Haggard and Simmons 1987: 491-492) such as the G7 and the IMF, which lacked legitimacy and fell short of

adequately addressing the financial challenges of the 1997-1998 Asian financial crisis that contributed to the severity of the 2008 global financial crisis.

As discussed in Chapter 2, constructivism claims that the consequence of crises in the material environment can result in new identities, interests and norms and a reconstructed environment which can serve as a normative framework that embodies these new norms. In this study the 2008 global financial crisis created the instability that changed the norms guiding the relationship between agents and structures. Constructivism emphasises the importance of both the normative and the material structures, as actors and structures are mutually constituted through intersubjective awareness. This accordingly highlights the missing dimension to the structure-agent debate in international relations, and constructivism focuses on the “role of collectively held or intersubjective ideas on social life” (Finnemore and Sikkink 2001: 392).

In this regard states, as actors, recognise the significance of the social forces in the development of shared understandings and international values and norms to promote community building and to conceptualise the possibility of cooperation and peace (Adler and Barnett 1998: 8-10; Vesa 1999: 19). As a result, states are not just political actors, but also social actors that adhere to norms and institutional concepts reflecting the society’s beliefs and values (Adler 2005: 11; Balaam and Dillman 2014: 103; Reus-Smit 2013: 224).

As indicated, the creation and functioning of the G20 are explained from a constructivist viewpoint, more particularly Martha Finnemore’s systemic constructivism, and drawing from the sociology and sociological organisation theory, which focuses on the “norms of international society and the way in which they affect state identities and interests” (Finnemore 1996b: 128). A state’s behaviour is therefore defined by its identity and interest, and that identity and interest are defined by international forces, through the “norms of behaviour embedded in international society” (Finnemore 1996b: 128). This notion can be further explained in that the norm of an international society, in this case global financial stability, are transferred through the international institution, the G20, to its members with the objective to influence and shape states’ domestic policies by

'teaching' states what their interest should be. Finnemore's approach thus explains what motivates states to align their aims and objectives to establish communities of intersubjectivity to cooperate on the international stage to achieve global financial stability and the reform of the global financial architecture (Balaam and Dillman 2014: 108; Heywood 2014: 321; Jackson and Sørensen 2013: 218-219).

According to the G20 Summit's official website, the annual Summits' "decisive and coordinated actions" (G20 2015a) contributed to increased business and consumer confidence, which played a vital role in addressing the consequences of the 2008 global financial crisis. The G20 further developed into an important "coordinating forum of governance" (Boulle 2011: 15) connecting and legitimising global governance institutions in promoting global financial stability, as well as becoming "intentionally broad" (Viola 2014: 119) to address other issues of global concern such as climate change, clean energy, anti-corruption, aid for development, and anti-terrorist funding. In addition, the 2016 G20 Summit exceeded the purview offered by other global financial governance institutions and evolved into a "truly effective global governance institution" with an "institutional vision and institutional values of integration, openness, and inclusiveness that are formulated to catalyse new drivers of growth and to bring together the diverse interests in the world economy" (Inan 2016).

On the contrary, the Deutsches Institut für Entwicklungspolitik (2011) argues that "the G20 does not regard itself as a decision-making body, but rather as a platform for dialogue to facilitate the negotiation of compromises in various global policy areas – a kind of preliminary stage to more formal resolutions in legitimate global organisations such as the United Nations". Duca and Stracca (2014: 1-2) mention that the "effects of G20 summits are small, short-lived, non-systematic and non-robust across specifications and assets".

Although the G20 may not regard itself as a decision-making body and may have short-lived effects, it has, however, evolved into an effective global actor, an intersubjective society of states, and an agent of change driven by shared understandings and new norms with the aims to reform the global financial architecture and to promote the norm of

global financial stability. While acting as a global governance body with an institutional vision and values to catalyse “new drivers of growth” (Inan 2016) and to accumulate the diverse interests in the global economy, the G20 also serves as a platform for collaboration and dialogue “to facilitate the negotiation of compromises” (Deutsches Institut für Entwicklungspolitik 2011) and cooperation in various global policy areas outside of the formal or structured UN system.

3.5 The Institutional Design of the G20: Advantages and Disadvantages

This section explains the institutional design of the G20 and assesses the advantages and disadvantages thereof. This assessment is necessary to determine the G20’s effectiveness to contribute to the reform of the global financial architecture in Chapter 4.

3.5.1 The Institutional Design of the G20

Heywood (2014: 433) posits that the formation of international governmental bodies and the use of summits can be traced back to the end of the Napoleonic Wars and in particular the Congress of Vienna in 1815 which established the Concert of Europe. The latter managed international relations until the outbreak of the First World War in 1914. Heywood (2014: 433) further states that after the end of the First World War international governmental bodies increased to approximately 83, and after the end of the Second World War to 123 by 1949. International interdependence increased the need for cooperation and by the mid-1980s about 378 international governmental bodies were in existence. After the end of the Cold War international governmental bodies further increased as globalisation swept across the globe, resulting in international governmental bodies being considered important actors and vehicles to advance states’ interests and objectives, while maintaining some form of international order.

International governmental bodies gained more significance as they developed to cover eclectic topics ranging from trade and investment, peace and security, health and labour, terrorism, and environmental affairs. While most research assesses the relevance of international governmental bodies, few examine the structural characteristics and

effectiveness thereof. International governmental bodies are generally designed and structured in diverse ways. These bodies have global, regional or restricted membership, different voting requirements, and formal or informal bodies with permanent secretariats or ad hoc secretariats. Each body is also designed to address a specific area or areas of concern. Thus, as international governmental bodies are particularly designed and established to address particular topics on an international level, the institutional characteristics of these bodies vary.

In this regard Heywood (2014: 433) refers to the characteristics of international governmental bodies and mentions the following: membership, whether restricted or universal; competence, the ability to address the topics of responsibility; function and operational framework; and decision-making authority and arrangements. Koremenos, Lipson and Snidal (2001: 763), however, have identified five structural characteristics of international governmental bodies which are practical, measurable and comparable within and across bodies, and apply to most, if not all, international governmental bodies: membership; the scope of topics to be addressed; the centralisation of tasks; the guidelines and rules to govern its functioning; and the flexibility of arrangements. The assessment of the institutional characteristics of the G20 is thus based on Koremenos, Lipson and Snidal's criteria as discussed below.

3.5.1.1 Membership

Membership of international governmental bodies is normally a contested issue, with aspects such as restrictive or inclusive membership being raised. A small collection of homogeneous members may perhaps lead to less uncertainty within the body or lead to easier negotiated agreements and implementation of decisions. On the other hand larger and heterogeneous groups may have more difficulty in reaching an agreement or consensus on the same topic. Membership is also determined by global, regional, or topical criteria. The G20, however, was intended to include the most important developed and developing economies, and the 1999 G7 Summit hosted in Cologne, Germany, specified that a G20 member must be a "systemically important country" or a "key emerging market" (G7 1999). G20 members also had to have different views and opinions

than those of the developed economies of the G7, as well as represent various geographic regions. As a result, and through a somewhat unorthodox methodology, Mr Paul Martin, then Minister of Finance of Canada, and Mr Lawrence Summers, then Treasury Secretary of the US, selected countries basically from the list of G22 members based on their own personal views of which states were most systemically significant and presented it to the G7 leaders (Koremenos, Lipson and Snidal 2001: 770; Ibbitson and Perkins 2010).

SAIIA (2018) observes that the G20 Summits are, however, attended by more than 20 states, and include states invited by the respective G20 chairs based on their significance. Additional states invited to G20 Summits, may for example include the respective chairs of the AU, the New Partnership for Africa's Development (NEPAD), or the ASEAN. Other participants include the IMF, the World Bank, and the regional development banks, the FSB, the OECD, the UNCTAD, the United Nations Development Program (UNDP) and the WTO.

Based on the assessment of the G20's membership criteria, it can either be categorised as inclusive, compared to the G7 with 13 extra members, or it can be categorised as restricted compared to the WTO or UN. For the purpose of this study the G20 membership is categorised as restricted based on the criteria set out in the 1999 G7 Summit (G7 1999) stating that the G20 members must be systemically important or be key emerging states. This, however, excluded other developed and developing economies from the forum, which are all faced with the same economic and financial challenges.

3.5.1.2 Scope

The scope or competence of the international governmental bodies determines which topics or issues are addressed by the particular body. Different international bodies have different topics to address, and some bodies may address trade issues, while others address issues related to health, or education, or peace and security. The G20, however, was established in the wake of the 1997-1998 Asian financial crisis and on the notion that the expansion of the global economy necessitated a more representative governing structure, as opposed to the small Western-centric G7 or multilateral Bretton Woods

Institutions that dominated the global economic and financial scene. As a result, the G20 was established with the objective of being the leading forum for international cooperation, aiming to ensure global financial stability, by promoting the inclusion of the global South in the global financial architecture (Koremenos, Lipson and Snidal 2001: 770; Schoeman 2015: 143; Kirton 2016: 227). The G20's scope, however, is adaptable and it has in recent years commenced with an outreach process to include other stakeholders in the global economy in its Summits. This is done through seven *engagement groups*, and include the Business 20 (B20), representing the private sector; the Civil 20 (C20) representing civil society organisations; the Labour 20 (L20), representing labour and trade unions; the Think 20 (T20) representing research institutions and think tanks; the Women 20 (W20) representing women in G20 members with the goal of reducing the gender-specific employment gap; the G(irls)20 to incorporate the visions of the future female leaders; and the Youth 20 (Y20) providing a platform for dialogue for young leaders from G20 members (Alexander and Löschmann 2016).

Although the G20 was established as a forum for consultation on global economic and financial matters, its scope has developed to include an eclectic range of global issues listed above. This resulted in the G20 advancing its scope beyond economic and financial matters to become a body of global governance.

3.5.1.3 Centralisation

Centralisation of international governmental bodies relates to the collection and distribution of information regarding the scope of the body in order to reduce bargaining and transaction costs, while enhancing administration without necessarily having enforcement capacities. The centralisation of an international governmental body does not impede on states' sovereignty as it only relates to the functioning and administration of the body. The G20, however, is an informal body "designed as a deliberative and direction-setting forum" (Kirton 2016: 71-72) aimed at increasing the decision-making effect and to promote consensus in the global financial system (Koremenos, Lipson and Snidal 2001: 771).

As a result, the G20 is based on consensus between members and lacks a permanent secretariat, present in other international governmental bodies (specifically international governmental organisations as discussed in Chapter 2), resulting in a low level of centralisation. In the absence of a permanent secretariat, the G20 utilises a *Two Track* approach, with the first track being the Ministers of Finance and Central Bank Governors, providing guidance on financial and economic issues. The second track is the Sherpas¹¹ and the Troika¹² which are responsible for coordinating meetings before and during the Summits, as well as collecting and distributing information. In the absence of a legal framework and permanent secretariat the G20 has no formal process or effective mechanism to enforce the implementation of decisions taken at Summits, thus only relying on the cooperation of members to implement the decisions, and therefore resulting in a low level of centralisation (SAIIA 2018).

3.5.1.4 Control

Concerning control, numerous factors are considered, such as the guidelines and rules for nominating and electing the main role players, or how voting is conducted. Voting arrangements, however, are an important and observable characteristic of control in international governmental bodies and the rules of the body determine the voting procedure. Members can either have equal votes or some members may have the right to a veto power, or a simple majority is sufficient to pass a resolution in one institution, while a super-majority is required in another. As the G20 functions without a legal framework it has no formal voting procedures and members are considered equals. This approach was specifically incorporated in the G20's design with the aim to promote consensus on international issues between its members. As a result, the G20 has a low level of control (Koremenos, Lipson and Snidal 2001: 772; Kirton 2016: 71). In an attempt to enhance and promote control (and cooperation) in the G20, it introduced the Mutual Assessment Process, which functions as a peer review process intended to guarantee that the economic and financial policies agreed to during the G20 Summits are implemented by

¹¹ A Sherpa is Senior Official from each G20 member designated as the personal representative of the respective Head of State or Government (Kirton 2016: 239).

¹² The Troika consists of the previous, present, and future G20 chairs (Kirton 2016: 138).

members. This process is managed by the IMF, and G20 members are expected to provide reports on the implementation of macroeconomic policies, which are reviewed by peers in the G20 (SAIIA 2018).

3.5.1.5 Flexibility

Flexibility in international governmental bodies relates to the rules and procedures (ability) to accommodate and address new issues falling outside the original scope. In this regard, it is important to distinguish between two kinds of institutional flexibility, adaptive and transformative. Adaptive flexibility can best be described as ‘escape clauses’ in international governmental bodies allowing members to respond to unexpected events or circumstances while maintaining the existing institutional characteristics. Transformative flexibility refers to the built-in arrangements which enable bodies to transform in order to improve their capabilities to address issues that may arise. For the purpose of study the focus is on transformative flexibility. Accordingly, the G20 has become intentionally broad with the Summit agendas evolving to include other global issues of concern, ranging from environmental concerns, such as climate change and clean energy, to anti-corruption, anti-terrorist funding, and aid for development to become a truly effective global governance body (Koremenos, Lipson and Snidal 2001: 773; Viola 2014: 119; Inan 2016).

3.5.2 Advantages and Disadvantages of the G20’s Institutional Design

The advantages of the G20’s institutional design are evident in its effectiveness in addressing issues of concern regarding the global financial crisis. This is mainly due to its restrictive membership as consensus and cooperation is more easily achieved through smaller groups of states. The G20’s effectiveness is also attributed to the low level of centralisation leading to open and frank discussions, based on informal consultations relating to matters on the agenda. This also contributes to the G20’s effectiveness in reaching agreements, as well as its ability to influence the actions and domestic policies of states, linked to Finnemore’s constructivist approach that international bodies teach states what their actions should be (Finnemore 1996b: 128).

This was evident when the G20 members reached consensus on coordinating international fiscal stimulus packages, increasing the resources of the Bretton Woods Institutions, and establishing the FSB to monitor the global economy and financial system on behalf of the G20. The G20's scope and flexibility to broaden its agenda to include other pressing matters of international concern is an added advantage as it enables the G20 to be an adaptive global governance body, and an agent for change.

The disadvantage, however, of the G20's institutional design is that there is no legal framework on which it is based. The lack of a legal framework results in a low level of control and accordingly the absence of mechanisms to enforce decisions taken at Summits, as well as the monitoring and evaluation of the implementation of policies agreed to during Summits by members.

3.6 Conclusion

This chapter discussed the establishment and evolution of the G20 based on the constructivists' assumption that the international environment should be explained as a social structure constructed by non-material elements, through focusing on the relationship between international agents and the structure, the latter explained as constructed through intersubjective values, norms, identities and interests. This assessment introduced various alternatives for the improvement of the institutions responsible for global financial governance. The G20 became the agent for reform and developed into the "premier forum for international economic cooperation" (G20 Information Centre 2009a) with the objective to ensure global financial stability by promoting the inclusion of the global South in the global financial architecture.

Regarding Chapter 3's contribution in addressing the second sub-question of the research: *Does the G20, as an informal forum, have the ability to effectively contribute to the reform of the IMF, the key institution responsible for global financial stability?*, the study reveals that although the G20 is not regarded as a decision-making body, it developed into an effective global actor, an intersubjective society of states, and an agent of change driven by shared understanding and new norms with the aim to reform the global financial

architecture and to promote the norm of global financial stability. Chapter 3 further contributes in addressing the third sub-question: *To what extent does the G20 attempt to enhance its own inclusivity with the aim to strengthen the global financial architecture?*, and the study reveals that the G20 is attempting to enhance its own inclusivity with the aim to strengthen the global financial architecture based on its initiatives to include additional countries and engagement groups at the G20 Summits, as discussed in section 5.1 of this chapter.

Even though informal and unstructured, the G20 serves as a platform for collaboration and dialogue to facilitate the negotiation of compromises and cooperation in various global policy areas outside of the formal or structured global governance system. Chapter 4, therefore, assesses the G20's effectiveness to contribute to the reform of the global financial architecture, based on its institutional design as explained in Chapter 3.

CHAPTER 4

THE CONTRIBUTION OF THE G20 TO GLOBAL FINANCIAL GOVERNANCE

4.1 Introduction

The unexpectedness of the 2008 financial crisis highlighted the integrated nature of the global financial system and the negative impact of the crisis on advanced and emerging countries alike. Takatoshi Kato, Deputy Managing Director of the IMF posited in 2009 that “The intensity of the downturn took everybody by surprise and was much larger than what could have been anticipated based on historic correlations of growth between the Asian and the advanced Western economies” (Kato 2009). Despite the collapse in exports, the outflow of capital and contraction in investments in Asian markets, these countries became the leaders of global recovery with industrial production even returning to pre-crisis levels in many of the Asian countries (Kato 2009).

As discussed, the increasing power and influence of the Asian economies create asystemic change in the global arena at both a political and economic level. This is furthermore evident in the diminishing relevance of small Western-centric clubs, such as the G7, and the economic problems facing the former dominant states of the global North that currently receive far less attention than before. Golub (2013: 1001-1002) suggests that the world is currently observing the end of an historical era in which wealth and power are concentrated in a small number of states from the global North. Instead, dominant states from the global South, such as China, are re-emerging in a more effective attempt to exercise influence within the global financial system.

The 2008 crisis caused a “structural break” between a period when demands by US consumers determined global growth and the post-2008 ability of Asian economies to out-perform the developed countries. Kato (2009) also observes that “This has important implications for Asia’s export-led growth model and for the role of international

institutions including the IMF, both as a policy coordinator and provider of insurance". The ability of East Asia to cooperate with other emerging countries in establishing new transcontinental South-South structures, such as IBSA and BRICS, underlined their growing influence and the reordering of global relations. Their new-found leadership role also manifests in international groups such as the G20.

At the core of the 2008 crisis was the overconfidence in the ability of markets to regulate themselves, and the hesitance of private banks in the advanced countries to intervene pro-actively. They were also not prepared for the possibility of market turmoil. Jean-Claude Trichet, President of the European Central Bank from 2003 to 2011 stated in 2009 that "...our basic aim should be to improve very significantly the resilience of the financial system: the fragility that has become apparent since August 2007 and more acute since mid-September last year is not acceptable" (Trichet 2009).

The establishment of the G20 manifested as the most determined effort to launch a new forum for global economic and financial governance. As explained, the G20 was created to address the ripple effect of the 1997-1998 Asian financial crisis (Kirton 2016: 62-63). As a result, the G20 Finance Ministers and Central Bank Governors met annually between 1999 and 2007 and acted as a central player in the global financial system (Cooper and Thakur 2013: 13).

Against the background of the changing global financial system, this chapter evaluates the contribution of the G20 to global financial governance, specifically the reform of the IMF. Due to the main timeframe of the study, being from 2008 to 2018, this chapter discusses the main financial crises leading up to the 2008 financial crisis. The chapter, therefore, assesses the role of the IMF during the financial crises of the 1990s and the 2008 crisis to demonstrate the shortcomings of the IMF during the crises and the need for its reform. The chapter further elaborates on the G20 as the agent for change in the global financial system, and assesses its role in improving the IMF's traction, legitimacy, and resources.

The aim of this chapter is to address the study's main research question: *Do the norms underpinning the G20 enhance its ability to contribute to effective global financial governance?* This is achieved through an assessment of the G20's effectiveness to contribute to the reform of the IMF, analysed through a constructivist lens as explained in Chapter 2, and the G20's structural characteristics as discussed in Chapter 3. This chapter furthermore addresses the research's sub-questions by also applying the findings of Chapters 2 and 3.

4.2 An Assessment of the IMF's Role during Global Crises

As mentioned, the IMF was founded in 1944 during the Bretton Woods Conference. This was a crucial step to promote the expansion of international trade and effective post-conflict reconstruction and development, as well as the economic and financial recovery of Europe after the Second World War. The global financial architecture after the Second World War was dominated by economic liberals such as John Maynard Keynes, who played an important role in the reconstruction of Western Europe after the Second World War (Balaam and Dillman 2014: 60). Embedded liberalism, the most influential economic perspective of the post-war period, provided the underlying normative structure of the international economic system until the 1970s when the oil crises of 1973 and 1978 forced Western nations to adapt to new challenges and demands (Balaam and Dillman 2014: 61-62).

Over time the role of the IMF evolved into surveillance of economies at the national, regional and global levels and as Anne Krueger, First Deputy Managing Director of the IMF, explains "monitoring the world economy as a whole and watching out for systemic risk, has become more formal and systematic over time" (Krueger 2006). Yet, the IMF's failure to predict and prevent recurring global financial crises highlighted its inability to effectively survey economies. The 1990s¹³ financial crises, particularly the 1994-1995 Mexican crisis and the 1997-1998 Asian crisis, which later exacerbated the 2008 global

¹³ The early 1990s defied all economic and political expectations with the fall of the Berlin Wall in 1989. States that were excluded from the global financial system for decades became overnight favourites for investors resulting in huge capital flows to developing states (Moschella 2010: 35).

financial crisis, indicated an inability to secure a more inclusive and stable global financial system in an era dominated by the idea of *orderly liberalisation* within the IMF (Moschella 2010:35).

The following section discusses the historical timeline, and the role of the IMF, in the identified financial crises. The purpose of this section is to provide a background for the demand to reform the IMF to enhance its legitimacy and effectiveness. The IMF fulfils the role of agent, and the global financial architecture as the system, thus linking it to the agent-structure debate as proposed by constructivism.

4.2.1 The Mexican Financial Crisis (1994-1995)

In the 1990s the Mexican government recorded the lowest inflation rate in 21 years after it liberalised and modernised the economy. Mexico also recorded a GDP growth rate of three per cent per annum from 1989 to 1993 (Camdessus 1995). Major structural reforms included, besides allowing the central bank more independence, the freeing of interest rates, tax reforms, the privatisation of several commercial banks, and the elimination of credit controls. The widespread perception at the time was that Mexico's market oriented economic reforms were successful and that they accounted for almost half of the capital inflows into the Latin American region from 1990 to 1993 (Gavin, Hausmann and Leiderman 1997: 6). Mexico seemed to be the star in the emerging markets, highlighted by its admission to the North American Free Trade Agreement (NAFTA) in January 1994, and the OECD in May 1994 (Moschella 2010: 65).

Despite these positive developments, Mexico's current account trade deficit increased sharply from 6.5 per cent of the GDP in the period 1990-1993, to close to eight per cent in 1994 (Kaplan 1998). The country's economic and financial situation worsened with the overvaluation of the Mexican peso, as the real exchange rate appreciated 35 per cent from 1990 to early 1994, coupled with a slowing GDP growth rate of 0.6 per cent per annum in 1993 (Kilic, Tufte and Hassan 1999: 47). Liberalising the economy also led to a major lending boom while deregularisation opened the economy for an increase in foreign direct investments, thereby creating a more fragile economy (Musacchio 2012: 8). This

situation was exacerbated by internal and external events that strained Mexico's economic fundamentals. Internally, political shocks caused concern among the financial markets when in January 1994 insurgents in the Chiapas region demanded independence from the federal government. This was followed by the assassination of the then-ruling Institutional Revolutionary Party's presidential candidate, Luis Donaldo Colosio. External factors included an increase in the US interest rate in February 1994, with four subsequent increases up to November 1994. The increase in the US interest rate resulted in higher borrowing cost from international capital markets, in turn worsening Mexico's current account deficit (Moschella 2010: 66-67). Thus, as Aldo Musacchio (2012: 1) explains, "Political violence in Mexico and changes in monetary policy in the US then led to radical changes in investor perceptions of the future of the country and to a balance of payments and banking crisis".

These events affected the Mexican economy and increased pressure on Mexican stocks and bonds, while the interest rate difference between Mexico and the US widened (IMF 1995: 60), negatively influencing Mexico's creditworthiness. This raised the expectation that the current exchange rate policy with the US dollar would be abandoned. The Mexican peso experienced its first speculative attack in March 1994, with a nominal devaluation of around 10 per cent, while the Mexican interest rate increased by seven percentage points (Moschella 2010: 67). The devaluation of the exchange and interest rates, however, did not put an end to capital outflow. After the August 1994 presidential elections, the Mexican economy experienced a short-lived period of recovery. Nonetheless, by December 1994, Mexico's international reserves were depleted by 80 per cent from the first quarter of 1994. This triggered a chain reaction in which the exchange rate band with the US dollar was increased to 15 per cent, causing an immediate exchange rate devaluation, easing out at a 50 per cent decline to the US dollar by March 1995, compared to the exchange rate before the crisis set in (España 1995: 45). This caused a huge outflow of investments in the form of Mexican government securities, amounting to almost US\$790 million. The result was that this rendered the Mexican government unable to service its short-term debt, curtailing access to international capital markets.

By then, the initial economic successes of the 1990s were history. While unemployment rose and output decreased, the banking system was controlled by foreign banks (Musacchio 2012: 24). In addition, the Mexican crisis had a severe negative impact on the economic prospects of many emerging markets across the globe triggering a broad sell-off of developing economies' securities. As investors restructured their investment portfolios the effect had far-reaching consequences, which also reached the Asian markets.

Attempting to manage the Mexican crisis, the IMF structured the largest arrangement for a member at the time, amounting to a bailout of US\$17.8 billion in February 1995, around seven times Mexico's IMF quota¹⁴ (Camdessus 1995). Due to Mexico's admission to NAFTA the year before the IMF bailout, it forced the US to contribute an additional US\$20 billion to the bailout package to prevent the total collapse of the Mexican peso in the context of NAFTA. The Mexican crisis forced economists and policy-makers to focus on the origin and consequences of the crisis, and in particular to concentrate on the overvaluation of the real exchange rate. It was found that enhanced access to information in the financial markets was required in order to decrease the likelihood of future crises. The Mexican crisis also forced the IMF to reflect on the process of international financial integration, and the policies that needed to be implemented both at a domestic and global level to avoid future periods of financial instability (Van der Molen 2013).

The IMF blamed policy inadequacies for the 1994-1995 crisis in Mexico and concluded that the main causes were consistent with a currency crisis. The situation was worsened by the conflict between domestic policies and priorities and an unsustainable dollar-peso exchange rate, exacerbated by the widening current account deficit. The increase in the interest rate in the US, however, pushed the Mexican economy over the edge and triggered an abrupt and immense outflow of capital from the country. Therefore, the IMF concluded that the Mexican crisis supports the view that sound monetary and fiscal policies are crucial to prevent crises, and that the IMF's role should be strengthened (Camdessus 1995). To increase the role of the IMF as the central actor in the global

¹⁴ IMF quotas are denominated in Special Drawing Rights (SDRs). The biggest member of the IMF is the US, with a current quota, as of March 2017, of SDR82.99 billion or US\$118 billion. The smallest member is Tuvalu, with a quota of SDR2.5 million or US\$3.5 million (IMF 2017).

financial system, the IMF's management proposed the adoption of new policies, in particular strengthening its surveillance, and increasing its financial resources, as well as amending its Articles of Agreement to give the IMF the mandate and jurisdiction over capital transactions (Moschella 2010: 74).

The 1994-1995 Mexican crisis provided a critical test for the policies promoted by the IMF. This crisis confirmed the IMF's confidence in the *orderly liberalisation* of the financial markets, and in the advantages of increased financial globalisation, as well as the value of capital controls for individual economies and the global economy. The IMF also commenced with institutional reform to improve its surveillance and financial assistance to members, but it would be the 1997-1998 Asian financial crisis that would change the path of its institutional reform. After the Mexican crisis the G7 announced the need to streamline procedures to speed up the IMF's flow of emergency funds, which led to the creation of the Supplemental Reserve Facility (SRF) at the IMF (IMF 1997; Musacchio 2012: 22-23).

4.2.2 The Asian Financial Crisis (1997-1998)

The IMF observed that the global financial system seemed to have become more resilient after the Mexican crisis (Fischer 1998). The focus fell on the Asian financial markets as the most outstanding examples of economic transformation among the global South in history, recording an average real GDP growth rate of more than nine per cent. Although China's GDP growth rate formed part of the calculation, states such as Indonesia, Malaysia, and Thailand still recorded a significant eight per cent GDP growth rate per annum¹⁵. The IMF indicates that the remarkable growth was not by default, but by design and the implementation of the correct policies, such as high rates of savings and strategic investments, prudent macroeconomic policies, and human capital development and investment. Based on standard economic indicators, there were no reasons for concern as inflation and fiscal imbalances were moderate across the region. Thailand, where the

¹⁵ According to Martyn Davies "seven percent growth is a magic number" to double an economy's size in 10 years, based on compound annual growth, should the annual GDP rate be seven per cent or above (CFO South Africa 2016).

Asian crisis originated, continuously recorded government surpluses from 1988 to 1996 (Fischer 1998) and therefore gave no indication of the looming crisis.

The Asian crisis, however, appeared to be a typical currency crisis with a current account deficit of around eight per cent of the GDP in Thailand. By June-July 1995 the real exchange rate appreciated considerably, due to the Thai baht being pegged to the US dollar, which appreciated substantially. This in turn caused an appreciation of the Thai baht against the Japanese yen, Thailand's biggest trading partner, negatively affecting Thailand's export competitiveness and ability to service its debt, causing a deterioration in the state's macroeconomic outlook. The pressure on the Thai baht mounted, and in July 1997 it became known that a vast amount of domestic financial institutions were unable to service foreign debt repayments, coupled with a decline in Thailand's foreign reserves (Fischer 1998).

Although the Thai government responded to speculative attacks on its currency, rather than raising the interest rate, the central bank unpegged the baht from the dollar and sold its foreign currency in a bid to defend the value of the baht, which depreciated by eight per cent on the day of its float in July 1997. While observers compared the unfolding financial situation to the Mexican crisis, few anticipated that the currency crisis in Thailand would have a domino effect on regional markets and rapidly develop into a full-blown global financial crisis (IMF 2000).

In the following months the Thai currency, equity, and property markets further depreciated, leading to a balance-of-payments and banking crisis. During the same time, and in response to the financial situation in Thailand, Malaysia, the Philippines, and Indonesia permitted their currencies to depreciate considerably due to market pressures, with Indonesia slowly sliding into a financial and political crisis. While in South Korea, severe balance-of-payments pressure almost brought the state to a default on financial obligations, with the South Korean market falling below investment-grade status shortly after its admission to the OECD (Moschella 2010: 98).

As the Asian crisis unfolded, it became evident that the countries' initial strong economic growth had concealed significant weaknesses in these economies, specifically years of rapid domestic credit growth, as well as the insufficient supervisory oversight, which resulted in a noteworthy accumulation of doubtful loans¹⁶. The economies' boom and fast growing real estate markets contributed to the financial risks leading to overdependence on foreign savings, mirrored in increasing current account deficits and an accumulation in external debt. Substantial foreign borrowing further exposed domestic banks to significant exchange rate risks, concealed by longstanding and unsustainable currency pegs to the US dollar. Due to the domestic currencies' severe depreciation against the US dollar, domestic financial institutions experienced severe increases in the cost of their foreign debt in local currency terms, causing widespread bankruptcy (Carson and Clark 2013).

In response to the Asian crisis, the IMF's financial programmes took the form of multilateral assistance rescue packages which were unusually large. Although these packages were accompanied by structural adjustment requirements aimed at building investor confidence and financial responsibility, they failed to restore market confidence and the IMF's credibility, which in return increased the criticism of its members (Moschella 2010: 105). The criticism from members against the IMF's notion of *orderly liberalisation* increased, with some members calling for capital controls to be implemented, while questioning the IMF's role in the global financial system as it was unable to predict and prevent the financial crisis caused by global financial capital flows and depreciating currencies (IMF 2000). Eichengreen (2000: 187-188) posits that "... an appropriate role for the IMF is not as advocate of capital account liberalisation but as adviser on prudent regulation of the capital account and guardian against avoidable financial crises".

The policy of *orderly liberalisation* of capital movement greatly challenged the IMF's normative and procedural capabilities during and after the Mexican and Asian financial crises. The idea of capital control was widely accepted and even promoted by members. Joseph Stiglitz, chief economist of the World Bank from 1997-2000, and Jeffrey Sachs,

¹⁶ A loan issued by a financial institution, where full repayment of the loan is uncertain (Investopedia 2018a).

then head of the Harvard Institute for International Development, criticised the IMF for being part of the problem rather than part of the solution, stating that its policies were both misguided and inefficient (Denny 2002). Enda Curran (2017) also adds that the general view was that the IMF was not “flexible enough to take into account rapidly changing and unique circumstances that were destroying the economies of Thailand, Indonesia, South Korea and others”. The IMF, therefore, faced a severe crisis of legitimacy while accusations of its mismanagement of the Asian crisis increased. The criticism thus shaped the IMF’s policies and ideas, and in an attempt to respond to the criticism the IMF reconsidered its position on capital account liberalisation. The IMF embarked on a journey of institutional reform and self-critique to clarify ambiguities in its structure and functioning. The reform included imposing capital controls, the preconditions for what the IMF deemed to be successful liberalisation, the IMF’s resources, and its exact areas of jurisdiction. Through this process, however, a dividing line surfaced between members of the global North and the global South, making consensus on the IMF’s reform near impossible (Moschella 2010: 117-118). The IMF also nearly lost all credibility as the pivot of global financial governance, losing further ground to new ideas regarding the management of risks in the global financial system.

The Asian financial crisis clearly indicated that private sector activities contributed to the financial instabilities of these countries and that market perceptions, and not fiscal austerity, is the decisive factor in restoring investor confidence. It was clear that the IMF did not focus on the economic and financial challenges facing emerging countries. Moschella (2010: 2-3) explains that by the end of the Asian crisis the perception existed that a decentralised system of governance is preferable to the concentration of power in the IMF. This view would, however, be challenged at the end of the 2008 crisis when more efforts were put into strengthening the IMF’s supervisory and crisis management capabilities. After the Asian crisis, significant changes took place within the context of the global financial system and in policy ideas to safeguard global financial stability. A new global consensus emerged based on *market-led liberalisation*, as opposed to *orderly liberalisation* before the Asian crisis, based on increasing financial linkages and innovation. Three procedural principles developed out of the contestation after the Asian crisis and

formed the basis of the notion of *market-led liberalisation*: market discipline, self- and light-touch regulations, and the dispersion of supervisory and regulatory authority amongst the different international bodies. As a result, the role of governments and international financial institutions, such as the IMF, were marginalised as the pivot of global financial governance and cooperation. As an alternative, new international bodies with the responsibility to oversee global financial flows, such as the G20, were established (Moschella 2010: 119).

4.2.3 The Global Financial Crisis (2008)

Although cracks in the system started to show in 2006, the 2008 crisis was eventually triggered by the collapse of Lehman Brothers Holdings Inc., a reputable international bank and the fourth largest bank in the US. The 2008 crisis, the worst financial crisis since the Great Depression¹⁷ almost caused the collapse of the entire global economic system when the volume of world trade and industrial output dropped drastically in 2008. As Crafts and Fearon (2010: 287) posit, “This is the most widespread banking crisis since 1931 and it is also the first time since that date that major European countries and the US have both been involved”.

The 2008 crisis was triggered by several factors in particular; the subprime lending rates in the US housing market, years of low inflation and steady growth that raised complacency and risk-taking in the financial markets, and a savings glut in Asia causing a decrease in global interest rates (Baily, Litan and Johnson 2008: 8). While investment bankers’ risky lending practises triggered the global financial crisis, the 2008 crisis is also a direct consequence of the risky, and often unscrupulous, lending practices of the investment bankers. Yet, the failure of central banks and regulatory authorities to keep economic and financial imbalances in check and to oversee the activities of financial institutions created a financial vacuum which allowed the actions of these bankers and exacerbated their impact on the global financial system (Mathiason 2008).

¹⁷ The Great Depression lasted ten years (1929-1939) and resulted from the stock market crash on “Black Tuesday”, 24 October 1929, and reached its turning point in 1933. This economic crisis was the worst in modern history and contributed to unemployment, widespread poverty and social suffering, as well as political instability that contributed to the Second World War (Crafst and Fearon 2010: 287).

It should be noted that the 2008 crisis was not a currency crisis in a developing country or region, as was the case with the Mexican and Asian crises. The 2008 crisis was a credit crisis in an industrialised country caused by the deterioration of loan underwritings and poor financial regulation (Moschella 2010: 128). Mortgage loans were granted to subprime¹⁸ clients. The risky mortgage loans were transformed into allegedly low-risk securities by means of placing large numbers of loans together in pools, with the risks of each loan uncorrelated to the next. This notion was premised on the risk undertaken by the banks that the property markets in different regions of the US would fluctuate independently of each another. This theory was proven to be incorrect in 2006 when the US experienced a national house-price decrease. The pooled mortgages were used to back financial securities recognised as Structured Investment Vehicles (SIVs). The SIVs were divided into tranches according to their degree of exposure to default. Investors thus bought the safer tranches based on the triple-A credit ratings allocated by ratings agencies such as Moody's and Standard & Poor's. The ratings agencies were paid by, and indebted to, the same banks that created the SIVs, and were therefore too generous in their risk assessments and ratings of the SIVs (Baily, Litan and Johnson 2008: 8; IMF 2008a: 61-63).

The collapse of the housing market in the US unleashed a chain reaction in the economy, exposing the weaknesses in the financial system as pooling failed to deliver investors the assured protection. Mortgage-backed securities rapidly decreased in value and the allegedly safe SIVs became worthless regardless of the ratings agencies' triple-A ratings. It, therefore, became problematic to sell questionable assets, or to use them as collateral for the short-term funding that banks depend on. In turn, selling assets at extremely low prices instantly decreased banks' capital flow requiring the banks to reassess assets at current prices and recognise losses on paper, which might have never actually been incurred. It was revealed that the whole banking and financial system was built on fragile foundations as banks allowed the balance-sheets to bloat, while allocating too little capital to absorb possible losses (Baily, Litan and Johnson 2008: 8).

¹⁸ A loan offered at a rate above prime to clients ineligible for prime rate loans. Subprime clients are usually denied loans from traditional lenders due to low credit ratings or factors that indicate that the clients could default on the debt repayment (Investopedia 2018b).

Although financiers' risky lending was the main cause of the global financial crisis, central banks and regulatory authorities also have responsibility in the origin of the crisis, due to misgovernment during the years preceding the crisis. This was mainly owing to the failure of these banks and authorities to keep economic and financial imbalances in check, and also for their inability in failing to apply the necessary oversight on financial institutions, such as Lehman Brothers. Crafts and Fearon (2010: 312) explain the futility of a lesson learned from the 1933 depression that "...it is crucial that regulation is well designed. The lesson from the 1930s is that it most probably will not be, because vested interests are likely to hijack the politics of regulatory design". Besides the need for more regulation, the 2008 crisis also emphasised the need to reinforce the system's ability to "identify vulnerabilities, anticipate potential stresses, and act swiftly to play a key role in crisis response" (OECD 2008).

In order to cushion the repercussions of the 2008 global financial crisis, massive monetary and fiscal stimulus packages were eventually implemented by governments across the world (Mathiason 2008). The US Government Accountability Office (GAO) estimated the cost of the 2008 crisis in excess of US\$10 trillion (GAO 2013: 15) while other economists estimate the cost between US\$12.8 trillion and US\$14 trillion (Porter 2014).

The first line of defence of governments around the world was to lower interest rates to ease pressure on the borrowers, while increasing access to credit. When solvency problems took over from liquidity concerns, governments extended their intervention and announced guarantees for bank debt by injecting capital into their domestic banks. In addition, governments rolled out comprehensive and coordinated policies to stimulate their economies to create demand through policies to support job creation, tax cuts, and the housing market. The 2008 crisis, however, severely tested this new global financial governance framework, and highlighted the weaknesses of domestic systems to global financial integration, and the insufficiency of some of the policies that govern global capital markets. These inadequacies contributed to mounting pressure to escalate efforts for a comprehensive reform "of the institutional and regulatory architecture of the global financial system" (Moschella 2010: 133-134). The 2008 crisis can, therefore, be attributed

to more than just a financial crisis, but also an economic and political crisis as it called into question the principle policies of global financial cooperation.

The IMF attributed the causes of the 2008 crisis mainly to poor regulation in the financial system, proposing that financial regulation and supervision should be developed in line with the type of activities of the specific financial institution (IMF 2008b: 54). According to Moschella (2010: 137) the IMF found that market discipline demonstrated to be meaningless in averting “financial excesses”. While the self- and light-touch regulations were deemed damaging to the financial system’s stability, and “international financial supervision was too fragmented to detect the early signs of the crisis” (Moschella 2010: 137). These findings thus discredited the procedural principles developed out of the contestation after the Asian crisis, which formed the basis of the notion for *market-led liberalisation*.

Although the IMF was critical of the fundamental characteristics of *market-led liberalisation*, the question that should be asked is why was the IMF unable to predict and prevent the worst global financial crisis since the Great Depression? Was the rationale for creating the IMF not to promote the norm of financial stability in a post-1945 financial system? Was the aim of the IMF not to predict, prevent, and manage global financial crises through even-handedness and equal treatment? The following section, therefore, discusses the need to reform the IMF.

4.3 The Need to Reform the IMF

The financial crises discussed above reveal the limitations of the IMF and its inability to adequately develop its assessment, monitoring and evaluation of the global financial system. The IMF, furthermore, seemed unable to understand the impact of globalisation in terms of the true level of interconnectedness, including the effect of policy spillovers and capital flows between states that rapidly increased in the 1990s. The financial crises of the 1990s, reinforced by the lack of the IMF’s understanding of the changing financial system, exacerbated the 2008 crisis and its effect on the global financial system. The section, therefore, assesses the structural-functioning shortcomings of the IMF against the

challenges of a changing global financial system since the end of the Cold War, focusing on the IMF's policies, membership, and financial resources as the main areas where reform is further required in order to make the IMF more effective within the changing global financial context.

4.3.1 Policies: Improving the Traction of Advice

Kruger, Lavigne, and McKay (2016: 13) argue that effective surveillance by the IMF requires not only the correct focus and objective analysis, but also traction. Enhancing traction, defined as the degree to which members regard the IMF's advice to be adequate and sufficient to implement the policy advice, is a perpetual challenge. The observation that program conditionality, and not surveillance as such, assures traction used to be directed at the global North. It is, however, also being gradually applied to states of the global South. Therefore, many of the IMF's contemporary surveillance initiatives, such as the new view on capital flows, the analysis of spillovers, and external stability, are developed and implemented as an effort to (re)engage states from the global South with the IMF. This approach by the IMF is based on an emphasis of its failure to adequately call out the weaknesses of financial institutions from the global North, supporting the global South's view that surveillance by the IMF is not even-handed. Kruger, Lavigne, and McKay (2016: 9) describe even-handedness as "equal treatment for countries/economies in equal circumstances". The even-handedness of the IMF's analysis and its advice is critical to its credibility and effectiveness when engaging with members (IMF 2016).

Even-handedness, therefore, acknowledges that all states and their respective economies are not equal, and that the major economies from the global North need special scrutiny on the basis of "their systemic importance and the spillovers they may generate" (Kruger, Lavigne, and McKay 2016: 9). The IMF's surveillance of the economic and financial risks of the global North proved to be inadequately focused in the years leading up to the 2008 crisis. The limitations of the IMF are based on its misperception that the advanced economies of the global North are not crisis prone.

Should the IMF wish to become more relevant to the global South, and thereby gain the required traction which it ought to seek, the IMF must evenly apply surveillance frameworks to address the perception of the global South that the IMF is not even-handed. Through its actions the IMF must be regarded as neutral and, therefore, requires surveillance initiatives that are seen to be objective and unbiased by both the global North and the global South.

4.3.2 Membership: Enhancing Legitimacy and Engagement

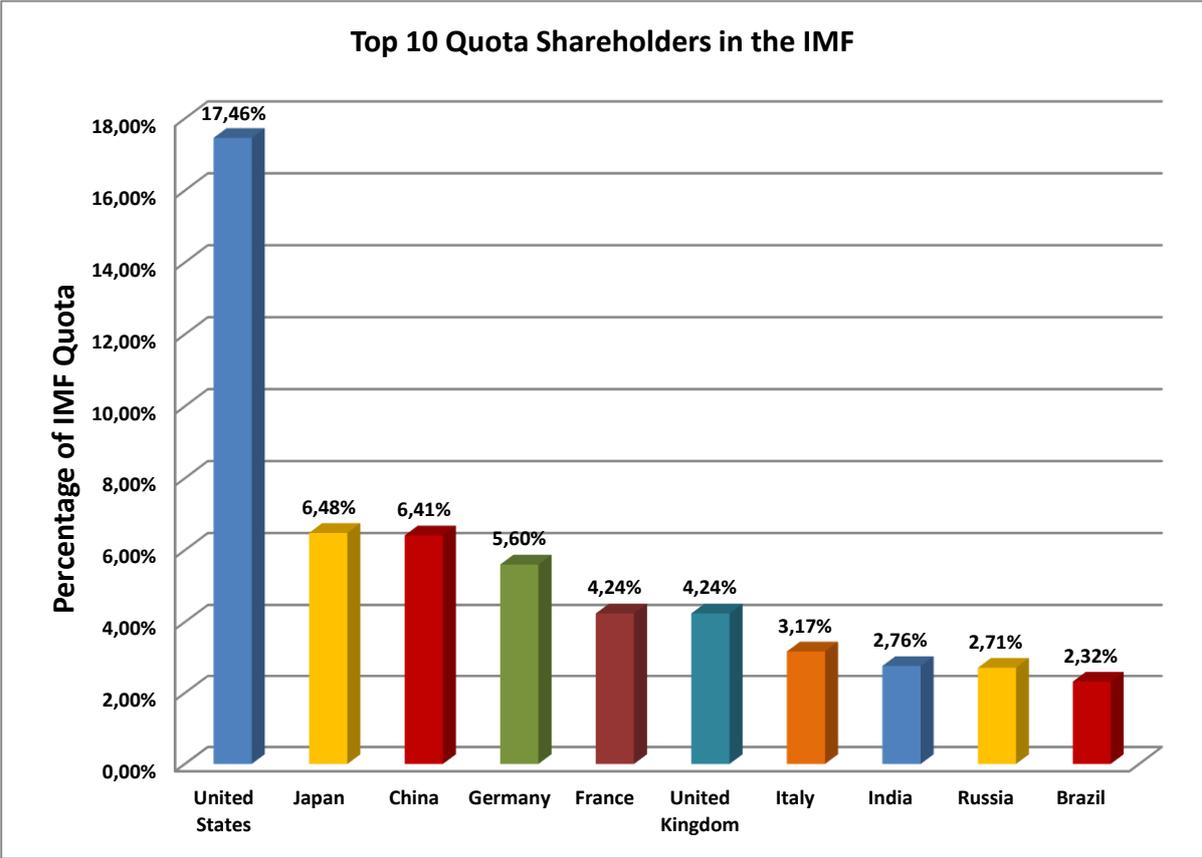
The governing structures of the IMF remained largely unchanged in the decade preceding the 2008 crisis. The lack of reform caused frustration among the emerging states of the global South, as members' voting share in the IMF structure is determined by their quota. This quota is formulated according to four variables which seek to reflect the IMF's mandate. The current quota formula is a weighted average of GDP weighted at 50 per cent, openness weighted at 30 per cent, economic variability weighted at 15 per cent, and international reserves weighted at 5 per cent (IMF 2017). The 2008 crisis provided the necessary incentive for much-desired governance reforms in the IMF, in favour of the global South. The negotiations on quota shares, however, have been difficult due to the numerous roles that quotas play in the structure of the IMF.

During the G20's Pittsburgh Summit in 2009, it was agreed that the IMF quotas needed revision to more accurately reflect the weights of IMF members (G20 Information Centre 2009a). As a result, the 14th General Review of Quota was agreed to in December 2010 and involved far-reaching reforms of the IMF's quotas and governance. This reform package, which became effective in January 2016, delivers an unprecedented increase, doubling quota resources and provides a major realignment of quota shares, reflecting the changing relative weights of members in the global economy. China now has the third-largest quota share, while Brazil, Russia, and India are among the IMF's 10 largest quota holders (IMF 2017). This is of great significance to the study, as it proves the increasing power and influence of states from the global South.

The inability of the IMF’s voting structure to mirror the increasing economic power and influence of the global South is seen as damaging to the legitimacy of the IMF. This in turn creates a legitimacy gap as explained by Seabrooke (2007: 252) as “the space between claims to the fairness and rightfulness of policy actions by those who seek to govern, and the conferral of legitimacy on these claims through belief-driven acts by those being governed”. It is predicted that more reform is required on the quotas in favour of states from the global South, due to their increasing economic and financial power and influence.

The following tables illustrate the IMF Members’ Quota and Voting Power as on 22 February 2018.

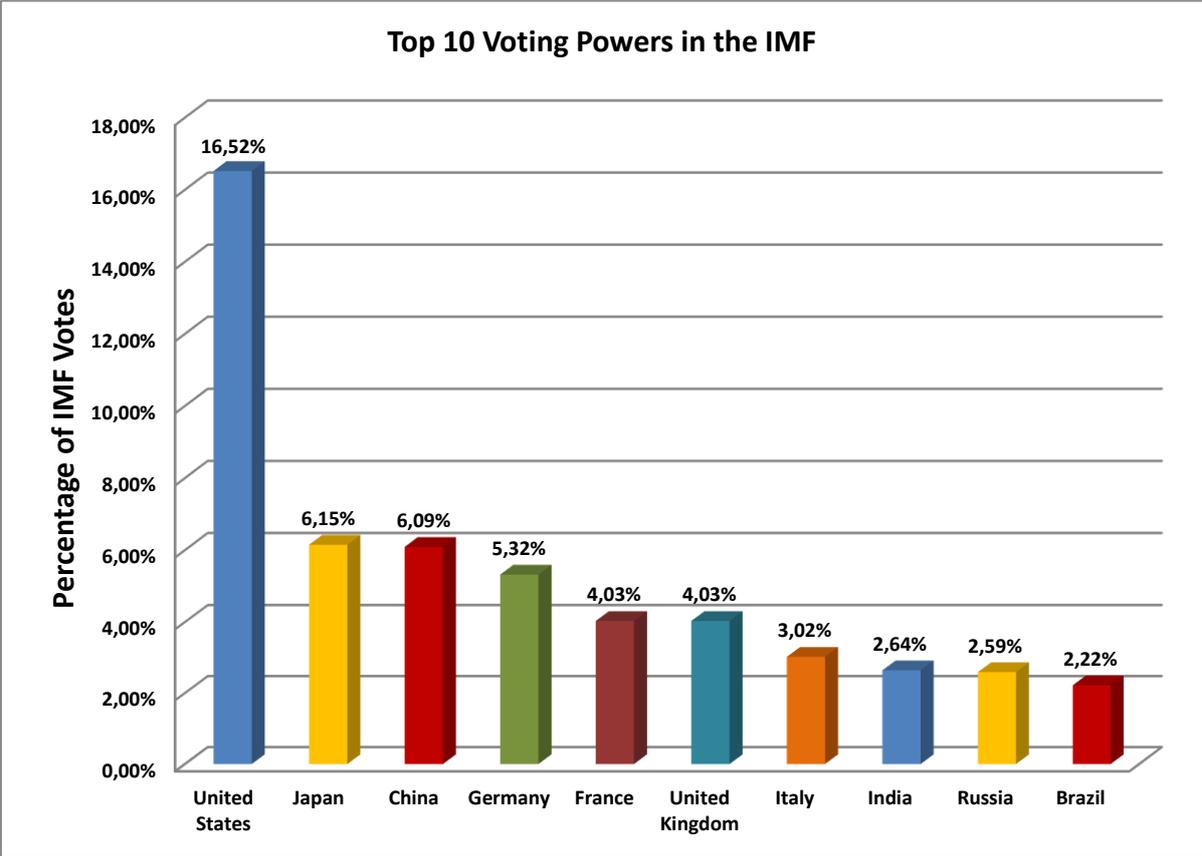
Table 4.1:



(IMF 2018b)

Table 4.1 illustrates the top 10 quota shareholders in the IMF. According to statistics, four countries from the global South, namely China, India, Russia and Brazil are represented in the top 10 IMF quota shareholders, highlighting the increasing power and influence from the global South.

Table 4.2:



(IMF 2018b)

Table 4.2 illustrates the top 10 IMF members with the highest voting power. The global South is again represented by China, India, Russia and Brazil.

Based on economic weight alone, the adjusted quota allocations have not kept up with economic developments in the IMF’s members. In 2000, Brazil, Russia, and India accounted for about 8 per cent of both the IMF quota share and the global GDP. In 2012, however, the three countries’ contribution to the global GDP was twice that of their quota share. Although the GDP calculation is not the only basis for members’ quota allocation

and status in the IMF, the reality that the GDP-to-quota ratio is so far out of balance intensifies the need for quota reform. The 14th General Quota Review, however, included an assessment of the composition of the IMF's Executive Board to mirror the quota adjustments. As a result, two positions on the Executive Board were reassigned from European states to states from the global South. Furthermore, all members of the Executive Board would be elected allowing previously appointed single seat members of the Executive Board, such as France, Germany, Japan, the UK, and the US, to establish new constituencies with other members of the IMF's Executive Board (Kruger, Lavigne, and McKay 2016: 24-25).

To continue the process of governance reforms, the 15th General Quota Review offers the opportunity to evaluate the correct "size and composition of the IMF's resources" (IMF 2017). In December 2016, the IMF's Board of Governors accepted a Resolution instructing the Executive Board of the IMF to intensify work on the 15th General Quota Review to continue the process of governance reforms. These reforms will be done in accordance with the Executive Board's understandings and guidelines provided by the IMFC. The aim is to complete the 15th Review in time for the IMF's 2019 Spring Meetings (IMF 2017).

States from the global South will continue to feel marginalised until they are correctly represented in the IMF. Although the 14th General Quota Review was a step in the right direction, major reform of the structural-functioning of the IMF is still required as these operational structures do not reflect the reality of the contemporary global financial system. The influence and voting power of the global South should also be increased in the IMF. Another aspect is to appoint the head of the IMF, as well as other senior officials, from the global South who are more experienced in addressing the developmental needs of the developing world (Ruogu 2007: 41).

Should emerging states of the global South resolve to focus their efforts in parallel institutions such as the New Development Bank and the Asian Development Bank, it will be difficult for the IMF to keep its role and function as a relevant global financial institution. Changing the system amounts to a radical transformation aimed at creating

new institutions because existing structures are irrelevant and do not fulfil the need of norm aggregation. It is, therefore, the responsibility of the IMF to guarantee impartial representation of its members, and only through significant reforms can the IMF address the needs of the global South. Should the IMF address the concerns of the global South, it will increase its effectiveness, credibility, and fairness, thereby safeguarding the stability of the entire global financial system, and not only address the needs, or mandate, of the global North.

4.3.3 Funds: Overcoming the Constraints of its Balance Sheet

After the Asian crisis, and in an attempt to increase resources at short notice, the IMF introduced the New Arrangements to Borrow (NAB), outlined as credit arrangements through which the IMF can borrow from members. Although the NAB decreased over time, the IMF's insufficient capital was no cause for concern as lending decreased significantly in the early 2000s. As a result, it seemed that the IMF's services were no longer required by members, and the IMF's activities slowed down to such an extent that it even began reducing staff. The 2008 crisis, however, exposed the IMF's resources to be severely insufficient. The backbone of the IMF's resources is its quota system, based on members' contributions. Although the IMF reviews its quota system every five years, providing the opportunity for discrete increases, members' contributions to the IMF have decreased over the past two decades, both as a share of global GDP and global trade (Kruger, Lavigne, and McKay 2016: 20).

As the 2008 crisis began to set in, the demand for lending from IMF members increased dramatically. As a result, the G20 indicated at the 2009 London Summit that an additional US\$500 billion would be made available to triple the IMF's pre-crisis resource level from US\$250 billion to US\$750 billion. In total, the contribution facilitated by the G20 at the 2009 London Summit amounted to an additional US\$1.1 trillion to restore credit, economic growth, and jobs in the global economy (G20 Information Centre 2009b). The increase in IMF resources was made possible through a complex method of bilateral loans from members, and an enlargement of the NAB, as well as increasing the quotas.

Consequently, IMF members reached an agreement in December 2010 to double their IMF quotas under the 14th General Review of Quotas (IMF 2017).

As a symbol of changing times, states from the global South made substantial contributions to IMF resources. In turn, and rightfully so, the global South is pursuing enhanced representation in IMF governance structures according to its new influence and power in the global economic and financial system. With the enlargement of the NAB in 2011, the number of participating states from the global South increased, and as a result doubled the global South's portion of the NAB from 12 per cent to 24 per cent. Although the recent quota increase will to an extent address the increase in loan commitments, and concerns with regard to funding risks, it will not improve the IMF's forward commitment capacity, the actual amount available to lend to members (Kruger, Lavigne, and McKay 2016: 22). Regardless of the headline figure of US\$1 trillion in IMF resources, the IMF's forward commitment capacity currently only stands at US\$571.3 billion, according to the IMF's *Weekly Report on Key Financial Statistics*, dated 15 February 2018 (IMF 2018a: 1). The relevant question is, therefore, whether the IMF's resources are sufficient, should a global financial crisis erupt in the near future?

After the new quota increase, it remains uncertain whether members will be keen to devote additional quota resources to the IMF. Countries in the Eurozone may presently have difficulty allocating additional resources to the IMF, after making bilateral loans to the IMF and contributing resources to the European Stability Mechanism (ESM) (Kruger, Lavigne, and McKay 2016: 22). States from the global South will be hesitant to increase their quota contributions before issues of representation are addressed in the governing structures of the IMF.

Groups of states are, therefore, increasingly developing alternative liquidity sources to the IMF. In Europe, the ESM was established in September 2012 as an international governmental organisation operating under international law. The ESM¹⁹ offers financial

¹⁹ A proposal was made the European Commission in December 2017, supported by France and Germany, to develop the ESM into a European Monetary Fund (Brunsden and Khan 2017).

assistance to Eurozone members undergoing, or in danger of, severe financial difficulties (ESM 2018). In Asia, the Chiang Mai Initiative Multilateralisation (CMIM) was established by Asian states following the 1997-1998 Asian crisis as a regional financial safety net. The rationale for the establishment of the CMIM was founded on the resentment towards the IMF due to its misdiagnosis of the nature of the Asian crisis, followed by the harsh conditionality of the IMF bailouts (West 2017). Furthermore, the BRICS also established a reserve fund in the Contingent Reserve Arrangement (CRA) in 2015, worth US\$100 billion. The CRA will support members through precautionary and liquidity mechanisms in response to potential, or actual, balance of payments pressure (The BRICS Post 2013).

The 2008 financial crisis has exposed the shortcomings in the IMF's lending framework. Different from surveillance, where inadequacies could be reviewed and improvements agreed upon, the lending framework had to be reviewed and adjusted in real time, under pressure from members which were swiftly losing access to capital in a time of crisis. The study reveals that the IMF was unable to meet its obligations during the financial crises of the 1990s and that the 2008 crisis exposed the shortfalls in the IMF's policies (traction), membership (legitimacy) and funds (resources). Based on these shortcomings of the IMF and the clear need for its reform, the following section of Chapter 4 assesses how the G20 developed into a more effective global actor, an agent for change driven by a shared understanding and new norms to ensure the reform of the global financial architecture, in order to make it more stable.

4.4 The G20: An Agent of Change

The rise of new economic powers, particularly from the global South, predates the 2008 crisis. The 2008 crisis, however, highlights the linkages and spillovers of a vastly integrated global economy, revealing how complex economic and financial interdependence between states has become. These interdependencies illustrate the need to be managed through mechanisms that go beyond the national jurisdiction of states. The 2008 crisis further highlights the shift in the global economic order, and the narrowing gap between the global North and the global South, which again triggered the need to reform the global financial architecture in terms of agenda setting and participation.

Managing the global financial architecture necessitates an effective and legitimate governance framework. Contrary to national policies, which are based on domestic priorities, managing the relations between countries and their individual policies in an interconnected global market needs to be conducted on the basis of multilateralism. It also needs to foster dialogue and cooperation between the global North, which was at the centre of the 2008 crisis, and the global South, which was the locomotive pulling the global economy out of turmoil with its high levels of annual GDP growth and trade. The global financial architecture further requires mechanisms to coordinate and synchronise macroeconomic policies between states in order to harmonise and improve macroeconomic stability to prevent future crises (Subacchi and Pickford 2011: 1).

It is against this background that the G20 developed into a significant society of states with the aim to address global matters of mutual concern within the framework of the liberal international economic order and the challenges arising from increasing global inequality due to the marginalisation of the global South. The reform of the international financial architecture is one of the major global economic challenges highlighted by the leaders of the G20 in their declaration during the Hamburg Summit in 2017, as they undertook to “enhance the international financial architecture and the global financial safety net with a strong, quota-based and adequately resourced IMF at its centre” (European Commission 2017).

The G20, as an informal forum in the global governance system, must depend on other international bodies to implement its decisions. The IMF, in particular, and the FSB has developed into the operational arm of the G20 in the economic and financial domain. The G20 utilises the IMF to provide analytical and research capacity, specifically regarding surveillance, and peer review, as well as implementing G20 decisions within the formal global governance system. Through the G20 Summits, it has also served as a catalyst for the IMF to deliver more focused and coherent efforts to reshape its role, and reform its governance (Subacchi and Pickford 2011: 9). The G20, therefore, can exercise influence (as an actor) in the global financial system (the structure) by means of functioning as a

catalyst to promote not only the norm of financial stability, but also the norms of equal treatment and representation, as well as a voice to the global South through the IMF. By engaging international financial institutions, such as the IMF, the G20 can provide guidance and new direction by giving a mandate, political will, and leadership to direct the course of the global financial system and harness support from its members (Larionova 2017: 56). The G20 thus acts as the norm entrepreneur in the norm life-cycle, introduced by Finnemore and Sikkink (1998: 897) in Chapter 2, described as “agents having strong notions about appropriate or desirable behaviour in their community”.

4.4.1 The G20’s Role in Improving the IMF’s Traction

The G20 has, since the inaugural Washington Summit in 2008, consistently engaged international bodies on global governance issues. During the Washington, London, Pittsburgh, and Seoul Summits, the G20 revealed its determination to act as the premier global coordinating forum, to address the 2008 global financial crisis, and provide the political will and principal role for other international governmental organisations to follow. During the Washington Summit in 2008, the G20 realised the need to reform the IMF, and to establish the requirements and principles for general financial market reform and regulation (Cooper and Thakur 2013: 104).

As discussed in Chapter 3, further commitments made during the first two G20 Summits concerning the monitoring of financial regulations were met with the establishment of the new FSB in April 2009. The FSB replaced the FSF to include all G20 members, as well as Spain and the European Commission. The FSB monitors the global financial system and assists and advises the G20 on stabilising the global financial system through promoting openness and transparency, as well as supervising the implementation of global financial standards (FSB 2017). The FSB aims to fill the gap created by the IMF’s ineffective surveillance and misperception that advanced economies are not crisis prone. In effect, the FSB also addresses the concern about even-handedness, and therefore acknowledges that all states and their respective economies are not equal, as the major economies from the global North need special scrutiny on the basis of “their systemic importance and the

spillovers they may generate” (Kruger, Lavigne, and McKay 2016: 9). The 2009 London Summit furthermore signalled the end of the old Washington consensus in the global financial governance system and changed the role of the IMF in the sense that it would no longer encourage the deregulation of economies, but would serve as a financial regulator and safety net (Kirton 2016: 293; Moya 2009). This is a sign of the changing global financial governance system and an indication of the reform of the IMF from a global policeman to an institution providing financial assistance and regulatory support.

The G20 leaders again reiterated the need for the IMF to be reformed during the Saint Petersburg, Brisbane, and Antalya Summits, and that the IMF must be adequately funded through a revised quota system, supported by governance reforms (G20 Information Centre 2013; G20 Australia 2014b; G20 Information Centre 2015). During the Hangzhou Summit in 2016, commitments were made by the G20 to build an open and resilient global financial system based on the reforms of the current global financial architecture (G20 2016). The objective of the G20 is to improve the policies and traction of the IMF in the global financial system, in order to make it more relevant to the changing global financial architecture, specifically for the global South as the upcoming global economic and financial centre.

4.4.2 The G20’s Role in Enhancing the IMF’s Legitimacy

During the Pittsburgh Summit in 2009, it was agreed that the IMF quotas needed to be reviewed in order to more accurately reflect the weights of the IMF members (G20 Information Centre 2009a). As a result, the 14th General Review of Quota in December 2010, agreed to far-reaching reforms for the IMF’s quotas and governance. At the Seoul Summit in 2010, European states agreed to relinquish two seats of the 24-member IMF Executive Board to states of the global South. In addition, the G20 further approved stronger bank liquidity standards to be developed by the Basel Committee on Banking Supervision. The G20 also indicated the need to reflect the global South’s perspectives in the development of new financial regulatory reforms, in particular tools to mitigate the impact of uncontrolled capital flows and the authority and ability to administer domestic branches of foreign financial institutions. The Seoul Development Consensus not only

diminished the relevance of the Washington Consensus on neoliberalism, but also successfully managed to shift the developmental debate in the global North past the strategy and level of aid packages only, to concentrate on structurally essential aspects of development. This included infrastructure development, private sector-led economic growth, and education and skills development (Cooper and Thakur 2013: 107-109; G20 Information Centre 2010b). The Seoul Summit in 2010 was further marked by a breakthrough commitment to move six per cent of the IMF's shares to dynamic markets of the global South (Larionova 2017: 57-58).

During the Los Cabos Summit in 2012, the G20 agreed to establish country-specific measures intended to strengthen confidence, demand financial stability, and growth under the Los Cabos Growth and Jobs Action Plan (G20 Australia 2014a). During the course of the Hangzhou Summit in 2016, the Hangzhou Action Plan was launched calling for the swift and full implementation of growth strategies. The G20 furthermore introduced cooperation on innovation and pledged support for the new industrial revolution and further development of the digital economy during the Summit (G20 2016). A great leap forward in increasing legitimacy for both the IMF and G20 in the realm of the global South came during the Hamburg Summit in 2017. The Hamburg Summit, which highlighted the importance of Africa's development, launched the G20 Africa Partnership. This partnership is designed to improve economic growth and employment creation in Africa and includes the G20 initiative for rural youth employment, aimed at creating more than one million new employment opportunities by 2022 (G20 2017a).

To continue the process of governance reforms, the 15th General Quota Review provides the opportunity to evaluate and determine the correct size and composition of the IMF's resources. In December 2016, the IMF's Board of Governors accepted a resolution instructing the Executive Board of the IMF to work expeditiously on the 15th General Quota Review to continue the process of governance reforms. These reforms will be done in line with the existing Executive Board's understandings and guidelines provided by the IMFC (IMF 2017). The expectation of the G20 is that the 15th Review will be completed in

time for the IMF's 2019 Spring Meetings, but no later than the 2019 Annual Meetings (G20 2017a).

4.4.3 The G20's Role in Overcoming the IMF's Fund Constraints

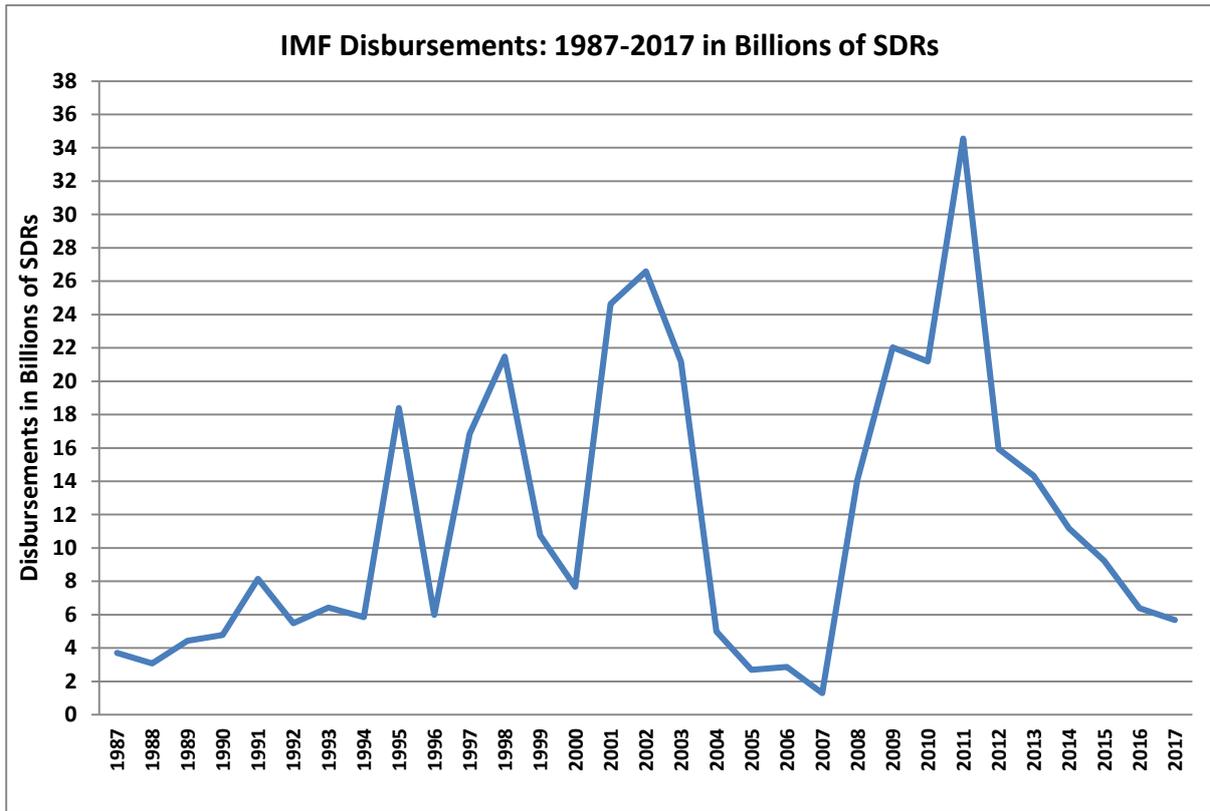
During the 2009 London Summit, the G20 committed an additional US\$500 billion to the IMF, to in effect triple the IMF's pre-crisis resource level from US\$250 billion to US\$750 billion. In total, the contribution facilitated by the G20 at the 2009 London Summit amounted to an additional US\$1.1 trillion to restore credit, economic growth, and jobs in the global economy, in an attempt to address the constraints of the IMF's balance sheet (G20 Information Centre 2009b).

The G20 further committed to increase the IMF's resources by US\$456 billion during the Los Cabos Summit in 2012 (G20 Australia 2014a), and to implement the quota and governance reforms in the IMF agreed to during the Brisbane Summit in 2014 (G20 Australia 2014b). The G20 furthermore continued to press for governance and quota reforms of the IMF in the Antalya and Hamburg Summits (G20 Information Centre 2015; G20 2017a). This will ensure an enhanced international financial architecture and global financial safety net for members, backed by a strong, quota-based and adequately resourced IMF at the centre of the global financial system. The G20 further used its influence to promote and expedite the conclusion of the 15th General Quota Review, which will provide the opportunity to implement the correct size and composition of the IMF's quotas by 2019 with the aim of finally addressing the constraints of the IMF's balance sheet (IMF 2017; G20 2017a).

The following table illustrates IMF disbursements to members over the last 30 years as on 31 January 2018. The disbursement amounts are provided by the IMF in Special Drawing Rights (SDRs)²⁰.

²⁰ The value of the IMF's SDR is calculated daily by summing the values in US dollars, based on a basket of major currencies (Euro, Japanese yen, Pound Sterling and the Chinese renminbi) at market exchange rates. As on 22 February 2018, the SDR was trading at US\$1.448 (IMF 2018c).

Table 4.3:



(IMF 2018c)

Table 4.3 illustrates that the IMF's disbursements correlate with the financial crises discussed in section two of this chapter. From the graph the sharp increase in disbursements (vertical axis) are illustrated during the period 1994-1995 (horizontal axis) when the Mexican crisis occurred, and in the period 1997-1998 during the Asian financial crisis. The increase in disbursements during the period 2001-2002 was due to the Argentine currency crisis, after which the IMF's disbursements decreased drastically between during the period 2003-2007. It was during this period that the IMF's activities slowed down to such an extent that it began to reduce staff, as it seemed that the IMF's services were no longer required by members, as mentioned in section 3.3 *Funds: Overcoming the Constraints of its Balance Sheet*. The IMF's disbursements, however, significantly increased from 2007-2011 in response to the 2008 global financial crisis that crippled the global economy. The graph correspondingly illustrates the long-lasting effect on the global economy as disbursements only began to decrease in the period 2011-2012.

In summary, the objective of the G20 through the Summit meetings is to improve the policies and traction of the IMF in the global financial system. The rationale is to make the IMF more relevant to the changing global financial architecture, specifically in line with the global South as the upcoming global economic and financial centre. The G20 further utilises the Summits as a platform to push for the revision of the IMF's quota system in order to address the IMF's balance sheet constraints.

4.5 The G20's Effectiveness in Contributing to the Reform of the IMF

Due to increased globalisation and interdependence, the number of international bodies increased, which in turn raised questions about the legitimacy and effectiveness of these bodies and their ability to address global issues. A distinction is made between *input legitimacy*, explained as the democratic qualities of an international body's membership and decision-making procedures (legitimacy), and *output legitimacy* which refers to the democratic or representative quality of the particular international body's decisions to address the collective goal and goodwill of the members (effectiveness) (Grant and Keohane 2005: 35). For the purpose of this study, the effectiveness of the G20 in reforming the IMF will be assessed.

The IMF has been a significant partner of the G20 since the first Summit in 2008. The Washington Summit in 2008 laid the foundation for reforming the IMF, increasing its resources, and building the institution's capacity for the surveillance of the global financial system to enhance its ability to execute its vital role in promoting global financial stability. From the London Summit in 2009 to the Hamburg Summit in 2017, the G20 constantly advocated for the reform of the IMF. During the Antalya Summit in 2015, the G20 requested the IMF to finalise its work to converge agreed quota-shares according to the 14th General Review of Quotas, just as the G20 did in Hamburg through its catalytic engagement pushing for the completion of the 15th General Review of Quotas. The G20 also motivates and directs the IMF to carry out comprehensive assessments of the global financial system, supported by the FSB and the political will and guidance received from G20 Summits.

Based on Koremenos, Lipson and Snidal's (2001: 763) structural characteristics of an international body, the advantages of the G20's structural design are evident in its effectiveness to address the reform of the IMF, which is attributed to the G20's restrictive membership, because agreement and collaboration is more easily attained in smaller groupings. The effectiveness of the G20 is furthermore credited to the low level of centralisation, enabling open and free discussions relating to matters of interest, and contributing to effectiveness in reaching consensus. The G20's scope and flexibility to broaden its agenda to include other pressing matters of global concern is an added advantage, as it enables the G20 to be an adaptive global governance body, and an agent for change. The disadvantage, however, of the G20's structural design is that it has no legal framework, resulting in a low level of control and the lack of mechanisms to enforce decisions taken, as well as the monitoring and evaluation of the implementation of policies agreed to at Summit level (Koremenos, Lipson and Snidal 2001: 770-773).

The study reveals that the G20 has to a degree succeeded in achieving its voluntary obligation to manage and synchronise attempts to address the 2008 crisis, while "establishing itself as a new premier forum of global economic governance" and improving the IMF's effectiveness, measured by "the volume of loans and the increased demand for macroeconomic and financial policy surveillance" (Gnath, Mildner and Schmucker 2012: 6). Nevertheless, it is important to indicate that the G20's effectiveness varies extensively in different areas of global financial governance.

McKinney (2017: 8-9) posits that the G20 has not recorded major achievements since the Seoul Summit in 2010 when the G20 agreed to reform the IMF. This is seen as an important achievement, however, one that was not implemented due to the US Congress only approving reforms in December 2015 (G20 Information Centre 2010b). With this reform, only six percentage points were redistributed. China gained 2.35 percentage points, Brazil, India, and Russia also made marginal gains. The US, however, did not give up any of its shares during the redistribution, in effect forcing European states to relinquish shares to the global South. For example, China's SDR quota, as illustrated in Table 1, is 6.41 per cent (IMF 2018b). Based on the calculation of the World Bank's 2015

GDP formula, China's quota is only 0.4 per cent of its share of global GDP, whereas the US share is 0.9 per cent of its share of global GDP, Japan is at 1.24 per cent, Saudi Arabia at 1.8 per cent, and Belgium is 2.55 per cent of its share of global GDP. Since the quota distribution in the IMF is mirrored closely by voting power as illustrated in Table 2, there remains a GDP-to-quota ratio difference in the IMF structure. As mentioned earlier, the 15th Review of Quotas, originally scheduled to be completed by 2017, has been delayed until 2019. Governance reform in the IMF, however, is achievable as it only requires 85 per cent concurrence. Yet, the reforms remain difficult to achieve with the US controlling 16.52 per cent of the voting shares (IMF 2018b), giving it a *de facto* veto which is an important limitation of the IMF.

As previously stated by the Deutsches Institut für Entwicklungspolitik (2011) "the G20 does not regard itself as a decision-making body, but rather as a platform for dialogue to facilitate the negotiation of compromises in various global policy areas – a kind of preliminary stage to more formal resolutions in legitimate global organisations such as the United Nations". Wnukowski (2016: 2) also states that the G20 serves as a platform for collaboration and dialogue to facilitate the negotiation of compromises and cooperation in various global policy areas outside of the formal or structured UN system. The G20 thus functions as an informal forum in the global financial architecture. Although the G20 may not be regarded as a decision-making body and it only achieved limited results in the reform of the IMF, it has evolved into an effective global actor, and an agent of change driven by shared understandings and new norms with the objectives to reform the global financial architecture and to promote the norm of global financial stability through the formal structures of the IMF. While acting as a global governance body with an institutional vision and values to catalyse new drivers of growth and to bring together the diverse interests in the global economy.

The G20's contribution to global financial governance is linked to its ability to influence the stakeholders (members) regarding the reform of the IMF, and as Finnemore (1996b: 128) posits, international bodies teach states what their actions should be. Both constructivism and critical theory maintain that interests are socially constructed and in

this case, the global financial architecture serves as the central structure with the various institutions as the agents. In the minds of critical scholars, they critically reflect on the nature of the *status quo*, and reject it when they find it unacceptable, they also question the status of the theory and investigate existing power relationships and the institutions that support these relationships (Cox 1981: 129). The G20's contribution to the reform of the global financial governance system should, therefore, be observed through the lens of social constructivism based on the notion to improve the *status quo*, rather than through the lens of critical constructivism, which is based on the notion to drastically change the system.

Through social constructivism, the G20 as the agent within the structure of the global financial architecture attempts to reform the IMF by promoting the norm of financial stability. To effectively promote financial stability, however, the G20 also has to promote the norms of even-handedness and equal treatment, norms which were lacking before and during the Mexican, Asian, and global financial crises. Weaver (2010: 366) refers to the IMF when he states that "the institution continues to face considerable criticism regarding its legitimacy and efficacy". Weaver (2010: 374) also refers to the evaluation of the IMF arguing that "the ability of an organisation (or any subunit therein) to achieve agreed-upon objectives depends on the consistency of organisational goals, as well as many other factors related to the external and internal environment of the organisation".

The aim of this chapter is to address the study's main research question and the sub-questions respectively with information provided in the previous chapters. Regarding the main research question: *Do the norms underpinning the G20 enhance its ability to contribute to effective global financial governance?*, the study reveals that the norms underpinning the G20 do enhance its ability (albeit limited) to contribute to effective global financial governance. However, additional norm promotion, specifically the norms of even-handedness and equal treatment, must be advanced and promoted by the G20 as the premier actor within the global financial governance system. The promotion of the norm of even-handedness will further contribute to effectively promote global financial stability, legitimising the IMF within the global financial system, based on the notion of

social constructivism to improve the *status quo*, rather than to drastically change the system as advocated by critical constructivism.

In addressing the first sub-question of the study: *To what extent can constructivism be applied to explain the contribution of norms represented by the G20 to the reform of the global financial architecture?*, the study reveals that the intersubjective identities and norms which construct the G20 and the relationship between the G20 (the agent) and the global financial system (the structure) contribute to the G20's ability to reform the global financial architecture, as discussed in Chapter 2.

Concerning the second sub-question of the study: *Does the G20, as an informal forum, have the ability to effectively contribute to the reform of the IMF, the key institution responsible for global financial stability?*, the study reveals that the achievements of the G20, regarding the reform of the IMF were limited. This is attributed to the G20's institutional design, as discussed in Chapter 3. On the positive side, the G20's limited membership and low level of centralisation, as well as its high level of flexibility, enabled members to agree to an increase of the IMF's resources, and establish the FSB enhancing the IMF's effectiveness as a global financial safety net. Nevertheless, the lack of implementation of decisions taken at G20 Summits, such as the six year stalling of the US Congress to approve the IMF reforms, is attributed to the limitations created by the G20's institutional design. The G20's low level of centralisation causes insufficient monitoring of its members' behaviour and inadequate authority and control to compel or direct members to implement decisions taken at G20 Summits, resulting in a lack of cooperation in the G20.

Regarding the third sub-question of the study: *To what extent does the G20 attempt to enhance its own inclusivity with the aim to strengthen the global financial architecture?*, the study reveals that the G20 is attempting to enhance its inclusivity with the aim to strengthen the global financial architecture. This finding is based on the G20's initiatives to include additional countries, such as the chairs of regional organisations, and the seven

engagement groups, as well as other international financial institutions at the G20 Summits, as discussed in Chapter 3.

4.6 Conclusion

The study presents the changing nature of the global financial system over the past 15 years, with the global South demanding more representation and a right to let its voice be heard in the IMF. As a result, the geopolitical shift in the global arena from West to East still causes a slow but steady reordering of international financial relations. The growing influence and increased power of the global South in international financial institutions, such as the IMF and the G20, can be seen as the first systemic change in the global arena. The world is currently observing a geopolitical shift, the end of the North Atlantic era. Globalisation forced the Western nations to accept the demands of the emerging countries of the global South as they are exercising their rights as powerful global actors able to restructure the global capitalist system from within. As none of the existing global financial institutions proved capable of coordinating a response to the 2008 global financial crisis, it prompted an extensive re-evaluation of the effectiveness, legitimacy and relevance of the fundamental concepts, rules, and institutions responsible for global financial governance. With the call for the reform of the global financial institutions the spotlight fell particularly on the IMF, as it had been unable to anticipate and avert severe global financial turmoil. Leaders faced unprecedented challenges to their dominance to address the global financial crisis and the reform of the global financial architecture, and the only viable response to these challenges was through socially constructed approaches, as proposed by social constructivism to improve the *status quo*.

The most determined effort to reform the global financial architecture, therefore, came with the formation of the G20, at Heads of State and Government level. From a constructivist perspective the G20 as the agent, developed into the leading forum for global economic and financial cooperation with the objective to ensure global financial stability as the new norm, through encouraging the inclusion of emerging states and the global South in the global financial architecture, as the structure. The only lasting method for reforming the global financial architecture will, however, only be possible through the

application of social constructivism in order to improve the *status quo* and to predict outcomes thereof. Meanwhile, as William Robinson (2017) states:

“The underlying structural conditions that triggered the Great Depression of 2008 remain in place and a new round of restructuring in the global economy now underway is likely to further aggravate them. These conditions include unprecedented levels of inequality, public and private debt and financial speculation”.

CHAPTER 5

CONCLUSION: REVIEW, FINDINGS AND RECOMMENDATIONS

5.1 Scope and Rationale of the Study

After the fall of the Berlin Wall in 1989 the world entered a new phase of globalisation. This phase contributed to a more integrated global society, characterised by increased interaction between a variety of global actors, greater economic interdependence, and the globalisation of financial markets. Economic and financial globalisation also impacted negatively on people and resulted in higher demands for more effective global financial governance, and as Held and Young (2009: 14) posit “the costs of governance failures are widely dispersed across extremely vulnerable segments of the world population”. High employment rates and strong economic growth are two of the requirements for a strong global financial system, but these requirements cannot be met if the system is not financially stable. Recurring global financial crises since the late 1990s have not only adversely affected the lives of millions, but have also highlighted the flaws in the global financial system, in particular the inability of the IMF to monitor the economic fundamentals of individual countries, as noted by Malcolm Knight (2014: 6).

Global financial instability during the 1990s resulted in the establishment of the G20 in Berlin in December 1999 as a Ministers of Finance and Central Bank Governors forum. The 2008 crisis, the worst financial crisis since the Great Depression, nearly caused the collapse of the whole global financial system. Disagreements about the causes of the crisis continue, but irresponsible risk-taking remains an underlying factor. Yet, as Daniel Gros, Stefano Micossi, and Jacopo Carmass (2009), explain, the 2008 crisis resulted from a combination of factors, firstly the “large payment imbalances, exacerbated by lax monetary policy, mainly in the US”, secondly, “...a credit boom leading to unsustainable leverage...” and thirdly, “financial innovation”, the latter contributing “to credit expansion and instability”. They also agree that “in all likelihood, without lax money and excessive

leverage, reckless bets on asset price increases would have been much reduced". This crisis, though, prompted an extensive re-evaluation of the effectiveness, legitimacy and relevance of the concepts, rules, and institutions responsible for global financial governance. During this process, the spotlight fell on the IMF and its inability to anticipate and prevent severe global financial turmoil. As James Boughton (2014) argues "The renewed awareness since 2009 of the value of regulating financial activity and controlling cross-border financial flows is a step in the right direction". Thus, the IMF was pressurised to not only improve its profile and status as "the institution that defines and anchors the international financial system" (Boughton 2014), but also to reform and improve its ability to be effective. Consequently, the G20 was raised to a forum that meets annually at Heads of State and Government level to manage global financial instability caused by the 2008 global financial crisis (Helleiner 2010: 630-631).

Accordingly, the G20 gradually developed into a significant society of states with the purpose of addressing global matters of concern within the framework of the liberal international economic order and the challenges of increasing global inequality due to the marginalisation of the global South. The reform of the international financial architecture, particularly the IMF, is one of the major global economic challenges highlighted by the G20 during the Hamburg Summit in 2017. The G20 undertook to "enhance the international financial architecture and the global financial safety net with a strong, quota-based and adequately resourced IMF at its centre" (European Commission 2017). Malcolm Knight (2014: 1) concludes that the 2008 financial crisis resulted in the involvement of "three entities" in the reform of the global financial architecture, "one ad hoc and self-selected (G20), one treaty-based and systemic (International Monetary Fund [IMF]) and one a creation of the G20 (Financial Stability Board [FSB])".

The G20 therefore regards itself as the "premier forum for international economic cooperation" (G20 2013) with the aim to ensure global financial stability. The norms underlying the inclusion of emerging states in the global financial system, as well as the composition, global aims, and objectives of the G20 related to the reform of the global financial architecture by focusing on the reform of the IMF, provide the rationale for this

study. The primary aim of this dissertation is to assess the effectiveness of the G20's contribution to global financial governance from 2008 to 2018. Underlying this, the study specifically assesses the effectiveness of the G20 to promote the norm of global financial stability, by contributing to the reform of the IMF.

5.2 Key Findings of the Study

The study reveals that during the past 15 years, East Asia developed into the main source of global economic growth thereby causing a slow but steady reordering of international relations. The study also reveals the growing influence of the global South in international governmental bodies such as the IMF and the G20. Emerging economies of the global South displayed their ability to out-perform developed industrialised states of the global North. Golub (2013: 1000-1001) and West (2017) highlight that the global South also established its own international financial institutions, such as the BRICS' CRA and Asia's CMIM, in an effort to create alternative financial structures in the global arena and to increase cooperation within the global South.

The 2008 global financial crisis contributed to inter-regional cooperation between the powerhouses of the global South and thus undermined the ability of the global North to dominate the global financial agenda. The increasing power and influence of the global South can be seen as a systemic change at a global political-economic level, evident in the fading significance of small Western-centric clubs, such as the G7. Rather, states from the global South are (re)emerging in a more effective effort to exercise influence and change the international financial system, through claiming a central place in the global capitalist system to restructure it from within. The economic difficulties faced by the former dominant states of the global North currently receive far less attention than before. As Golub (2013: 1001-1002) and many other scholars confirm, the world is currently witnessing the end of an historical era, in which wealth and power are concentrated in a small number of states from the global North.

The financial crises discussed in Chapter 4, reveal the limitations of the IMF and its inability to adequately monitor and assess financial policies and processes at the national, regional and global levels. The IMF furthermore appeared not to take into account the raised level of interconnectedness between global financial actors, including the effect of policy spillovers and capital flows between states, which rapidly increased in the 1990s. The financial crises of the 1990s, reinforced by the IMF's lack of understanding of the depth of the crises and its overly restrictive policies, which hindered the economic growth these countries so desperately needed.

As Baily, Litan and Johnson (2008: 8) stated, the 2008 crisis was triggered by a confluence of several factors, most notably the lack of long-term investment planning, the subprime lending rates in the US housing market, years of low inflation and steady growth that raised complacency and excessive risk-taking in the financial markets, as well as a savings glut in Asia causing a decrease in global interest rates. Disagreement about the causes of the crisis continues, with most scholars and practitioners agreeing on the role of irresponsible risk-taking as the underlying cause. Daniel Gros, Stefano Micossi, Jacopo Carmass (2009), explain the 2008 crisis as the consequence of three factors, firstly the "large payment imbalances, exacerbated by lax monetary policy, mainly in the US", secondly, "...a credit boom leading to unsustainable leverage..." and thirdly, "financial innovation", the latter contributing "to credit expansion and instability". They also agree that "in all likelihood, without lax money and excessive leverage, reckless bets on asset price increases would have been much reduced" (Gros, Micossi and Carmass 2009). Even though investment practices prompted the global financial crisis, the contribution of central banks and other regulatory authorities to the crisis should not be underestimated. Mathiason (2008) posits that the failure to regulate the financial sector and the inability of governments to stabilise their economic systems contributed to a chain of reactions that highlighted the interconnectedness of financial institutions across borders.

With the demand for the reform of the global financial institutions, the spotlight fell on the IMF, and its inability to anticipate and prevent severe global financial turmoil. The 2008 crisis emphasised the restrictions of the global financial governing structure and the

demand for an effective response to the global financial crisis. The most determined attempt to launch a new forum for global economic and financial governance came with the formation of the G20. As mentioned in Chapter 2, Wendt opposes the idea that anarchy has its own logic and argues that “anarchy is what states make of it” (Copeland 2000: 188). Constructivism claims that the consequence of crises in the material environment can result in new identities, interests and norms and a reconstructed environment, which can serve as a normative framework that embodies these new norms. Therefore, both the Asian and the 2008 crises created the instabilities that changed the norms guiding the connection between agents and structure, establishing the G20 at Heads of State and Government level. The formation of the G20 can thus be credited to the “dissatisfaction with dominant conceptions of international order, authority, and organisation” (Haggard and Simmons 1987: 491-492) such as the G7 and the IMF, which fell short of effectively addressing the financial challenges of the Asian crisis that contributed to the severity of the 2008 crisis.

The 2008 crisis highlights the linkages and spillovers of a vastly integrated global economy revealing exactly how complex economic and financial interdependence between states has become. The 2008 crisis further emphasised the shift in the global economic order and the narrowing gap between the global North and the global South. This narrowing gap also adds pressure for the reform of the global financial architecture in terms of agenda setting and participation.

The interdependencies, revealed by the 2008 crisis, necessitate the need for financial governance to be managed through mechanisms that go beyond the national jurisdiction of states. Contrary to national policies, which are focused on domestic priorities, managing the relations between states and their individual policies in an interconnected global market needs to be conducted through multilateralism. Managing the global financial system, moreover, needs to foster dialogue and cooperation between the global North and the global South, the main driver for recovery due to the countries of the South’s high levels of annual GDP growth and trade. As stated, Subacchi and Pickford (2011: 1) highlight that the global financial architecture further requires mechanisms to

coordinate and synchronise macroeconomic policies between states in order to harmonise and improve macroeconomic stability to prevent future crises.

It is against this background that the G20 developed into an outstanding society of states created to address global financial matters within the framework of the liberal international economic order. The G20, however, is faced with the challenges of increasing global inequality due to the marginalisation of the global South. The reform of the global financial architecture is still one of the major global economic challenges highlighted by the leaders of the G20 in their declaration during the Hamburg Summit in 2017, as they undertook to “enhance the international financial architecture and the global financial safety net with a strong, quota-based and adequately resourced IMF at its centre” (European Commission 2017).

As discussed earlier, the G20 Summits became the catalysts for the IMF to deliver more focused and coherent efforts to reshape its role and to reform its governance structures, noted by Subacchi and Pickford (2011: 9). The G20 therefore exercises influence (as an actor) in the global financial system (the structure) by means of functioning as an agent for change to promote the norm of global financial stability through the IMF as the instrument. By engaging international financial institutions, such as the IMF, the G20 can offer guidance and direction setting by providing a mandate, political will and leadership to direct the course of the reform of the global financial architecture, argues Larionova (2017: 56). The G20, as an informal global forum must depend on other international bodies to implement its decisions and the IMF, in particular, has developed into the operational arm of the G20 in the economic and financial domain. The G20 utilises the IMF and the FSB to provide analytical and research capacity, particularly regarding surveillance and peer review, as well as implementing G20 decisions in the formal global governance system. The question thus arises: *How effective is the G20 in reforming the IMF?*

An important distinction was made in Chapters 2 and 4 between *input* and *output legitimacy*. *Input legitimacy* refers to the democratic qualities of an international body’s membership and decision-making procedures (legitimacy), while *output legitimacy* is

associated with the democratic or representative quality of the particular international body's decisions to address the collective goal and goodwill of the members (effectiveness) (Grant and Keohane 2005: 35). For the purpose of this study, the focus is on the *output legitimacy* of the G20 because it is the effectiveness of the G20 in reforming the IMF that is being assessed. Yet, without *input legitimacy* this forum would not be able to have the status and role it currently plays in the global arena. It is first and foremost not an elite forum such as the G7.

Measured in terms of results, the study reveals that the G20 has to a degree succeeded in achieving its voluntary responsibility to manage and coordinate efforts to address the 2008 crisis. During this process the G20 established itself as the premier forum of global economic and financial governance and also enhanced the IMF's efficiency, measured by the increased amount of loans and requests for macroeconomic and financial policy advice and surveillance (Gnath, Mildner and Schmucker 2012: 6). The establishment of the FSB may also be regarded as an achievement, as it assists the IMF with surveillance of the global financial system. These achievements, albeit limited, can be attributed to the G20's institutional design, discussed in Chapter 3. Due to the G20's limited membership and low level of centralisation, as well as its high level of flexibility, it was able to agree to an increase in the IMF's resources, and establish the FSB to enhance the IMF's effectiveness as a global financial safety net. Although to a limited extent, the G20 has achieved two of the three objectives as mentioned in Chapter 3; promote "policy coordination between its members in order to achieve global economic stability, sustainable growth", and "promoting financial regulations that reduce risks and prevent future financial crises" (G20 2013).

However, the G20 has not recorded major achievements in the area of "modernising international financial architecture" (G20 2013), its third objective as mentioned in Chapter 3, since the Seoul Summit in 2010 when the G20 agreed on the reform of the IMF (G20 Information Centre 2010b). This important decision was not implemented for almost six years after the Summit, due to the US Congress stalling to approve the reforms, only accepting them in December 2015 (McKinney 2017: 8-9). This can again be attributed to

the limitations created by the G20's institutional design, as discussed in Chapter 3. The G20's low level of centralisation causes inadequate monitoring of its members' behaviour and insufficient authority and control to compel or direct members to implement decisions taken at G20 Summits, resulting in a lack of cooperation in the G20. This lack of oversight impacts negatively on the *input legitimacy* of the G20, which in turn also influences the effectiveness of the G20 to ensure the reform of the IMF.

A deeper insight into the G20's structure provides a different view of the structural 'flaws' of this group, because as the Deutsches Institut für Entwicklungspolitik (2011) explains, "the G20 does not regard itself as a decision-making body, but rather as a platform for dialogue to facilitate the negotiation of compromises in various global policy areas – a kind of preliminary stage to more formal resolutions in legitimate global organisations such as the United Nations". Although the G20 may not regard itself as a decision-making body, and only achieved limited results in the reform of the IMF, it did evolve into a significant global actor, an intersubjective society of states, and an agent of change driven by shared understandings. The G20 does fulfil the role of a global governance body with an institutional vision and values aimed at influencing new drivers of growth to join the diverse interests in the global economy. It also functions as a platform for collaboration and informal dialogue with the intent to facilitate negotiations and cooperation in various global policy areas outside of the formal or structured UN system. As Litman (2017: 20) posits "The particular form of multilateralism embodied by the G20 has turned out to be highly flexible and may yet prove essential for global economic growth".

This study reveals that the G20's limited contribution to global financial governance is linked to its capability to influence the stakeholders regarding the reform of the IMF. This is in line with Finnemore's (1996b: 128) view that international bodies teach states what their actions should be. Both constructivism and critical theory maintain that interests are socially constructed, an argument strengthened by the global financial architecture serving as the socially structured centre with the various institutions as the agents. As explained in Chapter 4, the G20's contribution to the reform of the global financial governance system should be explained within the context of social constructivism, with

the G20 as the agent in the structure of the global financial governance system to promote the norm of financial stability.

As mentioned, the study reveals that the G20 lacks the authority (linked to *input legitimacy*) to compel or direct its members to implement Summit decisions, which in turn raises a question about the norms underpinning the G20 and its members. If G20 members lack the will to implement the decisions taken at Summits, what guides their motive? Reference is specifically made to the US Congress stalling to approve IMF reforms for six years. Based on the assessment of the Summits in Chapter 3, it also appears that over time the G20 became side-tracked and less vocal in its support of IMF reform. This finding is supported by an assessment of the agendas of the G20 Summits and also by Tiberghien (2017) who posits that notwithstanding the increasing expectations of the G20 “its effectiveness, seemingly, has gradually decreased”. The lack-lustre performance of the G20 is evident in the presidencies of China in 2016 and Germany in 2017, which scaled back on their ambitious goals as chairs of the G20 to “settle for normative commitments and minor adjustments” as “political leadership has been overtaken increasingly by technical small bargains and routinized communiqués written by experts that only provide small steps forward” (Tiberghien 2017).

As the world is currently facing increasing geopolitical tension due to shifts in the global balance of power as mentioned in Chapter 4, innovative solutions and multilateral cooperation is required to steer the global governance system away from the proverbial iceberg. The question then is: *Should the global South not rather increase its own initiatives, through for example the BRICS, to advance the reform of the global financial system from within?* Haggard and Simmons (1987: 491-492) after all argue that the “dissatisfaction with dominant conceptions of international order, authority, and organisation” led to the formation of new institutions and organisations to address the shortcomings of the existing institutions or organisations. Yet, for the time being at least, the “established tool-kit” (Epstein 2017: 4) is a given, as it exists no matter the changing of norms. Although it is the global North that currently still occupies the core seats in this *established tool-kit*, it will remain the same *established tool-kit* when the global South

moves into the seats. Unfortunately for the developing countries of the global South, the focus of the emerging economies will be on the same issues and they will have the same interests. Therefore, the tool-kit will remain the same, only with different actors.

5.3 Recommendations

Because the G20, the IMF, the World Bank, and the WTO are not isolated international governmental bodies, but key actors in the global economic system, the first recommendation is that these actors should use their comparative advantage to cooperate with one another within the global financial architecture. Increased cooperation and synchronisation will strengthen the normative structure of the institutions, which will in turn improve their role as agents to maintain the global financial system and enhance its long-term relevance, legitimacy and effectiveness. The G20, in particular, should take on a more assertive leadership role, which will enhance its ability to place issues of concern on the global financial governance agenda, and promote the norm of financial stability. The G20, as a mechanism for global navigation, can reduce fragmentation and the marginalisation of the global South. On the other hand, the more structured and institutionalised IMF, World Bank, and WTO can guarantee that G20 decisions and recommendations are formulated into policies, and consistently adopted and implemented by members (Gnath, Mildner and Schmucker 2012: 6-9).

The second recommendation is to increase the effectiveness of the G20 and the IMF. The G20 should establish a more methodical or systematic dialogue with non-G20 states and non-governmental organisations, especially from the global South. The IMF in turn, should implement the agreed governance reforms initiated by the G20, and should even drive further reforms itself. The IMF should, furthermore, enhance its surveillance function to include wide-ranging systemic and financial-sector-specific observation (Gnath, Mildner and Schmucker 2012: 6-9).

Thirdly, the G20 should promote policies that attempt to close the (already narrowing) gap between the global North and the global South. This could be achieved through promoting policies that include enhanced cooperation on tax reforms, anti-corruption

measures, and adequately funded global financial safety nets, as well as mechanisms to assist and support states in times of financial crises. Furthermore, and of great relevance, is the reform of the IMF's quota system in order to mirror the increasing influence and power of the global South in the changing global financial system.

Maybe the time has also come for the G20 to prioritise and decide whether it wants to focus on reforming the global financial architecture, or broadening its aims to include general issues of importance in the global arena. As Pickford and Xiaogang (2016: 2) mentioned, this re-evaluation of the G20 may make it more effective as an actor to ensure it remains the premier forum for global financial cooperation that drives reform within the global financial architecture.

In this regard, the final recommendation is that the G20 should rather maintain its focus on global financial governance and limit the pressures to widen its agenda to include other matters of global concern. Focus on the reform of the global financial architecture can be enhanced through the establishment of a "non-secretariat" (Heinbecker, Smith and Thakur 2010: 2-3) headed by the G20 Sherpas and hosted by the rotating chair. This will enhance the focus of the G20 on the reform of the global financial architecture, while also providing more consistency between the rotating chairs. In addition, a more methodical and structured approach by the non-secretariat with non-G20 governments, and civil society, as well as the private sector may contribute to the legitimacy and effectiveness of the G20.

5.4 Areas for Further Research

Further areas of research may include a study on the role of BRICS in the reform of the global financial system. This topic is based on the notion derived from this study that the G20 has lost some traction and political will to adequately and effectively address the pressing issues around the reform of the global financial system. The rationale for the selection of the BRICS is based on the (re)emergence of the global South in a more effective effort to exercise influence and change the international financial system, and currently the BRICS appears to be the preferable vehicle for change. The dominance of the

BRICS members, the New Development Bank and the financing of development initiatives – a concerted effort to provide alternative institutions – could constitute the first phase of a deliberate effort to create a new global financial architecture.

5.5 The Future of Global Financial Cooperation

The outcome of crises in the material environment can result in new identities, interests, and norms, as well as a reconstructed environment which can serve as a normative framework that embodies the new norms. In this study the 2008 global financial crisis created the instability that changed the norms guiding the relationship between agents and structure. The G20 became the agent to reform the global financial architecture, albeit with limited success, as the system is still characterised by immense uncertainty, complexity, and interconnectedness due to globalisation.

This study, accordingly, reveals that the reform of the global financial architecture has progressed at a lack-lustre pace. This has caused the pre-2008 crisis' inequality to prevail, weakening individual members of the global financial system, while leaving the global financial system vulnerable to the next global financial crisis. The question that should, therefore, be asked is: *Will states harness the collective energies of national governments and multilateral organisations to achieve common objectives in a sustainable, fair and just manner in time, or will it be the devastation of the next financial crisis resulting in “a world caught again in the maelstrom of panic and economic warfare” (Roosevelt 1945) that will force the much-needed reform of the global financial architecture?*

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