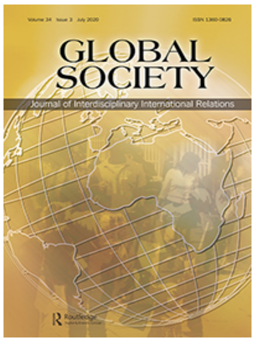

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"Systemically Significant States": Tracing the G20's Membership Category as a New Logic of Stratification in the International System

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ABSTRACT
The international system has long distinguished classes of states, such as "great powers". Recently, "systemically significant states" has emerged as a new designation within global financial governance. This designation was introduced by the G7 to justify the new membership composition of the G20, and has since been adopted in policy documents and recommendations by other institutions, such as the IMF. This article traces the origins of the term "systemically significant" and argues that, although nominally meant to be a term of inclusion and a signal of the pluralisation of governance authority, it instead serves as a new category of stratification rooted in a neoliberal governmentality of risk.

KEYWORDS
G20; global financial governance; systemic risk; stratification; hierarchy; inequality

1. Introduction

Governance of global finance in the post-World War II era has largely taken place within the Bretton Woods Institutions (BWI) and under the leadership of the G7 states. As with the post-War institutional order more generally, the regulation of global finance was directed by a core group of powerful Western states, led by the United States. Over the last two decades, however, policy makers began to recognise that this narrowly defined group needed to be expanded to include emerging economies and rising powers if it intended to remain effective and legitimate. The creation of the G20 in 1999, and its constitution as a leaders' summit in 2008, were institutional changes largely interpreted as a step in this direction, enhancing the representation of emerging economies and rising powers within financial governance institutions and opening a new avenue of dialogue with states traditionally marginalised in the BWI. In its own words, the G20 moved discussion from the rich, mostly Western G7 to a larger group in order to give "tangible recognition to the marked changes to the international landscape that had occurred over the preceding decades. Emerging countries had become important economic powers … "[1] The growing importance of the G20 appeared at first blush to be an accommodation of rising

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[1]G20, "The Group of Twenty: A History", (2007), p. 16, available: <www.g20.utoronto.ca/docs/g20history.pdf> (accessed 19 February 2019).

powers' demands for greater governance authority and to be consistent with what recent scholarship has identified as a trend toward more pluralist and democratic international organisations (IOs).[2] Some observers praised it as "an unprecedented successful attempt by developing countries to extend their participation in key institutions of global governance".[3] Less sanguine observers, on the other hand, have argued that the G20 represents the reproduction of oligarchic practices in international politics.[4] In contrast to both interpretations, this article argues that the G20 represents neither the transcendence nor the mere reproduction of hierarchy, but rather a new and historically specific incarnation of hierarchy and inequality in the international system.

Debates over the nature of the G20, and its implications for patterns of institutional adaptation in response to international power shifts, centre largely around the issue of its membership.[5] There has, however, been little critical study of the G7 and G20's own rationalisation of its membership design.[6] The G7 justified the expanded membership of the G20 on the basis of the need to include—in its own words—newly "systemically significant" economies into institutions of global financial governance. By now in common use, the term "systemically significant" was invented by the G7; and even though the term has never been defined, it has gained great resonance in both scholarship and policymaking, apparently capturing a common sense understanding of the importance of accommodating a set of newly important countries. From the moment of the G20's formation in 1999, "systemically significant" became a keyword in the discourse of the G7, G20, FSF, and IMF. Especially after the 2008 global financial crisis, when the G20 gained new cache, the term came into frequent use by IOs beyond the G20 to rank both states and financial institutions (the so-called "systemically important financial institutions" (SIFI)). In fact, states themselves have been vying to be designated "systemically important", even though this category comes with the dubious privilege of being subjected to frequent financial assessment and surveillance. Given its rapid appearance and powerful impact on ordering membership and shaping state incentives, it is surprising that there has, as of yet, been no study on where the term "systemically significant" comes from, how it enters the policy discourse, and with what effects.

In this article, I trace the origins of the term "systemically significant" and argue that, although nominally taken to be a term of inclusion, it serves as a new category of stratification rooted in a neoliberal governmentality of risk. Governmentality can be understood as the process by which contingent knowledge regimes generate practices and technologies of political rule that structure power relations and produce subjectivities to render society governable.[7] Governmentality is an exercise of power in that it constitutes certain

[2]Deborah Welch Larson, "New Perspectives on Rising Powers and Global Governance: Status and Clubs", *International Studies Review*, Vol. 20, No. 2 (2018); Alexandru Grigorescu, *The Democratization of Intergovernmental Organizations?* (Cambridge: Cambridge University Press, 2015); Jonas Tallberg, Thomas Sommerer, Theresa Squatrito, and Christer Jönsson, *The Opening Up of International Organizations* (Cambridge: Cambridge University Press, 2013).
[3]David Held, *Cosmopolitanism: Ideas and Realities* (Cambridge: Polity, 2010), p. 204.
[4]Andrew Cooper and Vincent Pouliot, "How Much is Global Governance Changing? The G20 as International Practice", *Cooperation and Conflict*, Vol. 50, No. 3 (2015).
[5]Although, for a consideration of the G20's governance techniques, see Lora Anne Viola, "Orchestration by Design: The G-20 in International Financial Regulation", in K. Abbott, et al. (eds.), *International Organizations as Orchestrators* (Cambridge: Cambridge University Press, 2015).
[6]Cooper and Pouliot, *op. cit*., for example, focus on diplomatic practices at G20 summits.
[7]Michel Foucault, "Governmentality", in Graham Burchell, Colin Gordon, Peter Miller (eds.), *The Foucault Effect: Studies in Governmentality* (Chicago: University of Chicago Press, 1991), p. 100–102.

knowledge regimes and technologies as authoritative while investing some agents with powers over others for the purpose of producing social control.[8] Neoliberal governmentality, in particular, refers to an ensemble of governmental techniques operative in a specific (post-welfare state) historical moment. One of the central tools of neoliberal governance, as I outline below, is risk and risk management. The G20, for example, produces and implements techniques for governing emerging economy conduct in order to manage perceived risks to economic stability and to bring their conduct into line with a dominant neoliberal economic logic.

A governmentality approach shares with constructivism a social constructionist ontology, and it shares with rationalism a focus on economic rationalities and power, but it otherwise differs markedly from these two approaches. Whereas constructivism in IR has focused primarily on norms—inter-subjectively shared ideational beliefs that shape identities, values, and interests—"governmentality analysis adds an explicit focus on relations of power to the norm-literature".[9] A governmentality approach does not look "simply" at a contest of ideas but at the organisational programmes and practices of control that follow from the prevailing rationality of government. Like materialist approaches, it understands the prevailing rationality of government as rooted in political economy, but unlike rationalist approaches, it does not take power relations as "naturally" given by objective material conditions, but rather seeks to trace the contingent development of technologies of power.

Using governmentality as an analytic approach requires asking how different domains are constituted as in need of governance, how some regimes are constituted as authoritative, and how some agents are invested with powers over others. The "analytic of governmentality" is concerned with the emergence of "the words used to describe problems, the discourses in terms of which subjects are characterised, the categories that are used to explain policies".[10] It draws our attention to how subjects of governance are formed as experts or targets. In other words, it requires a "history of the present" that is the foundation of a genealogical method.[11] Genealogy is a fitting method to undertake such an analysis because it seeks to uncover the emergence of, and conditions of possibility for, concepts, beliefs, and discourse that make certain governmental programmes and certain subject positions possible. With respect to the issue at hand in this article, the method requires analysing the historical specificity of the conjuncture at which the category of "systemically significant" emerges and tracing its use within a particular knowledge regime and policy discourse. This method has the potential to make visible the ways in which technologies of governance construct problems and solutions that, in turn, produce and stabilise asymmetrical power relationships. I use it here to shed light on the category "systemically significant" not as a marker of some privileged status or as an inclusive move meant to expand the club of elite states to newly emerging powers, but rather as the production of new subject positionalities within a hierarchical power structure.

[8]Mitchell Dean, *Governmentality: Power and Rule in Modern Society* (London: Sage, 1999), p. 28.
[9]Iver B. Neumann and Ole Jacob Sending, "The International as Governmentality", *Millennium* Vol. 35, No. 3 (2007), p. 697–698.
[10]Pat O'Malley, "Governmentality and Risk", in Jens Zinn (ed.), *Social Theories of Risk and Uncertainty* (Oxford: Oxford University Press, 2008), p. 56.
[11]Dean, *Governmentality*, *op. cit.*, p. 53.

This article positions itself within a recent and growing literature in IR that addresses the dynamics of stratification, the differentiation of political relations into categories of super- and subordination.[12] States in the international system are stratified in that they are not all treated equally, as undifferentiated units, within international institutions. Distinctions between groups or strata of states can, and historically have, been made along a range of characteristics—such as material power for the great powers or cultural and racial standards for the civilised states.[13] Stratification produces relative, or ranked, positions along some relevant dimension. Much recent constructivist work sees stratification as the result of the pursuit of symbolic capital, social and cultural assets that convey prestige within a social field of shared meanings.[14] This work is largely interested in status understood as the intersubjective recognition of honour and prestige, either on the basis of cultural and symbolic capital or material achievements.[15] My focus, however, is not on status hierarchies in the sense of social rank, but rather on the creation of subject positionalities that produce and reflect relations of domination and social control. With the term "systemically significant" we see, I argue, the emergence of a new discursive framework for ranking and, ultimately, controlling states. As with all successful discursive frames, the term has great functional use while also being characterised by indeterminacy, openness, uncertainty, and contingency. The term becomes both a signal of prestige, an object of state desire, while simultaneously enabling the reproduction of inequalities both among G20 members (between the traditional G7 and the newly significant) and between the G20 and the rest based on a new logic of risk and liability. The designation "systemically significant" thus creates both a categorical hierarchy and a distributive inequality in the international system.

The argument unfolds in four parts. First, I outline the political conditions that allow the discourse of "systemic risk" and "systemic significance" to arise in the first place. I argue that the changed ideological setting, a shift from embedded liberalism to neoliberalism, alters markets' and states' relationship to risk and gives rise to a demand for a different kind of governance institution. As market actors more aggressively attempt to extract profit from risk while minimising losses, there is a demand for greater coordination and collection of economic information and monitoring, presided over by the G-groups. Second, I undertake a genealogy of the term "systemic significance" by tracing its lineage and locating it in its constitutive setting, highlighting the context that provides the conditions of its possibility, and its changing meaning. Looking primarily at G7 documents, I show how "systemic significance" emerges in the context of historically contingent knowledge production about systemic risk at the domestic level, rises to the international level, gets disassociated from developed economies and located within emerging

[12]See, for example, Janice Bially-Mattern and Ayse Zarakol, "Hierarchies in World Politics", *International Organization*, Vol. 70, No. 3 (2016); Vincent Pouliot, *International Pecking Orders* (Cambridge: Cambridge University Press, 2016); Paul Musgrave and Daniel Nexon, "Defending Hierarchy from the Moon to the Indian Ocean", *International Studies Quarterly,* Vol. 72, No. 3 (2018); Jonathan Renshon, *Fighting for Status. Hierarchy and Conflict in World Politics* (Princeton: Princeton University Press, 2017); Lora Anne Viola, *The Closure of the International System* (Cambridge: Cambridge University Press, 2020).

[13]See, for example, Eddie Keene, "The Standard of 'Civilisation', the Expansion Thesis and the 19th-Century International Social Space", *Millennium*, Vol. 42, No. 3 (2014).

[14]Iver B. Neumann, "Status Is Cultural: Durkheimian Poles and Weberian Russians Seek Great-Power Status", in T.V. Paul, Deborah W. Larson, and William Wohlforth (eds.), *Status in World Politics* (Cambridge: Cambridge University Press, 2011); Marina Duque, "Recognizing International Status: A Relational Approach", *International Studies Quarterly,* Vol. 3, No. 1 (2018); Musgrave and Nexon, *op. cit.*; Pouliot, *op. cit*.

[15]See, for example, some of the contributions in T.V. Paul, Deborah W. Larson, and William Wohlforth (eds.), *Status in World Politics* (Cambridge: Cambridge University Press, 2011); or Renshon, *op. cit.*

economies, and finally gets transformed from an economic notion to a political category. Third, I discuss how the category has stratificatory effects and how it differs from other hierarchies in international relations, such as great powers or civilised powers. I argue that the inclusion of "systemically significant states" into the G20 reflects a changed understanding of the moral purpose of governance hierarchies away from the notion of shared responsibility that undergirded "great power primacy" under embedded liberalism, towards the neoliberal regime of individuated responsibility. Fourth, I consider how the creation of the category "systemically significant" states simultaneously constitutes a group of "systemically *insignificant*" states, and that this categorical distinction goes hand in hand with distributional effects. Those distributional effects contribute to political and substantive inequalities in the international system. In the terms offered by Fehl and Freistein, this is an example of inequality created both through *categorical* and *distributive* means.[16]

2. Neoliberalism, risk governance, and the G-format

The "governmental analytic" generally has been concerned with "risk as one of the central technologies of government".[17] Risk—understood as a technique for calculating and managing uncertain future events[18]—becomes "a governmental strategy of regulatory power by which populations and individuals are monitored and managed".[19] But the way that risk is reflected in practice changes under different rationalities. Whereas some of the first discussions of governmentality and risk were applied to the social welfare state, based on Keynesian liberalism, the understanding of risk and its reflection in institutional practices has changed with the turn to neoliberalism. While liberal governance relied on socialised forms of risk, such as via social insurance policies, neoliberalism moved away from a collective notion of risk to an individualised one. This move, most often studied on the domestic level, is also visible at the international level. With the globalisation of finance and the end of regulated capitalism in the 1970s came the abandonment of a commitment to embedded liberalism that once characterised international economic cooperation within the BWI.[20] Amidst the breakdown of the Bretton Woods system and the growth of capital mobility and speculation, the G7 emerged as the new de facto steering committee of the global financial system.[21] The US took the lead in

[16]Caroline Fehl and Katja Freistein, "Organizing Global Stratification: How International Organisations (Re)Produce Inequalities in International Society", *Global Society* (2020, this volume). See also, Caroline Fehl and Katja Freistein, "(Un)making Global Inequalities: International Institutions in a Stratified International Society", *Journal of International Relations and Development*, (2020, forthcoming).

[17]O'Malley, "Governmentality and Risk", *op. cit.* , p. 57. According to O'Malley, some of the first studies of governmentality were applied to the welfare state and, in particular, the risk calculations (risk factors, risk pooling, etc.) that insurance schemes were based on.

[18]O'Malley, "Governmentality and Risk", *op. cit.*, p. 57; Francois Ewald, "Insurance and Risk", in G. Burchell, C. Gordon, P. Miller (eds.), *The Foucault Effect. Studies in Governmentality* (London: Harvester/Wheatsheaf, 1991), p. 197–210; Tom Baker and Jonathan Simon, "Embracing Risk", in Baker and Simon (eds.), *Embracing Risk: The Changing Culture of Insurance and Responsibility* (Chicago: The University of Chicago Press, 2002).

[19]Deborah Lupton, *Risk* (London: Routledge, 1999), p. 87. A governmentality approach to risk is distinct from Beck's "risk-society" approach. Whereas Beck asserts that we have moved into a new era of modernization defined by insecurity, a governmentality approach is interested in the contingent ways in which problems are constructed as requiring control and management. See Ulrich Beck, *Risk Society* (London: Sage 1992).

[20]The "embedded liberalism" argument was made by John G. Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order", *International Organization*, Vol. 36, No. 2 (1982), p. 379–415.

[21]Anthony Elson, *Governing Global Finance: The Evolution and Reform of the International Financial Architecture* (London: Palgrave, 2011), p. 49–74.

embracing and promoting a neoliberal paradigm that included de-regulation, privatisation, and a general confidence in the self-regulating properties of free markets over prudential institutional governance. This neoliberal approach to financial governance was characterised by a changed disposition towards risk that distinguishes it from the classical Keynesian approach to embedded liberalism. While the compromise of embedded liberalism was precisely concerned with reducing the risks of greater openness by promoting social welfare state protections for citizens—including unemployment and health insurance—neoliberalism embraced new forms of risk as a way of generating profit in an increasingly competitive global economy. With the decline of profitable industrial production, financialization took the lead as a way of pursuing profit by expanding risk calculus through, for example, the spread of securitisation and derivatives trading.[22] The result has been a dual emphasis on entrepreneurialism—the exploitation of risk for profit—and what has been called a "new prudentialism"—the individualisation (rather than collectivisation) of risk responsibility and management.[23]

Despite neoliberalism's emphasis on the self-regulation of markets, the state and state institutions play a crucial role in under-writing the financial sector.[24] As Power points out, discourses of risk have moved from a calculation to become more explicitly managerial and regulatory; "a mode of governing as such".[25] In the 1990s, he argues, risk becomes a lens through which to re-envision organisational governance. The role of the neoliberal state is not to protect against risks but to guarantee an institutional framework in which the profits from risk can be cultivated and the losses individualised. The management of uncertainty and the calculation of risk requires institutions that can collect information and produce expert knowledge to facilitate economic supervision and regulation. Over the past several decades, international financial institutions, such as the IMF and World Bank, came to be oriented around risk management, devoted to creating and executing monitoring and surveillance mechanisms in order to identify risks present in national economies and individual financial institutions. Furthermore, the generation of new sources of risk produces pressure for new institutions to manage them. The risks exposed by the Asian Financial Crisis, for example, led to the creation of the Financial Standards Assessment Program (FSAP) and the Reports on the Observance of Standards and Codes (ROSC), carried out by the IMF and World Bank, respectively, with the assistance of the newly formed Financial Stability Forum (FSF).[26] Both are mechanisms intended to offer a comprehensive evaluation of national financial systems. Similarly, the 2008 global financial crisis exposed new vulnerabilities that led states to empower international institutions to engage in more stress-testing, obligatory monitoring, and regular Early Warning Exercises (EWE).[27] None of these institutions are empowered to

[22]Greta Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA: Harvard University Press, 2012).

[23]Mitchell Dean, "Governing the Unemployed Self in an Active Society", *Economy and Society*, Vol. 24, No. 4 (1995).

[24]William Davies, *The Limits of Neoliberalism: Authority, Sovereignty and the Logic of Competition* (London: SAGE, 2014).

[25]Michael Power, *Organized Uncertainty: Designing a World of Risk Management* (Oxford: Oxford University Press, 2007), p. 4; Pat O'Malley, *Risk, Uncertainty and Government* (London: Taylor and Francis, 2004), Ch. 1.

[26]See FSF, "Ongoing and Recent Work Relevant to Sound Financial Systems", (2000), available: http://www.fsb.org/wp-content/uploads/on_0003.pdf (accessed 19 February 2019).

[27]Andrew F. Cooper, "The G20 and Its Regional Critics: The Search for Inclusion", *Global Policy,* Vol. 2, No. 2 (2011), p. 203–209. See also Thomas Rixen and Lora Anne Viola, "Indirect Governance and Global Financial Regulation", in Abbott, Genschel, Snidal, Zangl (eds.), *The Governor's Dilemma: Indirect Governance Beyond Principals and Agents* (Oxford: Oxford University Press, 2020), p. 208–227.

enforce prudential regulation and stability-enhancing measures, but they publish their general assessments of financial risk and then rely on market mechanisms to impose costs on individual market actors deemed to present negative risks. In other words, the regulation of risk does not require breaking out of the neoliberal framework, as many commentators expected after 2008; institutionalised risk governance is instead very much part of neoliberalism.[28]

It is precisely in the context of the identification of new risks in the wake of economic crises—both the 1997 Asian Financial Crisis and the 2008 Global Financial Crisis—that the G7 created the G20. The 1997 Asian Financial Crisis served as a wake-up call regarding the extent of global financial market integration and its attendant risks of financial contagion. Through the crisis, the G7 came to believe that the growth of the so-called "Asian tiger" economies produced not only a boon to global economic growth but also introduced new risks for the West—uncertainties that could undermine financial stability in developed countries.[29] The concern of the G7, and the US in particular, was that the high level of financial integration exposed the world to the vulnerabilities of local emerging economies, including asset bubbles and high ratios of domestic credit to GDP. The impetus for reaching out to emerging economies was the G7's fears of cross-border effects in an increasingly globalised market, captured in the discourse of "systemic risk" and "contagion" that emerged at this time.

But the emergence of a risk governance discourse has less to do with the objective assessment of opportunities and dangers and more to do with protecting and promoting a certain economic and organisational legitimacy. As Power argues, the increasing focus on economic risks has heightened the need for organisations to engage in more control to legitimize themselves.[30] The G20 emerged as a way to manage risk presented by the new economies—risk connected both to economic stability and also to the organisational legitimacy of the G7 itself. The risk to the G7's organisational legitimacy was not only about its political exclusiveness, but also linked to its regulatory activity and decisions. The G7 created the G20 as a ministers' meeting and then as a summit in response to economic crises that could be traced back to regulatory failures. In other words, the G20 was not merely created because of a political crisis of representation within the G7 (as is so often argued) but rather in the wake of the regulatory crisis of the G7 states' inability to manage economic stability.

In light of the crisis in Asia, the US Treasury Department believed that the goal of strengthening financial markets would require support and "buy-in" from emerging economies. To this end, the US, via the G7, created a working group in November 1997, which became known as the Group of Twenty-Two (G22), consisting of finance ministers and central bank governors of advanced and emerging economies.[31] By early 1999, the G22 was superseded by an expanded group, the G33. The G33 convened several working

[28]Martijn Konings, "Governing the System: Risk, Finance, and Neoliberal Reason," *European Journal of International Relations*, Vol. 22, No. (2) (2016), p. 268–288 [p. 269].

[29]For an account of the G20's creation and the role of the US, see John Kirton, *G20 Governance for a Globalized World* (London: Routledge, 2013).

[30]Power, *op. cit.*

[31]Kirton, *G20 Governance*, *op. cit.*, p. 60. The G22 included the G7 countries, Russia, Poland, Australia, and 13 emerging economies (Argentina, Brazil, China, Hong Kong, India, Indonesia, South Korea, Malaysia, Mexico, Singapore, South Africa, and Thailand). The second meeting of the G22 included four additional countries: Belgium, the Netherlands, Sweden, and Switzerland.

seminars to discuss the international financial architecture, and concluded that the advanced industrial economies needed a regularised format for engaging with the emerging economies. The G7 decided to establish such a group, but there was still much debate about how large the group should be and which states should be included. A consensus emerged, according to the G20's own history, "that countries had to be "systemically important" to the global economy and have the ability to contribute to global economic and financial stability".[32]

3. The origins of the G20: from systemic risk to systemic significance

The term "systemically significant" was newly coined by the G7 as a keyword to justify the expanded but still exclusive membership of the G20. The G20 has no codified membership rules and "systemically significant" has never been defined or measured, but is rather invoked as though there is an intuitive common sense about which states "matter" for the global economy. In practice, however, the decision over membership was ultimately made by two men—Canada's Paul Martin, who would chair the G20 in its early years, along with US Treasury Secretary Larry Summers—"based not on a systematic statistical calculation, but on an intuitive sense of which countries were most systemically significant".[33] Indeed, the G20's membership cannot be rationalised as a systematic and consistent application of some measure of "systemic significance" or even regional representativeness. The G20 excludes a number of advanced economies that are large enough to impose negative externalities on the global economy in the event of a crisis, such as Greece, New Zealand, Singapore, Thailand, Spain, Sweden, and Switzerland. The G20 also excludes a number of states that are regionally important, such as Iran, Nigeria, and Ukraine. In fact, despite its aim for regional representativeness, the G20 excludes most states from Africa,[34] the Caribbean, Central and Eastern Europe, and Southeast Asia.

Despite never having been clearly defined, "systemic significance" has come into frequent use by IOs beyond the G20 to rank both states and financial institutions. During the 1990s up until the creation of the G20, no other IFIs, such as the IMF, mentions the term "systemically significant countries/economies", and even the term "systemic risk" appears in IMF documents only after 2001. It is only after the G7's prominent use of the category to justify G20 membership that "systemically significant/important" becomes a keyword in the discourse of the G7, G20, FSF, and IMF. And it is only in the wake of the financial crisis that began in 2008 that any serious attempts are made to offer an economic measure and definition of systemic risk and systemic importance, but these attempts are primarily directed at identifying "systemically important financial institutions" (SIFIs) whose failure would present a systemic risk to the global economy.[35] Given these two observations, that "systemic significance" has rapidly

[32]G20, *History,* op. cit., p. 20.
[33]*Kirton, G20 Governance, op. cit.*, p. 67.
[34]South Africa, a so-called BRICS rising power, is the only African state with official membership.
[35]See e.g.; D. Bisias, M. D. Flood, A. W. Lo, and S. Valavanis, "A Survey of Systemic Risk Analytics", *U.S. Department of Treasury, Office of Financial Research No. 0001* (11 January 2012); S. Eijffinger, "Defining and Measuring Systemic Risk", in S. Eijffinger and D. Masciandaro (eds.), *Handbook of Central Banking, Financial Regulation and Supervision* (Edward Elgar: Cheltenham, 2012), p. 316–317; Pawel Smaga, "The Concept of Systemic Risk," LSE *Systemic Risk Centre Special Paper,* No 5 (2014), available: <http://eprints.lse.ac.uk/61214/1/sp-5.pdf> (accessed 19 February 2019).

spread as a category used by IFIs and that the category is used to distribute things such as membership or monitoring requirements, it is important to understand where the term comes from, how it enters the policy discourse, and with what effects.

3.1. "Systemic risk"

The term "systemically significant",[36] as it begins to appear in G7 documents, can be traced back to the broader notion of "systemic risk" that emerged out of policy discussions in the early 1990s.[37] "Systemic risk" itself was a new term that began to appear in the context of a neoliberal economic environment in which capital mobility and banking deregulation heightened concerns about the rapid transmission of shocks and an economy's vulnerabilities to foreign contagion.[38] The concept appears to have been inductively developed by economists housed in policymaking institutions, rather than theoretically deduced and modelled from economic theories. One of the first mentions of the term comes from a 1992 working paper on bank contagion written at the Federal Reserve Bank of Chicago, which in turn cites the term as having been used in 1991 expert testimony before Congress on the problem of banks that were "too big to fail".[39] Despite ongoing debates about its proper definition and measurement, the basic idea of systemic risk has always been to describe a situation in which exogenous shocks interact with local structural vulnerabilities to create a crisis that spreads through the financial system with a negative impact on the real economy. It captures the idea that economic failures may spill over into other parts of the economy so that losses in one area may ignite a series of losses in other areas or even the collapse of an entire system. Thus, it seemed especially applicable to the fallout of the Asian Financial Crisis that happened later in the same decade.

3.2. Locating "systemic risk" in emerging economies

It is in the context of the Asian Financial Crisis that the idea of "systemic risk" is first discussed in G7 documents. The first mention of the term "systemic risk" in official G7 documents is with reference to financial entities (i.e. big banks) in the domestic context of developed states. Member states reacted to the fact that even countries with relatively weak trade relations in Asia were negatively affected because the economic downturn spread through financial channels as Western investors sold off emerging market mutual fund shares while Asian investors liquidated their international bond holdings.[40] The perceived risk here was one of moral hazard on the part of domestic private financial institutions. Thus, the May 1998 Report of G7 Finance Ministers advises member states that national policies need to provide the right incentives for private market actors to

[36]"Systemically significant" and "systemically important" are used interchangeably in G7 and other IO documents. For simplicity, I only use the former, although my arguments apply equally to both.
[37]This is consistent with a broader pattern, identified by Power (*op. cit.*), by which a knowledge regime centered on risk emerges in the mid-1990s in the private sector and then enters the context of regulatory governance.
[38]Smaga, *op. cit.*, p. 4.
[39]George Kaufman, "Bank Contagion: Theory and Evidence," *Working Paper Series, Federal Research Bank of Chicago* (1992).
[40]W. Christopher Walker, "Contagion: How the Asian Crisis Spread", *Asian Development Bank, EDRC Briefing Notes,* No. 3 (1998), available: <https://aric.adb.org/pdf/edrcbn/edrcbn03.pdf> (accessed 19 February 2019).

bear the costs of exposure and that states should provide assistance, such as bailouts, "only when there is real systemic risk", lest they create moral hazard.[41]

But the idea of systemic risk quickly shifts from being associated with private market actors in G7 countries to becoming discursively coupled with the particular vulnerabilities of the Asian and, more broadly, emerging countries. The second mention, only a few months later, explicitly connects the problem of systemic risk to the vulnerability of emerging market economies. The document begins by recognising that "The financial problems which began in Asia last year have exposed weaknesses in emerging market countries and in the international financial system", and later recommends institutional changes to better manage and develop "policies to foster stability and reduce systemic risk in the international financial system".[42] This is part of a broader blame shifting taking place at the time. Although the crisis itself was triggered by a series of exogenous shocks, including the sharp devaluation of the Thai currency that started a chain reaction affecting most Southeast Asian countries, Japan, and eventually US markets, the IMF diagnosed the fundamental causes of the crisis to be "weaknesses in domestic financial systems" combined with a poor policy response on the part of the Asian countries affected.[43] While the Asian Development Model, based on high domestic savings and public-private sector cooperation, had been previously praised for contributing to the Asian "miracle", after the 1997 crisis this model came to be discursively framed in terms of "crony capitalism" and "corruption", thereby "delegitimating the Asian model and normatively privileging market-based processes and outcomes".[44] Rather than seeing the crisis as a regulatory failure, those emerging economy practices inconsistent with neoliberal principles were designated as "causes" of the crisis, creating an environment in which the US and the IMF could promote structural adjustment packages tied to neoliberal economic reforms, including the reduction of government spending and liberalization of the financial sector.[45] While the "system" comes to be defined in terms of G7-dominated neoliberal financial markets, the "risk" gets localised in a particular set of developing states and their "crony capitalist" practices. Managing risk becomes about governing the conduct of emerging economies to better align them with neoliberal market ideas.

Moreover, the vulnerabilities of emerging market countries—and the implications of contagion for the G7 economies—drove calls for new governance technologies to better monitor them in order to avert undesired outcomes. Managing the new problem of systemic risk emanating from emerging economies required new institutions with expanded membership that were empowered to collect data, monitor country vulnerabilities, and supervise the implementation of regulatory reforms. The term "systemic risk" continues to appear in G7 documents only in the context of developing these new institutional solutions. Thus, the third G7 mention of "systemic risk" comes in February 1999 when the

[41]G7, "Strengthening the Architecture of the Global Financial System", *Report of G7 Finance Minister to G7 Heads of State or Government for their Meeting in Brimingham* (May 1998), available: <http://www.g8.utoronto.ca/summit/1998birmingham/g7heads.htm> (accessed 19 February 2019).

[42]G7, "Declaration of G7 Finance Ministers and Central Bank Governors" (30 October 1998), available: <http://www.g8.utoronto.ca/finance/fm103098.htm> (accessed 19 February 2019).

[43]Andrew Berg, "The Asia Crisis: Causes, Policy Responses, and Outcomes," *IMF Working Paper* (1999), p. 46 available: <https://www.imf.org/en/Publications/WP/Issues/2016/12/30/The-Asia-Crisis-Causes-Policy-Responses-and-Outcomes-3295> (accessed 19 February 2019).

[44]Rodney Bruce Hall, "The Discursive Demolition of the Asian Development Model", *International Studies Quarterly*, Vol. 47, No. 1 (2003), p. 73.

[45]*Ibid.*

group of Finance Ministers welcomes a "proposal that the G-7 should take the initiative in convening a Financial Stability Forum to … improve the functioning of markets and reduce systemic risk".[46] The Financial Stability Forum (FSF) was created by the G7 to serve as an expert body mandated to coordinate monitoring and enhance cooperation among an expanded national membership and among national and supranational regulatory agencies; it was to serve as the technical complement to the political G20 forum. The June report notes that the new FSF will focus "on a number of issues, including systemic issues relating to market dynamics generally and vulnerable economies in particular".[47] In this way, "systemic issues", presumably a euphemism for systemic risk, is again explicitly linked to "vulnerable" emerging economies.[48] The exercise of power here is "naturalised" or depoliticised to the extent that governmental rationality transforms political questions —questions about what constitutes improvement and how this should be attained, by whom, and at what costs—into technical questions of efficiency and risk management. Indeed, economic failure itself justifies the need to further extend technologies of governmentality.

3.3. From "systemic risk" to "systemic importance"

It is in ongoing discussions about the institutional architecture that the G7 shifts from "systemic risk" to the term "systemic importance". It first uses the term "systemic importance" in April 1999 to describe the types of issues that justify the creation of a new G-grouping, emphasising "the need for inclusive dialogue and broad consultation on issues of systemic importance".[49] In its next report, in which the G7 announces its intent to create what will become the G20, "issues of systemic importance" becomes "countries of systemic importance": "We will work together to establish an informal mechanism for dialogue among systemically important countries within the framework of the Bretton Woods institutional system".[50] This is the first official mention of the term "systemically important countries", although there is no indication of which countries are meant.[51]

The next mention of "systemically significant countries" comes a few months later in a G7 Finance Ministers statement that, among other things, announces the first meeting of the G20. In order to "broaden the dialogue on key economic and financial policy issues among systemically significant economies", the G7 announces, "in December in Berlin, we will invite our counterparts from a number of systemically important countries from regions around the world to launch this new group".[52] Notice that in this

[46]G7, "Communiqué of G-7 Finance Ministers and Central Bank Governors", (20 February 1999), available: <http://www.g8.utoronto.ca/finance/fm022099.htm> (accessed 19 February 2019).

[47]G7, "Report of G7 Finance Ministers to the Köln Economic Summit, Cologne, Germany", (18–20 June 1999), available: <http://www.g8.utoronto.ca/finance/fm061999.htm> (accessed 19 February 2019).

[48]Notably, however, the FSF originally only included two emerging economies, Hong Kong and Singapore. Moreover, Martin and Summers did not deem all of the countries involved in the Asian Financial Crisis "systemically significant," thus leaving many out of the G20, including Thailand.

[49]G7, "Statement of G-7 Finance Ministers and Central Bank Governors Washington, DC", (26 April 1999), available: <http://www.g8.utoronto.ca/finance/fm042699.htm> (accessed 19 February 2019).

[50]G7, "Report of G7 Finance Ministers", *op. cit.*

[51]Although it is worth noting that the document itself retrospectively describes meetings held in 1998 to have involved "systemically significant economies," indicating that the term might have already been used casually by participants. The states involved in those meetings, however, are not identical to the ultimate G20 membership.

[52]G7, "Statement of G7 Finance Ministers and Central Bank Governors Washington DC", (25 September 1999), available: <http://www.g8.utoronto.ca/finance/fm992509state.htm> (accessed 19 February 2019).

formulation, the “we” refers to the G7 while “systemically important countries” refers to the new members of the enlarged group. Indeed, while the G20 will later fashion itself collectively as a meeting of “systemically significant countries”, the distinction between the G7 countries on the one hand, and the “systemically significant countries” on the other hand, will persist—not least institutionally, as the G7 does not merge with the G20 but continues to exist both within it and alongside it as a separate body.

While the origin of the category “systemically significant” is clearly traceable to a notion of risk and risk control, the subtle shift from “systemic risk” to “systemic importance” opens discursive space for it to become a category of positive distinction. The G20 uses the category “systemic importance” as a gate-keeping device to determine which states could join and which could not. In doing so, “systemically significant” gets transformed into a ranking of value; after all, by designating certain states as “systemically significant”, the G7 also implicitly categorised others as “insignificant”,[53] marking these as unworthy members. Joining the G20 became an issue of prestige for many countries, with several of those left out—including Spain, the Netherlands,[54] Switzerland, Poland,[55] the Nordic countries,[56] and Singapore—protesting their exclusion and continuing to lobby for a seat. As President Obama noted in advance of an announcement that the G20 should supersede the G8, “everybody wants the smallest possible group that includes them. So, if they’re the 21st largest nation in the world, they want the G21, and think it’s highly unfair if they have been cut out”.[57] The institutions of governmentality manage behaviour by comparing it to norms against which certain actors are found lacking, and this in turn produces a desire to meet those norms. An institution of control thus produces a desirable status marker, but it remains an exercise in governmentality rather than an entrance ticket to the concert of new great powers.

4. Systemic significance and the transformation of stratification

The greater inclusiveness of the G20 over the G7 was initially seen by many observers as a move that enhanced the legitimacy of its governance role by breaking out of the old club of great powers and expanding the set of states with governance authority. Other scholars, commentators, and practitioners were quick to observe that the G20’s exclusive membership creates severe legitimacy problems vis-à-vis those actors who were excluded.[58] The dominant critique here is that the G20 simply re-creates hierarchy in the international

[53]Or what Payne has called the “marginal majority.” See Anthony Payne, “How Many Gs are there in ‘global governance’ after the crisis? The perspectives of the ‘marginal majority’ of the world’s states”, *International Affairs*, Vol. 86, No. 3 (2010), p. 731.

[54]Janene Pieters, “Netherlands Pushing for Permanent G20 Position”, *NL Times* (7 April 2017), available: <https://nltimes.nl/2017/04/07/netherlands-pushing-permanent-g20-position> (accessed 19 February 2019).

[55]Marcin Sobczyk, “G20 Needs Poland”, *The Wall Street Journal* (3 February 2010), available: <https://blogs.wsj.com/emergingeurope/2010/02/03/g20-needs-poland/> (accessed 19 February 2019).

[56]Ulf Sverdrup and Joachim Nahem, “The G20: Inclusivity and Legitimacy A Nordic Perspective”, *Security Policy Working Paper*, No. 12, German Federal Academy for Security Policy (2017), available: <https://www.baks.bund.de/sites/baks010/files/working_paper_2017_12.pdf> (accessed 19 February 2019).

[57]Quoted in Quoted in Akhilesh Pillalamarri, “It’s Time to Make the G20 More Asian”, *The Diplomat* (2 September 2016), available: <https://thediplomat.com/2016/09/its-time-to-make-the-g20-more-asian/> (accessed 19 February 2019).

[58]See, for example, Steven Slaughter, “The Prospects of Deliberative Global Governance in the G20: Legitimacy, Accountability, and Public Contestation,” *Review of International Studies*, Vol. 39, No. 1 (2013), p. 71–90.; Jakob Vestergaard and Robert H. Wade, “Establishing a New Global Economic Council: Governance Reform at the G20, the IMF and the World Bank”, *Global Policy*, Vol. 3, No. 3 (2012), p. 257–269.

order, only this time with a different configuration of states. On this view, the G20 is just like "past attempts to develop concerts of dominant powers in eras of turbulence and transition",[59] by which a group of powerful states seeks to manage the order on behalf of all states. Both of these views, the more positive and the more critical one, see the G20 as an attempt to validate the shift in power away from the G7 towards a new—depending on how you see it—more inclusive or still exclusive set of states. While the Concert of Europe may well provide a cognitive template for cooperation readily copied by the G-groupings,[60] the G20 is not simply a reprisal of a Concert of expanded great powers. Both of these perspectives miss the way in which the creation of the G20 as a space for inclusion of "systemically significant" states is telling of both the persistence and transformation of stratification in the contemporary order. The creation of the G20 serves, in effect, to assuage newly relevant states while imposing a regime of risk governmentality and preventing an actual shift in the balance of governance authority.

The G20 is neither a replacement nor an enlargement of the G7, and the "systemically significant" states have not joined as the new great powers. Even as the G20 Pittsburgh Summit in 2009 declared that the G20 will be the "premier forum" for economic cooperation and thereby supersede the G7,[61] the G7 in fact continues to meet on its own and has arguably taken on an even stronger governance role over the past few years. The G20 is, instead, layered over the still-existing group of traditional European great powers and their allies. The category "systemically significant" does not replace or even expand the category of "great powers", underscoring that these are not coterminous. Indeed, "systemically significant" is not a designation of greatness or primacy at all. As an empirical matter, these states are not great powers as measured in terms of either military or economic strength. More importantly, as outlined above, systemically significant is an assessment of economic risk; it is a category of liability and an identification of an uncertainty that needs to be managed. As Payne puts it, "systemic significance" is "a polite way of referring to countries whose financial problems, as and when they occurred, had the potential to become problems for the system as a whole".[62]

Thus, the category "systemically significant" introduces a new layer of stratificatory differentiation into the international system based on a new logic of subject formation. Hierarchies in the international system are always based on historically contingent rules of inclusion and exclusion; whereas in the past a material notion of greatness or a cultural notion of civilisation may have been dominant modes of stratification, the G20 instantiates differentiation based on a notion of systemic liability or systemic risk rooted in the shift towards a neoliberal mode of governmentality. Traditional categories of differentiation, such as "great power", "developed/developing", or "civilised" typically measured states against one another on the basis of relative resources or some idea of relative advancement. The implication of the relative comparisons was to produce subject positions, with those on top of the resulting hierarchy being invested with special responsibilities for the system

[59]Cooper, *op. cit.*, p. 204.

[60]John Kirton, "Contemporary Concert Diplomacy: The Seven-Power Summit and the Management of International Order", *Prepared for the annual meeting of the International Studies Association and the British International Studies Association*, (1989), available: <http://www.g8.utoronto.ca/scholar/kirton198901/kcon1.htm> (accessed 19 February 2019).

[61]G20, "G20 Leaders Statement: The Pittsburgh Summit", (24–25 September 2009), available: <http://www.g20.utoronto.ca/2009/2009communique0925.html> (accessed 19 February 2019). At that time it was the G8 but with the departure of Russia is now again the G7.

[62]Payne, *op. cit.*, p. 732.

at large.[63] Great powers or "advanced civilisations", by virtue of their relative position to other states, assumed a caretaker, a trusteeship, a managerial role vis-à-vis the system. Under the rationality of embedded liberalism, the great powers took on a paternalistic relationship to the systemic whole. The neoliberal category of "systemically significant" inverts this relationship. Rather than individual ranking leading to systemic responsibility, now systemic liability leads to individual responsibility-taking. The "systemically significant" category is a measure of material resources not relative to other states but relative to the *system*, indicating those states whose economic instability could cause global systemic failure. The new states are not included in the G20 on a model of shared responsibility, as in the concert model, but rather on a model of individual risk monitoring. After the Asian Financial Crisis, and even after the global financial crisis, the inclusion of emerging countries was part of an effort to make them take on responsibility for risk to core state privileges. States ascertained to be a systemic risk were included in the G20 so that their individual economies could be monitored and regulatory reforms proposed and implemented on the domestic level. These states submit to country-level monitoring in order to promote the stability of a system that brings financial gain to the most powerful.

One characteristic of this new category of stratification is the ambiguous way in which it assigns privileges. Status groups, such as great powers, create inequalities by allocating privileges to the members of the category that are inaccessible to the rest. Exclusive categories promote and protect the privileges of insiders by creating a distinction to outsiders who are not allowed access. Indeed, the notion of club groupings is based on the ability of some members to access benefits from which others can be excluded. Within international institutions, these privileges usually pertain to special authority or influence over decision-making. The designation "systemically significant" does this as well by conferring membership within the elite G20 to certain actors over others, where they presumably have greater influence over governance. In other words, as I discuss below, there are distributional advantages to being part of the group. This is one reason many states not included in the G20 aspire to be included and even lobby to be considered systemically significant. When the IMF, for example, designated Poland a "systemically important country", it was greeted as a great achievement by Polish commentators and as a recognition that Poland is integrated enough to be important to global financial stability.[64] But the IMF's designation of Poland as systemically significant did not get it a seat at the G20. Instead, it meant that the country would now be subject to further economic surveillance, such as the Financial Sector Assessment Program (FSAP). Seen in this way, categorising a state as "systemically significant" does not result in the pluralisation of governance authority but is, in the first place, a way to invoke a regime of governmentality. Overall, the term "systemically significant state" nicely captures how the "globalisation of international society" is not about ever greater system expansion, inclusion, and pluralism, but rather about how inclusion itself can become a mode of reproducing and reinforcing inequality.

[63]Mlada Bukovansky, Ian Clark, Robyn Eckersley, Richard Price, Christian Reus-Smit, and Nicholas J. Wheeler, "A Practice in Search of a Theory", in Bukovansky et. al. (eds.) *Special Responsibilities: Global Problems and American Power* (Cambridge: Cambridge University Press, 2012).

[64]Witold Gadomski, "Poland's Economy Becomes Systemically Important", *Obserwatorfinansowy.pl* (22 January 2014), available: <https://www.obserwatorfinansowy.pl/tematyka/in-english/polands-economy-becomes-systemically-important/> (accessed 19 February 2019).

5. Systemic insignificance and distributional outcomes

The use of "systemically significant" as a distinction is important not only for the way it changes governance relations among the new G20 members, but also for the exclusions it creates and justifies. Stratification happens within G20 members and between members and non-members. Where there are "systemically significant" states, there are also "systemically insignificant" states and these are subject to distributional consequences as a result of their exclusion. G20 decisions and recommendations made by a small group of states can have substantial implications for non-member states, even in the recent political environment in which the influence of the G20 appears to be waning. Over the course of the last decade, the G20 has had a powerful influence on the trajectory of global financial regulation in addition to a range of other issues of relevance beyond its membership, including development aid, trade imbalances, tax evasion, and infrastructure investment strategies. The distributive problem faced by non-members is that many of them may be affected by or even subjected to the policy recommendations of the G20 without being able to officially influence them. This countervails a common principle of democratic governance, that those affected by policies ought to be included in the decision-making process. The most obvious issue here is when the G20 makes regulatory recommendations that affect non-members. Switzerland, for example, where the financial sector is the largest part of the economy and contributes over 12 per cent of GDP, is concerned about any financial regulatory policy discussions in the G20. Switzerland has tried, unsuccessfully, to become a member of the G20 "in order to actively defend its economic and financial interests".[65] It has pursued a proactive strategy of trying to influence positions on the G20 agenda and a preventive strategy of trying to strengthen its position in other international organisations.[66] However, because the G20 instructs international organisations, such as the IMF, to undertake specific regulatory tasks on its behalf, it is able to influence these IOs from outside rather than from within the usual decision-making processes. The G20's ability to bypass the membership of universal IOs has been strongly criticised by UN General Assembly members.[67] African states, for example, are concerned that "through the focus and organisation of its agenda, the G20 does not always see Africa as part and parcel of the solution to global economic problems. This is often illustrated in terms of the treatment of development as an issue that is separate from the core focus of the G20".[68] Switzerland, along with many other states, has called on the G20 to formalise the participation of the UN Secretary General at the G20 meetings in order to create some form of representation for non-members. They have also called for more transparency in what the G20 asks other IOs, such as the IMF, to do and at what expense, and it has requested that the results of these interactions be made accessible to the entire IMF membership. Meanwhile, even the recent failures of the G20 has negative externalities on non-members.

Excluded states, such as Nigeria, Poland, Spain, Singapore, and Switzerland have voiced concerns about their exclusion from the G20 and have attempted unsuccessfully to gain

[65]Mike Callaghan, et al. "G20 Outreach and Non-G20 Member Views on the G20", *G20 Studies Centre, Lowy Institute* No. 7 (2014), p. 38.
[66]*Ibid.*, p. 37.
[67]Paul Heinbecker, "The Future of the G20 and Its Place in Global Governance", *CIGI G20 Paper* (2011), p. 11.
[68]Callaghan et al. *op. cit.*, p. 18.

membership. A number of states continue to seek a reform of the G20's membership and actively lobby for inclusion. However, thus far unable to influence the designation of "systemically significant" states that was undertaken at the G20's inception, excluded states have tried to find alternative modes of influencing the Group. Switzerland, for example, has attempted to influence the G20 through its close ties with France. Singapore, on the other hand, led the creation of an association of excluded states, called the Global Governance Group (3G) to coordinate and communicate their views to the G20. The 3G attempts both to be critical of the G20 and to cultivate ties to it in order to be able to represent the views of its members to the G20 and its working groups. In a statement on the 2018 G20 Summit in Buenos Aires, the 3G group praised the outreach efforts undertaken by Argentina during its G20 presidency but also reiterated "its position that the United Nations is the only global body with universal participation and clear legitimacy, and calls on the G20 to ensure that its actions complement and strengthen the United Nations system".[69]

The G20, for its part, has responded to these demands by engaging in so-called "outreach efforts".[70] This move reflected the G20's acknowledgment of concerns that the G20 would reach agreements without the input of and without reporting back to affected non-G20 countries. Outreach efforts have essentially meant the creation of a new category of association, that of the "invited guest". States are invited, either on their own merits or as representatives of regional organisations, to participate as guests in the G20 summits. The lack of explicit and formalised membership rules has essentially afforded the G20 discretionary flexibility in who can attend meetings and who belongs to the group. Since the G20 meetings are informal, it is unclear to what extent the status of "invited guest" differs procedurally from that of ordinary members. The ad hoc meeting invitations, however, may not do much in practice to make the G20 more inclusive. Invited guests who are unfamiliar with the process of the G20 are not particularly well-positioned vis-à-vis standing members to influence the Group.

The G20 has de facto had a guest status since the very beginning when Spain, which had lobbied hard but unsuccessfully for inclusion at the G20, was invited to participate as a guest. Since then, Spain has become a "permanent invitee". At the Toronto and Seoul Summits in 2010, the G20 made an effort to reach out to non-members and recalibrate its regional representation by agreeing to invite five, and then later six, guests. It has become custom to enhance both country and regional representation by inviting the chairs of ASEAN, the African Union (AU), and the New Partnership for Africa's Development (NEPAD). In addition to these three and Spain, the host country is free to invite one to two further countries as guests. But aside from Spain, the invitations are largely ad hoc and one-off. For the regional organisations, it is doubtful that the chairs represent an aggregate position of the organisation's members. Regions as large and internally diverse as Asia and Africa are not best represented by any single country. Moreover, the frequently rotating leadership in these organisations means that it is difficult to accumulate experience and expertise in G20 meetings over time. Overall, the ad hoc nature of non-

[69]Press Statement by the Global Governance Group (3G) on the Outcomes of the G20 Summit in Buenos Aires, Argentina, (30 November to 1 December 2018), available: <https://www1.mfa.gov.sg/Newsroom/Press-Statements-Transcripts-and-Photos/2019/01/02012019-Outcomes-of-G20-Summit>.

[70]Steven Slaughter, "Building G20 outreach: The role of transnational policy networks in sustaining effective and legitimate summitry", *Global Summitry*, Vol. 1, No. 2 (2015), p. 171–186.

member country inclusion emphasises the asymmetrical relationship between insiders and outsiders, and the institutional intransparency of the G20 and does little to alleviate the stratification between the "systemically significant" insiders and the "systemically insignificant" outsiders.

6. Conclusion

Although the G20 has been much studied—and much critiqued—since its prominent role in responding to the global financial crisis, no attention has been given to the way in which it has introduced the category "systemically significant state" into the international system. The starting point of this article was that this new way of defining the relative position of states is worth further exploration because it is a new category that appears to resonate within IFIs and is coming into ever wider use, and because its use as a criterion for institutional membership means that it has distributional consequences even while its definition remains ambiguous.

I have traced the emergence of the term "systemically significant" back to the ideological conditions that made it possible—namely, a shift from embedded liberalism to neoliberal notions of risk—and I have explored how systemic significance comes to be discursively constructed from the idea of systemic risk, getting associated along the way with a particular type of state—namely, a non-Western, emerging country that might present a risk to the stability of the global financial system that fuels wealth in the largest market economies.

Most studies of the G20 worry about its legitimacy and locate its main deficit in not being inclusive enough, representative enough, or not engaging in sufficient outreach. The implication here is that some obvious institutional changes can serve as a fix. This study, in contrast, points to a deeper problem. The introduction of the category systemically significant—now in use well beyond the G20—re-structures the lines of stratification that typically order relations among states while preserving the existing hierarchy of states and its concomitant distributional consequences. While traditional status categories were based on relative rankings that were then used to allocate special systemic privileges, the systemically significant category (or, more accurately, the systemic risk logic) reverses this relationship. Now states are ranked with respect to the risk they present to the stability of the global financial system, and the privileges that come with recognition of this position are not the allocation of greater governance authority *over* the system but rather entail coming *under* the authority of governance mechanisms meant to stabilise the system as it is. Moreover, these governance mechanisms promote the internal responsibility-taking of individual states who are not empowered to shape the system according to their needs and interests, but rather instructed to uphold the status quo by undertaking domestic level reforms. This highlights the inadequacy of strategies that would simply "open up" the G20 to promote the pluralisation of governance authority. Indeed, the problem exposed by an analysis of the emergence and deployment of the category "systemically significant" is precisely that inequality and stratification can happen through a process of inclusion. Inclusion on differentiated grounds is one way to manage calls for greater diversity and pluralism in governance while avoiding the costs that more equal political representation would impose on traditional hierarchies.

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