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The Critical Role of G-20 in Dealing with the 2008 Global Financial Crisis

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Abstrak

Strategi G-20 dalam mengatasi krisis keuangan telah dinyatakan pada kesepakatan KTT G-20 2008-2009 dengan adanya tiga pertemuan selama periode tersebut berlangsung (Washington, London dan Pittsburgh). Bersama dengan beberapa lembaga termasuk IMF, WB, FSB, OECD dan MDB, G-20 mampu menangani krisis tersebut baik di tingkat nasional maupun internasional. Pada saat yang bersamaan G-20 pun mampu mempertahankan koordinasi berdasarkan lima prinsip yang disepakati dalam KTT 2008 di Washington. Tulisan ini berfokus pada kontribusi G-20 sebagai alat koordinasi sekaligus aktor langsung dalam manajemen krisis, serta menyoroti peran negara-negara anggotanya. Deskripsi masalah ini akan dibagi menjadi empat bagian. Pertama, pandangan singkat tentang tujuan pembentukan G-20 dan penyebab krisis sebagai latar belakang tulisan ini; Kedua, kontribusi G-20 untuk penyelesaian krisis keuangan global; Ketiga, deskripsi hasil dari tiga kesepakatan G-20 (komunike) pada tahun 2008-2009 sebagai dasar dari strategi penanganan krisis keuangan global untuk G-20 dan lembaga internasional terkait; dan Keempat merupakan bagian analisis strategi G-20 yang kemudian menghasilkan prinsip-prinsip dasar manajemen krisis pada masalah yang diajukan dalam penelitian ini.
Kata Kunci: G-20, kredit subprima, krisis finansial global, kerja sama internasional, rezim internasional.

Abstract

The G-20 strategy in overcoming the financial crisis has been declared on the agreement of 2008-2009 G-20 Summit with three meetings over that period (Washington, London and Pittsburgh). In handling the crisis, the G-20 was in collaboration with several institutions including the IMF, WB, FSB, OECD and MDB. G-20 was able to make good efforts both nationally and internationally while maintaining coordination based on five principles agreed in 2008 Summit in Washington. This paper focuses on the contribution of the G-20, both as a coordinating tool, as a direct actor on crisis management, as well as the role of member countries. The description of these issues will be divided into four sections, First, a brief look at the purpose of the G-20's establishment and the causes of the crisis as the background of this paper; Second, the G-20's contribution to the settlement of the global financial crisis; Third, a description of three outcomes of the G-20 (communiqués) agreement in 2008-2009 as the foundation of the global financial crisis handling strategy for both G-20 and related international institutions; and Fourth, the analytical part of the G-20 strategy which then produced the basic principles of crisis management on the problems in this study.
Keywords: G-20, Subprime Mortgage, Global Financial Crisis, International Cooperation, and International Regime.

INTRODUCTION

As a leading forum of international economic cooperation, the G-20 has positioned itself in the discussion of concentrated issues on global monetary and financial in order to make the stability of global economy. In addition, there has been an agreement to run the fiscal policy to encourage and sustain the economic growth of each member from the beginning of its formation (Wolf, 2008:3-4). The initial reason for the establishment of the forum was the unstable global economic system. G-20 began to expand its discussion and be more open to emerging issues, but the G-20's main focus was still on the global financial and economic issues. It is in accordance with the original goals and agreement of the establishment of the forum – until 2007.

So far, one of the most crucial challenges for G-20 is financial crisis in 2008. The crisis caused by bad loans because debtors could not afford or fail to pay (default) the housing sector involving developers, banks in the United States (USA) as well as institutions that primarily act as lenders. Bank, were tend to avoid underprivileged or unemployed community from lending to afford a house. President Bush decided to overcome this situation by issued a policy with the help of Fannie Mae and Freddie Mas as an institution to assist the US government in providing houses for the community. This policy, then, also applied by other institutions.

However, this policy faced a problem because the community was unable to repay the loan. Some institutions were actually aware of this situation as this package was pegged with higher taxes (Subprime Mortgage) compared to general packages (Prime Mortgage). This situation was known as the Subprime Mortgage crisis that occurred not only in the United States, but also spreading in some countries in the European Union (EU) such as Greece, Ireland, Portugal, Spain and Italy.

The crisis had a devastating impact on the stability of the global economy as it had affected almost every region, from America, Europe, to Asia Pacific. This impact occurred due to several things, including direct or indirect investment to international trade–especially mortgage trading (Dewi, 2014:2). This crisis impacts the economic network, especially the countries who invest in the housing sector.

The emergence of the crisis has raised questions and pessimism regarding to the relevance and role of G-20 as an elite group of international countries in maintaining the global economic stability. People were doubted the G-20 as the fact it created the global instability. In addition, the global financial crisis was triggered by the crisis emanating from the center of global capitalism and promoting the current form of market mechanism. Even the global losses due to debt originating from the US at the time calculated by the International Monetary Fund (IMF) reached 1.4 trillion US dollars (Arif, 2013:24).

Nevertheless, many still remain optimistic and assume that the G-20 has a key role in leading the international world out of global financial crisis at the time, by encouraging and promoting actions that lead to sustainable global growth through its members (Turkey G20, n.d.) with the involvement of several international financial institutions, such as, IMF, World Bank (WB), and the Financial Stability Board (FSB). However, there are certainly pessimism about it and few doubts the G-20's role in overcoming the global financial crisis that occurred in 2008, as international financial institutions such as the IMF and WB have much more significant role than the G-20. Thus, the efforts of G-20 to overcome the global financial crisis or other global economic problems were still being questioned by international significance.

THEORETICAL FRAMEWORK

STATE AND THE INTERNATIONAL REGIME: STRUCTURAL MODIFICATION APPROACH

The US financial crisis in 2008 has caused such a vast impact globally, both developed and developing countries. To overcome this problem, a global and collective handling was required from the countries (Stiglitz, 2009). The onset of the global financial crisis in 2008 that started by the failure of the US market had created many assumptions that the international world needs a new international economic mechanism to prevent the crisis. In analyzing the issue raised in this paper, the author has a basic concept, which the state has a role in handling the crisis in form of multilateral cooperation. Thus, the author will also explore how the crisis handling through the framework of G-20 cooperation.

In this paper, the author believes that state has an important position, as the one who created the crisis and the one whose responsibility to handle the crisis. As pointed out by Gilpin, state still has an important role in global political economy through its national policy or domestic economic conditions (Stiles & Akaha, 1991:8). This crisis was occurred not only by market failure, but also by US government's desire to provide cheap residential homes for its citizens. Besides, the crisis also occurred by applying subsidy policies and leniency conditions for citizens especially for subprime mortgage packages and default.

In facing this problem, a state needs to find a solution. It is in accordance with Keynes's opinion that states needs to keep the economic balance (Sudirman, 2016:9-10). Keynes believes the government role in economic or market activity because they are the one who determine the fiscal and monetary policy. Keynes mentions that state and global need to manage the market. In this case the state appeared as an actor who facilitates the inability of the market in regulating itself, through policies that consider the values of democracy, especially policies for public interest (Vaut, *et. al.*, 2009:31).

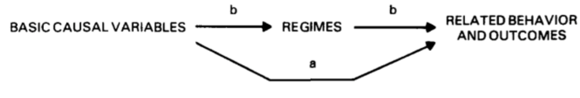
Besides national policies, a state also needs to conduct international and global management with policy adjustment (Keohane, 1984:11-12). Moreover, the crisis was not only happening in the US, but has been globalized as it affected the average rate of global GDP growth of 0% and the global inflation rate is almost 8%. Thus, global handling and coordination need to be applied in handling the crisis of 2008.

In particular, the author uses the international regime theory in explaining the relationship between the roles of state in the G-20 in relation to the handling of the global financial crisis of 2008. As a non-standalone interrupt variable, the regime is not seen as the end result of a process. The regime is a variable that influences behavior and result–intervening variable. Regarding the role of the regime, this study uses a structural modification approach that states regime has only a limited role that is used when a country find unresolved problems (Hennida, 2015:14). Basic view of this approach is on how the state can maximize its strengths (Krasner, 1982:191).

Keohane stated, "... in the international system regimes derive from voluntary agreements among juridical equal actors" (Keohane, 1982:330). The regime is developed on the idea that countries want their existence to remain in anarchy international system; therefore, the regime plays a role in coordinating the state's behavior on certain issues. The goal is for each country to get maximum results on these issues. Stein also added that the regime could have an autonomous impact when the autonomous behavior of a country is perceived to jeopardize the existence of other states (Krasner 1982:330; Henida, 2015:16). Haas also said that regime will have a significant role when the actions taken by the state is independently no longer creates a good coordination in international system (Krasner 1982:330; Henida, 2015:16). This is in accordance to Stein's opinion, "a regime exists when the interaction between the parties is not unconstrained or is not based on independent decision making (Stein, 1982:301)."

This approach can be seen in figure 1, which explained in two conditions. In most situations, there are direct relations between basic causal variable and related behavior and outcomes, but in other situation, where individual decision-making leads to non-optimal results, the regime may be significant, as has been explained by Haas. Shortly, this approach regards the regime as a behavioral coordinator in achieving the expected outcomes related to particular international issues (Toruan, 2010:18). Krasner explored five basic causal variables in relation to international regime, such as, egoistic self-interest; political power; norms and principles; usage and custom; and knowledge (Krasner, 1982:195-204).

Figure 1. The Role of Regime
in Structural Modification Approach



Source: Krasner (1982: 192)

Furthermore, Keohane emphasizes the primary function of a regime itself is to facilitate agreements on common interests that may be difficult or even unachievable through independent decisions on specific issues.

ANALYSIS

THE THREE OFFICIAL G-20 SUMMIT AGREEMENTS FOR 2008-2009 PERIOD

In responding to the global financial crisis that culminated in 2008, the G-20 has three official agreements / communiqués that form the common ground of collective crisis management, including the Communiqué of Washington, the London Communiqué and the Pittsburgh Communiqué (Toruan, 2010:64-65).[1] The three communiqués contain five key principles that serve as a basis for G-20 specifically to coordinate global crisis management efforts, either directly done by the G-20 or by using the international regime as a facilitator. These five principles had roles in strengthening transparency and accountability; enhancing sound regulation; promoting integrity of financial markets; strengthening international cooperation; and reforming international financial institutions (see figure 2).

From these communiqués, the G-20 also established a new regime, that is the Financial Stability Board (FSB) as an extension of the Financial Stability Forum (FSF). It is also the efforts to reform the IMF as well as the credibility of institutions as an important financial institution in handling of the global financial crisis 2008 which serves as a provider of support for capital access and assistance programs for countries in need through New Arrangement Borrowing (NAB) (Toruan, 2010:70). To facilitate the new regime, G-20 member countries agreed to raise $750 billion in loans to be channeled through the IMF, a new $250 billion special drawing rate (SDR), and in addition to the IMF, the G-20 also rallied loan funds of at least US $100 billion to be channeled to related Multilateral Development Banks (MDBs).[2]

An important point of G-20 agreements is as explained by Keohane on a partnership that the activity essentially leads to an agreement on the policy adjustment of countries, which in terms of G-20 members in handling the crisis (Keohane, 1984). The three communiqués are also an affirmation of the G-20's commitment and the prevention of protectionism. Particularly in the Pittsburgh communiqué, the G-20 sparked a framework for cooperation, such as Framework for Strong, Sustainable and Balanced Growth.[3] G-20 member countries are committed to work together in shaping integrated policies and fostering sustainable growth, as well as evaluating each other member country in terms of their consistency with mutually agreed agreements.[4]

The Framework then becomes the second part of the Pittsburgh communiqué and contains technical commitments related to the G-20's response to the global financial crisis[5], such as:

a. The FSB Charter has been drafted and its obligations in carrying out monitoring process and assessment report to the annual meeting of Finance Minister and Governor G-20. It is related to the implementation of regulation and policy of financial sector that has been implemented (article 11);
b. Commitment to implementing Basel II conventions with more stringent criteria by the end of 2010, especially in terms of larger capital reserves and leverage / risk rules in the banking world (article 13);
c. Optimize the role of other financial institutions such as the International Accounting Standards Board's (IASB), to the Financial Action Task Force (FATF) (articles 14 and 15);
d. The addition of NAB of US$500 billion and the addition of SDR allocation to a total of US$283 billion in which US$100 billion is intended to support emerging markets (article 19);

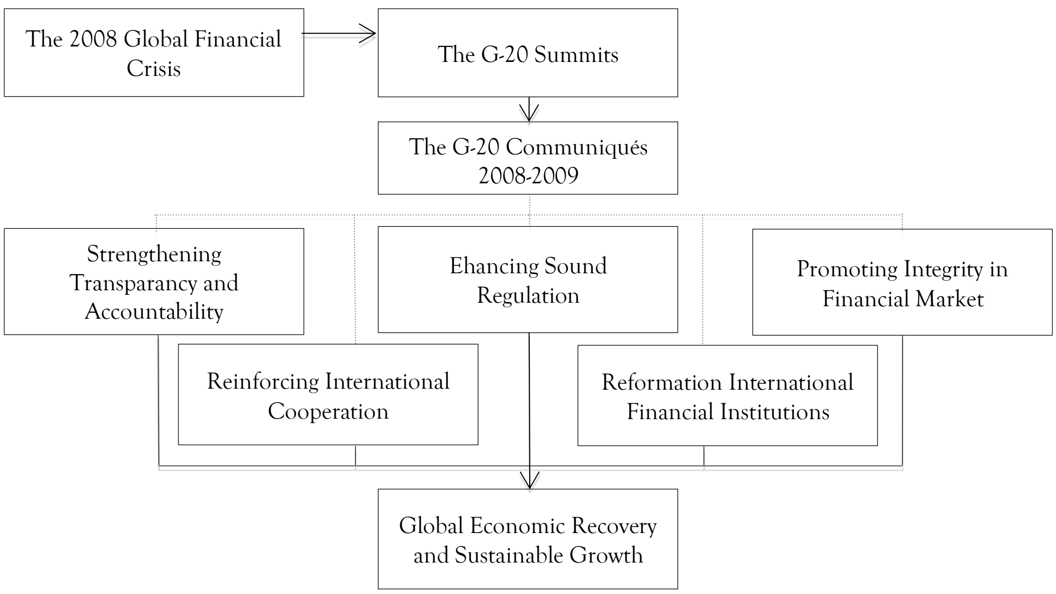
e. Commitment to protection of Low Income Countries (LICs) through MDB contributions (article 34-42);
f. Commitment to protection of employment (articles 43-47); and
g. Commitment to globalization where market access is open/free (art. 48-49).

According to three communiqués, there were two important regimes in international financial system reform plan proclaimed by G-20; IMF and FSB. There were several points emphasized by G-20 related to roles and functions of the two international institutions/regimes, including the mandate, allocation of resources, and the contribution of such institutions in the handling of the crisis (reform). Since the establishment of Washington communiqué, G-20 has given the IMF such tasks to handle the crisis, including providing support to capital access and assistance programs for countries in need, and most importantly collaborating with the FSB in identifying the threat of the financial crisis.[6]

The formation of the FSB is important here for the expansion of coordinated networks of developed and developing countries. The G-20 recognizes that developing countries have such an important role in the global economy and certainly need to play an active role in their respective contributions to the global economy as a whole. Every member of the FSB is required to achieve and maintain financial system stability, open and transparent, implemented international financial standards, and willing to be periodically reviewed by fellow members facilitated by the IMF (Toruan, 2010:82).[7]

In conclusion of this part, the G-20 communiqués in that moment essentially created five common principles related to the G-20 agendas in handling the 2008 global financial crisis collectively. Of the communiqués, the G-20 also established a new regime, such as the FSB as an extension of the FSF as well as efforts to reform the IMF such as mandate to the credibility of institutions as an important financial institution in the handling the 2008 global financial crisis that acts as a provider of support for capital access and assistance programs for countries in need. There is an important point that G-20 has made. This point is in accordance with Keohane's explanation that cooperation leads to an agreement on policy adjustments from countries, particularly crisis management (Keohane, 1984).

Figure 2. Normative Scheme of the G-20 Commitments



Source: Toruan (2010:94)

STRATEGY G-20 IN GLOBAL FINANCIAL CRISIS 2008

The important role of G-20 in the handling of the financial crisis lies in three factors; commitment, collective coordination, and implementation based on the five shared principles in achieving sustainable recovery and global economic growth (Toruan, 2010:92-95). This is in accordance with Ruggie's recommended principles regarding a multilateral process, in which a multilateralism is not only limited to coordinating policies within a group, but also on the basis of certain principles in that group relationship that have sustainable properties (Ruggie, 1992:567). In addition, the G-20 is assisted by two key regimes in handling the crisis such as the IMF and FSB, as well as several other international institutions such as WB and MDBs and other institutions. The process and position of G-20 related to its role in handling the global financial crisis can be seen in the scheme model described in Figure 4.

In the process, G-20 had produced three communiqués in response to the threat of financial crisis. The three communiqués were made on the basis of five principles that had been agreed upon as a global policy reference in achieving a sustainable recovery and global economic growth:[8]

1. **Strengthening Transparency and Accountability**, applied to promote the transparency in international financial markets, in particular G-20 member countries. The form of implementation of this principle can be seen from G-20 issued the "Action Plan" through the annual meeting of finance ministers and central bank governors who are immediate and medium-term action requiring multilateral involvement from several international institutions such as IMF, FSB, WB, to Bank for International Settlements (BIS), the Organization for Economic Co-operation and Development (OECD), and other institutions. The concrete result of transparent principle was Framework for Strong and Sustainable Growth which was published in Pittsburgh communiqué.
2. **Enhancing Sound Regulation**, intended to strengthen regulation and tighten supervision, including optimizing the performance of credit rating agencies based on the framework and code of conduct that have been made. The 2008 crisis reminds of the G-20 to structural weaknesses in the global financial system. The low global interest rates throughout the 2000s resulted in an abundance of liquidity in the financial markets that prompted an over-confidence situation and a tendency to undermine risk in the financial sector. Thus, the abundant availability of low-cost funds encourages the rise of financial product innovation that is generally not supported by adequate regulatory safeguards (Brilianto, 2013). As well as ensuring that these efforts are efficient, encourage innovation, and are certainly capable of promoting sustainable economic growth, in accordance with mutually agreed procedures.

This principle involves many international financial institutions. Although each country can issue its national policy collectively, however the formulation of regulations and oversight that are globally would require an international regime that has such a role. As Stein also pointed out, although the strategic policies issued by each country provide optimal benefits for the international system, errors and losses can arise without the supervision and control of an entity responsible for it (Stein, 1982:300-316).

This principle has also resulted in concrete products, one of which is the 12 key international standards and codes which in fact became the reference of many international financial institutions that move on the G-20 drive in reforming the global financial system, especially the FSB. However, global financial system regulation has not been completed yet, and the process will continue as the global economy and politics of innovation in the world of banking and investment.

3. **Promoting Integrity in Financial Market**, is a commitment from G-20 member countries to protect the integrity of international financial markets by supporting investors and protecting the rights of consumers. This includes taking action against uncooperative parties in relation to their commitment to agreed international standards. The G-20 realized and understood that one of the causes of the Asian financial crisis in 1997 was the moral hazard and the loss of market confidence in the credibility of the country that had made inappropriateness policies, where the pattern was almost repeated in the global financial crisis of 2008.

   To restore confidence in the market, policy makers in the G-20 promote the integrity of the financial market. One concrete result is the action against the shadow banking system[9], including cracking down on tax-havens. The G-20 uses the OECD regime to achieve these objectives, and issues compliance lists at two different periods, namely in 2009 and 2010. In addition, the G-20 also encourages cooperative mechanisms to improve information sharing, particularly in terms of transparency and management of the principle of banking secrecy in a more responsible manner (Brilianto, 2013:5).

4. **Reinforcing International Cooperation**, is the commitment of each G-20 member country to keep the free trade agenda—especially those directly linked to capital flows—and strengthen collective cooperation in crisis prevention, management and handling of the crisis, with fellow members and relevant international institutions. In general, the G20 in this principle sees that in this era of globalization, the interaction of the international financial system is intense and must be balanced with cooperation among national regulators in formulating policies consistent with international principles, and enhancing cooperation and coordination across all segments financial markets (including cross-border capital flows) (Brilianto, 2013:5).

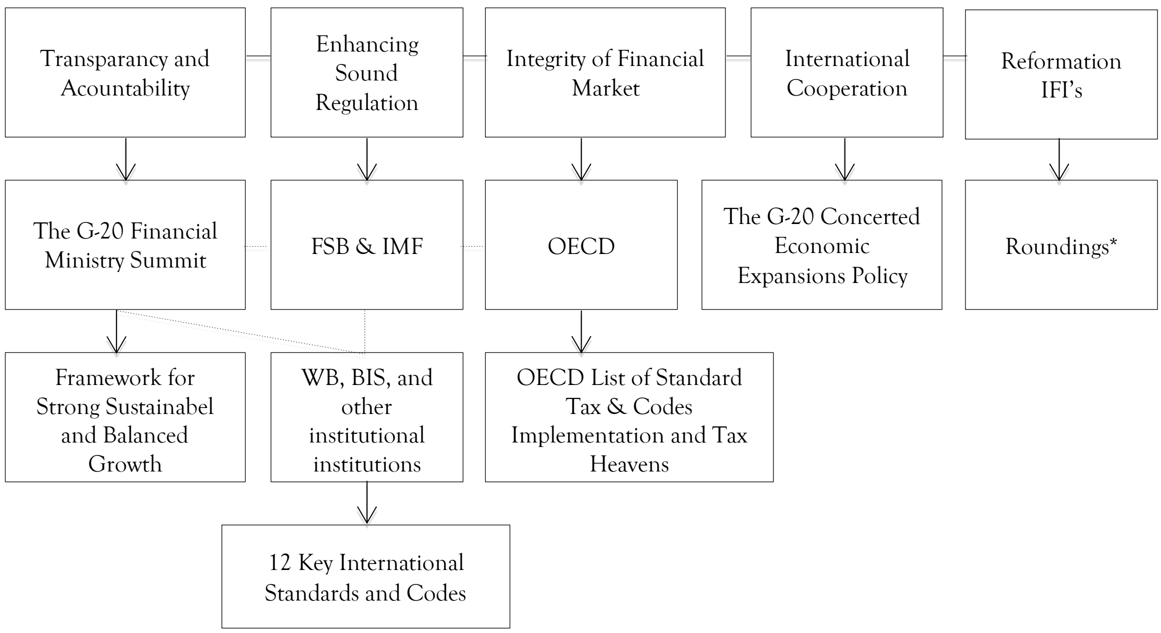
   The G-20 as a platform for ad hoc cooperation generates a consensus drive for its members to stick to the globalization agenda, and agree not to return to protectionist forms of policy. The concrete form of collective cooperation is reflected through the shared policy of each member country which is then discussed at the regular meeting of the G-20. Furthermore, in addition to the additional allocation of capital to international institutions such as the IMF and WB, the establishment of the FSB as a new form of the FSF, and the simultaneous expansion of economic policies (monetary and fiscal) into one of the important steps in cooperation related to the recovery and growth of global economy in times of crisis.

5. **Reformation International Financial Institutions**, basically contains the efforts to reform IMF membership, especially in terms of quota distribution and voting power more to developing countries in accordance with their contribution to the global economy at that time. An important point in this principle is the establishment of the FSB as an extension of the FSF, assuming that developing countries should have a voice and representation in international financial institutions, and affirming the IMF's mandate in collaboration with the FSB identifies and anticipates the vulnerability of financial markets, and act quickly to play a key role in responding to the crisis.

   The increasing role and contribution of developing countries to the world economy is a key issue pushing institutional reforms such as the IMF and FSF into the FSB. The reform here focuses on voice and quota representation, voting power, to staff capabilities in major international financial institutions such as the IMF and WB. As the communiqués, quota changes and voting power at the IMF are planned to be reviewed in January 2011, while the selection of relevant institutional staff for the foreseeable future will emphasize professionalism and personal capabilities rather than political factors. Broadly speaking, the G-20 decided to review the mandate, the composition of the vote, to the IFI governance scheme in order to increase the effectiveness of these institutions in helping to overcome the global financial crisis.

The implementation scheme of the five basic principles that serve as the G-20's policy reference framework for handling the crisis can be seen in Figure 3. As the implementation model is derived from the Toruan analysis in his thesis. Toruan also highlighted the same thing in his analysis, in accordance with the variables and data regarding the handling of the 2008 global financial crisis through the G-20 cooperation.

Figure 3. Implementative Scheme of the G-20 Comitment



Source: Toruan (2010:96).

Description:
*Rounding includes expanded NAB agreement until April 12th, 2010 and quota and voting power distribution plan for member countries to be reviewed in January 2011.

Legend:
Chronological flows
Structural Coordination

These five principles are interrelated and strengthen their respective positions in their aims. One example can be seen in the principle of enhancing sound regulation relating to comprehensive international financial rules and their relation to the principles of financial market integrity and strengthening international cooperation. It is all done in a multilateral manner involving the participation of G-20 member countries as a forum entity and related institutions such as IMF, FSB and other institutions.

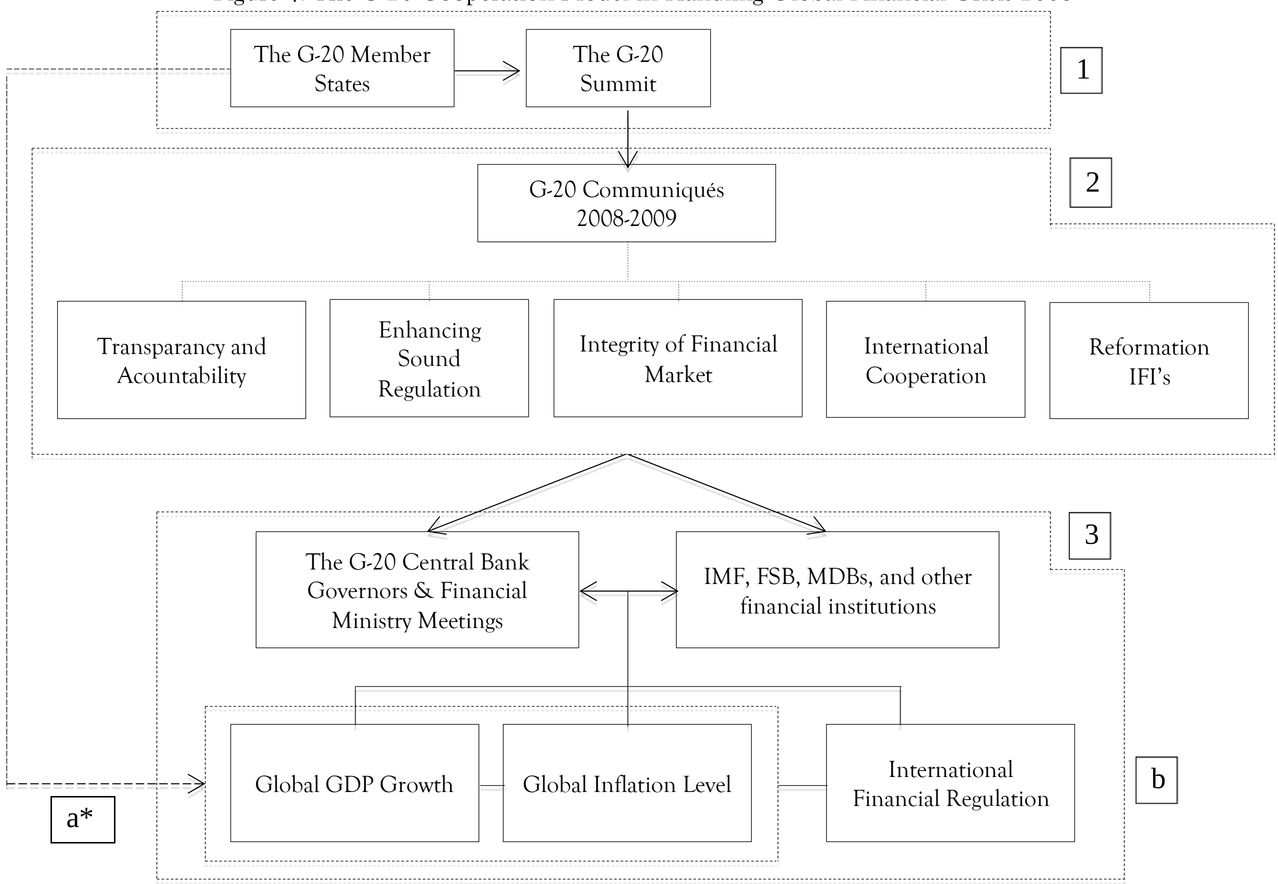
Furthermore, how the role or position of G-20 in handling of global financial crisis in 2008 using structural modification approach can be seen in three stages (scheme b) first stage as basic causal variables, then as regime as intervening variable, and related behavior and outcomes (see figure 4).

In the first stage, as the global financial crisis culminated in 2008, the G-20 issues and formulates global policy measures for crisis response. The three G-20 communiques created during the 2008-2009 period became the foundation in cooperation with the global crisis which was then implemented by utilizing the international regime (Toruan, 2010:100).

The process of cooperation in this case can be understood through five basic aspects that Krasner proposed (Krasner, 1982: 94-95), there are:

1. Egoistic self-interest
   In this point, two conditions arose which ultimately created two schemes in the handling of an autonomous (domestic) and international financial crisis through the G-20 framework and some other international institutions involvement. In the form of an autonomous self-interest policy we can see how bailout policies and stimulus packages to protect their domestic economies by some G-20 countries. In addition, the G-20 also agreed to cooperate in crisis management collectively, it was called Keohane and Stein as a rational self-interest. Where to utilize the IMF and FSB as a facility to achieve these goals, among them affirm the

Figure 4. The G-20 Cooperation Model in Handling Global Financial Crisis 2008



Source: (Toruan, 2010:99)

Description:
→ Process line
— — — Stage line
**The cooperation model above, beside to quoting from Toruan thesis, also in addition of cooperation stage by me, especially in the implementative stages.*
(1) Stage I : *Basic causal variables*
(2) Stage II : *Regime as intervening variable*
(3) Stage III : *Related behavior and outcomes*

mandate of these institutions and donate capital as capital for the IMF to respond globally.

2. Political power
Developed countries, for example G-7 countries initiated the efforts to handling the crisis by cooperation through the G-20 forum. In this cooperation, values such as free trade and financial liberalization are among the goals of strengthening the agenda, coupled with the strengthening of regulatory standards and reform of global financial institutions.
3. Norms and Principles
The G-20 Summit formulates five common principles, whereby they influence all activities and the emergence of new regimes/institutions in the process of working together.
4. Usage and Custom
The rotation of the Troika in the G-20, for example, is an issue relevant to this aspect. The G-20 Troika influenced the focus of the G-20 discussion and work program for one year of the current chair of the chair. Another tendency is seen from the informal meeting of the G-20 deputies that take place twice a year, as well as the deputy meeting of the IMF.
5. Knowledge
In cooperation with the global agenda to handling the global financial crisis, there is a shared policy practice. The process of sharing national economic policy is usually occurs at the annual meeting of finance ministers and central bank governors of the G-20 member states which later became a source of knowledge and common reference in cooperation handling global financial crisis. All reports from international regimes such as the IMF, FSB, World Bank, OECD, and others are also sources of reference in this cooperation.

Next we move to the second stage (scheme b) for example regime as intervening variable. In the previous discussion, we can see that the outcome of the agreement at the G-20 Summit in Washington, London, and also Pittsburgh became the frame of reference and recommendations for the cooperation of the efforts to handling the global financial crisis, by all the states (especially G-20 member countries) and also international institutions such as the IMF and FSB. At this stage, international regimes such as the IMF and FSB then become facilities in achieving the goals within the G-20 framework in response to the crisis on the basis of five mutually agreed principles.

Toruan in his analysis simplifies the goals of the framework into four objectives based on the five principles that have been agreed upon since the Washington Summit, those are the free trade agenda (including the refusal of protectionism), the global economic recovery, the regulation of the financial sector, and the reforms of IFI's (Toruan, 2010:101). Based on the G-20 communiqués in this discussion and the implementation of the principles of cooperation, there are several important regimes involved in crisis-related cooperation, those are the IMF, FSB, WB, OECD, and several other regimes such as MDBs.

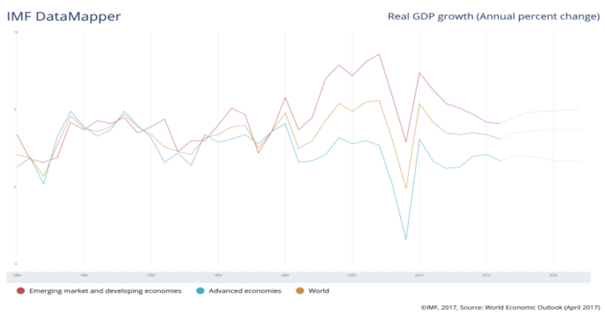
Both steps above then create related behavior as the third stage in the structural modification approach (scheme b) or implementation stage. Implementation of the four objectives of cooperation is distributed in two large vehicles, namely the annual meeting of financial ministers and central bank governors discussing short, medium and long term Action Plans; and the second vehicle is an international institution as a standard designer on field practice, regulatory regime, as well as a monitoring function of the progress of existing programs and agendas (Toruan, 2010:101). Both of these are mutually supportive of each other, as a container of international and global coordination.

Each financial ministers and central bank governor presents a progress report related to the agenda/program which then implements the work program of the outcome of the meeting in their respective country, while the international institution serves as a party to monitor the implementation of the agendas that had been agreed in the previous meeting and/or provide proposals for revision of regulatory practice standards at the global level (Toruan, 2010:101). The indicators of successful cooperation are, for example, the global inflation rate and the growth of global GDP during the period of cooperation, as can be seen in figures 5 and 6.

Figure 5. Global Inflation in 1996-2009

Source: World Bank

Figure 6. GDP Growth in 1980-2017



Source: IMF

According to World Bank, the global inflation rate from 2002 which was 3.5% rose drastically to 7.9% in 2008 and dropped significantly in 2009 at 2.5%. Then global GDP growth is also seen experiencing serious problems in the same period. Where the global average numbers touch 0% point in the peak phase of the crisis, even developed countries are at -3%. At this point it is a significant role for developing countries that still have growth rates above 2 percent—even China at 8 percent, becoming one of the important actors in the global economic recovery cooperation within the framework of G-20 cooperation (IMF, 2017:12).

In that analysis, as also explained by Toruan (Toruan, 2010:102) that such a model of cooperation, which in the third stage reflects the related behaviors and outcomes of the cooperation of G-20 countries involving the international regime in it. The G-20 cooperation framework is shared policy of all G-20 countries which then has global implications through global-to-national implementation involving relevant international institutions, and is repeated at each summit.

Table 1. The Concrete Role of the State in Handling the Global Financial Crisis 2008

Type of Solutions	Implementation of Solutions	Concrete Implementation
Short Term	Bail-out Package	• US: $700 Billion • France: €300 Billion • Germany: €500 Billion • UK: $692 Billion
	Stimulus Package	• US: $787 Billion • UK: €200 Billion • France: €26 Billion • Germany: €50 Billion • China: $586 Billion • Indonesia: Rp2 Trillion
Middle Term	Bilateral Currency Swap Arrangement	• Indonesia-China: ¥100 Billion for 3 years • China-Argentina: ¥70 Billion for 3 years • China-Malaysia • China-South Korea • China-Belarus

Source: Toruan (2010:4-5).

The G-20's efforts are also not limited to contributing to scheme b, by responding collectively and using regimes and some international institutions to support the global effort. The G-20 also makes efforts domestically, where the international regime does not appear in this scheme (see scheme a, figure 1) both national policy and bilateral efforts with other countries. This is reflected in the bailout policy and stimulus package as a short-term and bilateral currency swap arrangement solution as a medium-term solution (see table 1). This attitude is reflected in Keynes's view of the role of the state, in which Keynes believes in the government's active role in influencing market activity through fiscal and monetary policies, especially when the market is in a state of crisis, such as stimulating the economy into the market (Keynes, 2013: xxii).

The state still has an important position in the international economic system, whether it is done independently or collectively. Gilpin has also emphasized it from the beginning that the state still has an important position in the international political economy in the form of the state's role through national or domestic economic policies, which may affect how the forms of international political economy (Gilpin in Stiles&Akaha (ed.), 1991). In this regard, the state also always protects its national interests, and will utilize international forums as well as relevant international regimes and institutions as a platform for their coordination to adapt policies to protect their respective interests in responding to common issues. It happens if there is a position where the state no longer able to create effective policies in dealing with a problem independently.

CONCLUSION

The global financial crisis began from the collapse of the US property market due to bad debts from the subprime mortgage package which is a barrage of unhealthy policies by the US government—a policy of subsidized homes for people who do not have a home can buy a house through credit mechanism and facilitate the requirements to get it. The G-20's involvement in the handling of this crisis also serves as a forum for several countries seeking to overcome the crisis, both nationally and collectively and involving several related institutions such as IMF, FSB and other international institutions.

The G-20 chooses not to let the market work alone in restoring the ongoing crisis, as Keynes's assumptions find its momentum to bounce back after dim since the 1970s. The G-20 emphasized its crucial contribution to the crisis through three communiqués issued in three special summits on the 2008-2009 global financial crises in Washington, London and Pittsburgh. The three communiqués serve as the foundation for the G-20 and related institutions of crisis-management mechanisms based on five principles, including: strengthening transparency and accountability, enhancing sound regulation, promoting integrity of financial market, strengthening international cooperation, and reformation of international financial institutions such as IMF, FSF to FSB, as well as related MDBs. The optimism of the implementation of the five principles by the G-20 in particular and some international institutions such as the IMF and FSB, began to be affected in that period, such as the inflation and global GDP growth, stricter credit regulation standards, to the eradication of practices shadow banking system and tax heavens.

Such optimism has been explained by concrete evidence obtained from the analysis of the structural modification approach. In scheme b, it can be seen how the G-20 cooperation, as the first stage; then produced three communiqués as a basic foundation in crisis management involving IMF, FSB, to OECD and MDBs as facilitator regimes, as the second stage; and resulted in a policy adjustment implemented by the G-20 countries to the FSB's contribution as a platform for broader fiscal and monetary policy coordination—compared to the FSF—as well as the OECD as an institution actively involved in the action of tax heavens and shadow banking system, whereby the output of what the G-20 and related institutions can do can be seen from the significantly straightforward inflation and the growing global GDP growth of up to 4 percent, as the third stage. Furthermore, independent actions from several G-20 countries such as the US, China, France, and Indonesia through the policy of stimulus and bailout packages as well as the bilateral currency swap arrangement, contribute to the global financial crisis as a picture of the scheme a.

The 2008 global financial crisis that began with the fall of the US property market due to Bush's policy on housing subsidies through a simplified credit mechanism, to create subprime mortgage packages for underprivileged people, and ultimately the US property market suffered a credit crunch. Then, in its handling, the crisis-stricken countries, it is considered the most responsible for the incident, and is considered a failure. Thus, G-20 countries take action to tackle the global crisis by involving several related institutions.

END NOTES

1 The focus of the analysis will be on the three official agreements/communiqués, which refers to the G-20 summit communiqué that has specifically covers the strategy for handling the global financial crisis 2008, and does not refer to the agreements that the G-20 has generated throughout its history.

2 See G-20, *London Summit – Leaders' Statement*, April 2nd, 2009, article 5, see also Toruan, 2010, p. 69.

3 See G-20, *Leaders' Statement the Pittsburgh Summit,* September 24th-25th, 2009, article 13.

4 See G-20, *Leaders' Statement the Pittsburgh Summit,* September 24th-25th, 2009, article 15.

5 See G-20, *Leaders' Statement the Pittsburgh Summit,* September 24th-25th, 2009, article 15, Part Two the results of the G-20 Summit at Pittsburgh 2009, see also Denis Pejl Toruan 2010, pp. 72-73.

6 See G-20, *Declaration Summit on Financial Markets and the World Economy*, November 15th, 2008, articles 7-9.

7 The international monetary standard include 12 Key International Standards, there are, Macroeconomic Policy and Data Transparency: (1) monetary and financial policy transparency, (2) fiscal policy transparency, (3) data dissemination; Institutional and Market Infrastructure: (4) insolvency, (5) corporate governance, (6) accounting, (7) auditing, (8) payment and settlement, (9) market integrity; and Financial Regulation and Supervision: (10) banking supervision, (11) securities regulation, (12) insurance supervision.

8 The points in this discussion are summaries of the three G-20 communiqués, each agreed in Washington, London, and Pittsburgh in the 2008-2009 range. Coupled with quoting the same summary is also written by Toruan (2010) in his thesis, pp. 94-98.

9 *Shadow banking system* is basically a practice by non-bank institutions operating like banks, collecting funds, providing high interest loans but on conditions that are easier to fulfill than those required by banks. See, I. R. Rachmawati 2012, "Penetrasi Praktik *'Shadow Banking'* di Indonesia", *Jurnal Akuntansi UNESA,* vol. 1, no. 1., p. 2.

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