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Reforming from the top

Reforming from the top: A Leaders' 20 Summit

Edited by John English, Ramesh Thakur and Andrew F. Cooper

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United Nations University, 53-70, Jingumae 5-chome,
Shibuya-ku, Tokyo, 150-8925, Japan
Tel: +81-3-3499-2811 Fax: +81-3-3406-7345
E-mail: sales@hq.unu.edu
General enquiries: press@hq.unu.edu
http://www.unu.edu

United Nations University Office at the United Nations, New York
2 United Nations Plaza, Room DC2-2062, New York, NY 10017, USA
Tel: +1-212-963-6387 Fax: +1-212-371-9454
E-mail: unuona@ony.unu.edu

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Contributors

Dr Yoginder K. Alagh holds a doctorate in Economics from the University of Pennsylvania at Philadelphia. He has taught at that University and at Swarthmore College. Dr Alagh is currently Chancellor, Central University at Nagaland and Vice-Chairman of the Sardar Patel Institute of Economic and Social Research in Ahmedabad, India. From 1996 to 1998, he was the Indian Minister of State (Independent Chargé) for Planning and Programme Implementation, Science, Technology and Power, and until recently, Member of the Rajya Sabha, India's Upper House of Parliament. From 1992 to 1996, he was Vice-Chancellor of the Jawaharlal Nehru University. Dr Alagh's professional experience is related to research, policy-making and administration of large research/policy formulation professional groups relating to macro policy and planning, industrial policies and reform, and agricultural planning and policy.

Colin I. Bradford, Jr holds a joint appointment between the Department of Economics and the School of International Service at American University, Washington, D.C., and is currently a Visiting Fellow at the Brookings Institute. Under the Clinton Administration, Dr Bradford was the Chief Economist of the United States Agency for International Development, and was influential in coordinating the Trans-Atlantic Agenda of aid consultation and coordination. From 1990 to 1994, he was Head of Research at the Development Centre of the Organization of Economic Cooperation and Development. Prior to this position, Dr Bradford was a senior staff member in the Strategic Planning Division of the World Bank. He was the Associate Director of the Yale Centre for

International and Area Studies, while an Associate Professor at Yale University. Dr Bradford holds a Bachelor's degree in History from Yale University, and a Master's and PhD in Economics from Columbia University.

Dr Barry Carin is Associate Director of the Centre for Global Studies. He was High Commissioner of Canada to Singapore between 1996 and 2000. Prior to that he was Assistant Deputy Minister, Trade and Economic Policy, with Canada's Department of Foreign Affairs and International Trade, where his responsibilities included Foreign Affairs Sous-Sherpa for four G7 Summits and leader of the branch responsible for the conduct of international trade and investments negotiations, including dispute settlement. He was also the Canadian representative on the Executive Committee of the OECD. Dr Carin holds a PhD in Economics from Brown University and an Honours BA in Political Science and Economics from McGill University.

Andrew F. Cooper is a Professor in the Department of Political Science at the University of Waterloo and Associate Director of the Centre for International Governance Innovation. Possessing a DPhil from Oxford, he has been a Visiting Scholar at Harvard University, Australian National University, and Stellenbosch University in South Africa. In addition to being a Canada–US Fulbright Scholar in the Western Hemisphere Program, SAIS, Johns Hopkins University (2000), and Léger Fellow, Policy Planning, Department of Foreign Affairs and International Trade (1993–1994), he has served as an editor of the *Canadian Journal of Political Science* (1999–2001). His books include, as author, *Tests of Global Governance: Canadian Diplomacy and United Nations World Conferences* (United Nations University Press, 2004); and, as editor (with John English and Ramesh Thakur). *Enhancing Global Governance: Towards a New Diplomacy?* (United Nations University Press, 2002), and *International Commissions and the Power of Ideas* (United Nations University Press, 2005).

Alexander de Freitas Barbosa is an economist with a Master's degree in Economic History from the University of Sao Paulo and a Doctorate in Applied Economics at Universidade Estadual de Campinas. He is also a Professor of Economics at the Universidade Presbiteriana Mackenzie. He is currently Manager of Bilateral Projects at the PROSPECTIVA Consultoria Internacional, a Brazilian consulting firm dealing with international subjects. He has published widely on issues of the Brazilian economy, comparative foreign policy and regional issues. His most recent published work, with Ricardo U. Sennes, is "Brazilian Foreign Policy: Another Route or a New Step Forward?" (*Focal Point: Spotlight on the Americas*, November 2004: 14–15).

Daniel Drache is Associate Director of the Robarts Centre for Canadian Studies and Professor of Political Science, York University. He has published extensively on globalization, the WTO and counterpublics. His latest book is *Borders Matter: Homeland Security*

and the Search for North America (Fernwood, 2004). Currently he is directing an SSHRC project on global cultural flows, new information technologies and re-imagining the nation. His forthcoming book is entitled *Publics and Counterpublics and Global Dissent* (Polity Press).

John English is the Executive Director of the Centre for International Governance Innovation. Holding a doctorate from Harvard University, he is a Senior Professor of History and Political Science at the University of Waterloo. He is author of numerous books and articles on Canadian foreign policy since 1945. Dr English has been a special advisor and envoy for the Department of Foreign Affairs, Canada, and is the Chair of the Planning Committee of the Canadian Landmine Foundation. He is also a past President of the Canadian Institute for International Affairs. He served as a Member of Parliament from 1993 to 1997, including a term as Parliamentary Secretary for the Minister of Intergovernmental Affairs.

Angel Gurria chairs the External Advisory Group of the Inter-American Development Bank and serves on the boards of several corporations and organizations. He has had a distinguished career in Mexican government and politics. He has served as Minister of Finance and Minister of Foreign Affairs. For ten years, Mr Gurria led Mexico's negotiating team during international debt discussions. Earlier in his career, he served as Secretary of the Treasury, Secretary of Foreign Affairs, President and CEO of the National Development Bank, and President and CEO of the Foreign Trade Bank. He has also been Secretary of International Affairs for the PRI and Deputy Secretary of the Treasury for International Affairs.

Richard Higgott is Director, Centre for the Study of Globalization and Regionalization, and Professor of International Political Economy at the University of Warwick. He has held chair-level posts at the University of Manchester and the Australian National University, where he was also Director of Graduate Studies in Foreign Affairs and Trade. He has been Director of the Australian Institute of International Affairs, a Member of the Australian Government Trade Negotiations Advisory Group, and Principal Policy Adviser at the Royal Institute of International Affairs. In 2003 he was the inaugural holder of "La Chaire Asie" at the Fondation Nationale des Sciences Politiques. He is currently on the Governing Board of ACUNS, and is a member of the Council for Asia Europe Cooperation and the Task Force on Global Governance of the International Institute for Administrative Sciences, and Lead Scientist on a multi-million-euro, 30-institution, EU Framework 6 Network of Excellence on Global Governance, Regionalism and Regulation.

Saori N. Katada is Associate Professor at the School of International Relations, University of Southern California. Professor Katada's special interests include international financial and monetary

relations, foreign aid, and foreign investments that involve the United States and Japan as well as other countries in Asia and Latin America. Her most recent work focuses on the study of regionalism. She is also interested in the integration of qualitative and quantitative research methods. Professor Katada received her PhD in Political Science from the University of North Carolina, Chapel Hill. Her published works include *Banking on Stability: Japan and the Cross-Pacific Dynamics of International Financial Crisis Management* (University of Michigan Press, 2001), ‘‘Why did Japan Suspend Foreign Aid to China? Japan's Foreign Aid Decision-making and Sources of Aid Sanction'' (*Social Science Japan Journal*, April 2001), and ‘‘Aid Politics and Electoral Politics: Japan 1970–1992'' (with Timothy J. McKeown, *International Studies Quarterly*, 1998).

John J. Kirton is a Professor at the Munk Centre for International Studies, University of Toronto, and an Associate Professor (with tenure 1982–present) at the Department of Political Science, University of Toronto. His appointment to Graduate School was in 1983 and his tenure was awarded in 1982. His previous academic appointments include Research Fellow (1976–1977), Institute of International Relations, University of British Columbia; and Assistant Professor (1977–1982), Department of Political Economy, University of Toronto. His professional affiliations and activities are: Director, G7 Research Group, May 1987–present; Editor, The G8 and Global Governance Series, Ashgate Publications, December 1998–present; member, Editorial Advisory Board, Canadian American Public Policy, 1990–present; member, Editorial Board, North American Outlook, 1996–present; Adjunct Fellow, Centre for International and Strategic Studies, York University, 1987–present.

Dr Abdel Monem Said Aly is a member of the Board at the Al-Ahram Foundation and the Director of the Al-Ahram Centre for Political and Strategic Studies in Cairo. He obtained his BA from Cairo University in 1970 and his MA and PhD in Political Science from Northern Illinois University in 1979 and 1982. He has worked at the Al-Ahram Centre since 1975 as a Researcher, Senior Researcher and Head of the International Relations Research Unit. He was a Research Fellow at the Brookings Institution, Washington, D.C., in 1987. He worked as a Political Adviser in the Amiri Diwan of the State of Qatar between August 1990 and June 1993. He has published books, articles and chapters in Arabic on the world system, Arab relations with the regional and global orders, European integration, and the Arab–Israeli conflict. In English, he has contributed papers, published articles and chapters in the United States, France, Sweden and Singapore on Middle East regional security, Egypt's political system, national security, and arms control policies.

Ricardo U. Sennes is currently Executive Director of the PROSPECTIVA Consultoria

Internacional and has been since 2001. He is also a Researcher for the Centre for International Negotiations Studies of the University of Sao Paulo. Dr Sennes was a Research Assistant at the Centre for International Relations Studies and the Instituto de Pesquisas Economicas e Politicas de Sao Paulo. He was a Visiting Scholar at the Department of Government at Georgetown University, Washington, D.C., and at the Latin American Program of the Woodrow Wilson International Institute. Dr Sennes received his Bachelor of Economics from the Catholic University of Sao Paulo in 1990, his Master's in Political Science from the University of Sao Paulo in 1996, and his PhD in International Relations from the same institution in 2001.

Anne-Marie Slaughter joined Princeton University as Dean of the Woodrow Wilson School of Public and International Affairs on 1 September 2002. She holds faculty positions in the School and in the Department of Politics. She was most recently the J. Sinclair Armstrong Professor of International, Foreign and Comparative Law at Harvard University. Her teaching and research have focused on global governance, the politics of international tribunals, and interdisciplinary analyses of international legal issues. She serves as President of the American Society of International Law and is a frequent presenter at scholarly conferences and debates. She has written or co-edited four books and more than 50 articles for scholarly and legal journals. Her most recent book is *A New World Order* (Princeton University Press, 2004).

Dr Gordon Smith is Director of the Centre for Global Studies, and Adjunct Professor of Political Science at the University of Victoria. Dr Smith arrived at the University of Victoria in 1998 following a distinguished career with the Canadian Department of Foreign Affairs, which included posts as Deputy Minister of Foreign Affairs from 1994 to 1997, Ambassador to the European Union in Brussels from 1991 to 1994, and Ambassador to the Canadian Delegation to NATO from 1985 to 1990. He is the author (with Moisés Naím) of *Altered States: Globalization, Sovereignty, and Governance* (IDRC, 2000) and co-editor (with Daniel Wolfish) of *Who is Afraid of the State? Canada in a World of Multiple Centres of Power* (University of Toronto Press, 2001), as well as numerous book chapters and articles. Since 1997, Dr Smith has served as Chairman of Canada's International Development Research Centre.

Ian Taylor is a Lecturer at the School of International Relations, University of St Andrews, Scotland. He holds an MPhil from the University of Hong Kong and a DPhil from the University of Stellenbosch in South Africa. Prior to joining the School of International Relations, he was a Senior Lecturer in the Department of Political and Administrative Studies, University of Botswana. He remains a Visiting Research Fellow in the Department of Political Science, University of Stellenbosch.

His research interests are in international political economy, with a specific regional focus on Africa. He is currently editing books on regionalization in Africa, development policies in Botswana and Uganda, and South African multilateralism. He has just finished writing a book on the New Partnership for Africa's Development.

Ramesh Thakur is a political scientist and peace researcher. He was appointed by UNU Rector Hans van Ginkel to the position of Vice-Rector at the United Nations University on 1 April 1998, and was promoted to Senior Vice-Rector at the rank of Assistant Secretary-General of the United Nations in September 2003. Professor Thakur is a member of the United Nations University's senior academic staff and directs the University's Peace and Governance Programme. He is the author of numerous peace-related publications. His books include 20 volumes in print and around 200 journal essays and book chapters. He has had several articles printed in *The International Herald Tribune*, *The Asian Wall Street Journal*, *The Australian*, *The Australian Financial Review*, *The Globe and Mail*, *The Daily Yomiuri* and *The Japan Times*.

Andrew S. Thompson is a PhD candidate in History at the University of Waterloo in Waterloo, Canada. His dissertation research is on the role and impact of human rights NGOs at the Supreme Court of Canada in the immediate years following the introduction of the Charter of Rights and Freedoms in 1982. Prior to entering the doctoral programme in September 2000, he was the interim media officer for Amnesty International Canada in Ottawa, Canada. In April 2004, he was part of an Amnesty International human rights fact-finding and lobbying mission to Haiti.

Yu Yongding is Director and a Senior Fellow of the Institute of World Economics and Politics, Chinese Academy of Social Sciences. He is also a Professor in the Department of World Economics at the Post-Graduate School of the Chinese Academy of Social Sciences. He received his MA in Economics from the Graduate School of the Chinese Academy of Social Sciences in 1986 and his DPhil from the University of Oxford in 1994. Since 1997 he has been Vice-President of the China Society of World Economics. Professor Yu joined the Institute of World Economics and Politics in 1979. He was appointed as Research Fellow in 1983 and Senior Research Fellow in 1987. From 1986 to 1988 he was the Chief of the Division of Theoretical Studies of Western Economics. From 1988 to 1994 he studied at the University of Oxford, and he taught at the University of the West of England between 1993 and 1994. Professor Yu's research focuses on macroeconomics and international finance.

Acknowledgements

The Prime Minister of Canada, the Right Honourable Paul Martin, has long been a champion of reform within the system of international governance. At the top of his list of priorities has been the vision of expanding the Group of 20 Finance Ministers (G20 Finance) to a summit at the leaders level (Leaders' 20 Summit or L20). His intense interest in the project has been imperative for taking this concept from abstract principle to sustained momentum as a practical enterprise. Certainly, the L20 has gained considerable diplomatic traction within the international political community over a short period of time. It was the central topic of the initial event held at the Centre of International Governance Innovation (CIGI) in Waterloo, Ontario at the end of October 2003. The idea has now led to considerable discussion and buy-in, including an endorsement by the United Nations High Level Panel on Threats, Challenges and Change.

The intellectual credibility and galvanizing effect in policy terms of the L20 project could not have been achieved without the help of a number of individuals. Gordon Smith and Barry Carin of the Centre for Global Studies (CFGS) deserve special recognition. The partnership between CIGI and the CFGS has been the foundation on which both the overall L20 project and the specific production of this publication have been built. The L20 project has also profited a great deal from the insights and commitment of Paul Heinbecker, Canada's former Ambassador to the United Nations and now a distinguished colleague at CIGI. Paul has been at the core of this project since its inception. He wrote an excellent

report based on the discussions that took place at a meeting of scholars and practitioners in Ottawa in February 2004, which, along with a similar report by Barry Carin, helped to guide the future steps of this endeavour. The whole-hearted support of Maureen O'Neil and Rohinton Medhora, the President and Vice-President of the Program and Partnership Branches respectively of the International Development and Research Centre (IDRC) has also been indispensable at each step of the development of the L20 concept. Together, the work and influence of these key partners has helped to ensure that the L20 project, including this collection of essays, has made a contribution to redefining the nature of international governance.

The L20 project could not have been made possible without the financial contributions of a number of individuals and organizations. The high level of backing provided by the IDRC must be mentioned again in this context. So too must the role of the Canadian International Development Agency (CIDA), which also played a significant part in the advancement of the L20 concept, and we would particularly like to acknowledge the keen interest in the project showed by Yohanna Loucheur, Senior Economic Policy Advisor, Economic Policy at CIDA. The active participation and generous support of William S. White and George Trone, respectively the President and CEO and Assistant to the President, Grants Database Manager and Program Officer of the Mott Foundation, together with Sandra Smithey, Program Officer, were also crucial to the progress of the project. As with several previous projects, the Rector of the United Nations University in Tokyo, Professor Hans van Ginkel, was a role model in providing both funding and intellectual support. The Department of Foreign Affairs and International Trade of the Government of Canada not only provided funding for the enterprise but – along with the Department of Finance – was actively engaged in its formulation and promotion. A number of officials from both departments attended the original October 2003 meeting in Waterloo, as well as another substantive meeting in Ottawa in February 2004 and an additional workshop in Buenos Aires, Argentina in May 2004. The Waterloo October meeting was enhanced by the presence of Mr Martin and The Honourable Bill Graham, Minister of Foreign Affairs, Canada, along with Jonathan T. Fried, Associate Deputy Minister, Foreign Affairs, Canada; Peter Harder, Deputy Minister, Foreign Affairs, Canada; and Kevin G. Lynch, Deputy Minister of the Ministry of Finance, Canada. Mr Fried and Mr Harder, as well as Mark J. Carney, G7 Deputy of Canada, Ministry of Finance; Ross Hornby, Assistant Deputy Minister, Strategic Policy Branch, DFAIT; and Rob MacRae, Director-General of Policy Planning, DFAIT, attended the February meeting in Ottawa.

Moreover, the John Holmes Fund sponsored a book launch, which enabled further high-quality discussion on the direction of an L20 meeting to be held. For their help on this matter we would like to thank Marketa Geislerova, Senior Policy Advisor, Canadian Centre for Foreign Policy Development; Suman Bhattacharyya, Policy Analyst, Canadian Centre for Foreign Policy Development; Janice McRae, Project Manager, Policy Research Division; and Peter Padbury, Deputy Director of the Foresight and Policy Research Division in the Foreign Affairs Department.

The concept behind the L20 project was shaped and refined through the insightful discussion that took place at CIGI's first annual International Board of Governors meeting in October 2003. As with all the activities of CIGI, this event could not have been held without the enormous enthusiasm and degree of commitment shown by Jim Balsillie, the Chairman and Co-CEO of Research in Motion and Chairman of CIGI's Board of Directors.

A number of contributors to this book are also members of CIGI's International Board of Governors. We are particularly privileged therefore that Angel Gurria, Chair, External Advisory Group Inter-American Development Bank, and Former Minister of Finance and of Foreign Affairs of Mexico; Yoginder Alagh, Former Minister of Science, Technology and Power, Chancellor, Central University of Nagaland, and Vice-Chairman of the Sadar Patel Institute of Economic and Social Research in Ahmedabad of India; and Anne-Marie Slaughter, Dean, Woodrow Wilson School of Public and International Affairs, Princeton University, were able to take on this added responsibility. Although Yu Yongding, Director of the Institute of World Economics and Politics attached to the Chinese Academy of Social Sciences, was unable to attend the Waterloo meeting, we are grateful that he was able to submit a chapter. The level of commitment regarding the L20 by these participants as well as the quality of discussion of this concept demonstrated by the entire membership of CIGI's Board has been an invaluable resource throughout the project.

In addition to the contributions contained in this book, a number of papers and scenarios were commissioned to better explore the idea of a Leaders' 20 Summit at the functional level, and to define what type of global issues could be taken up by an L20. These reports helped immensely in identifying not only the substance of major issues of global importance but also their potential connection with the overall course of the L20 project. The authors of these documents included Ngaire Woods, Diana Tussie, Tim Evans, Ariel Buriel, Jan Aart Scholte, David G. Victor, Paul James and Michael Zuern, a highly distinguished group of academics and practitioners. Following the initial meeting in Waterloo, the L20 concept was further rehearsed at a meeting at the Rockefeller Cen-

ter at Bellagio, Italy in December 2003, on "Capacity Building, Lessons and Future Directions". The Ottawa meeting held in February 2004, graciously hosted by the IDRC, acted as a conclusion to the conceptual phase of the project. It produced insightful comments from a distinguished group of experts, academics and practitioners from around the world, including Nobel Laureate Economist Joseph Stiglitz, Professor of Economics and Finance, Columbia University and Former Senior Vice-President and Chief Economist, World Bank; Tom Bernes, Executive Secretary of the joint IMF–World Bank Development Committee; Boris Fedorov, Former Finance Minister of Russia; Jeffrey Goldstein, Managing Director and Chief Financial Officer, World Bank; Robert Greenhill, Senior Visiting Executive at IDRC; Brent Herbert-Copley, Director, Social and Economic Equity Program and Partnership Branch, IDRC; John Helliwell, Former Visiting Special Adviser for the Bank of Canada and Emeritus Professor of Economics at the University of British Columbia and member of CIGI's International Board of Governors; Barry Herman, Former Chief, Policy Analysis and Development Branch, Financing for Development Office; and Cyrus Rustomjee, Former Executive Director, IMF. The Ottawa meeting also allowed the addition of a paper by Abdel Monem Said Aly, head of the Al-Ahram Center for Strategic Studies, to this publication. At a dinner event held at the Foreign Affairs Department's Pearson Building, Prime Minister Martin's commitment to the project was once again showcased as he not only presented his own views concerning the L20 project but also responded to questions from the assembled participants.

To supplement our collection, and to engage the South more directly in this project, another meeting was held in Buenos Aires, Argentina, in partnership with Facultad Latinoamericana de Ciencias Sociales (FLACSO) and the United Nations University. We would like to thank Diana Tussie, the Director of the International Financial Institutions Program at FLACSO, for her enthusiastic support for this concept and for sincerely embracing our vision for an L20, as well as Colin I. Bradford, Jr, Richard Higgott and Ian Taylor, who contributed chapters to the collection as extensions of the papers they delivered at this conference. Andrés Rius of the IDRC and a number of experts from the region were highly supportive in a variety of ways as well. The Canadian Ambassador, Thomas MacDonald, hosted a dinner for the participants, and the staff of the Canadian Embassy, including Réjean Beaulieu and Ana Fisher, acted to facilitate the overall event. Tracy Tuplin worked with Caroline Khoubesserian, CIGI's Programming and Events Manager, to ensure a successful event.

In addition to our other partners we must acknowledge the role of Colin I. Bradford, Jr and Johannes Linn of the Brookings Institution.

We thank them both for their intellectual interest in the L20 concept and their dedication to promoting it. We also look forward to working with both of them in the future to enhance the idea of the L20 and lead the way to its fruition. In a similar fashion, we have significantly benefited from Anne-Marie Slaughter's multifaceted involvement in this project.

Although the road to ensuring the ultimate translation of the L20 idea into a reality has not been without its challenges, it has been one with many invaluable rewards. We would like to express our appreciation to those officials of the Canadian government who have committed their time and expertise to enhancing the dialogue surrounding the L20 project. We would especially like to again thank the Honourable Bill Graham, former Minister of Foreign Affairs (and now Minister of National Defence), not only for his interest in this project but also for his personal commitment to CIGI, as a member of our International Board of Governors. The support of Michael Pearson, Coordinator of the International Policy Review, Office of the Minister of Foreign Affairs, was also highly valuable. Marie Lucie Morin, Associate Deputy Minister, DFAIT, and Vinita Watson, Assistant Deputy Minister, Finance, both served ably as ex officio members of CIGI's Board of Directors.

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Abbreviations

AFC	Asian financial crisis
AMF	Asian Monetary Fund
ANC	African National Congress
APEC	Asia-Pacific Economic Cooperation
APT	ASEAN Plus Three
ASEAN	Association of South-East Asian Nations
ASEM	Asia-Europe Meeting
CAFTA	Central American Free Trade Area
CFGS	Centre for Global Studies
CIGI	Centre for International Governance Innovation
DC	Development Committee
ECU	European Currency Unit
EMEs	emerging market economies
EMS	European Monetary System
EMU	Economic and Monetary Union
EU	European Union
FAO	Food and Agriculture Organization
FATF	Financial Action Task Force on Money Laundering
FHC	Fernando Henrique Cardosa
FSF	Financial Stability Forum
FTAA	Free Trade Area of the Americas
G7/8	Group of Seven/Eight
G20	Group of 20
G20 Finance	Group of 20 Finance Ministers
GAO	General Accounting Office
GATT	General Agreement on Tariffs and Trade

GDP	gross domestic product
GEO	Global Environment Organization
GMOs	genetically modified organisms
GNP	gross national product
HIPCs	Heavily Indebted Poor Countries
HLIs	highly leveraged institutions
IBSA	India–Brazil–South Africa
ICC	International Criminal Court
IFIs	international financial institutions
ILO	International Labour Organization
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
JEXIM	Export-Import Bank of Japan
L20	Leaders' 20 Summit
MDBs	multilateral development banks
MDGs	Millennium Development Goals
MERCOSUR	Mercado Común del Sur
MTN	multilateral trade negotiations
NAFTA	North American Free Trade Agreement
NAM	Non-Aligned Movement
NEPAD	New Partnership for Africa's Development
NGOs	non-governmental organizations
NIEO	New International Economic Order
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
P5	Permanent Five
P21	Partnership 21
PRS	Poverty Reduction Strategy
SDRs	Special Drawing Rights
TRIPs	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFFD	United Nations Summit on Financing for Development
UTL	unilateral trade liberalization
WB	World Bank
WEF	World Economic Forum
WMD	weapons of mass destruction
WTO	World Trade Organization

Introduction: Reforming the international system from the top – a Leaders' 20 Summit

Andrew F. Cooper and John English

The international system is facing a serious double challenge. Faith in the pattern of global governance has waned in terms of concerns both about who sets the rules of the game and why these rules are in place.[1] The fault line between rule makers and rule takers – as well as the space between those perceived to be the winners and losers – has widened. Moreover, in a world of intense competition for diplomatic status, market share, and technological knowledge and resources, the stakes at play have appreciated rapidly. Acceptance of the fairness within the system – and willingness to work by its "deep organizing principles"[2] – lies at the heart of its overall legitimacy.[3]

Paralleling these symbolic deficiencies are instrumental defects. Not only is there the appearance of bias in form, but functional attributes have also been increasingly contested. The capacity to get things done in the international system has been eroded.[4] In part, this efficiency deficit may be linked to a wave of assertive activity in the post–Cold War era with the push towards an ambitious mandate for the United Nations via peacebuilding and the extension of a social agenda; the transition from the General Agreement on Tariffs and Trade (GATT) to the World Trade Organization (WTO); and the penetration of global governance into the domain of the domestic. These heightened expectations remain unfulfilled, and the sheer enormity of the structural obstacles standing in the way of an objectives-based agenda must be factored in. From the thickening of globalization to a return to nationalism/tribalism and failed states to an accelerated pace of cross-border refugees and migration,

terrorism and diseases, change has brought complexity and confusion. The patchwork of institutions commonly thought to be a prerequisite for the emergence of an advanced mode of global governance has proven to be part of the problem, not the solution. Because of their collective image as "clubs of the rich", the central components of the established international architecture – the United Nations or at least the Security Council through the Permanent Five (P5), the Group of Seven/Eight most industrialized countries (G7/8), the WTO, the international financial institutions (IFIs) and the Organization of Economic Cooperation and Development (OECD) – have become associated in the minds of many observers with the existence of a legitimacy gap. However, in a more unanticipated fashion, these core institutions have proved unable to produce tangible results. The veto – by producing such a stark fault line in decision-making – plays havoc with the United Nations. The G7/8 – with some noticeable exceptions – has become identified more with set menus and photo-ops than with policy delivery. The IFIs have been widely criticized for their slowness in reacting to financial crises from Asia in 1997/8 to Argentina in 2001. The Doha Development Round has exposed deep differences between the North and the South, especially between emerging middle-income powers and the United States and European Union (EU).

From a state-centric perspective, this double challenge exacerbates the frustration and pent-up demand for change from the have-nots. There are disturbing echoes of previous waves of resentment going back to the tide of post-colonialism and the demand for a New International Economic Order (NIEO). The critique is of a becalmed but unacceptable status quo. The developed states of the North are seen as clinging to a system entrenched from an older time, with an asymmetry in prerogatives and outcomes.

These critiques are in many ways traditional, but new forms of opposition have arisen through what has been termed the "globalization of dissent".[5] Morphing into a heterogeneous and de-nationalized activism, these forces from global civil society have tackled both the legitimacy and efficiency gaps found in the embedded international system head-on.[6] In calling the institutions to account for their lack of credibility as rule-making bodies, a dichotomy has been created between the way that these core architectural components have evolved in practice and the ideal model of a more open and transparent format. Just as forcefully, these groups criticize the institutions for not meeting the demands that are made of them with respect to rapid, substantive and equitable action by the people on the ground.

This book does not address this wide set of concerns about the international system en masse, or offer an agenda of reform in a comprehensive

fashion.[7] Its main proposal – an extension of the current Group of 20 Finance Ministers or G20 Finance into what may be termed a Leaders' 20 Summit or L20 – is parsimonious in outline. Instead of laying out an elaborate template in intricate detail, the construction of this design and its potential capability for addressing key world issues is laid out in sketch or draft format, to be debated and built on. Its top-down, essentially intergovernmental contours, furthermore, depart from the tenets of those approaches that have become identified with the more common push for bottom-up, "societal-led" multilateralism.[8] The focus is more on promoting change via the process of international or intergovernmental governance, as opposed to a more ambitious style of global governance – governance without governments.

Still, if bounded by intent, the proposal is far from modest in either form or function. The proposal of a Leaders' 20 Summit, in stylistic terms, is grounded on the need to overcome sluggishness in the international system. Not only are there important gaps to be filled, but impatience has also built up concerning the need to do things (and be seen to be doing them) quickly. Although a "just in time" quality is usually taken to be an integral component of new societal-driven diplomacy, a quickened pace of delivery lies at the heart of the proposed framework for an L20. In substance, the need for issue salience and differentiation defines the Leaders' 20 Summit proposal. Instead of mission creep, or an accumulation of mandates (as, for example, through the so-called Singapore proposals for the WTO dealing with investment, transparency in government procurement policy, trade facilitation and competition policy), the main criterion for success of an L20 would be an ability to prioritize those issues on which the forum should concentrate. By doing so, the L20 would act as a galvanizing agent, a guide and a demonstration effect for other modes of reform.

With these themes in mind, two additional ingredients become crucial for establishing the credentials of this forum. The first is the considerable responsibility that this proposal places on the heads of government. Leadership matters! Leaders must be willing and able not only to buy into the idea but also to take on an elevated level of commitment – with many attendant risks – to make the L20 proposal work. They must move ahead and deal with the selected issues that rise to the top of the agenda of this forum in a fashion that their ministers and officials cannot, whatever their own level of political acumen and technical skill. They must be able to deliver tough messages. They must be able to find ways to recognize and hurdle over all the obstacles placed in front of "niche" initiatives, both at their individual national level and at the collective group level.[9] They must be able to mobilize the requisite and often diverse follow-up at the bureaucratic level.

This focus is not intended to dismiss the role of ministers either individually or as part of parallel ministerial groups. Tackling complex issues would inevitably mean involving the expertise of ministers in their specific areas of responsibility. But the bottom line is that only leaders can see the big picture and have the vision and confidence to take bold risks. Commitment to the L20 notion starts and ends with them!

Beyond vitality at the apex of power there is the need for an L20 to provide some degree of coordination – through allocation of responsibilities and even oversight – over the issues that have moved onto its radar. Key to this notion is the wish to cut through the so-called silo effect at the institutional level.[10] As two advocates of such a proposal have suggested, this ability may be seen as a default option, as "there is no other representative forum mandated to address … inter-sectoral and inter-institutional issues".[11] Nonetheless, by devising this forum to be directed from the top down, it also plays to the strength of the proposal in that it allows leaders to better adapt to complexity, make choices and cut through turf and distributional issues with a focus on making the necessary trade-offs.

Building the case for a Leaders' 20 Summit

Barry Carin and Gordon Smith give great weight in the opening chapter of this book to the dual challenges of legitimacy and efficiency within the international system for "[g]rowing the G8 into a Leaders' 20 Summit". The starting point for their contribution is, on the one hand, the recognition of the requirement to address the pressure emerging from both the state and societal domain that globalization be "shaped" to ensure a greater equity in the division of benefits – and, on the other, some considerable circumspection that "internally generated reform" would address this pent-up pressure.

Rather than adding to the current collection of international institutions (with formal authority), Carin and Smith anticipate as the most attractive option a more flexible mechanism such as a Leaders' 20 Summit. Through such a device – entailing a new form of political engagement where it counts – the relative inertia of extant organizations could be addressed and overcome. The image of the central clubs within the international system as the exclusive preserve of the rich would be diminished, albeit not eradicated completely. Equally, some constraints would prevent the leaders-level meetings from becoming mere "talking shops".

Not surprisingly given the extensive ambit of their chapter, Carin and Smith open up as many questions about the possible operation of the L20 as they do provide answers. Certainly, in reprising their guidelines, as

well as those of the other contributors to this collection, a number of choices are available concerning the issues on which an L20 would focus. Along one axis there is a wide variation respecting the scope of activity. One option would be to keep the agenda of this forum as discrete or compressed as possible. Through this lens the L20 would target important but mainly technical issues, with an eye to improving compliance or the pursuit of best practices. In this category might fall such issues in the financial domain as exchange rate systems, regional support, standstills and perhaps even improved means of achieving an orderly workout of financial crises. The other option along this axis would be a diffuse or cross-sectoral orientation with a greater emphasis on dealing with an assemblage of issues. A mix of this nature could, to give just one prominent example, constitute a push into the area of public health with an emphasis on communicable diseases ranging from HIV/AIDS to tuberculosis and malaria. These issues, although related, have their own unique modalities and policy setting.

In terms of form there is a considerable discrepancy among the operating procedures that could be adopted by a Leaders' 20 Summit. From one angle an L20 could apply its attention to breaking deadlocks in a highly contentious or politicized area. Such high-profile interventions, most notably in the areas of agricultural trade, climate change and even genetically modified organisms, would lend an L20 forum instant kudos. But this approach brings with it an enormous amount of political risk. Alternatively, time and energy could be devoted to a no less important or even contentious issue, but one that is usually focused on within the confines of the sphere of bilateral/regional relations, such as the treatment of water systems.

Finally, there is a huge scope for variance concerning the expectant outcomes of these choices. If the bias is towards efficiency, the choice of subject area for an L20 would likely be tilted in the direction of what can be done. The onus is on getting items in the win column as quickly and as effortlessly as possible, thereby building confidence in the L20 as an institutional vehicle. From this perspective, discreteness takes precedence over diffuseness, with the L20 tackling not an interconnected bundle of concerns but specific and more technical issues. It must be cautioned here, though, that some issues that may appear at first glance to fall into the technical category will spill over into a complex web of diverse and sensitive areas with links to the security and developmental agendas. On the other hand, if the bias is to be placed on legitimacy, the choice in all likelihood would be ratcheted up in terms of its normative content. Through this lens the L20 would place a greater emphasis on tackling the most vital – albeit highly contentious – issues. This choice would explicitly direct the Leaders' 20 Summit towards the security domain,

whether on issues of terrorism, weapons of mass destruction (WMD), or interventions in failed states or situations of crisis (filling the institutional shortcomings to ensure that another Rwanda or Darfur never occurs). Alternatively, it could point the L20 towards an area at the centre of the debate about the equality of the rules of the game within the international system, such as compliance with the Declaration of the United Nations' Millennium Summit. In either of these latter scenarios the accent is squarely on making a visionary statement, with the L20 taking on the role of a classic boundary-spanner in the promotion of systemic rather than merely issue-specific change.

The chapters by Colin Bradford, Jr and Angel Gurria supplement and refine the contribution by Carin and Smith. Bradford reinforces the questions of legitimacy and efficiency as the twin animating forces behind calls for a move towards a Leaders' 20 Summit, stating: ''The legitimacy of an economic system that fails to impact beneficially on the world's poor and generates increasing income and wealth disparities has been called into question.'' With respect to the second defect, Bradford notes that none of the institutions currently in place have been able to adopt ''coordinated policies to dampen the swings in global economic imbalances'' or ''to prevent major financial shocks in the last thirty years''.

Gurria's chapter is based on an even more explicitly instrumental set of foundations. In terms of motive, the former Mexican Finance and Foreign Affairs Minister is blunt in his assessment of why a Leaders' 20 Summit is needed: ''Because the different fora that deal with globalization are not working.'' In terms of the L20's focus, Gurria is similarly direct: avoid ''overburdening'' the concept by opening it up to too large a range of expectations. Concomitantly, though, he is cautious about the push towards casting scrutiny only on the new. Older issues such as debt, drugs or the management of financial crises continue to cry out for attention. That being said, the main concern throughout the process, as far as Gurria is concerned, should be to ''concentrate on the substance and prove we can make it work''.

Extending the analysis in another direction reveals that the proposals for a Leaders' 20 Summit have found support from a variety of sources. This diversity is important not only intellectually but also diplomatically, as this forum has been associated with Canadian ownership. The recognized champion of this initiative has been Paul Martin, the former Finance Minister and current Prime Minister of Canada. At the end of April 2004, at the Woodrow Wilson Center in Washington, D.C., Prime Minister Martin articulated the genesis and the framework he had in mind:

> an approach I believe to be worthwhile would be to look at the lessons learned from the Group of 20 Finance Ministers that was formed in the wake of the Asian

financial crisis that began in 1997. We foresaw an informal gathering of Finance Ministers, representing established and emerging centres of influence and coming from very different political, economic, cultural and religious traditions. We wanted to bridge the "us" versus "them" mentality that bedevils so many international meetings, and it has worked remarkably well – because peer pressure is often a very effective way to force decisions. We believe a similar approach among leaders could help crack some of the toughest issues facing the world. We need to get the right mix of countries in the same room, talking without a set script. We are not proposing a new bricks and mortar institution, but we do believe a new approach directly involving political leaders could help break a lot of logjams.[12]

This form of national ownership works as both a facilitator and a hindrance to the pursuit of an L20. There are obvious advantages to having a secondary state do the heavy lifting on an idea as sensitive as reform at the apex of the institutional structure. Canada, from a variety of perspectives, can be viewed as a benign state that can act as both an agent of and receptor to change. Systemically, as much by circumstance as choice, Canada has demonstrated a proclivity towards bargaining as opposed to determining outcomes. Although Canada is often considered to be a status seeker, this charge is muted in the case of the Leaders' 20 Summit proposal because Canada is already a member of the exclusive club, the G7/8. Canada also possesses the necessary diplomatic skills at the bureaucratic level as well as the intellectual infrastructural support in academic and think-tank circles to be able to run with the idea once the marker has been set.

The weaknesses of a Canadian-driven project are just as clear both from a domestic and international standpoint. How politically sustainable is the project when it is associated with a political champion?[13] Can ideas from a country prone to taking too many "worthwhile initiatives" be taken seriously? How fragile is the idea when Canada is already the quintessential joiner of international organizations? And are there ulterior motives for Canada's enthusiasm for the idea – namely, does Canada wish to ingratiate itself to a number of emerging states and markets outside of the inner circle of international politics?[14] Put more bluntly, is this enterprise an artful means for Canada to win favour with the ascendant economic powerhouses of the twenty-first century?

Whatever the rights and wrongs of these arguments, alternative sources of backing for the notion of an L20 diminish their sensitivity. This is especially so because, notwithstanding the divergence concerning the sources of this support, the thematic structure of the arguments adopted by Bradford and Gurria is similar. What is so striking about Bradford's contribution is his faith that one measure of reform could accomplish so much. "Without the disruption of restructuring" on a whole-scale basis,

"the global majority" could be incorporated into the core architecture of the international system and valuable improvements could be made in the delivery of results. More controversially still, Gurria makes the argument that reform along these lines not only offers advantages to the South vis-à-vis its position relative to the North (allowing greater leverage in diplomatic disputes), but also acts as a means of ridding the South of many of its collective dysfunctions (mainly its priority on solidarity).

Wider contextual considerations

To suggest that there exist viable motors – or accelerators – for the proposal to create a Leaders' 20 Summit is not to overlook the presence of potential brakes as well. However attractive the idea is to knowledgeable and thoughtful leaders of secondary states or sophisticated experts, there is little possibility of traction unless the wider context within the international system is amenable. Before anything else, what matters in contextual terms is the United States' attitude to the project. As Richard Higgott illustrates in his contribution to this book, situating where the United States stands in the international system, never mind getting an accurate idea of whether or not it would buy into a bold initiative such as the Leaders' 20 Summit, is a formidable task. If there is a comfort zone with the status quo, the United States – as the dominant player if not the hegemon – should be the beneficiary. The United States has shaped the rules of the system in its own image and interests, and it remains far too big and powerful to be controlled or even managed by others.[15]

Yet, despite these palpable strengths, the United States cannot be said to have enjoyed its long moment of triumph. Although located at the centre of the international system, the United States remains at heart an exceptionalist actor, seeing itself above and apart from others. This provides an edgy quality at the very least to its multilateral endeavours. Nor, as Higgott notes, does its power allow the United States to control the system. These features combine to create a recipe for an ambivalent and often short-sighted US approach to the international political economy and a sense of resentment among other actors concerning this attitude, above all from the South. In theory the United States acts as the main defender of the system. In practice, however, the United States often breaks or substantially modifies its own rules.

Does this context provide fertile ground for US support of a Leaders' 20 Summit? Maybe! As Higgott suggests, the US mentality does not lend itself to support for the construction of any tight institutions with a mandate premised on the pooling of sovereignty. A looser, more agile con-

struct, conversely, might have some attraction if the perception can be avoided that the L20 will either become another ''talkfest'' or lead to a structure within which the United States can be ganged up on or hemmed in. The impatience of the United States often leads to unilateralism and bilateralism. But it does not stymie new thinking about how to work with others.

The framework for a Leaders' 20 Summit fits in with some features of the ascendant multilateralism à la carte, especially if it contains a ''can do'' attitude or efficiency motive. It also meshes well with the growing perception that there will be a need for outreach to build new as well as reinforce old friendships. An L20 has considerable appeal on this legitimacy-enhancing basis.[16] It offers a forum in which the South is at the table, but the table is different from that set at the United Nations. Moreover, the initiative does not require a large conceptual jump since the G7/8 has already invited a wide number of state and even some non-state leaders to attend its meetings. Indeed, some states have become regular participants (South Africa has been invited to four in a row, and India, China, Brazil and Mexico attended together at Evian in 2003).

Whatever the merits of the case, nonetheless, any marketing of an L20 must transcend personalities and partisan divisions. If the Democrats had gained the White House, they might have been amendable to institutional innovations both as a problem-solving and symbolic differentiation mechanism (distinguishing John Kerry's brand of multilateralism from his predecessors'). However, with the success of President George W. Bush in winning a second term, the fate of the L20 hinges on the attitude of the successor Republican Administration. The appeal must therefore be based on a combination of emotional and practical motives. President Bush might be open to the merits of an L20 on either legacy or simply convenience terms. It would allow the President to meet with a variety of leaders on a ''one-stop shopping'' basis. The informal nature of the proposal would play to his political taste and personal strengths. The poor chemistry (notwithstanding the presence of Prime Minister Tony Blair) of having to meet in the confines of the G7/8 with the leaders who were closely identified with the ''coalition of the unwilling'' on the Iraq war might be dissipated in a larger group. To overcome the formidable obstacles placed in the way of this initiative, more of an effort will have to be made to convince the Bush Administration of its substantive worth. That is to say, the advocates of this proposal need to work hard to show how it would make a difference on a tangible basis. This impression is confirmed by an interview with Paul Cellucci, the US Ambassador to Canada, who stated that although George W. Bush would have to be convinced that an L20 meeting would have to have ''an appropriate purpose ... the president said he'd keep an open mind on it, so we'll

see''.[17] This functional orientation is also crucial in eroding the impression that the L20 would inevitably turn into a forum in which the United States would face a mass of dissenting countries.

The US position has severely complicated the positions for its putative followers. As Saori Katada showcases in her chapter, the Japanese priority has remained the maintenance of ''a stable international economic and financial environment''. Japan has on occasion been innovative and sought leadership on an issue-specific basis, as in the case of the Asian Monetary Fund, the story of which Katada elaborates on with some considerable nuance. In overall terms, however, Japan has been cautious in responding to alternative proposals for reform at the hub of the international financial architecture. As Katada notes, Japan supported the establishment of the original G20 Finance not only because this forum played to its technical/problem-setting instincts but also because it opened up the possibility of a greater Asian voice and alternative perspectives in the wake of the Asian financial crisis. However, protective of its status as a member of the exclusive world economic club, Japan has set clear limits concerning how this forum should be extended to a Leaders' 20 Summit. Japan may be willing to entertain the concept of a new forum, although so far this support appears to have come exclusively from Prime Minister Junichiro Koizumi and not from a more cautious bureaucracy. What is out of bounds from the Japanese perspective is any initiative that moves to replace the G7/8 with an L20.

The other contextual feature that needs to be brought into the discussion is the relationship between the L20 and the oppositional pressure associated with the forces of anti-globalization within civil society or, as Richard Falk terms it, ''globalization from below''.[18] Daniel Drache delves deeply into the means and ends of this dissent movement. In large part, the theme he picks up – the inconsistency in US policy via ''coercive bilateralism'' and other means – is a continuation of the Higgott chapter. Drache magnifies the argument, though, through a detailed discussion of the differences between global elites and what he terms ''global publics''. On the efficiency front, Drache argues that these emergent global publics no longer have a capacity to deliver positive real outcomes through mechanisms such as the Doha Development Round. On the legitimacy front, these same global publics offer a very different vision of empowerment – and with it an explicit challenge to the privileged status given to governments. Moreover, as Drache concludes, the presence of these global publics should no longer be regarded as a novelty. Fed by a basic mistrust of traditional institutions, they are regarded as having staying power absent in previous cycles of protest.

From this outline it is quite apparent that the forces of global dissent and the proposal for an L20 provide in many ways polar opposites to

the challenges of legitimacy and efficiency in the international system. All of the proponents of the L20 idea expressly portray this forum in top-down, intergovernmental, leadership terms without the direct participation of civil society or non-governmental organizations (NGOs). Carin and Smith argue: "The most accountable people are democratically elected national governments." Bradford contends that a Leaders' 20 Summit should be built within the confines of national governments, although with some additional role for parliaments. Gurria correspondingly sees an L20 as a forum of governments. NGOs should be given a voice, but they should not "run or decide the agenda of" this type of forum.

These negative views are consistent with a more generalized backlash vis-à-vis the role of NGOs. From one critical perspective, the NGO world is dominated by the North, adding another means whereby the rising voices in the South are muted. Through another lens, detractors fear that too much engagement with civil society could erode the informality of the proceedings, undermine democratic structures and open the proceedings up to a "cacophony of millions of voices". Even if a sympathetic approach is adopted, it must be acknowledged that formidable bureaucratic obstacles stand in the way of opening up the process at the international as opposed to the national level.

Against this background, it remains to be seen whether the two modes of responding to the challenges involved are totally incompatible in operation. At the very least, the L20 represents a signal that the status quo is too exclusionary – and that it needs to change. To those "dismantlers" or "nixers" (as Higgott and Drache call them) among the dissenters, the dynamics described above are mutually exclusive. For others, those that can be classified as "supporters" or "fixers", however, there is greater compatibility, at least as a starting point for reform. Although still highly divergent in terms of goals, the L20 proposal demonstrates the fact that states are not willing to be passive actors. After all, the main target of the global dissent movement is not national states but the "hyperglobalist" vision linked to corporate expansion over the realm of governance and the entrenchment of a homogenous "one size fits all" agenda.[19] As one contribution to this debate argues, while the proposal for the creation of an extended summit of leaders may be viewed as part of a process of political globalization far removed from the ordinary concerns of individual citizens, "nothing could be further from the truth ... By delegating authority to increase sovereignty, political globalization will overcome the democratic deficit and give governments the power to implement the policies their citizens demand".[20]

In institutional terms, an L20 would benefit in comparative terms by the sustained wave of suspicion and anger directed at the G7/8. If still exclusive, the forum is opened up considerably. It is one thing to criticize

the G7/8 – and use it as a lightning rod for protests – as an executive committee at the core of the international system. It is another thing to see an L20 – with representation from both North and South – in this same stark negative light. As one writer for a respected financial paper suggested after the 2003 Evian Summit, the benefits of the G7/8 in its current format might not outweigh its costs as an outdated edifice: ''scrap the G8. Disappoint the protestors by staying home until you have found a better, more representative, more cohesive forum for examining the state of the world''.[21]

The additional – and more concrete – contextual consideration that must be added here concerns the institutional structure already in place that a Leaders' 20 Summit would need to respect. The proposal for an L20 has not emerged out of a blank slate. Rather, as John J. Kirton describes in considerable depth, the proposed forum – as alluded to above in the comments by Prime Minister Paul Martin in his Woodrow Wilson Center speech – has been pushed as an outgrowth from the experience of the G20 Finance. From a variety of trajectories, this earlier forum reveals some of the components for a successful launch of an L20. One source of strength was the willingness of a US administration – in this case, the Clinton team, in the aftermath of the Asian financial crisis – not only to be active itself but also to build support for a multilateral initiative. Another strength could be seen in the benefits that went along with an informal, free-flowing style. With no set pieces or secretariat, the G20 Finance maintained a flexibility that served it well. A third element that allowed the forum to work effectively was the balance maintained between its core concerns (managing financial shocks and working towards crisis prevention) and reacting to different kinds of pressure for an expansion of this agenda. One of these pressures was, of course, a result of the September 11 tragedy in 2001, whereby the G20 developed an action plan on terrorist financing with special attention to freezing terrorist assets and the implementation of an international strategy. Another type of pressure pushed for the G20 to expand its range of interest to a broader mandate taking in poverty reduction, development assistance and the UN Millennium Development Goals (MDGs).

Kirton ultimately points to a fundamental dilemma linked to the future of the G20. By ratcheting up this forum, does one expose it as a project full of conceptual holes and practical difficulties? Does the participation of central bankers and input from not only the International Monetary Fund (IMF) and World Bank (WB) but also high-profile policy ''wonks'' (engaged in issue-specific seminars dealing with regionalism and globalization, migration and remittances, and financial sector institution-building, among other topics) open up or preclude access to the process on the part of civil society and other international institutions? In elevat-

ing the forum, does one stretch its mandate – and the concept of "like-mindedness" encouraging informality – to breaking point, or build on the success of the G20 – especially important if the mandate of the new body is to focus on technical or "plumbing" issues of the international system? Alternatively, is the momentum towards the establishment of an L20 coming just as the opportunities of the G20 are becoming more apparent? Some flavour of this debate from the inside – and its possible implications for the global institutional architecture – can be obtained from the public musings of German Finance Minister Hans Eichel, a key actor in the G20: "There is a need to reinforce the growing sense of responsibility of all members for their respective regions and for the world economy as a whole. On this basis policy co-operation could be broadened as well. This applies both to the number and frequency of meetings and to the division of labour by subject matter. If the G20 continues to develop along these lines and becomes even more effective, I think we could in theory expect to see a G20 comprising the Heads of State and Government set up at some time in the future, as recently called for by Paul Martin, Prime Minister of Canada."[22]

Receptivity from the South

The supply of ideas from some elements at the top of the international hierarchy is crucial for the agency of the L20. So are questions concerning the extent of support from what many consider the "hyper-power" of the international system. Thinking about a Leaders' 20 Summit without consideration of the United States is pointless (like Hamlet without the Prince!). Yet if supply is important, so is the demand from the South for such institutional change. The response of civil society to the proposal – while certainly providing one barometer of succour or discouragement – should not be conflated with that of the reaction from the states of the South. The authentic test of legitimacy – and a host of issues pertaining to efficiency – is the reception given to the proposal by such targeted states.

The lure of an L20 is largely conceptual. A forum of this nature opens up considerable possibilities in terms of status enhancement. A direct means is provided whereby some states (or more precisely, their leaders), rather than being kept at the margins, would move into the centre of the institutional architecture. By closing this gap in representation, a critical irritant might therefore be removed. This approach would also offer a reward for achievements in the sense that most if not all of the states brought into this forum would come from the classic big emerging markets and/or regional powerhouses, all of which are becoming increasingly

integrated into the world economy.[23] Indeed, by many criteria, the leading candidates for inclusion into the forum would provide better fits than Russia, the most recent state to have graduated into the G7/8.[24]

This transition comes with relatively light diplomatic and political baggage. The proposed L20 plays to the legitimacy question not just from the point of view of representation from the South in general, but also in relation to the existence of national states (and their governments) more specifically. In an age where the residue of colonialism and intervention still chafes, these are highly salient issues. It is important that the vestiges of colonialism that mark the G8, all of whose members (with the exception of Canada) have an imperial past, be removed from the construction of an L20. In this sense, it is important that the initiative have strong support from the South at the earliest stages. India and China are particularly important in this respect.

In practical terms, the contributions to this book of both Yoginder Alagh and Yu Yongding are illuminating in that they pose both the opportunities and the obstacles for an L20 from the perspective of the two most pivotal states in the mix. Alagh's chapter sets a high test for the L20, but it is an option that he sees as within the range of possibilities. Giving credibility to the idea will depend on performance in terms of how it presents itself as a mechanism for making crucial breakthroughs in the most intractable issues within the international system. This shortlist includes making a difference to the Doha Round of trade negotiations, improving the financial architecture and settling the climate change issue. In elaborating on these themes in a subsequent newspaper article, Alagh makes a strong case that: "Cancún failed not because the issues were intractable, but because the world did not recognize that the East Asian crises had sent the global agricultural economy in a spin. In water or energy again, cutting edge institutions are not becoming a part of the state of the art solutions on a global plane".[25] As Alagh makes clear throughout his chapter, though, efficiency is only one measure of success. The other measure remains how fairly the underprivileged within the system are treated.

China has an even greater array of attractions and reservations to the notion of an L20. Nationally, there may be an attraction to the forum in that it helps China assume its rightful place with respect to international institutions. It also reinforces the outward pattern of engagement that Yu Yongding showcases in his chapter. Indeed, internationally as well, the relative degree of inclusiveness located in this form of membership may be useful, as China has discovered through its participation via the G20 Finance.

These attractions appear to be overshadowed for the moment, however, by a number of sensitivities. China has grown comfortable in its

hybrid situation, as both a state in the P5 and a country with a richly ingrained tradition of solidarity with the South. It fears, therefore, that any dramatic change in this situation will create an imbalance. It also has a well-honed instinct not to appear to want to enter institutions where it has not been invited.

These circumstances create a dilemma for the pursuit of an L20. China does not appear to have shut the door on this forum. On the contrary, on 10 October 2004, President Hu Jintao of the People's Republic of China issued a joint press statement with President Jacques Chirac of France expressing their joint support for the idea of high-level annual meetings between leaders from both developed and developing nations, with a particular focus on globalization and economic governance.[26] But there is a need to think and talk in more depth about this initiative. As Yu Yongding concludes, "only constructive debate can create a fulcrum so that the earth can be moved".

The situation is complicated by the immediate presence of alternative choices of diplomatic activity, as well illustrated in the contributions by Ricardo U. Sennes and Alexandre de Freitas Barbosa, and Ian Taylor, on Brazil and South Africa respectively. The central thesis of both these chapters is the expansion of choice for these two countries, at least within the international political economy. Although both countries would be prime candidates for a Leaders' 20 Summit, they have spent more time in bilateral, regional and cross-regional activities that encourage alternative coalitions, most notably the rival trade G20 or G20+ of developing countries and the India–Brazil–South Africa (IBSA) Forum. Initiated as an issue-specific mechanism designed to get a fair result on agricultural trade in the Doha WTO Round, this constellation has solidified into a loose grouping intended to encourage economic cooperation between its members and to provide a caucus to lobby for more extensive change in the global arena.

Such a development has typically caused some controversy. To some established powers, above all the United States, this is an unwelcome shift that is apparently seen as the reaction of spoilers. To other observers, by way of contrast, this is a natural and more sophisticated outgrowth in which these states have become smarter in their behaviour.[27]

That being said, both of these chapters point to various limitations as well as opportunities in the scope of these initiatives through both a domestic and international framework. Sennes and de Freitas Barbosa point to the contradictions within Brazil's projection of itself on the international economic stage, with bursts of activism on the trade side being conducted side by side with a modest and reactive approach on the financial side. The global trajectory of Brazil's leadership on the G20+ also moved in a somewhat uneasy parallelism with a regional focus directed

towards Mercado Común del Sur (MERCOSUR) and its more immediate neighbourhood. At the same time, however, Brazil continues to demonstrate a high degree of agility in its diplomatic profile. Notwithstanding some considerable tensions in the bilateral relations between Canada and Brazil, Prime Minister Martin was able to secure a public commitment to the L20 proposal from Brazilian President Luiz Inacio Lula da Silva in a November 2004 visit to Brasilia. He did so by reassuring Lula that the L20 would not just be a symbolic gesture to the South, but a forum for addressing key substantive issues.[28]

Taylor, in looking at the wider canvas, stresses the limitations of the relatively narrow constellation located in the G20+. Does this form of triangular cooperation come at the expense of a broader Southern diplomatic approach? Are there deeper genuine forms of economic and diplomatic complementarity or is the alliance more ‘‘of the moment’’? Such questions open the door more widely to the possibility that an L20 – encompassing both the core Northern countries and representatives of the South – might have appeal.

What are the modalities of change?

Providing the broad brushstrokes concerning its overall look and impediments is necessary but not sufficient for an examination of the notion of a Leaders’ 20 Summit. What is lacking is a more intricate discussion of how this objective can be reached. One route is through a giant leap or ‘‘big bang’’ approach in which the G7/8 is simply replaced by the L20. This is the path favoured by Bradford, who in his contribution argues that ‘‘having a Leaders’ 20 Summit next year to replace the G7 would be ‘anticipating the future’ in a significant way’’. It is also the course advocated by Klaus Schwab, the Executive Chair of the World Economic Forum (WEF), who has put forth the idea of what he terms a Partnership 21 (P21) as a formation that would replace the G8. To be sure, in a speech in India, Schwab dismissed the G8 as the guardians of the status quo, reflecting an outdated vision of the industrialized past.[29]

A second option is one of accretion in which states are added to the G7/8 in a series of moves, much in the same way that Russia (or, for that matter, Italy and Canada) was added in the past. This ad hoc or ‘‘trial and error’’ approach lacks an authentic innovative quality – and the buzz of the new with a decisive break from the past. Through this lens, gradual accretion via a G9 and G10 can be criticized for not diverging enough from the ‘‘rich club’’ stigma that haunts the G7/8. On the plus side, however, this scenario avoids a good deal of the sensitivity inher-

ent in a sudden and decisive transformation. China and India could be added, and then Brazil, and so on.[30] Incremental growth in the membership of the G7/8 could also take some of the exclusionary sting away from the big bang approach.

A third choice, preferred not only by Kirton but also by other authorities such as Sir Nicholas Bayne, would be an overlapping model by which a G7/8 would continue to exist but would operate in tandem with a new L20. This modality has the virtue of maintaining the comparative advantages extant in both the G7/8 and the G20 as they operate currently. From a legitimacy standpoint, the downside would be that this framework reinforces a duality of status. From an efficiency perspective it leaves open the issue of how a new form of collective management would operate. For Bayne, therefore, the L20 offers considerable advantages as a potential complement to the G8 Summit, but should be ‘‘directly linked to the G8’’.[31]

An equally tough question is that of which actors from the South should be included in any L20. China and India are at the top of all the possible lists for candidature, with Brazil sometimes added on.[32] After that, the problems start. Mexico and even Argentina are strong choices for both geographic and functional reasons (including their experience as debtor countries), but this constellation excludes Chile, which has been both an economic success story and a credible diplomatic actor in recent years. Some have proposed regional rotation, but that approach has its own limitations. If South Africa has moved to the top of the slate, does this ranking leave Nigeria out (a very contentious issue among African states)? In a similar vein, does India's presence come at the expense of Pakistan? Is Indonesia kept on as it is with the G20 at the expense of Malaysia or even Thailand? And on what justification are these choices made? Saudi Arabia makes sense for the G20 but is a less credible selection for a Leaders' 20 Summit. Should Turkey be taken over Egypt or another state such as Algeria (which might be championed by France)? Is there an overrepresentation of Western European states because of the legacy of the G7/8 and the presence of the EU Commission? Or should a European state with a middle-power diplomatic tradition (the Netherlands or Sweden) be added to buttress the presence of good international citizens? Should Russia remain as the one and only Eastern European state in the composition? Or should another state such as Poland be added?

One thing that emerges from all of this discussion is the amount of scope there is for the engineering of an L20. Certainly a case can be made for flexibility of choice in numbers, as in style. When the so-called ‘‘Willard Group’’ was created in November 1997 there were actually 22

members. Given the competition for the right to belong to an L20, therefore, a case can be made to call the Summit an L20 but to have additional members. This gets rid of some of the sensitivity that would arise on the part of those countries that would be next in line, most likely Nigeria and Egypt. But this flexibility creates the risk of country creep when much of the attraction is the modicum and informality of size. The domestic political analogy with cabinet making is pertinent here, with a reduction of efficiency and legitimacy as the membership grows into the upper twenties and beyond. Despite the greater potential for trade-offs, it is far more difficult to get consensus on complex issues with bigger numbers. If the aim is to solve crises, bigger is certainly not better.

A form of rotating membership would bypass some of these obstacles. But this device may look better in theory than in practice, accentuating all sorts of political gamesmanship. Those who are in will want to remain; those who are on the outside will use all sorts of claims to win a place at the table. In any case, the details of working out an acceptable formula are enormously complicated. How long would membership run? Would membership be accorded on a state-specific basis or would this classification of participation be accorded on a constituency basis?

Another point of importance is the arbitrariness of membership beyond a certain range. On what grounds should members be added – as the representative of a region, as a reward for political transformations or economic success, as a voice for the poor (with suggestions of including Bangladesh or even a country such as Bolivia), to muffle the cries of a potential spoiler, or to balance or offset another member? More specifically, is issue-specific membership a feasible notion, with membership accorded to a state because of its leadership in a particular functional area or set of activities such as HIV/AIDS? Or does inclusion via reputational qualification just complicate matters further, opening up the debate in another direction about what other actors should be brought into the forum on this criteria (business representatives, most notably "Big Pharma", as well as issue-specific NGOs or an expanded range of international organizations)? Similar problems arise in the area of balancing. If Nigeria is included to offset the presence of South Africa, to give just one illustration, does this make the membership even more heavily tilted toward regional heavyweights whose interests are not necessarily congruent with the neighbourhood in which they reside? Is there a need as well, then, to bring in a representative of another category of states, such as a smaller West African francophone state? Conversely, for what reasons does one refuse to admit a state? Democratic or human rights abuses? Overcrowding from a particular region? Or because there is a mismatch between the economic and diplomatic weight attached to a particular state?

Still another issue relates to the value of inclusion. The notion of a Leaders' 20 Summit is not the only idea in circulation, as emphasized by the call from Fred Bergsten and Caio Koch-Weser for a G2 (with an exclusive membership of the United States and the European Union).[33] Yet, as Bergsten acknowledges in another recent publication, some rethinking on the matter of inclusion is necessary on the basis of a management rationale.[34] If there is to be any claim that the global economy can be steered, other countries must be brought in as participants. Bergsten points to the need to engage China – together with others such as South Korea and India – on issues pertaining to the adjustment of exchange rates. A similar process is needed to deal with major debt cases. Bergsten, while positing a more activist G20 Finance as opposed to an L20, is fully aware that the current institutional structure needs to embrace a wider membership if it is to deal with the major problems facing the world economy: "Recent events, notably the failure of the G-7 to resolve some of the most salient issues now facing the global system because its membership is essential for doing so, underline the need for the G20 to become an effective action organization".[35]

In any case, relatively few states have the luxury of being able to say no to an initiative such as the L20. For most, the possibility of being an insider is far preferable to being on the outside. This view has been made in the plainest of language by an Australian journalist, whose own country has historically been perceived as suffering at the margins of the international system:

> The debate matters for Australia. A reform [for a Leaders' 20 Summit] offers us the only chance we are likely to get in the next quarter century to grab a front-row seat at the world's major economic and political site. Lacking a natural regional constituency, Australia always has to fight to make our voice heard, including by trying to shape the architecture of international co-operation.[36]

The Egyptian perspective offers a valuable case study of both the attraction of a new forum such as an L20 and the pitfalls of membership. Abdel Monem Said Aly's chapter reveals the pent-up resentment in much of the world towards closed/elitist groupings, as well as the demand for inclusion in forums with systemic significance. With this attitude, however, comes a sophisticated consideration of what arguments (symbolic and tangible) can be used to support membership and an appreciation for a flexible institutionalism that would allow as many states as possible to be part of a forum such as an L20.

This analysis of modalities in turn raises questions of not just a technical but also a normative nature. If one assumes that an L20 is a good idea, can one find an equilibrium between many of the contending pulls

and pushes? One strong push for change along these lines contends that the relevance of an L20 will be judged by its ability to deal with issues that are not being looked at elsewhere, or where the deadlocks are political and not technical. But, with this consideration in mind, is there an opportunity for an L20 to go beyond instrumental performance, however valuable the output on that basis may be? Can an L20 gain additional legitimacy not just because selected states/leaders are in attendance and are willing to tackle tough decisions, but because they can talk and voice the concerns of a larger, more geographically diffuse population in the South not at the table? Through this alternative lens, the L20 notion has the potential to become far more than a meeting of leaders from selected states. It becomes, in essence, a meeting place for the different civilizations of the world, not just taking into account the different histories and development trajectories of the actors at the table but searching for "common ground" between them.[37]

This search for balance can be traced over a wide array of issues. Debate has arisen, for instance, about whether an L20 will undermine or complement the workings of the United Nations. Critics point to the ability of this sort of forum to stimulate end-runs around the United Nations, de-legitimizing that institution.[38] The spectre is also raised of institutional duplication and turf wars. While an L20 could pledge money, would it have the authority to make decisions for the rest of the world, particularly if the countries most affected by these decisions were not at the table? Moreover, the task of carrying out decisions would undoubtedly fall to other organizations such as, for example, the WHO on health issues. Supporters point more positively to the capability of an L20 to enhance the problem-solving objectives of the United Nations via its support for such initiatives as the MDGs and its potential ability to break deadlocks in contentious areas.

Arguably though, the most sensitive issue for a prospective L20 remains that of what it tells us about the future direction of the international system writ large. Does an initiative in this direction confirm the image of the well-off in the international community being obsessed by the verticality of institutions, willing to open up participation in their core clubs only a crack while retaining control of membership? Or does it indicate some greater enthusiasm for both vertical and horizontal networking with which the L20 could mesh?

This issue rises to the fore in Anne-Marie Slaughter's chapter, which foreshadows the larger possibilities for an L20. Slaughter expands the debate about a Leaders' 20 Summit not just as a contrast with the prevailing status quo but as the centrepiece of and conduit to what she terms a "network of networks". An L20 would act as an informal hub or steering

committee, with ideas and practices flowing both out from and into the L20, to and from other networks. As she concludes: "An L20 has the potential [to demonstrate] how a government network can in fact be more inclusive than existing international institutions ... in terms of balance of power."[39]

At odds with the stereotype of a Leaders' 20 Summit as another variation in straightforward institution-building is this idea of the forum as a networking or bridge-building device, which is beginning to capture attention. Bridge-building, whether between a very different array of leaders; between North and South; between instrumental and symbolic objectives; between supporting instruments, either parliamentarians or think tanks, and other forms of knowledge entrepreneurs; and between other institutions and actors, both at the state and non-state level, always runs on a similar trajectory. As Ramesh Thakur has summarized, cast in networking or brains trust terms, the attractions of an L20 are increased still further as this type of forum "would be a better forum for framing the issues, outlining choices, making decisions for setting, even anticipating, the agenda; for framing the rules, including for dispute settlement; for pledging and mobilizing resources; for implementing collective decisions; and for monitoring progress and [receiving] mid-term corrections and adjustments".[40]

It remains far too early in this debate to tell how attractive and viable a template for change this model of an L20 will become. A solid logic is in place to buttress such a project, both in terms of its capacity to fill a number of inadequacies in the present architectural fabric and its attractiveness as a device that promotes both a flatter and more informal institutional structure. That being said, the attractions of the new are often subordinated to the confines of the familiar, if uncomfortable, status quo. While the L20 proposal offers some creative ingredients for a quick fix, the debate about the incentives and problems inherent in this initiative will in all likelihood be a long and diplomatically delicate one. With so many actors and motivations in train, the vagaries of politics will play out in a complicated and perhaps unanticipated pattern.

The best platform to sell the idea may well be the most unusual – the notion of an L20 not just as a new expanded club but as part of an informal discursive transnational network that allows both informal debate and quick responses. Reform at the top it may well be, but the initiative rests on a framework and set of expectations that are anything but a stylized and limited response to the challenges of legitimacy in the international system. A departure from the familiar script and mode of ownership, the L20 has the potential to be used as a breakout in rethinking and policy reactions on governance issues.

Notes

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1

Making change happen at the global level

Barry Carin and Gordon Smith

During the last decade, there have been increasing protests against globalization. These protests have generally taken place at the time of major international meetings. The World Trade Organization, the G7 and G8 Summit meetings, and the Bretton Woods institutions – the International Monetary Fund and World Bank – have been the primary targets. Protests have also been directed against European Union meetings as well as Free Trade for the Americas meetings.

The protesters are an international coalition of people and organizations with quite divergent interests. Nowhere is this more obvious than in the side-by-side presence of union leaders from developed countries seeking protection for their members, and protesters from the South who want to see increased access to their goods in the developed world. There are, of course, those with an anarchical bent, but for the "thoughtful" protesters, what unites them is opposition to the way globalization is unfolding.

In 2000, the largest assemblage of leaders ever in one place gathered at the United Nations for the Millennium Summit. It is interesting and important to note that none of them called for the process of globalization to be arrested. Indeed, those from the South expressed the conviction that it was through more trade and investment that the vicious circle of poverty could be broken. The Secretary-General of the United Nations, Kofi Annan, has on many occasions described what is needed as a "shaping" of globalization. While globalization has a dynamic of its own, Annan and other leaders from the South are arguing that it should be

managed so as to ensure that the benefits are more broadly shared. ''Laissez-faire'' globalization leaves too many losers in its wake.

We agree with the thesis that globalization needs to be ''shaped'' so that more countries and peoples can share in its benefits. The question is how to do it. In our view it is clear that this ''shaping'' will only happen with leadership coming from the highest political level – presidents and prime ministers. These leaders need a mechanism, however, and it is less clear what that mechanism should be.

There are four potential routes to this desirable future of a more equitable process of globalization. Firstly, existing international organizations such as the IMF, WB and WTO could take or infer direction from their executives, and reform and evolve so as to shape globalization more fairly. Secondly, sustained external pressure from civil society on existing organizations could result in dramatically progressive policies eventually becoming the routine convention. Thirdly, new, more representative and legitimate organizations could be established. Fourthly, and we feel that this is the most promising of the potential routes, the existing G7/8 and G20 could be transformed in such a way as to provide the requisite leadership.

Could multilateral organizations reform their bylaws, becoming more representative, legitimate and effective? We conclude that internally generated reform is an unlikely possibility. Witness the gridlock facing reform of IMF governance regarding increases in Special Drawing Rights (SDRs) or the (one might say) ''no brainer'' proposal for a second Executive Board seat for sub-Saharan Africa. It is as impractical to substantively change the IMF Articles of Agreement as it is to reform the UN Security Council from within.

A second approach is consistent pressure over time focused on existing organizations by civil society. One example of this is the external pressure exerted on the IMF to focus on poverty alleviation. The official stance of the IMF has evolved substantially over the last 10 years with respect to its emphasis on poverty issues, thanks largely to the continual hammering of civil society advocates. While we believe networked civil society can and will have a beneficial effect on issues of international concern and on changing the priorities of governments and international organizations, the forging of intergovernmental consensus, required for the resolution of many apparently intractable problems, can only be affected by governments.

A third alternative route to a more desirable future is an end-run of existing sclerotic organizations. Could new and effective multilateral organizations be established to fill needs not met by existing organizations? To fill the needs for collective management and the reconciliation of the

tensions induced by globalization, new multilateral regimes or international organizations are clearly required in areas such as international taxation and anti-trust/competition. It would also be desirable to have an international bankruptcy "court" for sovereign states. Many have argued for a Global Environment Organization (GEO) to consolidate the uncoordinated hodgepodge of environmental organizations and convention secretariats. Again, we dismiss the creation of powerful new international organizations as highly improbable. Witness the US reaction to the International Criminal Court (ICC), or the implications for a GEO of the US response to the Kyoto Protocol.

Anne-Marie Slaughter has identified the growing importance of transnational networks – associations, more or less formal, of government officials with similar responsibilities, who meet periodically. While these meetings might simply seem like discussions comparing experiences in different jurisdictions, they are in fact part of an evolving global governance. Slaughter notes that, more and more often, reasons for decisions cite those of other jurisdictions. One example can be seen in decisions made by human rights commissioners. This process of extra-national citation, to some degree, represents "best practices", but in fact is something more. Ideas held in common emerge. People rely on international norms and practice to come to conclusions about the best way ahead.

One advantage of the transnational networks approach is that it avoids building up supranational institutions, organizations that can and do take on a life of their own. At the global level there is even less direct accountability for these networks than for international organizations, nor is there likely to be for a very long time. The most accountable people are democratically elected national governments. It therefore makes sense to build on these governments to the maximum degree possible as the human race develops better ways of managing its increasing global interdependence.

We argue below that the G7/8 has achieved results. It certainly is the highest-profile transnational network. Indeed, its visibility contrasts with meetings, for example, of human rights commissioners that few know about – this lack of visibility could become an increasing problem, but is not an issue we address here. The relative success of the G7/8 does not come from a position of formal authority; the G7/8 does not have "authority". Rather, it comes from the engagement of political leaders in a forum that facilitates compromise and consensus to coordinate efforts in other fora.

If the reform and growth of existing international organizations is paralysed, and if the creation of effective new international organizations is problematic, then a transformation of the G8 is the best route to realizing

the needed political leadership for collective management and reconciliation of the tensions of globalization. The evolution of existing informal intergovernmental processes is much more likely than the comprehensive reform of existing organizations or the creation of new effective institutions. Growing the G8 into a Leaders' 20 Summit is the best bet for attaining a more desirable future.

There are articulate detractors of the G8 and G20 Finance. Gerry Helleiner is perhaps the sharpest. He indicts the G20 on several counts:

- its unilateral creation by the G7 totally ignored the continued efforts of developing countries to speak collectively through their G24;
- there is no representation either from the poorest and smallest developing countries or from the Nordics or Dutch who might be expected periodically to speak on their behalf;
- there are no mechanisms for reporting or for accountability to the international community; and
- there are no provisions for non-governmental inputs or transparency, both of which are required for the G20's credibility and legitimacy, as well as its effectiveness.

The critique related to the end-run around the G24 through the unilateral creation of the G20 is valid – but it is an issue of paternity, not substance. If the G8 were to confer with the G24, a G32 would emerge. This would be too large to be effective, so some new "executive committee" would result – probably not much different from the G20. Over time, the G20 may institute some sort of "constituency" system to ensure full reporting and a sense of ownership for non-members. In time, the G20 may make discussion papers, documents and reports publicly available. We agree with Helleiner when he calls for the G20 to "significantly expand its agenda to address the full range of problems and issues in the international and monetary and financial system".[1]

In the text below, we first examine the G7/8 record, and conclude that leaders meeting on a sustained basis can move issues that officials and ministers cannot. We then analyse the salient characteristics of two significant international developments that seemed unlikely long shots – the formation of the Association of South-East Asian Nations (ASEAN), and the agreement on the euro. The chapter then reviews the prospects for successful progress in meeting three long-term global challenges (a Trade Round that ends agricultural subsidies, a climate change agreement with worldwide buy-in, and a single world currency). The prospects for progress are reviewed in two alternative futures – one where the G8 leaders' Summit and G20 Finance have morphed into an energetic L20 Summit process, and one where there is no new institution or process where the G8 leaders meet leaders of emerging economies and the South in a collegial forum outside the United Nations.

The chapter then proceeds with conjectures on the membership of a future L20 and on its machinery. The chapter concludes with some views on the likely route to realizing an effective, legitimate L20.

The G7 and G8 record

The G7 leaders have made a constructive difference in addressing intransigent issues. There are innumerable examples of international meetings of ministers and officials reaching consensus on what needs to be done, drafting an elegant communiqué – and then nothing happens. A "do nothing" focus on defining problems and avoiding action can also happen, in fact, at the leaders level. But leaders have a greater capacity to move beyond rhetoric and agree on what needs to be done, and then to ensure that it happens.

Leaders' summit meetings are not completely choreographed by "sherpas", the term that refers to the leaders' personal representatives. Leaders do get personally involved and are not mere symbolic talking heads. In our experience of five summits, the leaders had on each occasion at least one major discussion that was not planned, or prepared by the sherpas. Generally there is more than one such discussion. Often these are about the latest international crisis, such as conflict in the Balkans, the Middle East or Africa. Sometimes they are about major global challenges, such as climate change in the lead-up to Kyoto, and at other times they are about major international issues of the day that leaders feel are not being adequately handled, such as infectious disease and transnational organized crime. Typically the summit meeting underlines the utility of leaders acting in common, and facilitates a coming to agreement on what should be done.

We review below the G7's contribution with respect to the stalled Uruguay Round in 1993 and the money laundering and debt relief issues.

The Uruguay Round

The 1993 G7 Summit held in Japan was very productive in breaking the final deadlock in the Uruguay Round negotiations and leading to the creation of the WTO. In early 1993, the negotiations in the Uruguay Round were at a standstill. Despite the "Blair House" agriculture agreement in 1992 between the United States and European Union, there were wide divisions on tariff and services issues. The G7 meeting in Tokyo could not afford failure; there was a clear imperative to re-energize the Round. Quad (US, UK, EU, and Canadian trade) ministers were summoned to the Tokyo Summit site and, in an unprecedented pressure session,

achieved the required market access agreement. The Tokyo G7 Communiqué announced:

> significant progress made towards a large market access package in goods and services as a major step to the immediate resumption of multilateral negotiations in Geneva. This progress must be matched by comparable market opening measures by other participants. We urge all our trading partners to negotiate constructively on all subjects, recognizing that nothing is agreed until everything is agreed. There remain important issues to be resolved. We renew our determination to resolve them and to achieve with all our partners a global and balanced agreement before the end of the year.

Most other countries agreed to the critical market access package by December 1993, and the Uruguay Round agreements were signed in Marrakech in April 1994. The Tokyo G7 Summit was a unique instance of the collective power of leaders to drive their ministers to reach a consensus.

Debt relief

In international affairs, timing is critical. Some argue that summit timing works in favour of influencing contentious international finance issues – the late June/early July G7/8 Summit falls between the IMF's spring Interim Committee and its autumn Annual Meeting. It therefore provides a good occasion for giving an impetus to proposals launched over the previous year and intended for conclusion at the autumn meeting. An example is the 1988 Toronto Summit, which was the first to push debt relief proposals for the poorest countries, resulting in what came to be known as the "Toronto terms". At the IMF 1989 spring meetings, the US Treasury Secretary then launched the highly contentious "Brady Plan", promoting relief for countries heavily indebted to commercial banks. Differences were resolved by the Paris Summit. The Brady terms were adopted by the IMF in the autumn of 1989.

A tradition of summits is that participants afford the host country the courtesy of supporting an initiative favoured by the host. There is an implicit understanding that precious agenda time and support will be given to an idea designed and promoted by the host country. Kananaskis in 2002 provided Canada with the opportunity to press the New Partnership for Africa's Development (NEPAD). John Major, as host of the 1991 London Summit, championed the "Trinidad terms", an enhanced package he had originally proposed at the 1990 Commonwealth finance ministers' meeting. The London Summit encouraged the Paris Club of creditor governments to work for prompt implementation of measures going well beyond the Toronto terms.

Debt and development issues were raised again at Halifax and Naples. Finance Ministry officials still strongly held the position that "all sovereign debts are collectable". The 1995 Halifax Summit agreed to pursue the development of a comprehensive approach to address the special problems of the poorest heavily indebted countries. Flexible application of existing instruments and the creation of new mechanisms for debt relief, to help those poorest heavily indebted countries that have demonstrated a track record of sustained good policy performance, were encouraged at the WB and IMF. The 1996 IMF/WB Annual Meetings then endorsed a new debt initiative for Heavily Indebted Poor Countries (HIPCs).

The NGO Jubilee 2000 campaign to deal with crippling debt levels for poor countries is an excellent example of the effectiveness of a sustained effort. However, a sort of "force majeure" was necessary to deal with counterarguments such as moral hazard implications, and to navigate the constricted process of the Paris Club and the IMF and WB. This "force majeure" was politically decisive and could only be provided by prime ministers and presidents.

Money laundering

As a consequence of growing concern over money laundering, the Financial Action Task Force on Money Laundering (FATF) was established by the G7 Summit in Paris in 1989. The G7 heads and the President of the European Commission convened the Task Force from the G7 member states, the European Commission and eight other countries. The Task Force has been very successful in combating money laundering. In April 1990, less than one year after its creation, the FATF issued a report containing a set of "Forty Recommendations" that provided (and continue to provide to this day in an updated form) a comprehensive plan of action needed to fight against money laundering. There is a complete set of countermeasures against money laundering covering the criminal justice system and law enforcement, the financial system and its regulation, and international cooperation. Compliance is monitored on a mutual assessment basis, rather like that used by the OECD. The recommendations have been recognized, endorsed or adopted by many international bodies.

In 1991 and 1992, the FATF expanded its initial membership from 16 to 28. After the September 11 attacks on the United States in 2001, the development of standards in the fight against terrorist financing was added to the mission of the FATF. New international standards for combating terrorist financing were issued – the "Eight Special Recommendations" – and all countries were called on to adopt and implement them. These

Special Recommendations deny access for terrorists and their supporters to the international financial system.

The FATF is a clear success story; objectives were set and results were achieved. Those involved extend beyond the initial proponents. Commitments are followed up and performance assessed.

Unlikely developments

We all suffer from the presumption that the status quo will not change. Despite overwhelming historical evidence to the contrary, it is difficult to foresee that old political entities will die, that some unions will dissolve, and that new federations, communities and unions will be formed. Despite the history of business cycles and innovation, it is hard to imagine the disappearance of powerful multinational corporations and the decline of formerly important economic sectors.

Regardless of the accepted fact that we are living in an environment of constant and accelerating change, we cannot believe that certain desirable (in the sense of the global interest) economic and political changes will come. There are, however, cases when we should suspend our disbelief. Necessary, but not necessarily sufficient, ingredients to catalyse change include a coherent vision of a better option, a champion to articulate and promote the vision, and a venue for scheduled meetings to develop and nurture a strategy to realize the vision. Perhaps the most necessary condition is incrementality – change is accomplished through a series of steps towards the vision. Two examples of this are the euro currency and the formation of ASEAN.

The euro

The founders of the European Community realized as long as 50 years ago that the creation of a common market would one day necessitate a common economic and monetary policy.[2] In 1969 the Heads of State officially launched the initiative for Economic and Monetary Union (EMU). Luxembourg Prime Minister and Finance Minister Pierre Werner chaired a committee that mapped out a timetable for the project, outlining a three-stage plan that by 1980 would fuse national instruments for economic and monetary control into community instruments to be used for common ends. The oil crisis, divergence in national economic policies and a weak US dollar scuttled the second stage of the Werner plan in 1974.

In 1979, the European Monetary System (EMS) was created, involving an unprecedented transfer of monetary autonomy. The EMS created a

stable, adjustable mechanism for exchange rates by defining central rates in relation to a new "basket" currency – the European Currency Unit (ECU). Exchange rate fluctuations were greatly reduced, ushering in a new era of economic stability between EU member states. As inflation rates fell and converged in the mid-1980s, it became clear that the time was right for a new push toward the EMU.

In 1988, a committee was established under the then President of the European Commission, Jacques Delors, to make the proposals for the legal and economic arrangements required for the completion of the EMU. Mr Delors recommended a three-stage plan for greater coordination of economic and monetary policies with the intention of creating a European single currency under the stewardship of a European Central Bank. After the first stage of the Delors plan began in 1990, the European Council was convened at Maastricht in 1991. It was there that the Heads of State signed the Maastricht Treaty, which set out the tough economic convergence criteria that had to be met to qualify for the single currency. The third and final stage of the EMU started on 1 January 1999. The new single currency was born.

Who, even as late as 1985, would have believed that the German mark, the French franc and the Italian lira would disappear? It happened 40 years after Mundell, generated by an articulate vision, effective champions, a host organization where the principals met repeatedly, and a series of calibrated steps.

The Association of South-East Asian Nations

When the Bangkok Declaration established ASEAN in 1967, South-East Asia was badly divided by ideological conflict and war. Internal insurgencies and economic hardship forced Indonesia, Malaysia, the Philippines, Singapore and Thailand to waste significant budgetary resources on defence and to depend on external powers for security and aid. The Sabah dispute between Malaysia and the Philippines led to the early demise in 1962 of the Association of South-East Asia, which these two countries had formed with Thailand just one year earlier. Diplomatic ties between Kuala Lumpur and Manila were severed from 1962 to 1966. There was the *confrontasi* between Indonesia and Malaysia; the separation of Singapore from Malaysia in August 1965; the escalating war in Vietnam; and the Cultural Revolution in China, where Chinese leaders openly espoused a policy to export revolution to South-East Asia.

In 1967, despite territorial disputes and racial tensions that caused recurring irritation and aggravated distrust, the Thai drafters of the Bangkok Declaration set out a bold vision of all countries in South-East Asia

cooperating actively towards the goal of peace, stability, progress and prosperity in the region. Against all odds, ASEAN was founded to provide a framework and mechanism for regional cooperation.

S. Rajaratnam, the former Foreign Minister of Singapore, expressed the vision. "We want to ensure," he said, "a stable Southeast Asia, not a balkanized Southeast Asia. And those countries who are interested, genuinely interested, in the stability of Southeast Asia, the prosperity of Southeast Asia, and better economic and social conditions, will welcome small countries getting together to pool their collective resources and their collective wisdom to contribute to the peace of the world".[3] From a community of five, ASEAN expanded over time to welcome Brunei in 1984, then Vietnam in 1995, Laos in 1997, and Cambodia and Myanmar in 1999.

Imagine the South China Sea dispute today, without the positive influence of regular ASEAN leaders' summits held in the "ASEAN way", where informality and golf games have replaced bellicose posturing as the foundation of communication and discourse.

Meeting global challenges

What is needed? What current issues are representative of the kind of problems an L20 could address over the next 15 years? What are the prospects of G20 meetings at the leaders level helping to resolve challenging global problems, for example, in the areas of trade, financial issues and climate change? Our premise is that certain problems will fester and remain unresolved unless leaders intervene. These intractable problems are characterized by strong entrenched interest groups defending their minority interests counter to the national interest. "On the one hand, on the other hand" economists thrive on global problems – there are always at least two sides to any issue, with winners and losers created by any policy initiative that changes the status quo. Furthermore, the complexity of global problems entails that the interests of developing countries or emerging economies are not homogeneous – there are different interests among and within these countries – just as the interests of OECD countries are not homogeneous. Deadlocks based on these complexities can only be broken by the intervention of leaders making common cause.

Trade negotiations

Let us examine whether progress in dealing with agriculture is more or less likely with an effective Leaders' 20 Summit. The WTO is making progress in trade negotiations in agriculture at a glacial rate; this is being

written as the reports from Cancún are coming in. The enormous subsidies paid by the European Union and United States to their farmers, which keep developing countries' products out of Northern markets and undercut their own farmers at home, are the one big issue that could deadlock the Doha Round. OECD countries spend US$310 billion per year on agricultural support (US: US$106 billion; EU: US$95 billion; Japan: US$59 billion). For OECD countries, the agricultural markets are among the most heavily protected – the average bound tariff is 60 per cent (the rate for industrial products is 5 per cent).[4] The European Union has always had a relatively defensive position on agriculture. It is unlikely to agree to dismantle the Common Agricultural Policy. For Europeans, agriculture is different – it is intimately tied up with how they run their rural economy, and rural society. It is an issue of culture and national identity. US agricultural interests are no less powerful than those of Europeans.

The redistributive complexity of agricultural subsidies is illustrated when defenders of the status quo point out that agricultural trade liberalization would induce significant price increases for most commodities. The consequence is that there will be detrimental effects for some countries via lost preferential trade agreements and higher prices for net consumers of commodities. A World Bank study during the 1986–1993 Uruguay Round showed that sub-Saharan African countries would in fact be the losers from agricultural free trade – the main beneficiaries would be middle-income emerging economies. Given the complexity of specific issues in agriculture, as well as the North–South and South–South dimensions of distortions and the distributive consequences involved, "a global solution would be required to liberalize these markets. Rather than being self-contained, agricultural trade negotiations should involve concessions on other sectors and issues (services, IPRs) to identify overall reform packages palatable to all parties".[5]

The Doha Development Round is as dead as the dodo if the Australian Trade Minister Mark Vaile was correct in assessing the outcome of the 2003 Montreal informal ministerial meeting of 25 ministers from a range of developed and developing countries. He reported that the ministers "agreed that before we can move ahead with non-agricultural market access, before we can get to a point of negotiating the four elements of the Singapore issues, or talk about rules, we must have the agriculture pieces of the jigsaw puzzle put in place". Then, according to Vaile, the

> EU made a small, but positive, step towards engagement in the negotiations with the announcement that they will make an offer on reducing domestic support, and have undertaken to engage in negotiations to reduce export subsidies. The current EU offer still falls short of meeting the commitments made by Ministers at the Doha Ministerial for progress across all three pillars of the agriculture negotiations: market access, domestic support and export subsidies.[6]

An optimist might wonder whether we can take heart from the recent agreement on exceptions to the intellectual property rules for patented drugs for poor countries. Unfortunately, the employment, economic and financial stakes in the agriculture sector are huge relative to the pharmaceutical sector. For drugs, there is the humanitarian argument of millions of African lives saved versus further profits on the part of pharmaceutical companies in the United States and a few European countries, which are already perceived to be "fat cats". The pharmaceutical companies have a poor image relative to those companies protected by agricultural subsidies, not helped by the characterization presented in John le Carré's best-seller *The Constant Gardener*. There is little downside to the drug deal – the losses involved are profits from potential future sales of patented drugs. Poor Africans were not going to provide a significant outlet for market-priced patented drugs.

There is a massive downside to ending agricultural subsidies. The "losers" have great political power in the United States and all European countries. Even free trade proponents such as Canada have difficult political problems, especially in dairy and grains. Given that it took years to resolve the pharmaceutical problem – which in effect was an interpretation problem of a provision of the original WTO Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement – the agricultural subsidies problem will never be resolved by trade ministers and WTO officials.

The only way to break the deadlock on agricultural subsidies and repair the Cancún failure is for leaders to get involved in a systematic and sustained way. Trade negotiators will never be given the authority to do so. Agricultural ministers do not speak for finance ministers. Only leaders can mobilize the political muscle and capital to communicate the message that dismantling agricultural subsidies will increase the "national pie". Only leaders can mandate the crafting of domestic policy packages to compensate the losers in the agricultural sector. Only leaders can mobilize the international financial resources necessary to compensate those disadvantaged by agricultural trade liberalization in developing countries. Only with a series of meetings, on an annual or semi-annual basis, with agriculture as one of a limited number of agenda items, will this nut be cracked.

Climate change

The scientific evidence that the climate is changing is clear; there are few doubters left. The level of certainty is almost as high that a significant, if not the only, source of change is the increasing level of greenhouse gases in the atmosphere. Climate change will create major challenges (and a

few opportunities) during this century. The changes are perhaps less evident in the immediate term, although if one looks at the Arctic, the impact of dramatically warmer temperatures on the ice cap and tundra is already clear.

The most important sources of greenhouse gas emissions are in the industrialized world; the burning of fossil fuels is the major contributor. The United States is the clear leader in the production of these gases, although on a per capita basis Canada is ahead of even the United States. It is clear that future emissions from China and India in particular will be substantial, as industrialization expands and the number of automobiles increases in those countries.

After a lengthy series of meetings, which culminated in Kyoto, an agreement was reached on the principles for responding to the critical global challenges of climate change. More meetings were required before the details could be hammered out in Marrakech. Yet these agreements, if respected, would make only a marginal difference to the level of accumulated greenhouse gases in this century. In any event, the developing world is unwilling to make commitments that it feels could stunt its economic growth (if fossil fuels were OK for your development, why are they not OK for us as we try to catch up?) and the United States believes that the economic impact on itself would be too costly for it to ratify the agreements. The United States is also concerned at the windfall transfer of resources that would likely take place to Russia and the Ukraine, as a result of the reduction in economic activity from the arbitrary 1990 baselines and the consequent availability of emission transfer credits.

Over the longer term, dealing with climate change is not just a matter of reducing emissions. What are required are different growth strategies with a clear focus on sustainable development. And these strategies must be linked to poverty alleviation and reducing the growing gaps between rich and poor in the world. Moreover, there can be no successful attack on the challenge of climate change without the involvement of the United States.

In short, what is required is a grand political bargain. The United States needs to be brought back into the tent, something that will not happen by trying to push US acceptance of the Kyoto framework. The developing world must be included, above all China and India. For that to happen, there must be incentives in terms of growth potential for those countries. There are ways to make this happen. There are approaches that go beyond the emissions controlling method that is now the focus of implementation, although their detail is not a matter for this chapter.

What is needed is a means of affecting such a grand political bargain. It will not happen in the General Assembly of the United Nations, nor will the G8 be able to bring it about. Strong political leadership is required, a

leadership which bridges North and South. The trade-offs and amounts of money at stake are enormous. The issues involve not just energy policy, but also industrial and tax policy. There are major distribution questions at stake, both in and between countries. For progress on climate change, the United States, China, India and the European Union must be on the same page, with a similar vision of the outlines of the grand political bargain and a venue that allows for a regular series of well-prepared meetings at the highest level. The mechanism to foster such a dynamic is not currently available.

Financial issues

This section examines the apparently hallucinogenic question of a global currency. What are the prospects for a global currency – say in 2030? The benefits of a hypothetical single global currency are undeniable. The factor of foreign exchange rate risk would be eliminated. Asset values in all participating countries would increase in value due to the decrease in foreign exchange risk. Billions of dollars, yen and euros of exchange transaction costs would be eliminated. While there would be very substantial benefits for OECD countries, there would be extraordinary benefits for the developing world. Political and intellectual energy would not be invested in defending the illusion of independent monetary policy. Interest rates would simply reflect the real credit risk of borrowers. Authorities would not have interest rates held hostage to defend exchange rates. No longer would entire economies have to be damaged by high interest rates in order to save them.

The net benefits of the hypothetical world currency are unquestioned. The problem is that "you cannot get there from here". The debate in the United Kingdom on the euro supplanting sterling illustrates the point. A global currency would have to be managed by an international central bank or monetary authority, and would require rules for fiscal discipline for the governments of member countries. This new institution would require "articles of agreement". The hurdles are many and difficult. Gridlock on issues such as SDRs, IMF Executive Board seats and amending the IMF Articles of Agreement has been noted above.

The prospects of moving towards a single global currency, with a theoretical target date of 2030, would be higher at an L20 level than at a G8 table. The G7 debate in the mid-1990s on replacing IMF gold reserves with interest-bearing assets was not a high water mark. The proposals to increase global liquidity by issuing SDRs on a grant or concessional loan basis for development financing came to nothing. We believe these debates would have had a different outcome at a Leaders' 20 Summit. Northern leaders may have been divided – the ghost of past hyperinfla-

tion still haunts the Germans. The Japanese cannot comprehend why their G7 partners advocate grants instead of loans – in their society, they cannot imagine how grants can engender the necessary ownership and commitment from the beneficiaries. Southern leaders would likely be united, given that they have the most to gain.

Summits have an overriding requirement for tangible agreements and success. This requirement provides effective pressure to reach consensus, especially if the minority view is 1 or 2 out of 20, instead of 1 or 2 out of 8. (It almost goes without saying that if the United States is not one of the active proponents of an idea, then that idea's chances are very poor). It is much more likely that, at some point in the next five years or so, an L20 will mandate a study of the issues involved in moving towards a single global currency, than that the G8 will do so. Should a study be commissioned, and should it be relatively favourable, a dynamic would be unleashed that would result in incremental, albeit gradual, progress.

A Leaders' 20 Summit

Membership

What is the ideal membership? The number should be as large as possible for reasons of inclusion and legitimacy. Anyone not there will cry foul. On the other hand, it can be argued that the number should be as low as possible. The fewer the number around the table, the greater will be the chance for real debate, discussion, understanding and consensus.

Nicholas Bayne recommends that leaders should maintain the practice, begun at Okinawa in 2000, of inviting a group of leaders from developing countries to meet them before the summit proper. He argues that the admission of new members to the G8 itself, however, should be approached with caution. He characterizes the G8's great merit as the fact that "it is small and compact enough for the leaders to have a direct exchange around the table. This quality would be lost if extra members were added in the interest of making the G8 more widely representative".[7]

In nuanced contrast, in an 18 November 2001 interview, Paul Martin argued:

> The great strength of the G7 was that they were not only powerful economies but they were few enough that they were able to basically argue back and forth across the table. The big problem with most international meetings is people come in and they read set pieces. They just simply read them and there isn't much interchange. The great advantage of the G7 is that there is that interchange. Now,

> what we sought to duplicate on a much larger level with the G20 was exactly ... that's why it's restricted to 20 countries ... was that kind of interchange. But it is from that kind of interchange as long as the countries are big and powerful enough, that in fact those deliberations lead to real decisions. Best example: the [G20] action plan against terrorism simply was taken right into the IMFC and was adopted. So that it isn't simply, let's discuss, it's, let's discuss and make a decision and implement it. And the G20 was able to do that in this particular case. I think you're going to see more and more of that. I think that the G20 ... its ability to implement its decisions is now becoming clear. Its ability to set the agenda is now becoming clear.[8]

The current membership of the G20 is Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Korea, Turkey, the United Kingdom, the United States and the European Union. The Managing Director of the IMF and the President of the WB, as well as the chairpersons of the International Monetary and Financial Committee and Development Committee of the IMF and WB, participate fully in the discussions.

There is much to be said for proceeding with the current membership. It is already quite large, it is difficult to drop anyone from such a group, and there will never be complete agreement on the "right" list. On the other hand, there is an argument for including Egypt and Nigeria, both of whom were discussed as members when the original G20 was established. This would correct a weakness in Mid-East and African representation. It would lead to 22 members. There is also a case for inviting the Secretary-General of the United Nations to attend in the same way as other international officials participate.

How many are too many? We know summits of eight countries work; actually there are nine or ten at the table of the G8 when one includes the Presidency of the European Union and the President of the European Commission. We also know that UN Summits do not really produce discussion, so there is some maximum number. We would argue that the Commonwealth and Francophone Summits are also too large for the kind of discussion that is needed in an L20. They have 54 and 50 countries as members respectively.

The European Union has had 15 members but now has 25. NATO has 19 members and is enlarging as well. Both seemed to permit the kind of relatively informal but results-oriented discussion that an L20 would need to have at the level of leaders, but it is not clear that this will be the case with enlargement. The experience of national cabinets of ministers would suggest that somewhere in the 20 to 30 regions there is a maximum for effective discussion. This would present an argument for moving slowly, adding in the first instance Egypt and Nigeria, then reconsidering after a few years.

At some point the world is going to ask why international meetings include the trans-European institutions – the President of the Council as well as the President of the Commission – as well as four Member States. This poses questions of balance, logic and fairness. Indeed, with the focus on the G20 being economic, and the delegation of authority in trade matters to the Commission and the creation of the euro and the European Central Bank, one could logically argue that one seat at the table should be sufficient. We would argue that this goes too far and that it would be appropriate for both the president of the intergovernmental processes and the president of the integrated processes to be present. If the political courage was mustered to take on this issue, it could free up three seats, two of which could go to Egypt and Nigeria. Perhaps Bangladesh could receive a seat, given its large population, as a representative of very poor countries.

Some might suggest that an L20 should rotate ''constituency'' seats, rather like the Security Council of the United Nations. This may pose difficulties for achieving the informal rapport that is essential for results-oriented meetings. However, if the European Union can be represented by its Presidency and Commission, then perhaps the 10 nations of ASEAN can be treated in the same way. This deals with the problem of keeping the number of seats down without choosing between Indonesia, Thailand, Malaysia and Singapore.

Machinery

Machinery should be based on a common law template, building up institutional practice over time. In many dimensions it is not necessary to re-invent the wheel. The rotating chair system for the G7/8 and G20 works well and should be retained. It is important not to build up international bureaucratic machinery with a life of its own, one more step removed from direct political accountability.

Summit meetings should take place over a 48-hour period, beginning with a dinner on the first evening and ending two days later. The recent experience of compressing the length of G8 meetings has not been positive, and would be even more dubious with the larger membership of a future L20. There is a need for preparatory meetings of the personal representatives of the leaders. The very existence of forthcoming summit meetings changes the dynamics of negotiations and consensus-building. Trade Rounds are a good example – big trade-offs do not get made in a continuous negotiating process at an official level without the guillotine effect of forthcoming political meetings.

There is a case for more than one meeting a year. We believe G20 Summits will start with one summit at the leaders' level, with finance

ministers still meeting twice. Then, based on perceived needs and results achieved, they will quickly move to twice per year – similar to the quad trade ministers and the bank fund meetings. With the size of the Group at 20 or more, collegiality and comfort levels will increase with the frequency of meetings. One of the reasons we believe that Asia-Pacific Economic Cooperation (APEC) Summits have not delivered to the maximum is the fact that they occur only once a year. The very fact of meeting every six months will increase cordiality, maintain focus on the agenda, and heighten interest in action on the commitments made.

There will be an agreed process to track those commitments on a regular basis. This is essential for the credibility of the institution – an L20 will have no choice but to do this. The current fascination with reporting on results and performance measurement will lead to an industry dedicated to analysing the communiqués produced by the L20. Leaders will initiate a virtuous circle in which the publicizing of their commitments will increase the political pressure on their own administrations to deliver the required actions.

Each leader will appoint a personal representative or ‘‘sherpa’’, as they have become known in G7 and APEC processes. For leaders to be effective, they must be prepared well by their sherpa, who in turn can be effective only if they truly have a personal connection. They may come from political or public service backgrounds, but they have to be at one with their leader's mind for the preparatory process to work. A series of perhaps three meetings in the months prior to the L20 is essential in preparing the terrain for the discussions of the leaders. Then, when the leaders meet, the key compromises can be struck. Officials are not capable of doing these deals on their own, but nor can leaders without the proper preparation.

Communiqués will be kept brief, limited to the two or three topics actually discussed, debated and negotiated, and issued perhaps as chairman's statements. Long communiqués erode credibility. No one believes that leaders actually discuss dozens of items in long communiqués.

How to get there

This leaves the question of how best to arrive at the desired destination. One possibility is to transform the G7/8 directly into an L20. Such an initiative would have to be carefully prepared both among the existing G8 membership and the other G20 countries, including prospective ones. The European representation question should be postponed for five or ten years; taking this issue on earlier would clearly be impractical. The

essential characteristic of this scenario is slow evolution with incremental calibrated steps, pushing the envelope of political tolerance.

The transformation of the G7 into the G8 and the establishment of the G20 indicate the way forward. With support from the United States, Mikhail Gorbachev was invited to make a cameo appearance at the 1991 London Summit. In subsequent years, Boris Yeltsin was gradually given more time, until Halifax in 1995 and Naples in 1996, where there were one-day G7 meetings followed by one-day G8 meetings. Eventually, Russia was accepted as a full member of the G8, and the term ''G7'' was dropped.

It could be argued that the process of enlargement has already been started. An NGO provided a trenchant observation of the 2003 Summit: ''Evian should consign the old G8 to a watery grave''. World Development Movement Director Barry Coates pronounced that ''the attendance of twelve developing country heads of state shows that the G8 themselves recognize ... that no institution made up entirely of rich countries can solve the world's problems''.[9] Leaders from Algeria, Brazil, China, Egypt, India, Malaysia, Mexico, Nigeria, Saudi Arabia, Senegal and South Africa attended a session at Evian.

The bold decision would be to invite the G20 leaders for one full day. The host who initiated this move would gain a place in history. A more cautious way forward is to invite the leaders of China, India and Brazil for one full day. This would secure the host's legacy as the leader who brought legitimacy to this gathering of agenda-setting leaders. Over time, in 2009 or 2010, if it has not already happened, the full complement of G20 leaders could be invited.

There is an alternative scenario. Effective pressure can come from the top, as well as from ''activists beyond borders''.[10] The incremental scenario may not be acceptable to impatient leaders with finite time horizons. They may not believe an illegitimate, increasingly dysfunctional G8 can be the platform transformed into a legitimate, well-functioning L20. For the L20, pressure from above can also provide the catalyst. Presidents Lula and Mbeki could join with some G8 leaders to provide the initial inspiration.

As the Leaders' 20 Summit becomes established at the leaders level, the G8 would logically disappear. There is a danger, however, with respect to the meetings at finance ministers level. The danger for Canada is that the United States, the European Union and Japan will decide that they cannot hold all their meetings in a group of 20 and will instead establish, more or less formally, a G3.

The G8 now has a profusion of ministerial meetings. There is little question about the effectiveness of the finance ministers' meetings in a

group of seven. Equally, the meetings of foreign ministers in a group of eight are useful in terms of coordination. Much less certain, however, is the utility of ministerial meetings in other sectors. The G8 leaders do not take much notice of such fora (except where they have specifically mandated a meeting).

We would suggest caution about formalizing any relationship with civil society. This would give more formality to the L20 and create a host of problems – who should be invited, for how long, and so on. More useful are meetings of national authorities with civil society representatives. We do, however, believe that it would be desirable to create a network of L20 ‘‘think tanks’’. They would develop capacity in the South and ensure a broader interest in some of the main issues on the agenda of managing increasing global interdependence.

To underline that the new L20 is distinct from the G8, and to distance the L20 from criticisms of the G8, some early wins are called for. There are candidates for early wins in the financial area, in trade and in the environment. In the financial area, leaders could break the logjam with respect to the governance of the IMF – specifically Board seats and the allocation of votes. A Leaders' 20 Summit could simply commission a dialogue among a cross-section of the IMF membership to identify the key aspects of the challenge of developing country representation, to seek consensus and to identify areas in which progress may be able to be made; and to make recommendations to advance the issue. The leaders could then ask for a report for their subsequent meeting.[11] There are feasible solutions that could improve representation, yet maintain the creditors' majority and the US and EU veto.

The trade area is more difficult (yes, even more difficult than moving an issue in the Finance Ministries' area of responsibility). No ‘‘big bang’’ solution will be possible, but reform is possible all the same. The way forward is to agree to apply gradual phase-outs of agricultural subsidies over lengthy periods of time, such as the 10-year period agreed for textiles at the conclusion of the Uruguay Round. An L20 could instruct trade ministers to report back at their next meeting with a list of options for the phase-out period.[12]

A third example in which an L20 could realistically take action, without threat of political defeat or revolution, is climate change. Led by the United States, an L20 could commission an updated report to lay out the latest results and consensus scenarios on the science involved. It could further commission a consensus policy options paper on potential L20 initiatives, based on the latest science.

The objective is more representative and legitimate leadership, through a redefined L20, to effectively shape globalization. We can get there from here.

Notes

1. See Gerry Helleiner, ''Developing Countries, Global Financial Governance and The Group of Twenty: A Note Prepared for the Governance Working Group of the Global Financial Governance Initiative of IDRC'', Toronto: University of Toronto, March 2001.
2. In 1961, Robert Mundell raised the then bizarre question: ''When would it be advantageous for nations to give up monetary sovereignty in favor of a common currency?'' His Nobel Prize was awarded for a body of work that included the chapter ''A Plan for a European Currency'', in H. Johnson and A. Swoboda, eds, *The Economics of Common Currencies*, London: George Allen & Unwin Ltd, 1973.
3. Jamil Maidan Flores and Jun Abad, *ASEAN at 30*, Association of South-East Asian Nations, 8 August 1997, available from www.aseansec.org/7071.htm.
4. See www.wto.org/english/tratop_e/dda_e/symp03_melrose.ppt.
5. John C. Beghin and Ataman Aksoy, ''Agricultural Trade and the Doha Round, Lessons from Commodity Studies'', paper prepared for the Annual Bank Conference on Development Economics – Europe, Paris, May 2003.
6. See www.dfat.gov.au/trade/negotiations/wto_bulletin/wto_bulletin_030801.html.
7. ''G8 Meets Low Expectations'', 2 June 2003, available from www.wdm.org.uk/news/presel/current/g8lowexpect.htm.
8. Nicholas Bayne, ''Promoting Conflict Prevention and Human Security: What Can the G8 Do? Concentrating the Mind: Decision-Making in the G7/G8 System'', available from www.g8.utoronto.ca/conferences/2001/rome/bayne-conflict.pdf.
9. Interview with Paul Martin, Canada's Minister of Finance and Chair of the G20, conducted by Candida Tamar Paltiel, G8 Research Group, unedited transcript of videotaped interview, Ottawa, 18 November 2001, available from www.g8.utoronto.ca/g20/interviews/Martin011118.pdf.
10. ''G8 Meets Low Expectations''.
11. *Activists Beyond Borders: Advocacy Networks in International Politics* is the title of the Grawemeyer Award-winning book by Margaret Keck and Kathryn Sikkink (Ithaca: Cornell University Press, 1998).
12. See B. Carin and A. Wood, eds, *Enhancing Accountability in the International Monetary Fund*, University of Victoria, Centre for Global Studies, 23 October 2003.
13. This report to G20 leaders will have to address more than the length of the phase-out period. OECD countries conformed to the letter of the agreement, but violated its spirit by back-ending the phase-out of high-value textile quotas to the point that they made no real concessions for the first few years of the phase-out period.

2

Anticipating the future: A political agenda for global economic governance

Colin I. Bradford, Jr

In the next 50 years, world population will increase by 50 per cent from the current 6 billion people to 9 billion, levelling off after 2050. All the population increase will come from poor countries outside the OECD world of Europe, North America, Japan, Australia and New Zealand. This population increase will put pressure on resources, the environment, public health and education systems, the world economy and national governments. This demographic transition with all its implications is the great challenge for the next generation.

Major challenges

Within this longer-term perspective, there are more immediate reasons why strengthening global economic governance now is necessary. Four major challenges face world leaders and publics everywhere, and these are challenges that a stronger global governance system would help address. They are (i) chronic global economic instability since 1973, (ii) the new challenges generated by globalization as a distinct form of international interaction, (iii) the increasing disparity in incomes in the new global economy, as the rich seem to get richer and the poor relatively poorer, and (iv) the disproportionately small voice of the large nations of the future in current global governance as contrasted with the disproportionately large voice of the nations of the 1 billion people in the OECD world.

Chronic economic instability

In the 30 years since the world abandoned the system of fixed exchange rates, trends in the world economy have been characterized by a sequence of economic shocks: the oil shock dominated the decade of the 1970s, the interest rate shock of the early 1980s drove the debt crisis of that decade, and the capital flows shock that triggered the Asian financial crisis in 1997–1998 created turmoil and aftershocks in world financial markets in its aftermath. These shocks each originated in macroeconomic policy imbalances in large economies that spilled over into the international economy. US fiscal deficits in the late 1960s pushed up OECD inflation rates, eroding the real price of oil, which induced a dramatic price adjustment on the part of the Organization of the Petroleum Exporting Countries (OPEC) in the 1970s. The oil price rise created trade surpluses in OPEC countries that were recycled to oil importing developing countries.

Contractionary monetary policy along with loose fiscal policy in the United States in the early 1980s drove interest rates and the dollar to unprecedented highs. This triggered a debt crisis, principally in Latin America, that lasted most of the decade. US fiscal, trade and capital account deficits were offset by Japanese savings, trade and capital account surpluses. Again, as with the oil crisis, the world economy achieved equilibrium by offsetting forces, but the primary need for the offsets was the impact of financial shock on the world economy.

In the 1990s, the Asian financial crisis originated from OECD current account surpluses in Japan, the European Union and other advanced economies significantly in excess of the US current account deficit, which provided a net OECD capital account surplus to non-OECD countries. This financial surplus flowed disproportionately to only a few South-East Asian economies, fuelling huge increases in already high investment-GDP shares and creating a financial bubble. When the bubble burst, so did their fixed exchange rate regimes, and an immensely costly financial crisis rippled through East Asia with further repercussions for the rest of the world economy.

It is not only the case that the three decades since the end of the Bretton Woods fixed exchange rate system have each been characterized by economic shocks; it can also be said that the shocks have moved in sequence. The erosion in the real price of oil in the 1960s led to an overcompensating spike in oil prices in the 1970s. Stagflation in OECD countries meant that virtually none of the US$450 billion OPEC surpluses between 1973 and 1982 were absorbed by OECD countries, forcing the recycling of petrodollars on to non-oil developing economies. While these economies used the petrodollars to finance investment growth rather than consumption or government spending, too much debt was

concentrated in too few countries. This put the debtor countries in a vulnerable position when US fiscal deficits jumped from zero to 6 per cent of gross domestic product (GDP) between the end of 1979 and mid-1982. The combination of subsequent high interest rates, a strong dollar and the United States drawing down the global pool of savings to finance its own fiscal deficits provided a triple whammy to debtor countries, inducing the debt crisis of the 1980s. It does not seem farfetched to see the imbalances of the 1970s as having set up the conditions for vulnerability and crisis in the 1980s.

The massive shift from OPEC surpluses and developing country deficits in the 1970s to US deficits and Japanese surpluses in the 1980s wrenched the world economy around onto a different axis. Gradually, US fiscal deficits were reduced so that by the mid-1990s they were no longer the driver of US growth or global imbalances. The burgeoning US trade deficit was instead a reflection of investment growth in excess of US domestic savings financed by a capital inflow into US asset markets which also financed the trade deficit. The new fiscal discipline in the United States reduced its draw on global savings. Slower growth in other OECD countries generated a net contribution to global savings, which in the 1990s was channelled primarily to a select few countries in South-East Asia and also to some countries in Latin America. Too much capital went to too few countries, again, and financial bubbles occurred as a result.

These tales seem to tell a larger story of a sequence of imbalances and compensatory policy reactions that generate a new set of imbalances which themselves are not stable and induce reactions setting up the next set of imbalances. The key is that global economic shocks originate with national policy actions: domestic imbalances necessarily generate (by accounting identities) external imbalances that have to be offset by other countries, creating domestic imbalances in the opposite direction. Since the origin of the policy action is domestic macroeconomic policy, there is by definition no global governance locus for rebalancing national policies in a coordinated fashion to avoid the next shock and subsequent crisis. Neither the G7 summits nor the IMF nor the ministerial-level committees of the IMF and the World Bank have been able to generate consensus on coordinated policies to dampen the swings in global economic imbalances and to prevent major financial shocks over the last 30 years. With fiscal and trade deficits driving the US economy once again, the issue of a locus for enhanced global economic coordination is very much alive.

Globalization as distinct from internationalization

The underlying fundamentals of the world economy have changed as it has become a global economy. Globalization has a different meaning and

content from internationalization. As the world economy has become more internationalized, trade and financial flows have increased between relatively autonomous national economies that previously interacted at arm's length. Today, globalization has fundamentally transformed the nature of this interaction into one of the interpenetration of domestic economies into each other's internal domains. This has been pushed to a new level in part due to the transformation of the firm from a factory into a global network of entities that interact across and through borders. As a consequence, intra-industry and intra-firm trade have increased as a proportion of total trade, and trade in final goods has declined. This is but one dimension of a shift in the underlying fundamentals. The integration of world financial markets has created essentially a single global capital market. Migration has transformed labour markets. Transportation and communication linkages have made geographic space porous, changing the meaning of the borders and boundaries defining nations.

Not only have the channels for transmission of economic forces been transformed, but the relationship between different types of interactions has also been changed. Trade, finance, economic growth, poverty reduction, environmental sustainability, social dimensions and governance are now seen to be inextricably linked to each other in defining and determining outcomes. This interpenetration of domains and disciplines is another facet of the interpenetration of domestic economies and societies and one of the driving forces behind it.

These two transformations in the nature of international economic interactions put new demands on the mechanisms, institutions and policies of global economic governance.

Global economic apartheid

Even if the world were not moving from 6 billion to 9 billion people, with the additional 3 billion coming from poor countries, the current configuration of global incomes already creates a world in which the global majority is poor. In 2000, 2.5 billion people lived in low-income countries, whose per capita incomes averaged roughly US$400 per year. Despite recent gains in reducing the number and the proportion of people living in extreme poverty, over 1 billion people live on less than US$1 per day.

There is increasing concern about rising rates of growth of incomes among the rich while more than half the world's population live in conditions that are objectively miserable even without reference to the rich. The legitimacy of an economic system that fails to impact beneficially on the world's poor and generates increasing income and wealth disparities has been called into question. This seriously undermines the credibility of the international institutions that are seen to preside over this inequitable

system and hence limits their capacity and ability to address world economic issues. As a result, the issue of global poverty is now as much of a high policy issue for the global economic institutions as is the issue of global financial stability, which in earlier eras has taken precedence.

The voice of the global majority

As we look to the future configuration of the global population, it is anticipated that by 2050 India, China and Africa alone will constitute the global majority with a total of 5 billion people. Brazil, Mexico, Indonesia and Pakistan will easily add another 1 billion people. By contrast, the United States, Europe and Japan together will only constitute about 1 billion people in 2050, about the same as today. So by population projections alone, it seems clear that the large poor countries from the non-OECD world merit a place at the table in global economic governance.

In a world in which the United States appears so dominant, it is difficult to grasp the degree to which the global economy is already a multipolar world economy. China is the fourth largest economy in the world, after the United States, Japan and the European Union. Brazil (number 6 behind Canada's number 5), Mexico (number 8 behind Spain's number 7), India (number 9) and South Korea (number 10) are already major forces constituting a multipolar global economy, beyond the three major OECD economies.

But the reasoning goes deeper than mere population and economic projections. In the case of China and India, their civilizations go back millennia, not centuries as in the case of North America. Their place in global governance would seem to be buttressed by the need to include different cultural perspectives in global governance. Oxford art historian Michael Sullivan writes in the opening sentence of his new edition of *The Meeting of Eastern and Western Art*, "more and more thinking people today are coming to believe that the interaction between the cultures of Asia and the West is one of the most significant events in world history since the Renaissance".[1] Clearly, a major challenge for the next generations in the West and in Asia is to come to better understand each other's strengths and the contributions that each can make to the new global order. Nearly half the world's population currently lives in Asia.

But this opening to the East by the West is simply emblematic of the broader opening required. The world is becoming increasingly multicultural as it is becoming more multipolar. Whereas there is some belief in the West that modernization is Westernization,[2] there is considerably more evidence to suggest that other cultures are defining their own versions of modernism. These do not necessarily take the form of a variant of Western modernism but are authentic "own" versions of modernism

that spring from unique, distinct and specific cultural circumstances. "Today, artists born in India, Korea, Japan, China, Turkey and diverse Latin American nations are consciously creating styles that simultaneously honour particular cultural identities and make gestures of mutual incorporation with the Western tradition".[3] Hence, as the global economy is becoming more multipolar and global society more multicultural, new versions of modernism bring forward a movement toward multimodernism, beyond the previous identity of modernism with the West. "Multimodernism offers a quite different approach to modernism, one that makes clear that not all varieties of modernism develop under the paradigm of the West".[4] This is clearly evident in artistic movements in Africa, Asia and Latin America. Their self-consciousness about distinctive versions of modernism in art is very much linked to ideas of modernization, development and their role in the global discourse and in the international community. "The development of a modern idiom in African art is closely linked to modern Africa's search for identity".[5] This cultural basis for pluralistic ideas about the global future and modern or postmodern notions of progress provides another compelling reason for bringing non-Western presence and participation into global governance. "Modernism is a plural phenomena and that pluralism does not deny the universal aspects".[6]

A political agenda for strengthening global economic governance

From this set of challenges, it could be concluded that a wholesale reform and restructuring of the mechanisms of global governance might be called for. Thirty years of chronic financial instability would seem to reflect an inability on the part of existing institutions to provide policies, safeguards and cushions against global economic shocks and domestic macroeconomic policy imbalances. The forces of globalization would seem to manifest a shift in the underlying fundamentals that make global economic management quite different from managing interdependence in a world economy composed of relatively autonomous national economies. The interrelationship between forces and factors previously thought of separately would seem to suggest the need for a wholesale change in the international institutions dealing with the new global economy to bring together the different domains in a peak decision body integrating the constituent elements into a more holistic approach for system guidance. The continuing scourge of massive global poverty and the slow growth of many poor countries despite the new forces of globalization suggest the need for new and more intensive approaches. The need to incorpo-

rate the voices of the global majority into the international system might be construed as an argument for a major revamping of the governance structures of existing institutions.

Advocating sweeping reforms, new mechanisms and revamped institutions has the virtue of providing an exciting new agenda to fit the new global age, but it is not necessarily the case that radical restructuring is necessary. Indeed, there are steps that can be taken within the existing system to significantly improve global economic governance without the disruption of restructuring. Despite the importance of the challenges at hand, the international system is maturing and evolving as the nature of the problems changes. It is appropriate that international institutions and governance mechanisms evolve and change as the circumstances require rather than experiencing severe discontinuities and the addition of new layers and coordinating bodies.

More importantly, the cardinal principle for global governance is that the loci for authority and accountability are national governments, not the international institutions themselves. These international economic and financial institutions are membership institutions. National governments are the fundamental units for sovereignty, taxation and public accountability. National governments are responsible for the international institutions. Recommendations for strengthening the system of global economic governance must build on national governments as the foundations of the international community. The politics of global governance needs to be based on coalitions and configurations of national governments.

Based on the cardinal principle of national governments as the foundation of global governance, there are a number of ways in which the existing mechanisms and institutions could be strengthened, building on the assets already in place.

The new agenda of issues at the interface

First, there is a need to focus political and policy attention on the interface issues between finance, trade, development and poverty reduction. This translates into a need to focus on the interrelationship between the principal international institutions responsible for these "domains" and the complementarities, synergies and interactions between them. This thrust is driven by the underlying nature of globalization. This recommendation contrasts with recent calls to establish a clear division of labour between the institutions and return each of them to their "original mandates", repealing perceived mission creep and overstretch.

The way to implement this agenda is to distinguish between primary and secondary mandates for the international institutions. The primary

mandates are still clear: the IMF is primarily focused on finance; the WB on development and poverty reduction; and the WTO on trade. These primary mandates provide clear leadership on each major international issue to a single international institution. The responsibility for providing strategic direction for the international system as a whole rests with national government leaders. The suggestion here is that through the existing global economic governance mechanisms currently in place, these national leaders need to give priority focus to systemic issues and the interrelationships and relative roles of the international institutions.

The mechanisms through which this guidance can be forged and expressed are the International Monetary and Financial Committee (IMFC), which advises the IMF, the Development Committee (DC), which advises the WB, and the G20, which prepares the positions of major countries for both the IMFC and DC autumn and spring meetings. The advantage of working through this sequence of G20–IMFC–DC is that the G20 is broadly representative of the multipolar global economy and the IMFC and DC are embedded in the governance structure of the IMF and WB, with strong links to the WTO and most other relevant international organizations.

The G20 consists of eleven non-OECD countries: Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey; and eight OECD countries: Australia, Canada, France, Germany, Italy, Japan, the United Kingdom and the United States (and the EU President when it is not the head of state of one of the four EU members of the G20). This representation from the developing world captures the major non-OECD economies as well as important multicivilizational dimensions, with three Islamic countries, four Asian countries, three Latin American nations and one African country. Also of importance is the fact that beyond the focus of the G20 on issues of international financial stability, the G20 is also meant "to address issues that go beyond the responsibilities of any one organization" (see box on "Roles of the IFIs and their governance mechanisms", below) which gives it purview over other international organizations that are observers in the Development Committee.

The primary need is to use the Group of 20 Finance Ministers in a more proactive and forceful way to provide leadership and guidance to the principal component elements of the international system, the IMF, the WB and the WTO in the first instance, and other significant international organizations such as the United Nations, WHO, United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations Environment Programme (UNEP), Global Environmental Fund, UN Fund for HIV/AIDS, and OECD, as needed. The advantage of this process is that national governments would be working out among each

other the major lines of responsibility within the international system rather than leaving the task to the senior managers of the institutions themselves, where the responsibility and accountability does not lie. No single head of an institution has the authority to straighten out issues of relative roles and responsibilities, not even the Secretary-General of the United Nations. These issues should not be left to the market of competitive pressures among the institutions as they struggle to fulfil their responsibilities and establish their roles and functions. Nor should these systemic issues be presumed to be the exclusive purview of the G7 (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States), as has been the practice in the past. This is simply not a representative enough group to constitute a meaningful global consensus.

Two other suggestions accompany this recommendation. One is that it would seem appropriate on matters of high policy and major global import to establish a Leaders' 20 Summit. This innovation would provide the visibility and political valence to the global leadership role that these 20 countries should have in the new global economy and the world of the future. Summits at the L20 level would convey to the world the necessary pluralism and representativeness in global governance that are missing from the G7 because of its North Atlantic, wealthy country bias. It would contribute to restoring legitimacy to the major international institutions because national governments would correctly be seen as the responsible agents for those institutions.

Additionally, a more explicit effort should be made to improve the communications, visibility, and public relations of the G20 Finance, the IMFC and the DC so that there is more awareness around the world of the crucial role that they have. One way to do this is to open some of the meetings or some portion of selected meetings to the press and to television. More background stories are needed. More highlighting of the individual participants and their concerns and priorities would add human interest to the meetings. Conflicting perspectives should be aired rather than muffled to reveal the zest and reality of global governance rather than creating the impression of smooth talk reflected in development-speak communiqués.

The role of parliaments

The second suggestion is that a major missing element in global economic governance is the role of parliaments. Within most national governments, the sole authority for levying taxes belongs to parliaments. Parliamentarians are more directly accountable to the public than executive adminis-

tration officials such as ministers, who are frequently appointed by heads of state. But parliaments around the world have been relatively less engaged in ‘‘foreign affairs’’ issues than in domestic issues. In a globalized world in which the distinction between foreign and domestic issues has collapsed, parliaments need to forge a new role for themselves in internal and international governance. This is probably true for all countries, but it might be especially true for parliaments in developing countries.

The entry point for parliaments in developing countries, particularly, might be through strengthening their role in national budgetary processes and priority setting within their nations. The Poverty Reduction Strategy (PRS) process in low-income countries and the global effort to achieve the Millennium Development Goals in all developing countries by 2015 provide means by which parliaments can enhance their role in internal budgetary and policy processes while at the same time focusing on the mediation between national priorities and the global agendas. This effort would logically extend parliaments into an oversight role regarding the role of the international institutions in global governance and their own national governments’ positions within the international system. Including parliamentarians in government delegations to the autumn and spring annual meetings of the IMFC and the Development Committee would provide one way to engage parliaments directly in global economic governance. As this develops, side meetings of L20 parliamentarians, for example, might be a useful way to increase communication, understanding, participation, and the visibility and legitimacy of global governance.

World Bank President, James D. Wolfensohn, said at a meeting of 120 parliamentarians from 50 countries (none from the United States) in Bern, Switzerland, in May 2002: ‘‘you are parliamentarians for a single planet’’. This statement conveys a new reality. Globalization has transformed ways of doing business and the nature of business itself. Parliamentarians with a global awareness have a new role in linking the local and the national to the global. They have a new responsibility to interpret and mediate multiple layers of reality to their publics. They are potentially vital political links that can make sense of the new forces shaping the world for society. A variety of different forums and venues have to be used to bring their voices and their awareness into global governance.

Emerging markets and global stability

The evolving global economy since 1973 has brought with it the rise of emerging market economies (EMEs). Large middle-income developing countries have achieved above average economic growth rates and have

simultaneously integrated themselves into the world economy through both trade and finance in ways that have transformed them and the global economy itself. The IMF and World Bank have been handmaidens of these transformations. Between 1993 and 1999 "11 countries (China 12%, Argentina 10%, Russia 9%, Mexico 7%, Indonesia 7%, Korea 6%, India 4%, Thailand 3%, the Philippines 2%) received 70% of IBRD commitments".[7] The consequence of these developments was that the IFIs became important to the EMEs and the EMEs became important to the IFIs. The multipolar world economy was brought into being as a result of these trends.

It could be argued that the role of the IFIs vis-à-vis the EMEs was not only financial but that the IFIs, particularly the WB and IMF, became focal points for two-way dialogue with EME governments regarding policy reform and global governance. The twice-yearly meetings of finance ministers from emerging market economies became a way of bringing their leadership into the global conversations on economic governance. These opportunities for policy dialogue have been particularly important in the 1990s in the cases of the Mexico tequila crisis in 1994, the Asian financial crisis from 1997 to 1999, the Russia crisis in 1998 and the Brazil crisis in 1999. For all these reasons, the EMEs have become vital actors in the evolution of the global economy and in working to maintain global financial stability. The pattern of shocks and imbalances characteristic of the global economy and the important role of the EMEs in it make it necessary to increase their role in global economic governance commensurately.

Furthermore, as the financial relationship deepened between the EMEs and the IFIs, the EMEs began to have a direct stake in the policies of the international institutions and the use of their resources. The net transfer of interest payments to the IFIs became an increasingly important source of income for the international institutions. Taking the multilateral development banks (MDBs) together (the WB and the regional development banks), it is estimated that in 2000, 30 per cent of total MDB income came from net interest spreads on loans to large borrowers from the MDBs. As the Commission on the Role of the MDBs in Emerging Markets pointed out, this substantial role in the income of the MDBs provides a legitimate specific reason for opening the way for a larger role of EMEs in the governance of the IFIs.[8] The EMEs understandably feel they should have a say over how resources based on their interest payments should be allocated.

Global poverty reduction as high policy

The UN Summit on Financing for Development (UNFFD) in Monterrey, Mexico, in March of 2002 represented the culmination of a 12-year pro-

cess of consensus formation on specific targets for the year 2015.[9] These targets on poverty reduction, gender equality, health, education and the environment are embodied in the Millennium Development Goals. The MDGs had been agreed to in previous summits by both OECD and non-OECD governments. This gives them consistency with the cardinal principle of rooting international governance in decision making by national authorities. The MDGs are not UN goals but goals agreed to by national governments in a sequence of head of state summits. The importance of the UNFFD conference was that the "Monterrey consensus" not only embodied a continuing commitment to the MDGs, agreed to at the UN General Assembly Millennium Summit in September 2000, but also broadened the consensus to include partnership goals for OECD countries. The 12-year process of consensus formation provides political momentum for mobilizing resources and policies toward achieving the MDGs by 2015.[10] This generates the highest profile and priority for global poverty reduction in 50 years of development cooperation.

Even though the focus is on poor countries, the majority of poor people live in middle-income countries. OECD countries also have a proportion of poor people living in poverty and a direct stake in and responsibility for global health, education and environmental conditions. The role of G20 developed and developing country governments in overseeing and acting on behalf of the MDGs is vital to their achievement. The Development Committee has already been playing this oversight role and has accelerated action by initiating fast-tracking of "Education for All" (MDG number 2).

As the international community enters the implementation phase of the Monterrey consensus, engaging publics and parliaments, civil society and the private sector, and politicians and policy makers in all countries will be crucial to mobilizing the global effort necessary to achieve the MDGs by 2015. This requires an intensification of political effort at the highest levels. The G20 needs to play a continuing role in maintaining the political priority and momentum toward the 2015 Goals. The MDGs have already become a focal point for unifying, coordinating and operationalizing effort by the WB, the IMF, the United Nations and the OECD as well as other national and international agencies. National governments now need to play their part by focusing on specific actions that will generate the necessary policies and resources. UN Secretary-General Kofi Annan's appointment of Eveline Herfkins, former Development Cooperation Minister of the Netherlands, to head the Millennium Campaign provides a powerful spearhead for this effort. Mobilizing support in the form of resources and policies is critical not only to achieving the 2015 Goals but also to restoring credibility and le-

gitimacy to the international institutions as the visible symbols of the global economy, which is associated by many with increasing global inequality.

"For to all those who have, more will be given, and they will have an abundance; but from those who have nothing even what they have will be taken away" (Matthew 5: 29). A Washington, D.C. sermon in November 2002, which could have been given anywhere, reflected that "this should not be read as an endorsement of the current economic orthodoxy in which the rich get richer and the poor get poorer". It is this perception that needs to be overcome by demonstrating that the global economy can generate global justice as well as global wealth.

Pluralism in policy prescriptions

Finally, perhaps no other issue has mired the big three institutions – the IMF, the WB and the WTO – in the globalization backlash debate more than the perception of a "one size fits all" model for financial stability, development and market liberalization in the developing world and the emerging market economies. This perception is to some extent exaggerated. The PRS process reverses the role of governments and the international institutions in defining external assistance by giving governments the initiative and primary role in determining priorities and policies to be reviewed by the IFIs, rather than the other way around as in the past. However, there is also some truth to this perception given the need to have, among other things, relatively uniform standards in the treatment of nations by international organizations.

Recent development experience strongly suggests that country "ownership" of development strategies is crucial to accelerating economic advance. This highlights an increasing need for countries to generate their own path toward policy reform and development that fits their historical circumstances, values, priorities, institutions and culture. Given this background and the surge of artistic expression in non-Western countries toward their own version of modernism, giving greater prominence and power to G20 countries in global governance is a way of introducing cultural pluralism into the economic policy consensus process. In a world transiting from 6 billion to 9 billion people, a variety of institutional arrangements, development strategies, modalities of governance and economic policies will need to be devised to facilitate this transition. It is vital that modernization not be construed as Westernization in the non-Western world, where most of the population increase is destined to occur. The challenge for the West is to accommodate a pluralistic vision

of modernism, not only in the arts, but in economic policy-making and governance. The notion of a ''Washington Consensus'' on economic policy is obsolete in a multipolar, multicultural and multimodernist global age.[11] Strengthening the role and presence of large non-OECD governments in global economic governance is one way to ensure that pluralism becomes more prevalent in the policies of the major international institutions and that global multilateralism replaces North Atlantic internationalism.

Summary and conclusion

There are several major structural forces moving toward reforming and strengthening global economic governance. These forces entail the demographic trends that are defining an increasing global majority of people from non-Western, non-industrial developing countries. OECD countries today constitute 17 per cent of total population. By 2050, they will comprise only 11 per cent of the world's people. In 2050, 8 billion of the total 9 billion population will be from non-OECD countries. G7 countries today are 11 per cent of the world's people, whereas the L20 countries represent over 60 per cent. This means that having a Leaders' 20 Summit next year to replace the G7 would be ''anticipating the future'' in a significant way.

There are major economic reasons for this shift. There is a pattern of chronic instability in the world economy over the last 30 years that requires stronger oversight and guidance. Large emerging market developing countries are crucial to resolving these instabilities, which have frequently found their source in these countries. Issues at the interface between trade, finance and development on the one hand and health, education, environment, gender and poverty on the other require inter-institutional coordination in the age of globalization that is qualitatively different from managing the challenges of the age of interdependence that preceded it. The growing consciousness and appreciation of cultural difference and the drive toward ''own versions'' of modernism are making it essential to include a broader range of nations in global governance, and this diversity is rendering ''one size fits all'' policies obsolete as development paradigms.

For all these reasons, reform and strengthening of global economic governance reflecting the new multipolar, multicultural and multimodern character of the global economy is a high priority for today, and an imperative in ''anticipating the future''.

Roles of the IFIs and their governance mechanisms

Like the Interim Committee before it, the IMFC has the responsibility of advising and reporting to the Board of Governors on matters relating to the Board of Governors' functions in supervising the management and adaptation of *the international monetary and financial system*, including the operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of resources to developing countries; considering proposals by the Executive Board to amend the Articles of Agreement; and dealing with *disturbances that might threaten the system.*

The Development Committee's role is: to advise the Boards of Governors of the IMF and World Bank on critical *development issues* and on the financial resources required to promote economic development in developing countries. Over the years, the Committee has interpreted its mandate to *include trade and global environmental issues* in addition to traditional development matters.

The G20 was formed as a new forum for cooperation and consultation on matters pertaining to the international financial system. It studies, reviews, and promotes discussion among key industrial and emerging market countries of policy issues pertaining to the promotion of international financial stability, and seeks to *address issues that go beyond the responsibilities of any one organization.*

The objectives of the FSF (Financial Stability Forum) include improvements in the functioning of financial markets, and the *reduction of systemic risk* through enhanced information exchange and international cooperation among the authorities responsible for maintaining *financial stability.*

Source: www.imf.org. Emphasis added.

Millennium Development Goals

1. Eradicate extreme poverty and hunger.
Halve between 1990 and 2015 the proportion of people whose income is less than one dollar a day and the proportion of people who suffer from hunger.

2. Achieve universal primary education.
Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

3. Promote gender equality and empower women.
Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

4. Reduce child mortality.
Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

5. Improve maternal health.
Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

6. Combat HIV/AIDS, malaria and other diseases.
Have halted by 2015, and begun to reverse, the spread of HIV/AIDS and the incidence of malaria and other major diseases.

7. Ensure environmental sustainability.
Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources, halve by 2015 the proportion of people without sustainable access to safe drinking water, and by 2020 have achieved a significant improvement in the lives of at least 100 million slum dwellers.

8. Develop a global partnership for development.
Develop further an open, rule-based, predictable, non-discriminatory trading and financial system, address the special needs of the least developed countries and of landlocked and small island developing states, deal comprehensively with the debt problems of developing countries, develop and implement strategies for decent and productive work for youth, provide access to affordable, essential drugs in developing countries, and make available the benefits of new technologies, especially in information and communications.

Notes

1. Michael Sullivan, *The Meeting of Eastern and Western Art*, Berkeley: University of California Press, 1997, p. 1.
2. For a good discussion of this, see chapter 3 of Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order*, New York: Simon & Schuster, 1996.
3. Thomas McEvilley, ''Fusion: Hot or Cold'', in Thomas McEvilley, *FUSION: West African Artists at the Venice Biennale*, New York: The Museum for African Art, 1993, pp. 9–23.
4. Jim Supangkat, ''Multiculturalism/Multimodernism'', in Asia Society Galleries, New York, *Contemporary Art in Asia: Tensions/Traditions*, New York: Harry N. Abrams, Inc., 1996, p. 77.
5. Salah Hassan, ''The Modernist Experience in African Art: Visual Expressions of the Self and Cross-Cultural Aesthetics'', in Olu Oguibe and Okwui Enwezor, eds, *Reading the Contemporary: African Art from Theory to the Marketplace*, Cambridge, Mass.: MIT Press, 1999, p. 224.
6. Supangkat, ''Multiculturalism/Multimodernism'', p. 77.
7. Commission on the Role of the MDBs in Emerging Markets, ''The Role of the Multilateral Development Banks in Emerging Market Economies'', Washington, D.C.: Carnegie Endowment for International Peace, EMP Financial Advisors, and the Inter-American Dialogue, 2001, pp. 20–21.
8. Commission on the Role of the MDBs in Emerging Markets, ''The Role of the Multilateral Development Banks'', pp. 8–9 and box 4.
9. Colin I. Bradford, Jr, ''Toward 2015: From Consensus Formation to Implementation of the Millennium Development Goals; The Historic Background: The Consensus Formation Phase 1990–2002'', Washington, D.C.: World Bank (DEC), 2002.
10. Bradford, ''Toward 2015''.
11. Commission on the Role of the MDBs in Emerging Markets, ''The Role of the Multilateral Development Banks''.

3

A Leaders' 20 Summit?

Angel Gurria

Creating the Group of 20 Finance Ministers was an inspired act of leadership which, given its success, has taken everybody by surprise. Even today, we underline the fact that the meeting in Morelia, Mexico in 2003, or in Delhi, India before that, worked better than the International Monetary and Financial Committee. Small wonder, when the IMFC and/or the Development Committee consist of 24 finance ministers trying to dot the "i"s and cross the "t"s and not change the substance of a draft document prepared by the G7 to tell the markets of the world how the industrial countries are going to focus their economic strategies going forward, with lip service paid to certain issues concerning emerging market economies or the poorest countries, such as trade, debt, poverty or HIV/AIDS.

But the question now is whether this initiative can be transformed into a forum of leaders. The answer is clearly yes. But it is not just a question of convening the leaders instead of the finance ministers. The stakes, the agenda and the mechanics have to be different.

Why a Leaders' 20 Summit? Because the different fora that deal with globalization are not working. The trade talks for the Doha Round are stalled (as are those for the Free Trade Area of the Americas (FTAA)); growth looks better this year at the G7 level, but its "locomotive" effect on developing nations still has to be seen, after two years of very low growth or even negative growth in some areas, like Latin America. The United Nations special meetings on development and its financing (Monterrey, Johannesburg), and the Millennium Goals, are still waiting to be

implemented and financed. The mammoth US fiscal deficit makes the likelihood of a generous United States leading the world towards philanthropy a more remote possibility.

The United Nations is too general and diffuse; the OECD does not meet at leaders level and is only formed by the richest countries (in fact, in 1998, ministers of the "other half" of the world were invited to one of the sessions and the experience proved so rewarding that it has become a fixture in ministerial meetings). APEC is a non-binding mechanism and its membership is not global enough, because of geographic constraints (if anything, it is overly ambitious in scope – as it wants to deal with everything – and tremendously expensive and time-consuming to administer).

The Boards of the IMF and WB have some countries and some governors in common (only at the ministerial level), but many change every year and the issues are mostly financial in nature and "G7-centric". In all of the above fora, the speeches for internal consumption in the leaders' home countries take up most of the available time. The question of the "relevance" of those present is always there.

The summits of regional leaders have seen different fates. The 2004 Summit of the Americas in Monterrey was hailed as a success because the leaders did not come out slugging at each other or "knocking themselves out", as some had promised to do. Also, one has to take into consideration that President Bush arrived with an olive branch on migration to appeal to the citizens of Latin America who can vote in the next US election. But the acid test of the 2004 Summit's significance, the FTAA negotiations, even after the leaders in Monterrey offered all their support and confirmed the existing deadlines, broke down in Puebla, Mexico, only a few days later, at the deputy ministers' level. And again, even if successful, the ministers' geographic constraints would have prevented the negotiations from having global impact.

Today, given these setbacks in FTAA negotiations, the region finds itself immersed in a series of bilateral negotiations with the United States rather than in a serious, far-reaching, multilateral and regional attempt at free trade.

So, again, the answer is yes – maybe by default, but yes. There is obviously a need for a forum where the political will of leaders can be expressed, after discussing the issues in some depth, listening to the leaders of other G8 countries and of developing countries, and taking full advantage of the very valuable interaction between them before a policy decision is adopted. One can even imagine an L20 meeting without communiqués, which will discuss issues, reach some compromises and adopt commitments, and only announce them in the relevant fora (trade, financial, social, political, etc.).

Perhaps this is asking for too much. The idea, though, is to make the leaders feel comfortable and at ease; to look at the meetings as an opportunity, not yet another event where a predictable speech has to be pronounced; to consider the meetings as a learning process, not a place where one goes to preach to the unfaithful. The goal is to give leaders a chance to listen.

What about summit fatigue? The truth is that the leaders are not tired of summits. They are tired of inconclusive, politicized, manipulated, made-for-TV summits. They would probably welcome a new effort towards relevance, an elusive goal so far.

Leaders of developing countries would grab at the opportunity to meet with their G8 and other developed-country counterparts to discuss relevant issues, with the conviction that their ideas or proposals would find a willing ear, or at least an understanding one.

Would this mean the end of the G7/8 machinery? No. Certainly not at the outset, and not as an explicit, stated goal at any time. Were this to happen, it would spell the success of the experiment, and everybody would be better off. There would be no losers. The G8 today has its own ways of coordinating, and has its own ways of pressuring the parties involved and of conveying messages back and forth, skills it has been honing for some time now. There is no reason to try to dismantle that, even less so when the fate of the new initiative is unknown.

Indeed, one can imagine a system in which G8 countries would liaise before their meeting in the L20 mode, to align their positions on substantive issues or to agree to disagree in an organized fashion.

The G24 and the G77 and the G110+, etc., all are fora in which developing countries talk to each other. They preach to the converted. No country dares really tell the other where it went wrong. Solidarity among the poor (or the poorest) is paramount. These fora are useful in the sense of including certain issues in the world's agenda, but not necessarily in determining the way these issues will be dealt with. This always requires G8 participation. Again, the question of relevance is critical. The natural targets of the G24 (and, therefore, of the G77, G110, etc.) are the IMFC and Development Committee, which are ministerial and heavily influenced by the G8, and the United Nations Conference on Trade and Development (UNCTAD), which has lost a considerable amount of its clout and credibility over the years for having supported rather extreme positions on a number of issues.

So the answer is also yes on the developing countries' side. Just don't try to "tell anybody what to do". The existing groups will find that out by themselves. They will know which meetings to eliminate, which to downsize and which to enhance, given the existence of this new forum of the L20.

In terms of the size and composition of the group, there are several approaches that have been proposed. One is to increase the number of members to include all relevant areas of the world, or otherwise all categories of countries (rich, middle-income, poor and very poor). Another proposal translates the mechanics of the ''chairs'' at the IMF and the World Bank Boards, where there is a rotation of positions within each existing chair, depending on the importance of each country involved. But this approach involves shareholding percentages. The UN approach is ''one country, one vote'', which is politically appealing but very difficult to translate in terms of governance. A mixed fixed members/rotation members' concept is applied at the United Nations in the Security Council, with dubious results.

So why not leave the situation as it is for the time being? The main defence we have for keeping things as they are is that the system already in place at the finance ministers level seems to work. Given that every other formula has its shortcomings, we can avoid controversy by keeping things where they are today and telling everybody that we are going to get back to the issue in two years' time. And, in the meantime, we can really think about the issue and then confront ideas with experience in the field as meetings actually happen. Thus, although we will never be able to convince the hardliners about democracy and representation, the results may speak for themselves. Again, the question will depend on the success of the Group in tackling the relevant issues of development.

In fact, given its present membership, the Group could then invite other countries to present or participate in specific agenda items, thus creating an atmosphere of inclusiveness and expertise which would take the edge off some of the criticisms of those who would be crying ''foul'' when not invited.

But beware! An L20 would be a forum of governments. So-called ''civil society'' (meaning NGOs) and society at large (whether civil or not) can participate through their duly elected representatives, and they, through their governments, will include or fail to include points in the agenda. Non-governmental organizations are a fact of life and they should be heard, but they do not run governments, and neither should they run or decide the agenda of fora such as the L20. The question of accountability is legitimate – and our answer is democracy. Not bad! We cannot leave everybody happy, nor can we answer all questions, so why try? Let's concentrate on the substance and prove we can make it work.

If we keep the ''culture'' of inviting the heads of the IMF and WB, and invite the heads of the regional development banks depending on the issues and, as has been suggested, invite the Secretary-General of the United Nations or the heads of the relevant UN agencies to attend all or parts of the meetings, we can deal with the question of legitimacy and

representation and the very central question of the role of the United Nations.

Indeed, from the point of view of the United Nations, given that it does not deal with or does not have control over many of the non-UN agencies or the IFIs, having a forum of this nature should be a positive development in terms of avoiding the formality of New York and being able to address a very representative group of countries which can "make the difference" on a number of issues. No votes involved, no face to save. It provides another way to fight against unilateralism.

The question of the poor in the South not being good representatives of the poorest in the South is an intriguing one. The issue, however, is not terribly relevant. HIV/AIDS, extreme poverty, water, the digital gap, debt, trade protectionism, terrorism, political instability, etc. are all present in different degrees in the countries that are members of the G20 Finance today, either at the national level or in localized form. Sometimes, actually, these manifestations show up in more acute forms in these countries than in other, "poorer" ones.

In terms of the issues to be addressed, the agenda can be mind-numbing and we should therefore avoid overburdening the concept with too many expectations, lest we risk disappointment. There are, however, a number of issues that can be clearly addressed and are considered by all as "pending" or as "homework".

Trade is certainly one of them. The Doha Round is in trouble after Cancún and the divide between developed and developing countries has widened on issues such as agriculture and the so-called "Singapore agenda". As was mentioned above, the regional trade negotiations are not making progress either (the case of the FTAA is a good example), and these are perceived by some as a threat to global trade talks anyway.

The Millennium Goals, already under pressure due to the simple passage of time and the budgetary pressures of the countries that can make them work, could keep the Leaders' 20 Summit busy for many years to come. So could a focus on health, education, water, infrastructure and nutrition. The whole question of the resumption of growth and the spill-over effects in poor countries is still pending. Tracking progress or lack thereof on all these issues is a must. We now have targets, and are therefore better suited to identify the leads and lags and their origin. Again, this provides a big boost for UN themes.

The issue of terrorism, and the associated theme of WMD, offers yet another opportunity for substance in the L20. This is partly because, with only a few exceptions, the countries of the world have become aware of this phenomenon the hard way, by suffering it or by being pushed into a policy stance based on facts and deeds that were discovered – or, as now appears to be the case, exaggerated – by others. There is wide scope for a

reconciliation of views on the subject, for further cooperation on the substance of the issues involved and for better coordination on knowing the facts. There is Iraq to reconstruct and al-Qaeda to eliminate and Muslim fundamentalism to fight and a better management of the relationship between the West and East, including economics, politics and religion, to be achieved.

And what about the older but not lesser evil of drugs? Have we dropped it from the agenda? And now it is joining forces with terrorism to threaten civilization! Isn't it worth a serious review by leaders? And what about money laundering? How have finance ministers dealt with it so far?

Even the most noble of initiatives has to be reviewed to check for relevance, pertinence and effectiveness. The HIPC and HIV/AIDS initiatives provide only two such illustrations. How far have they gone? How are they doing? Was the HIPC initiative enough when designed? Is it working and creating real relief or is it putting additional pressure on debtor countries to comply with criteria that are not realistic? Is there enough money in the pot? Is the fight against AIDS well coordinated? Are we getting the biggest bang for our buck? Is there reasonable coordination among relief agencies? Is there reasonable cooperation from the recipient countries themselves? Can new incentives be created? Is the large US initiative already operative?

A strong argument can be made for suggesting that financial crises be highlighted as one of the areas for an L20 to look into. This targeting is logical if only because this is why the G20 was born at ministerial level in the first place. These crises were the central focus and the main concern. Today, our grasp of, control over and insight into financial crises seems to be less than before, given the trend to have bonds rather than loans as the main element of defaulted sovereign portfolios. A big initiative was launched by the IMF (or rather, its Deputy Head) that was allowed to linger around by the G7 for a while, and was then shot down by the debtors and by the G7 themselves as unworkable. It consisted of creating a sort of sovereign bankruptcy court which would settle with creditors depending on their capacity to pay off the debtor, as assessed by the IMF itself, or a jury of qualified individuals.

Under current conditions, the Argentine case highlights the way in which even the IMF can become hostage to a large, strong-willed sovereign debtor that is given free rein to pursue its own view of the world and the markets rather than moderate itself through the pressure of others who may know better and who may have a more systemic view of the issue. And this lack of capacity is on the issue that led to the creation of the G20 Finance itself! Talk about homework! Clearly, this gap opens up a job for the leaders.

Obviously, things cannot happen in a vacuum. Leaders rely on and need ministers to discuss issues and present alternative solutions. Besides, leaders will meet for only two days, at most. Therefore, ministers have to prepare the options on the agenda items. Thus, ministerial meetings must continue to take place, but within a coordinated, predefined agenda. Leaders can and probably will get to the meetings and raise unexpected issues, but this should be the exception rather than the rule. Orderly and predictable discussions should be a target to multiply the positive impact of the meetings.

Which ministers should be involved? Whichever are relevant: finance, trade, attorney generals, homeland security, health, foreign affairs, etc., or a combination of the above, as necessary.

Clearly, many of the issues these ministers have to address can be solved or decided upon in the ministerial itself. There is no need to take every issue to the leaders if it can be addressed at the level of their staff. In fact, meetings of leaders should have a certain "scarcity" element, to propitiate really significant discussions about only a short list of issues of true relevance. If the perception exists that the leaders will address every issue under the sun, ministerial meetings will weaken or lose their significance.

This leads us to the question of the secretariat, or lack thereof. An undertaking of this nature needs a secretariat. In the G20 Finance, the host country will play that role and will convene meetings at technical levels to form a relevant agenda that will enjoy consensus support. At the leaders level, the procedure has to be upgraded, given the stakes involved (leaders cannot fail, only ministers do!). The sources of agenda items will be the ministers' sectoral meetings, the diagnostics of international agencies (financial, trade, climate, UN or otherwise) on specific relevant issues, and NGOs in their dealings with the secretariat, but mostly the leaders themselves. They will have the best gauge of the sensitivity and "explosiveness" of the issues and they will constitute the ultimate filter. Leaders detect relevance best because they define relevance.

How to organize the secretariat? Keep it small, but very important. For example, ask the heads of the OECD, the IMF, the WB and the regional development banks of the world to participate and designate one representative. Ask the Secretary-General of the United Nations to designate one person. And then ask them all to process or come up with papers and ideas using their own installed capacity in-house or their specialized units or agencies. Everybody will be only too happy and flattered to be asked to contribute.

But there has to be a powerful, central secretary who can coordinate this effort. Maybe a former minister, or even a former leader; one who can command the respect of leaders worldwide and who is still aware,

energetic and dedicated enough to have a deep sense of mission. One who can address leaders as equals but will not want to outshine them and who can deal with international bureaucracies adeptly. One who is familiar with the issues, or at least some of them. He/she would be equipped with a small staff and the support of all the above-mentioned institutions. He/she would also be supported by and in constant touch with one person in the office of each of the leaders, who would in turn liaise with national authorities. Obviously, this person would be someone with access and influence and one who enjoys ''the leader's ear''.

The secretariat would also be supported by a network of ''think tanks'', loosely associated around the subject of the relevance of L20 themes. These would produce diagnostics, policy proposals or discussion papers either on demand or spontaneously, as contributions to the process. They would keep in touch to iterate and advance the thought process or the frontiers of knowledge on the issues. They would also be a source of proposals for relevant issues in the agendas of the meetings of leaders.

How often should this L20 meet? Twice a year, maybe after the G8 meetings in the first cases (one full day), and later two days would be appropriate. Although it doesn't sound too elegant, it may prove expedient in the beginning, before the concept sticks. Once a year will make the exercise irrelevant and will miss the virtue of opportunity on many issues, and more often will make the process unwieldy. After all, if something momentous happens, a meeting can always be convened.

We are assuming that the process will start to promote the idea. In fact, it may have already started in the different discussions that Prime Minister Paul Martin of Canada has had with his peers in international gatherings (beginning at Monterrey), or in bilaterals. But clearly, getting the United States to support the notion is crucial to its success. In fact, without this support, the initiative will not happen. Europeans are multilateralists by nature, and if we can count on the support of the United Nations beforehand, much of Europe will be supportive of the initiative.

But the question of US support will depend on what there is to gain for a country that has been accused of unilateralism and of not supporting the UN process. And that is precisely what can be sold to the United States: relevance in a controlled environment; a chance to listen and to be heard without having to commit or be forced to commit; consensus-building in a short time, or at least a beginning of consensus-building on key issues: a better understanding of the issues themselves; less clashes at the United Nations, the WTO or the IMF; greater support for the fight against terrorism, and so on. An L20 could constitute a forum that could be used to launch new initiatives and see if they fly, rather than floating them officially and having them shot down. If there is a country in need of such a forum it is, paradoxically, the United States.

Canada is well placed to promote the concept. It is considered a friend and ally by everybody and is not suspected of wanting to promote its own interests in relation to any of the big global issues. It has an excellent relationship with the United States, who will tend to rely on Canada's good judgment on a number of issues. Moreover, Paul Martin's mandate is relatively new and there is space for him to come up with some important global initiatives.

Having created the G20 at the ministerial level, the follow-up is quite natural, even expected. Those in the support or technical group can help in their own countries, but the project needs a leader, and Prime Minister Martin is the most appropriate one. Even those who may not agree with the concept may think twice before opposing a Canadian Prime Minister's initiative. Canada doesn't generate so many antibodies.

There are frequent regional meetings and there are interregional meetings. If any such a meeting supported the notion, it would be a great way to capture a large number of votes, but there is always the question of membership and the possible controversy surrounding the issue.

In the end, it is for the L20 countries themselves to decide. The idea is valid. It has potential. It is needed. It is worth pursuing.

4

Multilateralism and the limits of global governance

Richard Higgott

The relationship between ideas and institutions, traditionally a concern more of scholars than practitioners, has attracted increasing concern in policy circles over recent years. Nowhere is this more the case than in the study of the political economy of developing countries generally[1] and in the relationship between the "North" and "South" in the management of the international trade and finance systems in particular. The growing interest in a Leaders' 20 Summit or L20, the focus of this book (and not to be confused with what we might call the G20+ of developing countries) attests to this assertion.[2] It is apparent, however, that making the link between the impact of ideas and the impact of institutions on policy is a lot more problematic than was originally posited in some earlier literature – for example, Haas on the role of epistemic communities.[3] Part of the difficulty has to do with our understanding of the role of raw ideas in the (early stages of the) policy process on the one hand, and exactly what we mean by "institutions" on the other. This chapter sidesteps the difficulty of the "ideas question" by focusing on what we might more practically call "usable social knowledge".[4] More specifically still, the chapter restricts itself to only one example of usable social knowledge, namely what we know about "multilateralism" as a "principled institutional form of behaviour" and how it relates to contemporary global governance.

The late twentieth and early twenty-first centuries saw a dramatic growth of interest in global governance.[5] Indeed, the debate has almost blown out of control. The global policy community, driven largely by eco-

nomic theory, has focused in a quite tightly defined fashion on the identification and delivery of public goods via processes of collective-action problem-solving.[6] By contrast, scholarly interest, driven largely by normative (international) political theory, has focused on issues of accountability, citizen representation and justice.[7] Theory and practice, when they intersect, do so mostly in a focus on the role and behaviour of international institutions.

The identification and definition of what constitutes an institution is complex, illusive and contested. Scholars have traditionally focused on the status of multilateralism, following John Ruggie, as an ''institutional form'', and the prevailing assumption across a wide political spectrum is that contemporary multilateralism is in something of a crisis.[8] ''Crisis'' is an overly hyperbolic term, but it is not unfair to say that a fundamental rethink about the nature of the multilateral endeavour is in train. It is in this context that we can profit from comparing the aspirations for an evolving L20 as an exercise in policy innovation with the traditional instruments of international economic governance, the Bretton Woods institutions and the GATT/WTO.

Comparison will allow us to identify the strengths and weaknesses of what some have called the ''old multilateralism'' with what others who are associated with the L20 initiative want to call a ''new multilateralism''.[9] The current status of the G20 Finance as a discursive organization is to be contrasted with the more strongly decisional (although also discursive) status of the IMF or the WTO. This is an appropriate form of comparison since the G7 meeting of September 1999 that welcomed the creation of the G20 was quite explicit about the ''commitment to establish an informal mechanism for dialogue among systemically important countries *within* the framework of the Bretton Woods institutional system''.[10] The comparison also allows us to ask how we might, indeed if we can, operationalize the discursive and cosmopolitan turns in the theory and practice of global governance.

Moving beyond the populist debate, this chapter re-grounds the contemporary discussion of multilateralism in both the historical and theoretical contexts from which it has been extracted in the opening years of the twenty-first century. This reprise shows that the current problems of multilateralism are not simply the outcome of the irresponsible behaviour of a ''rogue hegemon'' tearing up the rules.[11] Of course, the role of contemporary US foreign policy is important, but a range of wider structural changes must also be factored into the analysis of the contemporary era. These changes have made it inevitable that decision-making within multilateral institutions – which formed an important part of the architecture of global governance in the second half of the twentieth century – would come under increasing strain and demands for reform. It is the

interplay over time of these structural changes, with the policies of the United States as the dominant global player, that is the key to understanding the limits to multilateralism in contemporary global governance. It is this interplay and its location within the historical and theoretical context that is the focus of this paper. Change over time in institutional economic governance (at the IMF and WTO) is the all-important context in which to understand the current interest in a Leaders' 20 Summit.

In theory, the economic domain – the domain of ''low'' rather than ''high'' politics – should be an easier arena in which to consolidate multilateral decision-making; that is, it should be multilateralism's strongest link. As economic theory tells us, collective-action problem-solving in the pursuit of economic interest should be a rational course of action. Thus, if the efficiency and utility of multilateralism is increasingly questioned in the economic domain, a better case study is created for analysis of the current overall ''crisis of multilateralism'' than in the security domain, where we would expect the multilateral enterprise to be more difficult and more frequently questioned. This chapter poses five questions:

1. What do we understand by the term ''governance'' in the international economic context and what is the role of multilateralism within it?
2. How do we judge the current health of the long-standing institutions of multilateral economic governance?
3. What are the implications for multilateralism, as an institutional form, of the linkage between global governance as theoretical concept and the reform of the international economic institutions as a practical project?
4. What is the significance of the role and behaviour of the dominant actor – the United States – to the institutional reform process in particular and the future of multilateralism in general?[12]
5. How serious is an L20 as a potential source of reform in the international economic system, and to what degree might it supplement or supplant the traditional institutions of global economic governance?

This chapter is underpinned by two assumptions. The first is that multilateral institutions face a range of problems of both a systemic and structural nature under conditions of ''contested globalization''.[13] Policy positions taken by the United States towards the multilateral endeavour in recent years are one, but not the only, source of strain. We are in an era in which the United States possesses an unprecedented material preponderance and in which its foreign policy exhibits a limited commitment to the international institutions. This is not to suggest that preponderance is without limits or that unilateralism is without costs. Indeed, following Ikenberry, I argue that the Bush Administration has done damage to US foreign policy by undermining unilateralism.[14] Equally, it is not to suggest that the United States is the only major state capable of playing

fast and loose with the international institutions when it suits.[15] But no understanding of the prospects for enhanced multilateralism is complete without acknowledging this first assumption.

The second assumption is that we are witnessing a growing contest in the domain of international economic governance between "winners" and "losers" under conditions of globalization. The transnationalization of market forces, although it increases aggregate global economic wealth, exacerbates inequality,[16] or, at the very least, perceptions of inequality, which is politically more potent. In so doing, this transnationalization not only reduces the capacity of international organizations to generate acceptable institutional processes that might mitigate growing inequality, it also spawns Southern resentment. The institutions of international economic governance reflect the interests of powerful, not poorer, states. Those global norms and rules that underwrote the institutional architecture of the last decades of the twentieth century – and attempts to reform these norms and rules in the domains of trade, investment, labour and environmental standards, capacity-building and "governance" – are still driven by "Northern agendas". Developing states remain "rule takers".[17]

A process of political contest and transition is under way. It is too early to know the outcome of this process, but it may be that the rules on offer will lack legitimacy in the poorer states, or that many states may simply lack the necessary governmental effectiveness to enforce them even if they should wish to do so. Either way, these processes have negative implications for consensus-based global governance norms and institutional structures. The "top-down" global governance agenda of the late 1990s and early twenty-first century is still driven by an understanding of governance as *effectiveness and efficiency*, not governance as greater representation, accountability and justice. The current agenda, rather than creating an array of global public goods of a reformist nature, is generating new forms of resistance. The absence of an ethical and practical commitment to stemming the globalization of inequality will continue to encourage the kind of combative politics that stalemated North–South global economic relations in the 1970s. No understanding of the prospects for enhanced multilateralism, inherent in L20-style propositions, is complete without an appreciation of this second assumption.

This chapter is divided into three sections. Section one provides a perspective on global governance and multilateralism as analytical concepts, or usable social knowledge. Section two looks at the emergence of multilateral economic governance in the post–Second World War era, especially the changing missions and practices of the IMF and WTO.

Section three examines the "democratic dilemma" inherent in efforts to reform multilateral economic governance. Central to this dilemma,

and the prospects for institutional reform, is argued to be the growing resistance of the United States to multilateralism as an institutional form, as opposed to the practice of multilateral institutions simply as agents of collective-action problem-solving in the provision of public goods per se.[18] For analytical purposes, government policy towards an institution should be distinguished from a general disposition for or against multilateralism as an institutional form. This chapter concludes with a comparison of the old multilateralism (embodied in the long-standing institutions) and the "new multilateralism" espoused by advocates of G20-style economic diplomacy.

Type I and Type II governance

There are at least five reasons why global governance has become a fashionable concept. Firstly, there has long been a growing dissatisfaction with traditional models of public policy that fail to capture the shift in the relationship between public and private sectors in general[19] and state authority and market power at the global level in particular.[20] Secondly, there has been a growing recognition of the non-national manageability of policy problems and a growing interest in the importance of the portability of ideas in the policy process, especially over issues of cross-border policy transfer.[21] The methodological nationalism that underwrote much public policy analysis and practice in the twentieth century is rapidly becoming redundant.

Thirdly, sovereignty is increasingly seen as a relational and relative question of responsibility rather than one of absolute principled legal control over specifically determined space.[22] In this context, major changes in conceptions of, and the role of, international law are also in train.[23] Fourthly, the increasing role of multilevel governance structures in key policy areas, enhanced by the role and functions of both issue-specific and regional specialized agencies, has grown dramatically. Fifthly, "governance" has become a hosting metaphor identifying non-traditional actors (non-state actors such as NGOs and networks) that participate as mobilizing agents broadening and deepening policy understanding beyond the traditional, exclusivist, international activities of states and their agents.

This growing interest in global governance has led to the need for some kind of definitional clarity. There is a vast debate in train in what is a conceptual minefield. For the purposes of this paper, I use a twofold definition of global governance as:

1. The enhancement of effectiveness and efficiency in the delivery of global public goods via collective-action problem-solving or what I have labelled global governance "Type I".[24]

2. The demand for greater transparency, accountability and representation, what we would more generally call enhanced democracy, or what I have labelled global governance "Type II".

The role of international institutions as instruments of transaction cost reduction and coordination for the mitigation of the risks attendant on an open and deregulated global economy are central elements in a Type I understanding of global governance.[25] And Type I governance – enhanced effective and efficient policy-making, driven by the international institutions – was very much the prevailing view of global governance within the institutions in the closing stages of the twentieth century. But as the role of the nation-state as a vehicle for democratic engagement becomes seemingly more problematic, the clamour for greater democratic engagement at the global level – Type II governance – is becoming stronger.

Multilateralism and the governance dilemma: Lessons from the WTO

"Is global governance – the structure of international institutions – democratically legitimate, or does it suffer from a 'democratic deficit'? This is emerging as one of the central questions – perhaps the central question – in contemporary world politics".[26]

Moravcsik's question goes to the heart of the prospects for the development of global governance Type II. Not only do multilateral economic institutions need to be effective and efficient instruments of policy-making beyond the territorial state (Type I), they also need to diminish what is widely agreed to be a democratic deficit that arises from the two-speed process of the rapid globalization of the world economy on the one hand and the considerably slower globalization of governance on the other.

There are a number of ways to address this issue. One is normatively, through political theory. While this can produce interesting ways of thinking about the democratic deficit, such literature, especially what we might describe as calls for cosmopolitan democracy, often looks a little esoteric. Not only does it play down the role of the institutions – although note David Held's interesting turn from talking about cosmopolitan democracy to talking about "cosmopolitan multilateralism"[27] – this literature invariably ignores the importance of speaking directly to the policy community and, perhaps more importantly, the nature of old-fashioned power politics – especially as practised by the dominant global actor, the United States.

There is no getting away from the fact that constraints on the multilateral international economic institutions – and the prospects of enhancing Type II global governance – cannot be separated from the structural power and intellectual purpose of the United States. This is not the only issue to be addressed, but it is a necessary one. US attitudes towards multilateral institutions, as I have shown, have changed over time. This change cannot be explained simply by a reading of the Bush era. US multilateralism has always been an exercise in what some call "ambivalent engagement"[28] and others call "instrumental multilateralism".[29]

The United States has accorded greater, but never unconditional, support to multilateral problem-solving in the economic, rather than the security, domain. In the economic domain, the principal distinction is the long-standing difference in attitudes towards the financial institutions, in which the United States has demonstrated a high degree of intrusion and desire for control over the governance of international trade (via the GATT and now the WTO) and in which it has been more prepared to acquiesce in rule-based governance. Ironically, it may be that the creation of the WTO has pushed the writ of that organization farther into the domestic political processes of its member states than many, including the United States, had anticipated or may in fact be prepared to tolerate in the longer run. This is something we shall not know for some time to come.

In terms of governance as the effective and efficient management of the global economy (Type I), the international economic institutions have served the interests of the United States well. This was the case in the bipolar era of the Cold War and is indeed still largely so even in this unipolar era. But unless the United States takes greater account of the Type II understanding of governance – governance defined as enhanced accountability, responsibility and representation (and indeed justice) – this may not continue to be the case. Even ignoring good ethical reasons for considering it an essential component of global governance, there are good instrumental reasons for advancing Type II governance. The continued globalization of the world economy – freer trade, freer capital flows, and freer movement of technology, all beneficial to the United States (and indeed most, if not all, countries) – cannot continue without developing some structures of accountability and representation. "Leaving it to the market" won't do – it ignores the degree to which markets are not just organic or spontaneous developments. Rather, they are the outcome of the acts of purposive social agents.

We have a well-recognized problem. There is an incompatibility of the continued existence of (i) the nation-state (to ensure self-determination), (ii) the development of democratic politics beyond the state (to ensure that public policy is accountable) and (iii) the continuing economic inte-

gration of the global economy to enhance global living standards.[30] At best, argues Rodrik, we can secure two of these goals, never all at once. As is now recognized, even amongst the most avid of free marketeers,[31] global markets (economic integration) without global governance are likely to prove unsustainable.

The current neo-liberal agenda, with its emphasis on trade in services, intellectual property and capital movements, and its refusal to address developing country concerns on issues of agriculture – seen for example in the Doha MTN (multilateral trade negotiations) Round, as far as the Cancún ministerial conference at least – reflects the continued drive of the United States and Europe for deeper global economic integration. But such an attempt to speed up integration also sits at odds with the clamour for democratic politics and representation, both within states and between states. It thus remains neither feasible nor desirable to continue towards global economic integration at a rate greater than is compatible with the desires of nation-states (via traditional forms of representation) or their peoples (through new discursive, non-statist forms of representation) for democratic input into these processes. Thus, we need to think more pragmatically about what can be achieved. For Rodrik, for example, the alternative is a renewed Bretton Woods Compromise, the aim of which should be:

> [t]o preserve some limits on integration, as built into original Bretton Woods arrangements, along with some more global rules to handle the integration that can be achieved. Those who would make different choices – towards tighter economic integration – must face up to the corollary: either tighter world government or less democracy ... [We might need to] scale down our ambitions with respect to global economic integration [and] do a better job of writing the rules for a thinner version of globalization.[32]

Or, put as a question: "Can we have global economic integration without global governance?" To pose this question is not to resist the central importance of markets; rather, it is to require an ethic of global governance that suggests that global governance as effective and efficient problem-solving and global governance as enhanced accountability should not be separated. But there is a widely held belief amongst "rule takers" that Type II governance is ignored, or at least treated as a secondary variable, by the powerful actors. This alone is sufficient to weaken governance Type I.[33] Of course, the need for greater precision of the terms at the core of governance Type II is acknowledged. Greater accountability and transparency at the global level, expressed more discursively than institutionally in the first instance, might not equate to an understanding of the kinds of democratic accountability experienced within the advanced Western democracies. Only by being explicit can we begin to take the

process forward. Perhaps it is in this context that the agenda of a body like the L20 may gain momentum as an alternative venue for taking the global discussion over Type II governance forward.

In theory, the multilateral institutions should play the major role in bridging the gap between our two types of governance. They should underwrite and enhance cooperation in the interests of all participants in an accountable and transparent manner. Their aim should be to ensure the stability of the global economy (assumed to be an unalloyed public good) and provide problem-solving strategies for new stresses on the system as they emerge. The problem, of course, is that many sections of the world's policy community (both public and private) do not accept these theoretical assumptions. Even if they do, they see the organizations fulfilling only, and invariably sub-optimally, the Type I side of the bargain. The other half of the equation – the need to make these institutions more accountable to, and representative of, the majority of their members – is unrealized.

The international economic institutions, as is now widely accepted, have a legitimacy deficit. A presence on the barricades at Seattle or Cancún is not required to rethink the WTO from this perspective. Indeed, many officials in the institutions are sensitive to this charge. The lack of accountability on the part of the institutions to all but their most powerful members is not new.[34] What has made this accountability no longer acceptable are some increasingly telling critiques. Not all of these are merely anti-globalization rhetoric, as even staunch globalizers are prepared to concede.[35] But institutional reform has not kept pace with the exponential change taking place in the global economic system, nor have demands for it to be "democratized".

This is not simply a normative issue of fairness, reasonable as such a claim may be. It is a practical issue. It is understood how the structure of negotiations marginalizes smaller, less well-equipped nations. Limited financial and human resources – especially the absence of specialized knowledge (proficiency in GATT-speak, at a minimum) and specialist non-state actors able to support the national interest – work against developing country participation.[36] Civil society support to developing country participation, given the expense and a limited knowledge pool, always leaves developing countries at a disadvantage compared with better-resourced developed countries.[37]

Nor is civil society support axiomatically an advantage. Unlike business groups and corporate sector actors, civil society actors do not find it so easy to secure access to the decision-making processes. The language (and governing norms) of the WTO is the language of neo-liberalism. Unsurprisingly, this language projects an unquestioned emphasis on the core market values of competition and efficiency – global governance

Type I. This is also, of course, the language of business groups and experts, who are comfortable with the sentiments present in the neo-liberal discourse but also competent in the technical language of the WTO. This empathy and expertise ensures a high degree of access to the trade policy community (see the position of the Evian Group for Economic Order in a Global Era, available from www.eviangroup.org).

On the other hand, most civil society actors, especially those with a development focus critical of the WTO and the way it conducts its business, are dismissed as sources of "expert knowledge" on the international trade regime. Rather, they are seen as antagonists and activists. Their role in the decision-making processes of the WTO has not been, and is not likely to be, legitimized or normalized in the manner accorded to corporate actors.[38] As a consequence, the decision-making processes of the international economic institutions will remain contested domains of legitimacy. Calls in the Doha Round to address "new issues", before many developing states have come to terms with expectations on them from the Uruguay Round – when coupled with the absence of any movement by major powers on issues such as agriculture and democratic reform in their governance structures – have generated resistance and stretched the WTO to breaking point.

Difficulties of reform in the WTO

Nothing demonstrates this better than the deadlock at the 2003 Cancún ministerial meeting to progress the Doha Round. Cancún represented a major stand by the developing countries against mission creep. The G21 (now G20+) of developing countries, led by Brazil and India, thwarted European and US efforts to introduce a series of new issues – the so-called "Singapore issues" on investment, transparency in government procurement policy, trade facilitation and competition policy – onto the Doha Agenda. Views on the importance of the G20+ are mixed, but the firmness (or intransigence, depending on your view) of the stand by the developing countries in the face of extreme pressure from the major states represents a watershed since the birth of the WTO.

To its developing country members, the G20+ in Cancún was a group that aimed not only to stop the introduction of the Singapore issues onto the Doha Agenda, but also to make a stand against what it rightly saw as the developed world's most debilitating policy for Southern economies – the massive subsidy of developed country agriculture. More importantly for this chapter, the birth of the G20+ was an attempt to say that MTN rounds are not simply moved along by agreements between the United States and Europe. If the WTO is to work, then the developing world must have a greater voice than in the past. The emergence of the G20+

is as much a global governance Type II issue as a global governance Type I issue. For the United States (and the European Union) and as voiced by US Trade Representative Zoellick, the activities of the G20+ represented a wrecking exercise by "can't do nations". This was a bad-tempered misreading. The G20+, despite the support that its stand received from WTO abolitionists, represents a strong reformist, not wrecking, position in the developing world.

Indeed, positions in the debate over the future of the trade regime are complex. Opinion spans the political spectrum from left to right and North to South. It must also be disaggregated with regards to issue area agriculture, GATS, TRIPs and the new (Singapore) issues. Opinion can be classified in a number of ways, but I simply identify two main categories – dismantlers/abolitionists on the one hand, and supporters on the other. These two broad categories should then be subdivided. Abolitionists can be of either a Southern radical persuasion (pace Focus on the Global South, Third World Network) or a Northern nationalist persuasion (pace conservative US think tanks such as the Heritage Foundation or the American Cause). Similarly, supporters can be of either a market privileging neo-classical persuasion (most academic economists, the Institute for International Economics, Evian Group) or of a more interventionist Keynesian persuasion (such as Oxfam or the World Development Movement).[39]

The abolitionists in the anti-globalization movement – especially those who believe that the United States is less concerned about the future of the multilateral trading system than building a series of bilateral and regional trading regimes in hub-and-spoke fashion, or a trade empire that mirrors the realities of its unrivalled military power – would dismantle the existing institutions altogether.[40] The American nationalists – or what others call the "new sovereigntists"[41] or "new exceptionalists"[42] – would equally shed few tears over the end of the WTO. These latter groups believe the United States would be better off liberated from the WTO's intrusions. They would exercise an exit strategy.

Reformists, despite internal differences, resist the argument that the IMF and WTO are past their "sell-by" date. Woods argues that there have been serious attempts to make decision-making procedures more transparent and that there is still some momentum for reform.[43] But internally generated reforms have focused on an understanding of improving governance Type I rather than developing governance Type II. Change over time in the organizational structures of the multilateral system has not exhibited the institutional learning or adaptive capacity required to take account of the aspirations of the developing nations (and new actors from civil society) for greater inclusion in decision-making processes.

The WTO may not yet have reached crisis point. But two out of its four ministerial meetings since its inception in 1995 have ended in breakdown. If attempts to restart the Doha Round in 2004 are not successful, questions about the longer-term viability of the WTO will increase. Rethinking the way forward will have to take place on two fronts: firstly and immediately, the Doha Round must be restarted. This will require stepping back from the "Singapore issues" and serious proposals for agricultural reform from the European Union and the United States.[44] Secondly, and more importantly in the long run, the question of how to restore the principled belief in multilateralism as a modus operandi for global problem-solving will have to be seriously addressed. While it is a principled question, it is also about policy choice.

A twofold strategy (assuming we ignore exit options) appears to be emerging. One strategy is to continue attempts to allow greater participation by non-governmental actors and increase the capabilities of the developing states in the intergovernmental process by concerted WTO-friendly capacity-building. This route, emanating from within a reformist camp, is slow and, judged by results, not particularly effective. A second strategy straddles both reformist and abolitionist camps. This is the increased pursuit of activities parallel to, but separate from, the existing multilateral intergovernmental process.[45]

This emerging approach is not without difficulties of its own. Like the first strategy, it is reformist, but in other ways very different. It is, in effect, an attempt to create a "new multilateralism" for the twenty-first century, one that changes assumptions of global order and alters policy outcomes from below. It contrasts with what we might call the multilateralism of the twentieth century, in which international institutions extended their remit geographically (by widening institutional membership), functionally (by deepening coverage of issues) and inclusively (by the co-option and socialization of recalcitrant actors into the dominant neo-liberal market mode) from the top. As the next section suggests, the G20 – in its search for enhanced financial stability and attempts to upgrade its activities to a Leaders' 20 Summit – represents the major intergovernmental exercise in the new multilateralism. Its remit has not yet, however, extended to the trade domain.

But reformists and dismantlers alike – albeit with different agendas – appreciate that if institutional change capable of addressing legitimate demands for accountability and representation of the smaller but weaker members cannot be found, the continuance of these institutions, and by extension, governance Type II, will become increasingly difficult to sustain. Increasing economic nationalism in the developing world will rub up against the global liberal project in a progressively more strident and combative fashion. This emerging problem, from below if you like, is

a major problem in its own right, but it is inseparably linked to problems from above, and especially the question of an oppositional US attitude towards multilateralism going forward into the twenty-first century.

The G20 and the financial system

As with the trade community, so too in the international financial arena, reform that will strengthen the relationship between global governance Type I and Type II is both required and difficult. In fact, the global financial architecture is in many ways more difficult to reform than the global trading system. Where the two once walked in tandem, they have now in many ways been disconnected. Global trade is still very much part of the ‘‘real economy’’, associated with hard material production and exchange. But it has, in the words of Peter Drucker,[46] been ‘‘severed’’ from the international financial system. By contrast, although no less real in its impacts, the international financial system operates in a much more opaque, increasingly virtual, world. The financial system has become rapidly more significant and globalized[47] – by the turn of the millennium, the derivatives and foreign exchange markets exceeded world GDP by $US300 trillion.[48] At the same time, and without contradiction, it has also become more decentralized as new regional centres of influence in continental Europe and Asia have joined London and New York.[49]

If we are seeing what Germain calls ‘‘decentralized financial globalization’’, it poses major questions about the nature, scope and actions of institutions that may or may not be in a position to regulate the new financial system in a manner that does not exacerbate the distinction between governance Types I and II. The global financial architecture – as it was during the Bretton Woods era – is no longer dominated by a single actor. The IMF may still be the major actor, but it is also but one amongst a multitude that also includes bodies such as the Bank of International Settlements, the International Organization of Securities Commissions, accounting and legal firms, insurance companies, pension, mutual and unit trusts, and rating agencies – all of which are involved in one way or another in the process of establishing prices and allocating risks. Similarly, while the United States remains the dominant state, it is a lot less hegemonic in this context than is often assumed.[50]

Similarly, the financial domain, again more so than the trade domain, is characterized by high-level specialist knowledge in its dialogues. The arbiters of what constitutes consensual, usable social knowledge are the specialists at the core of the primary actors in the international financial sector. It would be naive to expect actors from the NGO sector to possess comparable influence. Self-regulation, even amongst system reformers, is still the only real option contemplated. And self-regulation is still the pol-

icy option of choice in the G20. Although normative questions of justice and fairness do find their way into twenty-first-century discussions (certainly more than in the past), adjustments of a technical nature to ensure systemic stability – within the paradigmatic context of a broad, market-based, if not now exclusively neo-liberal, agenda – drive any proposed programme of reform.[51]

So, while the problems associated with the international financial system with regard to the issue of legitimacy and voice are similar to those of the international trade regime, the strategies for reform are somewhat different. The international financial system is more complex, more technical and more reflective of the new economy than the international trade regime. It needs to find new ways of creating an inter-state architecture – to regulate the system and develop new codes and standards – that cannot rely just on trying to reform and reboot the principal global institution. It is also clear that a variable geometry is emerging that sees initiatives to offset financial instability being developed at regional levels (such as the post-2001 Chiang Mai initiatives in East Asia[52]) as well as global initiatives such as the G20 Finance. Perhaps the importance of the G20 will be determined by its ability to promote ‘‘publicness’’[53] as part of a need for a more consensus-based approach towards the governance of international finance. The scope for the G20, and its prospects for success, should not be over-exaggerated. While some advocates have big plans for the G20, to date it has mainly worked to provide impetus for institutions such as the IMF, World Bank and Financial Stability Forum (FSF), and, as a venue for a dialogue between industrial nations and emerging market countries, to obtain emerging market political consensus for institutional initiatives arising elsewhere.[54]

Arguments for a G20 are twofold. The first is that we need to address the changing structural configuration of the global economic system. While the G7/8 economies are currently dominant, major structural changes in GDP and global demography are coming about. We are seeing a dramatic growth in the role of the major emerging economies. China, India, Mexico, Brazil and South Korea are in the top 10 largest economies. These changes will have the effect of progressively reducing the role of the G7/8 (proportionately and collectively) in the global population and economy.[55] In theory, therefore, the extension of the G7/8 to the G20 is ‘‘rational’’ and just. The G20 currently accounts for close to 90 per cent of the world’s economy. Large sections of the world’s population accounting for an increasingly large proportion of the world’s economy cannot be excluded from the decision-making process indefinitely. A re-ordering of the institutional structures of global governance (both formal and informal) must come – later if not sooner. Better that it unfold rationally rather than by force majeure 25 or 30 years down the line.

Secondly, while the G20 aims to facilitate dialogue (at this stage among finance ministers on issues of financial stability) across the North–South divide – and do so as free as possible from the bad temper that infects the longer-standing institutions – it is also an explicit recognition that the emerging market economies are underrepresented in the decision-making processes of the traditional institutions. Furthermore, it is a recognition that the mandates of the established institutions, notwithstanding ''mission creep'', remain too narrow to reflect the interests and concerns over the global economy of the emerging market economies. From an emerging market perspective, especially in East Asia and Latin America, there is still a suspicion that the G20 is only really a cosmetic attempt to legitimize the global economy in the wake of the financial crises and instability of the late twentieth century. Any legitimacy deficit will only be overcome via concrete endeavours to put in place vehicles for greater discursive – and deliberative – input into the decision-making process. We need new discursive spaces where the policies and actions of the institutions, and their major constitutive actors, can be discussed in a more transparent manner.

It is clear that the nature and pace of reform in the existing institutions is neither quick enough nor dramatic enough to assuage the views of those who feel marginalized in the domain of Type II governance. It is in this context that innovations such as the G20, if the predominant influence of the G7 in the organization can be astutely managed, might offer a longer-term, wider domain for the oversight and discussion of the international financial system and in which the developing countries can feel they have voice. There is no doubt that the G20 is attracting attention for its bridging potential between North and South in the area of financial governance. The real question is whether there is anything to be gained by upgrading it to a leaders' summit as advocated in a range of quarters as a way of widening the base of global economic governance, and if it is feasible to do so.[56] Can the G20, in C. Fred Bergsten's words, ''gradually, but steadily succeed the G7 as the informal steering committee of the world economy?''[57] It is too early to tell.

Transparency, capacity-building and participation are the keys to injecting new life into multilateralism. In the absence of hegemonic leadership from the United States, the kind of collective leadership offered by the G20 becomes, faute de mieux, important. But the G20 has clear limitations. It is reflective of the shift from hierarchical to network governance of a kind with which the United States is not overly enthused, and with all the limitations of network-based activity amongst states should the major player not be supportive. As the next section suggests, the prospect of the United States being proactive in the process of enhancing and upgrading the role of the G20 should not be assumed.

Living with the United States: The G1 and competing views of multilateralism

I have highlighted the structural changes in the mission of two traditional institutions (the IMF and the WTO) and the emergence of a new discursive actor (the G20). A process of institutional modernization that takes account of the aspirations of the developing world and new civil society actors is required to take these organizations forward under conditions of enhanced, but contested, globalization in the late twentieth century. But this is not a problem that can be dealt with in isolation from wider considerations in the contemporary global order. The prospects for successful reform of multilateral economic governance as a collaborative endeavour will be minimal while the United States maintains the stance it has progressively adopted from the closing decade of the twentieth century and consolidated under the Bush Administration in the twenty-first century.

Notwithstanding US military and economic preponderance, the changing structures of authority that pertain under conditions of globalization sit badly with current thinking and practice in US foreign policy. To understand why, we must appreciate that one element in the recent theory and practice of global governance – the evolution of global networks at the expense of international hierarchies – is not welcomed in Washington. Networks pursue their activities (such as waging unconventional war on states) by using systems of sprawling, horizontally interconnected networks of private power and authority.[58]

Economic globalization is seen increasingly in the United States through the lens of the national security agenda. In such a context, the dilemmas of reconciling state-focused US security instincts with these new patterns of activity – influenced not only by states, but by non-state actors, transnational forces and new kinds of threats – are proving hard for US governments to come to terms with. The blurring of the borders between what is domestic and what is international in the policy process has challenged traditional US understandings of national interest, especially in those policy domains where transnational decision-making clashes with US domestic law or runs up against a US conception of national security. Moreover, Washington has not adjusted well to "discursive", networked or internet-led conference-style diplomacy that appears to diminish state control over the policy process.[59]

In this respect, the United States is different to other major powers. It is not necessary to accede to Robert Kagan's overdrawn suggestion that Americans are from Mars and Europeans are from Venus[60] to see differences between the continental European and American approaches towards global governance. For the Bush Administration, what drives con-

temporary world order is ''US primacy'' and freedom to manoeuvre. For Europeans (including the United Kingdom) it is ''globalization''.[61] Europe, in theory if not always in practice, prefers a more cooperative and inclusive approach with a stronger normative attitude towards multilateral governance structures at the global level than is found in the US foreign policy community. It is inconceivable that a document similar to *The EU and the UN: The Choice of Multilateralism* – one that argues for a ''systematic *integration of multilateral and bilateral policy objectives*'' (emphasis in original)[62] – could appear in the United States.

Without over-stating the case, similar distinctions may also be drawn in the early twenty-first-century relationship between the United States and East Asia. East Asia, too, places a greater stress on multilateral and regional cooperation. We live in an era of the ''new regionalism'' that has developed since the financial crises of the closing years of the twentieth century. Regional economic dialogue and interaction, both amongst the states of North-East Asia (China, Japan and South Korea) and between these states and the states of South-East Asia through the development of the ASEAN Plus Three process, has grown rapidly.[63] To be sure, there may be a gap between theory and rhetoric on the one hand and practice on the other, and the regional cooperative dialogues remain rudimentary when contrasted with the level of integration to be found in Europe. But these dialogues have been spurred on by the perceived limitations of the multilateral system and the changing relationships of the East Asian major regional actors to the United States. If even a ''hard case'' test of multilateral intentions such as East Asia registers positive, then stronger support can be found among other traditional multilateralists such as Scandinavia and Canada (currently driving the G20 process).

The preceding discussion should not be taken to mean that if it were not for the United States all would be well in the development of a multilateral process of global governance. Nor is it meant to argue that the United States has repudiated multilateralism as an institutional form of governance in its entirety. But multilateralism for large sections of the US policy community implies, at best, the opportunity for others to get a free ride. At worst, it implies sovereignty dilution and unwanted entanglements. The United States has become more instrumental and selective in the choice of issue areas in which it will adopt a multilateral approach. As can be seen in post-Saddam Iraq, the United States would like to accept ''legitimating'' and burden-sharing multilateral support, provided it suits its preferred policy positions and does not constrain its ability for manoeuvre.

This ''loose'' American approach to multilateralism has a long pedigree.[64] US allies readily acquiesced to it during the Cold War, when their dependence on US power was manifest. Things changed, and continue to

change, in the post–Cold War era. US allies, especially the Europeans, seem intent on creating an institutional order less dependent on US power, more dependent on rules and principles, and in which the United States is granted less prerogative and licence than in the past. Nowhere is this better illustrated than in the contrast between the increasingly systematic use of the WTO dispute settlement mechanism by the European Union on the one hand, and the across-the-board resistance (the United Nations, ICC, Kyoto, land mines etc.) on the part of the United States to containment within multilateral institutions on the other.

Conclusion

Following the earlier definition taken from John Ruggie, multilateralism is not just one tool in a box. Rather, it should be seen as a trust-enhancing commitment to principled behaviour, and an institutional form. As Lisa Martin has persuasively argued, the United States has effectively rejected this view in favour of an opportunistic, ad hoc approach in which the very idea that the dominant global power might act in a self-binding way in the interests of multilateralism, as an important institutional form of governance, has been disregarded.[65] For multilateralism to work, rules must bind the hegemon as well as the smaller players. Historically, especially in the immediate post–Second World War era, the United States has behaved in such a way, with an eye to the future. Even given continued difficulties securing the post-war settlement in Iraq, it still resists the notion of investing in multilateral principles and norms. As Martin notes:

> Turning to multilateralism only under duress and when it appears convenient demonstrates a lack of commitment, even an implicit rejection of the principles of multilateralism ... This hollows out the core of such organizations, as they no longer provide the self-binding function they once did ... Without the self-binding of the hegemon, multilateral organisations become empty shells.[66]

If we follow Martin's logic, then even with a change of administration in Washington, the trust deficit that has been created is likely to remain for some time to come. The reputation of multilateralism as a principal (and principled) element of global governance in both the economic and the security domain in the early years of the twenty-first century is badly damaged. Whatever other players do, individually or collectively and be they private or public, repairing this damage will be difficult while the United States remains selective in its approach to the multilateral system.

But, this is not to suggest that all that is required is a change of heart in the United States. This is a necessary but not sufficient condition to build positive structures of global economic governance, and it is not axiomatic. Any administration in Washington is nowadays subject to pressures from assertive domestic interests that – not unlike the US allies in the international domain – have been freed from the disciplines of the Cold War. Growing numbers of politically powerful domestic actors – concerned by what they see as the negative impact of globalization on jobs and welfare – increasingly rail against the United States' acceptance of binding multilateral commitments or indeed its undertaking of other foreign policy initiatives in general.

Some are even more sceptical about the positive effect of a change of direction on the part of the United States. As Ikenberry argues, the Bush Administration has made a dramatically wrong strategic decision that has undermined US credibility, prestige, security relationships and goodwill to such an extent that it will take many years to undo.[67] The United States' "neo-fundamentalist" security policies of the twenty-first century have "squandered America's moral authority". It is a conclusion of this chapter that US policies towards the multilateral economic order have exacerbated this situation.

In this context we should conclude by asking in what way an L20-style organization might help. Can it be an alternative route to multilateralism? Can it be a vehicle to help advance cosmopolitan or at least a limited form of Type II governance? Certainly, an L20 would be more representative than the G7/8, but it is still essentially statist, while the nature of global economic interaction is much less nationally determined than at any time in the recent past. As the standard texts now tell us, globalization's principal impact (especially in relation to the communications revolution, trade liberalization, financial deregulation and state asset privatization) has not been simply to grow economic activity in the aggregate sense, but to render less salient a traditional "national" understanding of economic activity.[68] This means we do need a more strategic and "joined-up" approach to the management of globalization. Is, as some aspirational literature suggests, an upgraded statist Leaders' Summit of 20 likely to "serve as a forum ... for the management of globalisation"?[69] Again, it is too soon to know.

While there is clearly a need for greater inter-sectoral policy coordination, for the foreseeable future we must expect the United States and European Union – separately or even together as a G2[70] – to pursue their own interests when they clash with the wider L20. There is still no consensus on what constitutes global public goods or "bads" across the spectrum of North–South politics. For the major powers, notably the United States, disorder, misrule and the new security challenges are the major

public ''bads''. For Southern states, especially since the invasion of Iraq, national and cultural humiliation – along with a lack of ability to influence the course of events in international affairs (both economic and political) – have become the principal public ''bads''. This polarization of thinking makes the prospect of a North–South consensus on public goods (especially financial stability and an open liberal trade regime) in the economic domain all the more difficult to achieve.

It is not impossible, however, that an L20-style organization could have a quasi-legitimating role in the current debate over global governance, especially in the largest emerging market economies, and especially if it was given some kind of oversight (even if only discursive in the first instance) of the Bretton Woods institutions and the WTO. At the very least, an L20 creates a forum in which a wider range of voices on the global economy might be heard. Moreover, there is an important agenda for reform emerging in the ''post-'' post–Washington Consensus era that requires a venue for deliberation if resentment is not to fester as it did in the 1990s.

But there is still a series of first order problems in need of resolution before a scaling-up to a Leaders' 20 Summit can be seriously contemplated. These include, for example, the development strategy to be adopted (incrementalism versus a ''big bang'' approach), the degree of civil society participation and the composition of the membership.[71] But perhaps the most fundamental hurdle identified in this chapter is the need for a change in the style of diplomacy presently adopted by the United States. If the United States wants to rebuild some of the multilateral bridges burned during the early years of the twenty-first century, then support for an L20 might be a start, especially given that one major advantage of the L20 is its inclusion of major states from the non-Western world. Securing a new diplomacy might seem like a principally procedural issue, but as I have tried to suggest in this chapter, it is a much more deep-seated problem. The difficulty is that a return to multilateralism in international relations requires a style of leadership and diplomacy from the United States that is flatter, less hierarchical, more inclusive, less materially determined, and accompanied by a willingness on the part of the United States to jettison the negative attitudes – currently strong within its domestic polity – towards such enterprises.

The basic public goods for a ''just'' global era – economic regulation, environmental security, the containment of organized crime and terrorism, the enhancement of welfare – cannot be provided on a state-by-state basis, or by individual states acting alone. They must be provided collectively. Private sector actors, from both the corporate world and civil society, will continue to grow in significance in intergovernmental negotiation processes, as issue-linked coalitions increasingly operate across bor-

ders to set agendas and, by extension, require governments to generate policy compliance mechanisms. But even in less stressful times for global policy-making than the early twenty-first century, change is likely to be slow. Notwithstanding the increasing importance of non-state actors, inter-state cooperation is still at the heart of successful policy-making at the global level and is still driven by domestic actor preferences,[72] especially those emanating from within the United States. Despite impeccable theoretical and normative arguments in favour of collective-action problem-solving, the prospects for enhanced successful multilateral cooperation should not be exaggerated.

Notes

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5

Balancing act: Japan's strategy in global and regional financial governance

Saori N. Katada

Global financial governance has been crucially important for Japan, a country that has been one of the wealthiest and the largest creditors in the world since the 1980s. This is notable in the context that the Japanese government, until recently, consistently played a secondary and supportive role to the US lead on international monetary and financial matters. From the Latin American debt crisis of the 1980s to the Mexican peso crisis in the mid-1990s, the United States was always able to count on Japan's political support and financial contribution during crises among the "emerging market" developing countries.[1] However, the Asian financial crisis (AFC) that broke out during the summer of 1997 posed a new challenge to the Japanese government, because Japanese regionally and domestically based interests starkly conflicted with those of the United States and the international financial institutions.

By focusing on the Japanese government's reaction to the AFC, and its consequent actions, this chapter addresses two questions associated with Japan's interests and behaviour regarding global financial governance. The first question relates to what lessons the AFC left for Japan in terms of its desire for the design of global financial governance. The second is that of how the economic and political tensions associated with the crisis have played out in the governance of finance within Asia and globally for Japan. Finally, and as a conclusion, the chapter lays out what the ideal forms of global financial governance are for Japan.

In order to address these questions and accurately identify the impacts of the financial crisis on the Japanese government's policy toward global

financial governance after the AFC, the chapter first outlines Japan's pre-AFC policies in international financial crisis management, which demonstrate a very high level of deference to US interests. In the section that follows, I examine the sources of tension that emerged during and in the aftermath of the AFC between Japan and the existing global financial governance structure, particularly led by the United States, and then summarize the lessons that the Japanese policy makers have taken away from their experiences in dealing with the AFC. Finally, by analysing the policy initiatives taken by the Japanese government either in response to the AFC or toward setting a new agenda in global financial governance, the chapter concludes with a discussion of the Japanese government's objectives and its ideal forms of global financial governance.

This chapter finds that the AFC has indeed had a major impact on the way the Japanese government views the issues of global financial governance, not only due to the direct and short-term economic consequences of those financial crises but also because of a rather long-term implication of those crises on Japan's overall political leverage in the region and globally. Although still quite low-profile and cautious, the Japanese government has started to move toward regional financial cooperation and to become an advocate of a certain autonomy in global finance.

Japan's financial power and global financial governance before the AFC

Ever since Japan became a full-fledged major economic power in the mid-1970s, it has frequently played an important supportive role to the US-dominated global economic system.[2] In the area of international finance, Japan's financial power, which was enormously heightened by the 1985 Plaza Accord (from which the Japanese yen appreciated more than twofold in a few years), contributed enormously to Japan's economic position. With Japan's measurable financial contribution in the forms of foreign aid and development finance, the United States and IFIs managed to tackle the third world debt crisis of the 1980s and other development initiatives.

The solution to the 1980s Latin American debt crisis illustrates how the Japanese government supported US-led financial crisis management. Triggered by the Mexican announcement of interest payment suspension in August 1982, most of the Latin American countries became marred with debt overhang and economic problems during the 1980s. This debt crisis was finally solved nine years later in the form of the Brady Plan. The Plan converted Mexico's outstanding loans into discount bonds supported by the IFIs, reducing the Mexican debt and introducing portfolio

flows to Mexico in the early 1990s. Behind this scheme was Japan's (first) Miyazawa Initiative and multi-billion-dollar bilateral and multilateral financial support extended by the Export-Import Bank of Japan (JEXIM).[3]

This generally supportive attitude of the Japanese government continued into the 1990s, as some Latin American economies were rattled by another wave of financial crises in 1995. The Mexican peso crisis started in December 1994, triggered by de-pegging and devaluation of the Mexican peso, and the crisis put pressure on the international financial world as its contagion spread. Due not only to economic but also political reasons, the Clinton Administration was keen on containing this financial crisis as swiftly as possible.[4] The road to Mexican rescue was not smooth, however. Despite the US$18 billion rescue package agreed upon in late December, the Mexican peso continued to drop during the first few weeks of January 1995, pulling down the Mexican stock market. The "contagion effects" were felt in various emerging markets of other middle-income countries like Argentina, Brazil and the Philippines. The crisis was also affecting the weak value of the US dollar. President Clinton requested that Congress authorize an additional US$40 billion in the form of loan guarantees, along with the expansion of the US$18 billion multilateral rescue package to US$25 billion. But the US Congress stalled its authorization due to domestic opposition during the last weeks of January; the market responded negatively to Mexico's and others' efforts to restore credibility. In the last weekend of January, the Mexican external balance became dangerously low, and the Mexican authorities informed the United States and the International Monetary Fund that they could be forced to default on some of Mexico's payment obligations.

In response, the Clinton Administration immediately announced a US$48.8 billion multilateral assistance package to manage the Mexican financial crisis, including up to US$20 billion in currency swaps and securities guarantees from the US Treasury's Exchange Stabilization Fund. The package also included an increase in the 18-month standby arrangement by the IMF, to US$17.8 billion. This amount was equivalent to 688.4 per cent of Mexico's IMF quota, the highest proportion ever allowed to any member country up to that date.[5] The European governments resented the fact that the Clinton Administration had rammed the Mexican package down their throats. To demonstrate their frustration, six European countries – Germany, the United Kingdom, Switzerland, the Netherlands, Belgium and Denmark – abstained from supporting this US$17.8 billion Mexican rescue package during its discussion at the IMF board on 31 January 1995.[6]

During the series of financial crises associated with the Mexican peso crisis, the Japanese government demonstrated signs of support to the United States, though not so enthusiastically. First, the Japanese govern-

ment became one of the few major IMF shareholders that supported the large IMF package to Mexico. Secondly, when Argentina was affected by the ''Tequila (contagion) effect'' from Mexico in the spring of 1995, the JEXIM Bank pitched in US$800 million in the form of untied loans parallel to the IMF's Extended Fund Facility. Considering that the Japanese private financial sector did not have much stake or interest in either Mexico or Argentina after the solution of their debt crises in the 1980s, it is remarkable that the Japanese government was still willing to help the Latin American countries with their financial problems.

Finally, the Japanese government also supported the reform of global financial governance led by the United States in the context of the G7 debate on the ''new international financial architecture''. This discussion started at the 1994 Naples Summit in Italy, during which the fiftieth anniversary of the Bretton Woods System was both celebrated and criticized. The following year, after going through the experience of the Mexican crisis, the G7 members had diverging positions on the direction of reform. Nevertheless, the discussion at the 1995 G7 Summit at Halifax, Canada, centred on the role and potential of the IMF as financial crisis manager, and on the concomitant issue of IMF funding increases. Not only did the Japanese government support the US position to enhance the function of the IMF in the prevention and management of financial crises, the Japanese government was also quite enthusiastic about IMF quota increases. Through those reforms, according to a high official, the Japanese government hoped that the IMF's capacity to protect Asia from the new type of financial crisis would be enhanced and that the Asian countries could be spared from the type of crisis that had just claimed several years of economic growth in Mexico.[7]

As for debates associated with Asia during this period, the Japanese government has a somewhat mixed record of supportive versus independent roles. Japan had consistently been a supporter of non-exclusive regionalization in Asia; the Japanese government actively opposed the establishment of the exclusive East Asian Economic Group proposed by Malaysian Prime Minister Mahathir in 1990, and it supported APEC, which includes the United States and several non-Asian countries.

On the other hand, the Japanese government has long been interested in promoting an alternative path to economic development based on its own development experience. Starting in the early 1990s, the Japanese government launched a policy debate supporting Japan's ''two-step'' loan practice, through which the type of project involved determines the rates on foreign aid loans. The World Bank criticized this practice on the basis that it would distort the market.[8] Following this rather technical debate was the intellectual clash over the role of the state and public policy in economic development. Long known as the ''developmental state'',

the Japanese government has prided itself on having fostered Japan's miraculous economic success from the 1950s through the 1980s. Meanwhile, the IFIs and most of the neo-classically oriented economists were keen on limiting the role of governments in economic activities.[9] With the increase in potential influence that the Japanese government acquired through its own foreign aid activities and co-financing with the WB, Japan initiated an intellectual debate by financing a major research project on the positive role of active public policy on economic development. By financing a series of research projects leading to the publication of the 1993 World Bank policy research article "The Making of the East Asia Miracle", the Japanese government hoped to give more recognition (than was given at that point) to the benefits of active public policy. The resulting article did highlight the possible benefits of active public policies, so long as such policies are "market-friendly".[10]

In sum, because of its dire need to have a stable international economic and financial environment, the Japanese government habitually supported the global financial governance led by the United States and "Washington Consensus"-based institutions prior to the AFC.[11] The government also footed a significant part of the bill to finance stability-maintaining actions as seen in the case of the Latin American debt crisis. Although the Japanese government did wish to promote its own model of economic growth and finance, its efforts were limited in the context of the intellectual debate surrounding Asia. The fairly consistent and supportive position that Japan had taken in the past was evidently challenged at the time and in the aftermath of the AFC.

The impact of the AFC on Japan

The 1990s was a trying decade for Japan's domestic economy, even without the AFC. After the bursting of Japan's economic bubble in the first two years of the decade, the country's economy sank into a deep recession amidst an extensive domestic financial crisis created by a myriad of unhealthy banks with US$1.5 trillion in non-performing loans.[12] Resistance to reform among both the politicians and financial sector itself allegedly delayed the country's economic recovery. Furthermore, the major policy misjudgment of raising the sales tax in 1997, at a time when the country was showing some signs of recovery, extended the recession even longer. Moreover, in the autumn of 1997, two major financial institutions – Hokkaido Takushoku Bank (Takugin) and Yamaichi Security – failed, sending a massive shockwave through Japan's financial community.

The first wave of the AFC was triggered by a devaluation of the Thai currency, the baht, in July 1997, distressing Japan's already very shaky

economy and its sense of economic security in various ways. In the following text, the shocks are summarized in several components. All of them have led the Japanese government to reconsider its own role in global financial governance.

The first component that shook Japan came through negative impact on the country's material interests in the Asian region. Because of the high level of economic integration created through Japan's economic activities in the region especially since the mid-1980s, the currency, financial and economic crises among the Asian countries severely affected Japan's already depressed economy. They also weakened Japan's export performance in Asia. As of 1997, Japanese banks also had a very high exposure to Asian economies and significant direct investment in the region.

Secondly, Japan's political and ideational stake was threatened as a consequence of the AFC. The Japanese government has proclaimed that it played a substantial role in Asia's economic success (especially that of South-East Asia) over the past few decades by providing those countries with foreign aid, direct investment and a development model to follow. The AFC, however, discredited such a contribution and gave the "Washington Consensus" economists a chance to argue that the Asian way of economic management was fundamentally flawed and that the failure of the model contributed to this crisis. In order to protect its political and ideational stake, the Japanese government actively engaged in a heated debate against the "Washington Consensus" over the causes of and ideal solutions to the AFC.

The debate over the causes of the AFC went as follows. On the one hand, the most accepted understanding of the AFC came from the IFIs and American economic policy makers. Despite some variations, the widely accepted explanation was, in short, that the AFC was a crisis of fundamentals (the "fundamentals camp"). According to this view, the declining export competitiveness of these Asian economies, and inefficiency and mismanagement of Asia's financial sector under a false sense of security due especially to fixed or near-fixed exchange rates, were the major causes of the crisis.[13] Some even went further and blamed the corrupt and often inefficient "crony capitalism" of many Asian economies.[14] Thus, the fundamentals camp demanded not only stabilization, but also economic reform among the Asian countries, along with the adaptation of flexible exchange rates. In its Asian crisis management strategies, the inclusion of structural reform components in IMF conditionality was actively promoted.[15]

On the other hand, Japanese experts had a contrasting view. The Japanese government, and analysts sympathetic to its position, insisted that the financial crisis experienced by Asian countries was the result of li-

quidity shortage arising mostly from the flaws associated with the prevailing international financial structure (the ''liquidity camp''). The rapid and massive inflow and outflow of foreign capital, led by highly leveraged institutions (HLIs) such as hedge funds and supported by ongoing financial liberalization in the region, led to this temporary imbalance.[16] The prescriptive implication of this understanding by the liquidity camp is, therefore, to help increase liquidity available to countries in crisis in the short term (with some reform of the domestic financial sector) and to induce international regulations on the detrimental activities of HLIs in the medium and long term. Furthermore, Japanese analysts have been quite concerned about the impact of foreign exchange volatility on Asian economies that are highly dependent on imports and exports.

It is not only a purely intellectual debate that led the Japanese government down a path to independently challenge the existing global financial governance, but also the politics of global finance in general and the US double standard in its international financial crisis management in particular. The contrast between the United States' involvement in the Mexican peso crisis and its involvement in the Asian crisis provides the most indicative illustration of the unequivocal politics inherent in American management of international financial crises. As discussed above, the Clinton Administration took clear leadership during the Mexican peso crisis (1994–1995). As opposition from the US Congress as well as scepticism among the Europeans stalled the Mexican rescue package at the end of January 1995, the Clinton Administration acted boldly, bypassing Congress and assembling a US$48.8 billion rescue package.[17] Conversely, the United States did not contribute financially to Thailand, the first rescue package of the Asian crisis. This was partly because of the implications of the Mexican rescue, but mostly due to a lack of political will on the part of the US Administration.[18]

It is true that the United States began to pledge financial support to the crisis countries of Asia after Thailand, namely Indonesia and South Korea, in the form of the second line of defence.[19] But the damage was already done to US credibility among Asian countries. Thailand, despite being a model student of the IMF-led reforms after the crisis, has repeatedly criticized the United States' unwillingness to come to its aid during a time of need.[20] In addition, the idea of the Asian Monetary Fund (AMF) also excluded the United States, partly because the United States was not a member of the ''Friends of Thailand'', a group of mostly Asian countries that contributed funding to the country's rescue in August 1997.

Furthermore, the Japanese government's frustration over the handling of the Asian financial crisis by the United States was exacerbated as the Clinton Administration put increased pressure on Japan. As the Asian crisis began to destabilize global finance, US criticism of Japan began in

earnest. It focused on Japan's failure to stimulate its own economy and to help Asian countries out of their economic turmoil.[21] This criticism from the United States stung Japanese leaders such as then Prime Minister Ryutaro Hashimoto, who had included some Asian rescue components in the country's manifold and multi-billion-dollar economic stimulus packages. Japanese officials were also quite upset with the complimentary attitudes of US policy makers toward China.[22]

The Japanese Ministry of Finance was also angered by the US media campaign of making Japan the ''bad guy'' (and China the ''good guy'') in the management of the AFC. After all, because of US opposition the Ministry of Finance was forced to give up its US$100 billion AMF idea, which would have contributed immensely to the containment of the crisis and the revival of the Asian economy.[23] For most of the Japanese leaders, the politics of AFC management were clear. The Japanese were, as has always been the case, expected to provide money under the US/IMF-led crisis solution scheme so that liquidity and funding (and in addition a hopefully larger Japanese market for Asian goods) would be provided under a monolithic US-led approach among the creditors. Furthermore, and in connection to the issue of ideational tension between the US-led IFIs and Japan discussed above, the policy makers subscribing to the ''Washington Consensus'' had more to gain by labelling Japan (including the Japanese economic model) a major cause of the Asian crisis, thus discrediting alternative plans advocated by Japan.

Despite its frustration, the Japanese government was highly constrained from acting independently in the face of the AFC. Besides the well-known US–Japan bilateral bind arising from Japan's heavy reliance on its security arrangement with the United States as well as on its export market, Japan alone lacks any base of structural power.[24] Being the most likely major financier of all the Asian debtors, the Japanese needed some kind of assurance that the Japanese government's financial contribution could be repaid. Japan also had to make sure that, by financially helping those in financial crisis, it did not create severe moral hazards. Japan's dilemma was quite evident when three Asian countries – Thailand, Indonesia and South Korea – came to the Japanese government asking for bilateral financial support at an early stage of their respective financial crises. The Japanese government, though hoping to provide support, had to turn their requests down and urge all three governments to go to the IMF first.[25]

Furthermore, Asian countries were quite vulnerable to financial crises not only because of their weak domestic financial structures and relatively small economies, but also because those countries lack protective mechanisms against such crises. Having been a region of economic successes, with most of its governments quite conservative in their fiscal

management, most Asian countries (with the major exception of the Philippines) did not have to turn to the IMF for help. Also, having expanded their economies quite rapidly over the last few decades, many Asian countries had fairly low IMF quotas (on the basis of which the maximum allocation of IMF loans are calculated) relative to the size of their economies.[26] Once the new type of financial crisis in which tens of billions of dollars flee overnight hit those countries, those quotas turned out to be too small.

On the other hand, those countries that experienced IMF conditionalities – Thailand, Indonesia and South Korea – learned the harsh reality of stabilization and economic reforms under IMF conditions.[27] Those IMF-ruled countries saw the fruits of their economic management (though this management might have contributed to the creation of what the liberal market would call ''alliance'' or ''crony'' capitalism) being taken away from them under the reforms. The Koreans, in particular, were quite disturbed as they sensed that the Americans (and the Japanese) were taking advantage of the Korean crisis to pry open the country's economy and to buy up its precious industrial base.[28]

Finally, political difficulties associated with the assembling of rescue packages among major creditors were also apparent. The shock arising from the United States' refusal to commit any bilateral financial assistance at the time of the Thai crisis led many Asian countries, particularly Thailand, to doubt the United States' commitment to stabilizing the regional economy under crisis. Facing such doubt, governments in Asia, including that of Japan, acutely felt the lack of a regional alternative.[29] From those difficult experiences through the AFC, the Japanese government came out with two related lessons, which are reflected in the actions that it took during and in the aftermath of the crisis (discussed below). The first lesson was that the Japanese government should be active in addressing issues of reform in global financial governance at the international level so as to have its voice reflected in the direction and contents of the reform. Secondly, the Japanese government should be more active and engaged in creating Asia's regional alternative to the Washington-based IFIs when supporting the Asian economies. This is necessary in order for Asian and Japanese governments to have a certain level of policy choice and autonomy in international financial matters.

Japanese initiatives in the aftermath of the AFC

Challenges associated with the AFC led the Japanese government to be quite active on both the Asian and international fronts. In Asia, after having failed to push the case of the Asian Monetary Fund through at

the early stage of the AFC, the Japanese government became a major supporter of a regional financial mechanism under the Chiang Mai Initiative. In the global context, the Japanese government engaged in the discussion of the New International Financial Architecture via the G7 process towards stronger regulation of speculative financial flows and in support of the new G20.

In Asia

Japan's AMF proposal was perceived by many as a sign of Japan's willingness to take independent regional leadership. This was an idea that was at the time dubbed as the Asian version of the IMF, with an expected US$100 billion contribution, mostly from the Japanese government, in emergency funding for the Asian countries in crisis. Even after its premature nature – together with opposition from the IMF, the United States, Europe and China – killed the proposal, the set of ideas that led to the AMF proposal survived. Through this plan, the Japanese government (particularly the International Bureau of the Ministry of Finance) advocated the importance of pursuing mutual interests among the members of the region in providing safety nets (both financial and social) against the overwhelming forces of rapid cross-border capital movements.

The AMF idea first emerged after the Asian countries pitched in to the package assembled by the IMF and Japan to support Thailand in August 1997. The idea was repeatedly discussed during the Asia-Europe Meeting (ASEM) finance ministers' forum in Bangkok and the WB/IMF Annual Meeting in Hong Kong, both in September 1997. The exact format of the AMF was never clearly outlined, but it aimed to establish a standing regional institution among Asian members that would provide financial support to Asian countries in financial crisis, in the forms of balance of payments support, short-term liquidity and long-term development finance. According to a Japanese Ministry of Finance official, four major factors motivated the MoF to push this proposal forward:

1. concerns about the possibilities of contagion;
2. awareness that there were limited money sources available outside of Asia;
3. awareness that there was limited access to the IMF funds, particularly for Asian countries, due to their small IMF quotas; and
4. difficulty on the part of some countries, like Australia, to justify case-by-case bilateral support of rescue packages in domestic political arenas, thus creating the need for an established regional fund for this purpose.[30]

The Asian countries in crisis, as well as some parts of Japan's private sector, welcomed the idea. Both groups hoped that Japan's official financial contribution would put an end to the financial crisis and check the regional contagion. Some Asian leaders also hoped that the establishment of such a regional funding mechanism would enable them to avoid intrusive involvement by the IMF as they requested emergency loan packages. The exclusion of the United States was, in fact, key in creating an IMF alternative.[31]

Opposition from the United States, the IMF and many European governments, as well as China, forced the Japanese government to give up pursuing the AMF by the end of October 1997, as Indonesia was forced to resort to the IMF rescue package and its conditionality. On 19 November 1997, at the meeting among central bankers and finance ministers in Manila, a ''Manila Framework'' was set up that emphasized a regional economic monitoring and surveillance mechanism and introduced the Supplemental Reserve Facility, or SRF. The SRF would enable the IMF to respond to short-term financial crises with more flexibility. The AMF idea, thus, was ''subsumed under [the] Manila Framework'',[32] thus leaving the central tools for solving the Asian financial crisis in the hands of the IMF.

The Japanese government had to retract the AMF idea partly due to strong international opposition and partly due to its own domestic economic and financial problems, which worsened in November 1997.[33] But the desire to stabilize regional finance under Japan's leadership, even in competition with the United States, died hard among Japanese policy makers, and the expectation of an active Japanese role lingered among some Asian leaders from 1997 through to 2000. In October 1998, the Japanese government responded to Asia's continuing call for financial leadership by launching the New Miyazawa Initiative (formally known as ''A New Initiative to Overcome the Asian Currency Crisis''). This plan committed a total of US$30 billion, half in the form of medium- and long-term funding for Asia's economic recovery and half for short-term lending. At the end of 2000, the Japanese government announced that it had provided US$80 billion via various funding facilities to support the Asian countries in crisis.[34]

Along with increased official funding in support of the Asian countries, which demonstrated the high level of the Japanese government's resolve in taking financial leadership to address the regional crisis, some Japanese policy makers and some Asian leaders persistently revisited the idea of the AMF. By March 1999, the Japanese government used a part (US$3 billion) of the fund set aside for the New Miyazawa Initiative to set up the Asian Currency Crisis Support Facility in the Asian Development Bank. During 1999, ASEAN Plus Three (China, Japan and South

Korea) leaders were discussing a regional financial framework that would provide a quick response to financial crises. This scheme was discussed at the APEC symposium in July 1999, supported by Asian deputy ministers at the ASEAN Plus Three (APT) meeting in Manila in November, and finally and officially announced in the form of the Chiang Mai Initiative on 6 May 2000. Although this initiative calls for a regional financial mechanism in the form of a bilateral swap agreement network among central banks, and not for the establishment of a formal regional institution, the Japanese policy makers are hopeful that this will create a basis for an institution similar to the AMF.[35]

In May 2001, the APT members formalized the Chiang Mai Initiative in Honolulu, and pushed forward their drive to strengthen regional financial cooperation. Throughout the process, the Japanese government emphasized that the swap arrangement had to complement the IMF-centred global financial framework. In the Honolulu meeting, the member countries agreed that only 10 per cent of the bilateral swap agreement could be drawn before involving the IMF, and the remaining 90 per cent required IMF involvement. Despite this, the creation of a ''supplementary'' regional financial framework should increase Japan's leverage over regional financial matters in the near future. Japan and Asian countries are now engaging in discussion to establish a regional monitoring and surveillance mechanism that is separate from the Manila Framework.[36] This movement indicates a long-term and forward-looking posture among the member countries towards regional financial cooperation.[37]

Finally, in May 2004, the participating governments of the Chiang Mai Initiative met at the APT finance ministers' meeting in South Korea and agreed to pursue multilateralization of this set of bilateral swaps and increase efforts towards monitoring and surveillance of financial activities within Asia.

A strong push towards increased use of the yen emerged alongside the discussion of emergency funding facilities in the aftermath of the AFC. Before the Asian crisis, most of the Asian countries had pegged their currencies to the US dollar (or to a basket of currencies dominated by the US dollar). In the eyes of many Japanese observers, the dollar's dominance was, at least, a significant factor in triggering the crisis, as currency traders began attacking Asian currencies with the idea that those pegged exchange rates were not sustainable.

Many allude to the depreciation of the yen after 1995 as one of the causes of the Asian crisis. Asian countries' exports to Japan declined due to the increased prices of these goods in yen. This downward movement of the yen also hurt countries competing with Japanese exports in third countries. As Asian economies become more highly interdependent in terms of both trade and investment, increased use of the yen could play

a critical role in stabilizing the regional economy. Increased use of the yen can take the form of either an increased use of the yen itself, giving more weight to the yen as a part of a basket of currency, or the creation of an ''Asian monetary union''. A relatively new forum, Asia-Europe Meeting, has become a useful venue for such discussion.[38] During the 1998 ASEM London meeting, Japan's Finance Minister, Kiichi Miyazawa, floated the idea of the new Asian currency regime consisting of a basket of currencies that includes a higher proportion of the yen. The ASEM Vision Group submitted its first report for ASEM's foreign ministers' meeting in March 1999, which emphasized the ''sustaining economic partnership between Asia and Europe''. This report included a point on enhanced cooperation for financial stability, and emphasized the regions' need for ''management of exchange rates, substantial reduction in the volatility of short-term capital flows and the strengthening of domestic long-term financial markets''.[39] Finally, during the ASEM finance ministers' meeting in Kobe, Japan, in January 2001, Japan (with the support of France) proposed a research project to study the feasibility of an ''Asian monetary union'' in the foreseeable future.[40]

An additional benefit of the ASEM process is that Japan has been able to help constitute Asia's regional identity without provoking either the suspicion of Asian countries themselves, including China, or the opposition of the United States for being excluded from the process.[41] Because each ASEM discussion requires Asia to develop a coordinated regional position vis-à-vis the more experienced and relatively uniform European Union, the incentive for Asian countries to discuss issues openly and to create a collective Asian identity is increased. From the Japanese policy makers' standpoint, such an exercise has been invaluable for Asian leaders.[42] Particularly in the area of foreign exchange rate regimes, the European Union hopes to serve as a model of regional integration from which the Asian leaders can learn, and at the same time, to support the economies of Asia.

The Japanese government has also shown its strong commitment to the internationalization of the yen in the aftermath of the AFC. The foreign aid and financial packages included in the New Miyazawa Initiative announced in October 1998 were also geared towards increased use of the yen directly by providing yen-denominated medium- and long-term funding, and indirectly by actively guaranteeing yen borrowing by Asian countries.[43] ''Consequently, rather than marking the defeat of Japan and the yen as the mainstay of financial and economic integration in the region, the currency crises seem to have finally convinced Japanese policy makers of the inevitability of the greater use of the yen''.[44]

The Japanese government supported the Malaysian government when it decided to impose one-year capital controls in September 1998. Malay-

sia rebelled against the international financial establishment by insisting on not going to the IMF despite the market attack on its currency. When the country survived that year, many Asian governments, including that of Japan, vocally praised its efforts. Malaysia became the first country to issue bonds guaranteed by the Japanese government under the New Miyazawa Initiative, and a US$570 million bond with a dual guarantee arranged by Nomura and Sumitomo became part of the US$2.6 billion Japanese aid package to Malaysia.[45]

Finally and most recently, the Japanese government is actively supporting a regional bond initiative called the ‘‘Asian Bond Initiative’’. Proposed by various figures from Japan and other parts of Asia, this initiative aims to create an active bond market in many of the countries in Asia, as well as throughout the region.[46] Having understood the financial challenges in Asia, where most of the region’s high savings are either parked in domestic banks (thus creating high dependence on loans) or invested in the advanced non-Asian countries, especially the United States, many Asian policy makers in the field of finance are now trying to improve the financial environment in Asia so that Asian companies (and governments) can raise funds either domestically or regionally.

In sum, the Japanese government began to take those initiatives during and in the aftermath of the AFC that are aimed at promoting regional financial cooperation. Those objectives were partially realized in the context of APT and the Chiang Mai Initiative. Discussions continue on the internationalization of the yen, and other instruments such as the Asian Bond Initiative, to insulate regional financial transactions from the whims of global financial governance.

In the global context

The Japanese government also turned to global fora such as the G7 Summits to address the issue of global financial governance since the AFC.[47] It is quite obvious that Japan’s experience in the Asian crisis was behind its increased interest in resorting to international support, beyond the United States, on global financial issues. Before the crisis, the Japanese government had been quite a reliable supporter of US initiatives on those matters at the G7 meetings. As discussed earlier, this tendency was visible at the time when IMF reform was put on the table during the 1994 Naples Summit and during the 1995 Halifax Summit on increased capital subscription to the IMF in the aftermath of the Mexican peso crisis.

The 1998 G7 Summit in Birmingham (May 15–17) became the first G7 battleground for Japan in shaping the direction of the international financial architecture debate.[48] The Japanese government emphasized that the new structure should not only increase international financial stability

but also provide better chances for the Asian countries, including Japan, to compete. At the meeting of finance ministers held a week before the Summit, the issue of international finance was at the centre of the G7 agenda. The Japanese media emphasized the prospect that a certain level of regulation would be imposed on short-term capital flows, including those of hedge funds.[49] The real focus of discussion, however, was not what the Japanese wished or expected. The G7 leaders, especially the United States, focused on Japan's problematic financial reform as an essential threat to global economic stability, rather than the activities of the hedge funds.[50] The Summit statement emphasized that it was important for the G7 to maintain and expand the global economy. The statement also stressed that each country had to continue its efforts to reform its economy in order for the global market to function smoothly. The statement was an explicit confirmation that the G7 governments were not about to agree to regulate certain cross-border financial activities, although some efforts would be made to increase the efficiency and transparency of international financial activities. Furthermore, the G7 members confirmed that the IMF should continue to lead the efforts to support and reform those Asian economies that were experiencing the effects of the crisis.

It is clear that the discussion on the New International Financial Architecture remained mostly on the same footing as the issues put on the table by the 1995 Halifax Summit. The US Treasury was already taking initiatives in several areas, and it was on these areas that it would concentrate. These included "initiatives to enhance disclosure and transparency, initiatives to strengthen national financial sectors, and mechanisms to ensure that the market more fully bore the consequences of its credit and investment decisions".[51] On the other hand, the Clinton Administration mostly stuck to the status quo ante on issues of crisis resolution and was not at all interested in discussing new exchange rate regimes, including monetary union or target zones.[52] The series of financial crises in the latter half of 1998 changed the attitudes of the G7 members, especially among the European leaders, and they became more critical of unregulated international financial markets. As a partial contagion of the AFC, Russia, which had already suffered from a myriad of difficulties during its transition to a market economy, devalued its currency and partially defaulted on its external debt in August. Russia did so despite the financial support of the IMF and other creditors, particularly from May of the same year. In addition, Brazil faced financial turmoil before and after its presidential election in October 1998. Despite the IMF-led "precautionary" rescue package provided to Brazil in November, the country was later forced to abandon its currency peg to the dollar and devalue, triggering further capital outflow and decline in its stock market in January

1999. Added to these international financial crises, the United States experienced a domestic financial crisis arising from a dramatic decline of its stock market in the late summer of 1998 and the failure and bail-out of Long-Term Capital Management in the autumn of that year.

These crises consequently created a political environment in which Japan's position of urging increased caution on certain types of international financial activities attracted sympathy among major creditors. Leaders of major European countries, which had just launched the euro in January 1999, emphasized the importance of stable exchange rates and the danger of HLIs such as hedge funds.[53] These institutions can impose massive pressure on the exchange rate and create a large capital outflow from countries in distress. On the other hand, the United States, whose financial institutions dominate this type of business, insisted on maintaining the principles of open market and financial liberalization, but with adequate supervision and transparency.

Encouraged by increased support, however, the Japanese government promoted the idea of curtailing short-term capital flow reversals. The proposal emphasized that (a) countries in financial crisis should be allowed to suspend temporarily their external payment, and (b) non-national financial institutions have to maintain a certain level of outstanding claims to those countries in crisis.[54] The Japanese government promoted these ideas at the G7 finance ministers' meeting in April 1999. Although this plan was not taken up in the same form, the Japanese government saw it as progress when other G7 members lent their ears to the idea of checking and regulating short-term capital flows across borders.

The 1999 Köln Summit became the place to address the direction of the new international financial system. The finance ministries of the G7 countries had already conducted the bulk of the discussion on the New International Financial Architecture in the newly created and European-supported Financial Stability Forum in February of 1999, and during the meeting of finance ministers two weeks prior to the Leaders' Summit. What came out of those meetings of financial specialists were plans to further strengthen the international financial system that involved the participation of the private financial sector. The emphasis on the co-responsibility of the lenders (rather than just the borrowers) characterizes the direction of these plans. Interviewed by the *Nihon Keizai Shimbun* on 8 June, Japan's Vice-Minister of Finance, Eisuke Sakakibara (nicknamed Mr Yen), noted:

> There has been an increase in awareness regarding the crisis in global capitalism even in the United States as the Asian crisis spread to Latin America and Russia, and as the major American hedge fund failed. The United States, Europe and Japan *now all agree* that the center of the causes of these crises lies in capital

movements. We have to strengthen our capacity to monitor short-term capital movement, in particular. In that context, the G7 members all acknowledge the possibility of regulating movement (entrance and exit) of capital at the time of crisis.[55]

The redirection of the international financial system toward stability rather than growth was further helped by the host of the G7 Summit, German Chancellor Gerhard Schröder, who captioned the aim of the Summit as the need to achieve ‘‘globalization with a human face’’. Chancellor Schröder also stressed the need for regulating the activities of institutional investors at times of international financial instability. Taking up the opportunity, the Japanese leaders cautioned against the predominant force of the ‘‘market fundamentalism’’ embedded within IFI policies.[56] The Japanese government also insisted on the need to respect the values of other cultures when it comes to universal values promoted via the ‘‘global standard’’.

The resulting document (‘‘Report of the G7 Finance Ministers to the Köln Economic Summit’’, 18–20 June 1999) includes (a) a discussion on the adverse affect of policy biases in favour of short-term capital flows, (b) a caution against drastic capital account liberalization, and (c) a discussion on justifiability of the use of controls on capital inflows. Furthermore, the G7 members agreed to turn the Interim Committees at the IMF into a permanently standing committee, the International Monetary and Financial Committee. They also agreed to set up the so-called Group of 20, consisting of the G7 members and emerging market countries ‘‘to establish an informal mechanism for dialogue among systemically important countries within the framework of the Bretton Woods institutional system’’.[57] The Japanese government supported the establishment of the G20, partly because the forum would increase the voice of Asian governments on regional and global financial matters, and partly because it would create some sense of alternative to the IMF's dominance on the issue.[58]

Japan's strategy was facilitated partly by the fact that the United States' attitude regarding regionalism in Asia and the proposals of an Asian-centred financial framework have shifted from the early 1990s, or even from the immediate aftermath of the Asian crisis. US opposition to Japan's alternative at the time of the Asian crisis seemed adamant, but as an expert on Asia, Walden Bello, testified to Congress in April 1998, the opposition rather came as a result of domestic political manoeuvring within the Clinton Administration:

The Clinton administration, without consulting Congress, backed the IMF leadership and ‘‘made considerable efforts to kill Tokyo's proposal’’. One of the key

> reasons is that, with Congress's assertiveness in foreign economic policy using its power of the purse, the Clinton administration sees the IMF as an increasingly important instrument to push key initiatives without having to submit them to Congressional oversight.[59]

Thus, the Clinton Administration could not let the AMF jeopardize the IMF's monopoly of power in international financial crisis management. However, not too long after the United States shot down the AMF, many American experts criticized the US government for having killed an invaluable regional initiative on the part of Japan.[60] In addition, due to the changing of the guard in the IMF from former Managing Director Michele Camdessus to new Director Horst Köhler and heavy scrutiny from its stakeholders, the IMF moved toward less conditionality and a more restricted role. Köhler also appears much more supportive of regional integration and efforts toward regional financial frameworks than Camdessus.[61]

In short, one can say that the Japanese government accomplished some of what it had set out to do, at least on a limited scale. It managed to convince the G7 members that the international financial system itself, particularly the activities of the hedge funds (and other short-term capital flows), deserved partial blame, and it also managed to increase the influence of developing countries, especially those in Asia, in the debate over the New International Financial Architecture.[62]

Conclusion

After having experienced the major regional financial crisis that ravaged Japan and Asia, the Japanese government, especially led by Ministry of Finance experts, has set out certain independent initiatives to achieve two interrelated objectives. One objective was to promote regional financial cooperation so that Japan would be able to help protect Asia in a more institutionalized manner. This objective was partially realized in the context of APT and the Chiang Mai Initiative, and continuing discussions on regional financial and foreign exchange arrangements.

The other objective was to increase Japan's influence on the reform of global financial governance, and increase the profile of Asia's regional interests in global discussions. The establishment of the G20 at the time of the 1999 G7 Köln Summit provided a suitable occasion for Japan to urge a greater voice for Asia in the existing global financial governance. Furthermore, the Japanese government was quite keen on engaging in the discussion on IMF reform in that context. The G20 has presented a new opportunity in which the Japanese government could support diverging

views on global financial governance without direct or visible confrontation with the other financial powers of the United States and Europe. While it is quite unlikely that the Japanese government would switch its forum of choice for financial diplomacy from the IFI and the G7 to the G20 any time soon, it is conceivable that the G20 would encourage Japan to be more proactive in expressing dissatisfaction with the existing financial governance structure, and even to propose reform.

Nevertheless, the Japanese government still faces an immense challenge in having its interest adequately reflected within global financial governance. At present, the large international creditor, Japan, cannot live without the IMF, and a rising economic power in the region, China, is unlikely to let the Japanese government dictate the course of regional financial cooperation in Japan's favour. Finally, the Japanese government can only go as far as creating a counterweight to a US-dominated issue area such as finance, due to Japan's close relationship with its security partner.[63] Given these constraints, the actions of the Japanese government demonstrate that the ideal form of global financial governance is to acquire a certain level of national and regional financial autonomy in terms of capital flows and exchange rates. It is not necessarily to protect its old ''developmental state mode'', as claimed by some, but to create some level of buffer for Japan and Asia against economic, social and political dislocation arising from financial globalization and financial crises. Eisuke Sakakibara was cited as saying that ''first preference for achieving greater recognition of Asia's economic role was for reform of global institutions. Asia-only regional cooperation was his second-best solution''.[64] Both options are interlinked, however. Successful reform and improvement in global financial governance for Asia, such as an increased voice for Asia, appropriate regulation on capital mobility, and some kind of stable exchange rate arrangement, should give Japan and the Asian countries more autonomy and influence in global financial governance. Meanwhile, a stronger coalition among Asian governments, including the possible support of Europe and the United States and collaboration with China, would enhance Japan's ability to achieve changes in the global context.

Notes

1. Saori N. Katada, *Banking on Stability: Japan and the Cross-Pacific Dynamics of International Financial Crisis Management*, Ann Arbor: University of Michigan Press, 2001.
2. After regaining sovereignty by signing the 1951 San Francisco Peace Treaty that settled the Second World War, Japan went through dramatic economic growth. By 1964, Japan had joined the Organisation of Economic Cooperation and Development, which is con-

sidered the club of rich countries, and in 1975, Japan managed to join as one of the five founding members of the Group of Five (G5).

3. During the IMF meeting in April 1989, the Japanese government promised to provide US$4.5 billion through the JEXIM Bank in parallel financing with the IMF to support the Brady Plan. See *Japan Economic Institute Report*, no. 15B, 14 April 1989.
4. The economic reasons range from US outstanding loans and investment in Mexico to reduction of US exports to Mexico and increase of Mexican exports to the United States. The political concerns include the security implications of Mexican economic downturn on its Northern neighbour through increased drug trafficking activities and outflow of migration. Furthermore, as the Clinton Administration had signed the North American Free Trade Agreement (NAFTA) in 1994 and was facing an election in 1996, it did not wish to see the Mexican economy going down the tube.
5. For a good summary of the US initiative in assembling the Mexican rescue package (both in 1982 and 1995), see Nora Lustig, "Mexico in Crisis, the US to the Rescue: The Financial Assistance Packages of 1982 and 1995", Brookings Discussion Papers, June 1996. The General Accounting Office (GAO) has an official record of the US assistance. GAO, "Mexico's Financial Crisis: Origins, Awareness, Assistance, and Initial Efforts to Recovery", report to the Chairman, Committee on Banking and Financial Services, House of Representatives, GAO/GGD-96-56, February 1996 (see especially chapter 4). See also *IMF Press Release* no. 95/5.
6. *Nihon Keizai Shimbun*, 4 February 1995.
7. My personal interview with a Ministry of Finance official, on 29 June 1998. According to the famous phrase by former IMF Managing Director Michel Camdessus, the debt crisis of the 1980s was the last global financial crisis of the twentieth century, and the Mexican peso crisis represented the first crisis of the twenty-first century. The latter is usually characterized by the volatility of very swift and massive capital movement in and out of emerging market countries.
8. On this discussion, see Yong Wook Lee, "The Japanese Challenge to the Neoclassical Economic Orthodoxy: Identity and Interest in Japanese Policies Toward the East Asian Miracle and the Asian Monetary Fund", dissertation submitted to University of Southern California, 2003, pp. 183–189.
9. Of course, even in the neo-classical world, certain public goods (education, public health, environment, security and protection of property rights) have to be provided by governments. Governments are also expected to address market failures and negative externalities arising from economic activities.
10. Therefore, the Japanese government got some mileage out of financing this article, though many consider the success minimal. See "The Making of the East Asia Miracle", World Bank Policy Research Bulletin, vol. 4, no. 4, August–October 1993. For details of interesting political aspects of this publication, see Robert Wade, "Japan, the World Bank, and the Art of Paradigm Maintenance: The East Asian Miracle in Political Perspective", *New Left Review* 217, 1996: 3–37.
11. The consensus centres its economic philosophy on the promotion of financial liberalization, exchange rate adjustment, privatization and deregulation under strong fiscal discipline. John Williamson coined the phrase in "The Progress of Policy Reform in Latin America", in John Williamson, ed., *Latin American Adjustment; How Much has Happened?*, Washington, D.C.: Institute for International Economics, 1990, p. 359.
12. See Edward F. Lincoln, "Japan's Financial Mess", *Foreign Affairs* 77(3), 1998: 57.
13. The most prominent US figure to have taken this position is Alan Greenspan, the governor of the US Federal Reserve Board. The reasons for the Asian countries' loss of export competitiveness are as follows: firstly, competition from China, due to its low labour costs and currency devaluation in 1994, in labour-intensive goods; secondly, the

rapid depreciation of the Japanese yen vis-à-vis the US dollar curtailed competitiveness for high-end manufactured goods (especially for South Korea); and finally, Japan's recession shrank export markets. On the other hand, the Asian countries' pegged rates to the US dollar under rapid liberalization of the financial sector invited massive foreign capital inflows, much of them used for speculative purposes (especially in Thailand).

14. The phrase "crony capitalism", originally used for the case of the Philippines under Marcos, is now used as a generic term for the collusion and corruption that occurs in many of Asia's "developmentalist state"-led economies.
15. J. Bradford DeLong and Barry Eichengreen, "Between Meltdown and Moral Hazard: The International Monetary and Financial Policies of the Clinton Administration", paper prepared for the Conference on the Economic Policies of the Clinton Administration, Kennedy School of Government, 26–29 June 2001, p. 45 and n. 63. DeLong and Eichengreen argue that: "Not surprisingly, financial reform – closing bad banks, recapitalizing the survivors, and strengthening prudential supervision – were key elements of the IMF's crisis programs in Asia".
16. For a recent and influential piece on this view, see Masaru Yoshitomi and Sayuri Shirai, "Technical Background Paper for Policy Recommendations for Preventing Another Capital Account Crisis", Asian Development Bank Institute, 7 July 2000. There are some American scholars that are sympathetic to this view; see Joseph Stiglitz, "Boats, Planes and Capital Flows", *Financial Times*, 25 March 1998.
17. For more discussion on the political dynamics of the Mexican rescue package, see Saori N. Katada, *Banking on Stability*; and Nora Lustig, "Mexico in Crisis".
18. After bypassing Congress, the Clinton Administration faced mounting criticism over how it disregarded Congressional concerns and unilaterally conducted the Mexican rescue. The US Senate passed an amendment to the Treasury Appropriations Bill for fiscal year 1997 that prevented the Clinton Administration from committing more than $1 billion in aid in any one year without Congressional approval, unless the Administration could prove it was vital to US interests. This made it difficult for the Administration to provide a bilateral financial contribution to Thailand. The amendment expired on 30 September 1997. See "Pacific Divide", *Far Eastern Economic Review*, 6 November 1997; and *Congressional Press Releases*, 8 August 1995.
19. The second line of defence is a commitment whereby a central bank of a country in balance of payments difficulty could request a loan in reserve currency (usually in US dollars). The central banks of the participating countries then deposit the amount of reserve currency committed to the other party's central bank account. This idea was convenient for the United States, because the US executive branch could commit a certain amount of money to the financial crisis management of Indonesia and still avoid a major fight with Congress (see *Japan Economic Institute Report*, no. 42B, 7 November 1997).
20. "The Generosity of the United States, Our Great Friend, Is Even More Scarce in Time of Crisis", *Bangkok Matichon*, Foreign Broadcasting Information Service, 15 January 1998.
21. David E. Sanger, "US Sees New Villain in Asia Crisis: Tokyo's Leadership", *New York Times*, 22 February 1998, p. 3.
22. Johnstone notes that "even as Washington denounced Japan's failure to implement domestic reforms, President Clinton publicly praised Beijing for its refusal to devalue the renminbi". He also argues that because China contributed only limited funds to rescue packages ($1 billion each to Thailand and Indonesia) compared to the US$80 billion contribution by Japan, the Japanese officials could not swallow the biased attitude of American leaders. Christopher B. Johnstone, "Paradigms Lost: Japan's Asia Policy in a Time of Growing Chinese Power", *Contemporary Southeast Asia* 21(3), 1999: 381.
23. Moreover, Japan committed about 10 times more funds through bilateral channels than the United States.

24. See Kent E. Calder, "Japanese Foreign Economic Policy Formation: Explaining the Reactive State", *World Politics* 40(4), 1988: 517–541.
25. See Saori N. Katada, *Banking on Stability*, pp. 173–179.
26. IMF loans are generally considered to serve the function of unlocking private flows, but the amount of those packages did actually matter. This is demonstrated by the fact that since the Mexican peso crisis of 1994–1995, the standard 300 per cent maximum for IMF loans has been stretched to 688 per cent to meet immediate liquidity needs. During the Asian crisis, Thailand received US$3.9 billion from the IMF (505 per cent of its IMF quota), Indonesia US$10 billion (490 per cent), and South Korea US$21 billion (1,939 per cent).
27. The appropriateness of the IMF measures toward these countries is not in the scope of this chapter. Despite the possible short-term (restoring external financial stability) and long-term (restructuring rigid and sometimes corrupt business systems) benefits of IMF involvement, I emphasize that there has been much hardship and resentment against the IMF among the people and leaders of these countries during this period.
28. See, for example, *The Korean Times*, 20 April 1998; and *Maeil Kyongje Sinmun*, 10 February 1998.
29. Wesley analysed three major regional institutions – APEC, ASEAN and the Asian Development Bank – and concluded that none of the actions taken by those institutions effectively mitigated the crisis. Michael Wesley, "The Asian Crisis and the Adequacy of Regional Institutions", *Contemporary Southeast Asia*, Winter 1994: 54–73.
30. Interview with a Ministry of Finance official, June 1998, Tokyo.
31. Mr Eisuke Sakakibara (then Vice-Minister of Finance, who is considered the intellectual and political force behind the AMF) noted that the exclusion of the United States was intentional, so that the Asian leaders could discuss regional financial problems without US pressure (interview with Mr Sakakibara, Tokyo, 19 July 2001).
32. Interview with an IMF official in Tokyo, June 1998.
33. The collapse of Japan's two major financial institutions, Hokkaido Takushoku Bank and Yamaichi Securities, in November, shook the foundation of Japan's financial health. For an explanation of how Japan's domestic financial problems influenced the Japanese government's behaviour in the AFC in the autumn of 1997, see Jennifer A. Amyx, "Political Impediments to Far-Reaching Banking Reforms in Japan: Implications for Asia", in Gregory Noble and John Ravenhill, eds, *The Asian Financial Crisis and the Architecture of Global Finance*, Cambridge: Cambridge University Press, 2000, pp. 132–151.
34. See the websites of the Ministry of Finance (www.mof.go.jp) and Ministry of Foreign Affairs (www.mofa.go.jp) for updated details of the New Miyazawa Initiative.
35. Interview with a Ministry of Finance official, Tokyo, November 2000.
36. My interviews with a high-ranking Thai government advisor, Bangkok, June 2001. A Ministry of Finance senior official also commented on the same point (interview in Tokyo, June 2001).
37. In Japan, a relatively new Office of Regional Financial Cooperation in the International Bureau of the Ministry of Finance created after the Asian financial crisis to deal with the regional financial issues was upgraded to the Regional Financial Cooperation Division in July 2001. This indicates a long-term commitment by the Ministry of Finance and Japanese government on this issue.
38. ASEM is constituted of all 15 EU members and 10 Asian members. Importantly, ASEM's Asian membership is almost identical to the APT countries, consisting of all members of the APT except the least developed three (Myanmar, Cambodia and Laos). ASEM is a relatively new cross-regional forum; the 25 ASEM member countries first met in March 1996 in Bangkok, following a strong call by Singaporean Prime Minister Goh Chok Tong. This forum was created explicitly to exclude the United States,

and for this reason the Japanese government, at first, was very cautious in positioning itself toward this interregional arrangement. See Christopher M. Dent, ''ASEM and the 'Cinderella Complex' of EU-East Asia Economic Relations'', *Pacific Affairs* 74(1), Spring 2001: 25–54; and Julie Gibson, ''Japan's Role in the Asia-Europe Meeting: Establishing an Interregional or Intraregional Agenda?'', *Asian Survey* 39(5), September/October 1999: 736–52.

39. Dent, ''ASEM and the 'Cinderella Complex' '', pp. 44–45. Also see 1999 ASEM Vision Group Report, available from www.mofat.go.kr/aevg.
40. See Third Asia-Europe Finance Ministers' Meeting, Chairman's Statement, point 29, available from www.mof.go.jp/english/asem/aseme03j.htm, accessed on 25 February 2001. Also see Anthony Rowley, ''Exploring Alternative Asian Currency Regime'', *Business Times* (Singapore), 18 January 2001.
41. Dent, ''ASEM and the 'Cinderella Complex' '', p. 50.
42. Interview with a Ministry of Foreign Affairs official, Tokyo, 5 June 2001.
43. Shuhei Kishimoto, ''The Mandate of the New Miyazawa Initiative and the Asian Monetary Fund'', *Fainansu*, May 1999, pp. 31–48.
44. Christopher W. Hughes, ''Japanese Policy and the East Asian Currency Crisis: Abject Defeat or Quiet Victory?'', *Review of International Political Economy* 7(2), 2000: 249.
45. *Financial Times*, 11 December 1998.
46. For details, see Masaki Yamaguchi, ''Utilizing East Asian Currency Basket to Support the Asian Bond Market'', *Sekai Keizai Hyoron*, August 2003, pp. 46–56.
47. As membership of this summit formally includes Russia since the 1997 Denver summit, ''G8'' is often used to address this association of world leaders. However, I maintain the title ''G7'' because most of the top-level discussions on economic and financial issues are still carried out without the participation of Russia.
48. The 1997 G7 summit in Denver was held in June of that year, before the Thai crisis.
49. *Nihon Keizai Shimbun*, 8 May 1998.
50. *Nihon Keizai Shimbun*, 16 May 1998.
51. DeLong and Eichengreen, ''Between Meltdown and Moral Hazard'', p. 55.
52. DeLong and Eichengreen, ''Between Meltdown and Moral Hazard'', pp. 57–60.
53. Within Europe, France was the strongest promoter of direct regulation on HLIs. See Benoit Coere and Jean Pisani-Ferri, ''Events, Ideas, and Actions: An Intellectual and Institutional Retrospective on the Reform of the International Financial Architecture'', paper prepared for the CDC–CEPII–CEFI International Conference on Reshaping the Architecture of the International Financial System, Sienna, 23–24 May 2000. Also cited in DeLong and Eichengreen, ''Between Meltdown and Moral Hazard'', p. 57, n. 87.
54. *Nihon Keizai Shimbun*, 15 April 1999.
55. *Nihon Keizai Shimbun*, 8 June 1999. Translated by author. Emphasis added.
56. Seiji Kondo, ''The Results of the Köln Summit and Japan'', *Sekai Keizai Hyoron*, 8–28 September 1999, pp. 19–20.
57. From point 7 of the Köln Summit Conference G7 Statement, 18 June 1999. Besides the G7 members, countries like Russia, Saudi Arabia, Australia, Brazil, Argentina, China, Indonesia, and South Korea were invited. See John J. Kirton, ''What is the G-20'', available from www.library.utoronto.ca/g7/g20/g20whatisit.html, accessed on 31 July 2000.
58. Interview with Mr Haruhiko Kuroda, Tokyo, 9 July 2004. He was the Vice-Minister of International Affairs, Ministry of Finance, at the time of the 1999 Köln Summit.
59. Testimony of Walden Bello before Banking Oversight Subcommittee, Banking and Financial Services Committee, US House of Representatives, 21 April 1998.
60. Well-known economists with policy impact such as Jeffrey Sachs, C. Fred Bergsten and Nobel prize-winning economist Robert Mundell support the establishment of the AMF, but most of them insist that the United States should also be included in the institution.

61. ''Interview: Horst Köhler: Focusing the Fund on Financial Stability'', *Far Eastern Economic Review*, 14 June 2001, available from www.feer.com/2001/0106_14/p048money.html, accessed on 13 November 2001.
62. The Asian countries, including Thailand, South Korea, Malaysia and China, all welcomed the progress even though some urged further regulation in the capital market. See *Asahi Shimbun*, 19 June 1999.
63. For more discussion on the way the Japanese government implements its ''counterweight'' strategy, see Saori N. Katada, ''Japan's Counter-Weight Strategy: US-Japan Cooperation and Competition in International Finance'', in Ellis Krauss and T. J. Pempel, eds, *Beyond Bilateralism: US-Japan Relations in the New Asia-Pacific*, Palo Alto, Calif.: Stanford University Press, 2003, pp. 176–197. This strategy involves a mixture of bargaining and institution- and coalition-building efforts designed to increase regional and international support for Japan's position, particularly when it contrasts with the US position.
64. Eisuke Sakakibara's speech at the Asia-Pacific Foundation of Canada, in October 2000. Cited in ''Asian Regionalism, Asia-Pacific Bilateralism, and Canada'', *Canada Asia Commentary* 17, December 2000, available from www.asiapacific.ca.

6

The political economy of dissent: Global publics after Cancún

Daniel Drache

No one can afford to be indifferent to the profound absence of forward momentum in the world trading system.[1] Both regional and global trade negotiations, by quite separate paths and for distinct reasons, have arrived at an impasse. "Turning point" is an apt phrase, suggesting the presence of an array of forces pushing and pulling the present world trading system towards a new configuration with different rules, practices, ideas and mentalities.[2] To look at the political economy of dissent through this lens helps identity the processes and behaviours that have produced the present global impasse.

In this context it is helpful to analyse the prospects for long-term dramatic improvement in poverty eradication and global governance. States and territorial communities are not about to disappear from world politics. Public spending has risen throughout the 1990s in many jurisdictions in the global North. Modern welfare states have not buckled as once predicted, but they are smaller and less potent instruments for redistributive ends.[3] But as sovereignty has been rendered increasingly porous, it has become, paradoxically, more important for national authority everywhere and citizenship engagement. Access to information flows from both mainstream and alternative print and electronic media has created highly visible counter-fora worldwide and a yawning digital divide. The revolution in information and technology has diffused power away from governments; this has empowered social groups and individuals to play a large role in world politics, an arena that used to be the exclusive preserve of public authority.[4]

We need to drill down and determine the value of these informational flows for the stability and vitality of the global economy and national communities. The question is: will states and global international institutions learn to view these networked flows and actors as a public good essential for a more equitable order? Or, are nation-states on an irreversible collision course with global public dissenters, their ''new rivals and competitors''?

There are two linked parts to the analysis contained in this chapter. In part one, we examine the realignment of forces that derailed the Cancún meeting to broaden and deepen the WTO's world trade agenda held in September 2003, which according to conventional wisdom was supposed to be a done deal. The growing disjuncture between global cultural flows of people and ideas and the rules and practices of globalization has created a highly unstable environment for the G20, with many opportunities but equally significant political costs. Regardless of what the European Union and United States may admit in public, at Cancún global dissent and its publics acquired visible agenda-setting power. The growth in influence of the ''nixers'' and ''fixers'' has contributed to a tectonic shift in the international economy that has immediate and far-reaching consequences for destabilizing globalization and its narrow economic agenda.

Part two focuses on how global cultural flows of ideas, texts and wealth have deepened the global environment of dissent at Cancún. Many of these flows are the consequence of free trade itself. They have accelerated as economic barriers have fallen, facilitating the movement of ideas, people and texts driven by new technologies and the growing appetite for mass culture. Increased trade has increased cultural interaction globally. These concentrated movements of peoples and ideas beget other flows triggering a cyclical movement of dissent and are highly disjunctive for the goals of economic globalization. When these global cultural flows function as catalysts for change, they become both a conduit and a channel for the global movement of social forces. They set new agendas, and it is this agenda-setting capacity that challenges state authority globally – and no less locally.[5]

The core argument can be summarized as follows: for L20 countries, powerful global cultural flows have added a whole new dimension to global dynamics that used to be primarily economic. Culture has become an explicitly fierce battleground in the emerging war against US cultural industries and trade policies that are attempting to commodify cultural production and treat it like any other commodity on the world market to be bought and sold for profit. Cultural power, together with its related issues, is the stamp of collective identity. If democracy is to be fostered, argues Yudice, ''public spheres in which deliberation on questions of the public good are to be held must be permeable to different cultures''.[6]

It would be nice if globally shared meanings could succeed in creating a common culture of citizenship that would allow the global public to navigate the crisis in the L20 and elsewhere. So far there is no single overriding vision that addresses the collective problem of diversity at the global level. Nonetheless, the global dissent movement intends to have a prominent role in defining public culture and in shaping it in inherently democratic ways. What it has come to realize is that culture is not only about the images, symbols and shared understandings that get people to buy branded products. In terms of the political economy of dissent, people are learning to use culture as an economic base – and when they do, trade negotiations become highly contested sites for the anti-globalization movement and leading Southern countries in the G20+. At the present time, the public's appetite for more free trade has soured. The world trading system acts like a magnet for global dissent of all persuasions. The singular focus on the WTO has intensified the cycle of dissent and imposed a degree of cohesion on a highly diverse and conflicted movement. As a result, the old process of deal-making, which produced the WTO's Uruguay Round, is in shambles. In these new circumstances, governments ought not to underestimate the capacity and resiliency of the global dissent movement to challenge many of the core assumptions about the nature of global politics as presently configured.

The walkout at Cancún

When a coalition of Southern states led by Brazil, India and South Africa walked out of the trade negotiations after the United States and European Union failed to make concessions on agricultural subsidies, investment and the privatization of public services, the WTO faced an unprecedented collapse of trade talks. The enormity of this failure to cut a deal cannot be underestimated for the future of the world trading system and the immediate needs of the global South. For the moment it is hard to see where the new spirit for cooperation is going to come from, but this has not deterred Brazil, India and other countries from pressing ahead with their own much more radical agendas for reform of the world trading system with respect to generic drugs, investment rules and agricultural subsidies. Restarting the Doha trade talks will be very difficult given that major Southern countries are insisting that the elimination of all export subsidies is a condition for negotiations to be successful.[7]

At the root of this insistence lies the fact that while the global South was promised new market access in the Uruguay Round, agricultural subsidies in the European Union, Japan, Canada and the United States have

become – dare to say the word – permanent. It is quite a revealing exercise to examine the long-term trend line. Agricultural subsidy levels in the North have not decreased appreciably in 50 years, having in fact risen sharply in the 1990s despite some small declines and modest reforms. While the Bush Administration promised billions more in subsidies to its farmers, the European Union and Japan have kept agricultural subsidies off the table.

The World Bank figures show just how extreme and surreal the actual situation is. Today, average real incomes in the developed world are 75 times higher than in the world's least developed regions. In 2001 the annual dairy subsidy per cow in the European Union came to US$913, while annual EU aid to sub-Saharan Africa kicks in at a shocking US$8 per person. The world's richest countries spent US$311 billion to subsidize Northern farmers, an amount that dwarfs the US$52 billion spent on foreign assistance to all developing countries. This is only the tip of the proverbial iceberg.[8]

With the large American subsidies, it costs US cotton growers about US$0.87 to grow a pound of cotton; in Africa, the same pound of cotton can be produced for approximately US$0.22. Cotton, Africa's "white miracle", supports about 15 million small farmers and rural people in west and central Africa. Cotton yields doubled between 1990 and 1998 but market prices collapsed due to overproduction and large harvests. With earnings from exports plummeting, African producers are desperate. American, Greek and Spanish farmers continue to be subsidized with billions of dollars or euros and these subsidies have protected farmers in the global North from the vagaries of the global market. In 2002 the subsidy per kilo was higher than the world market price per kilo.

It is no wonder, then, that agriculture was the deal-breaker at Cancún. Neither the European Union nor the United States was ready to help the starving producers of central and western Africa by opening up Northern markets even as a gesture of goodwill. The best the United States is offering is a deal that does not set any deadline for the elimination of agricultural subsidies, but the global South is not buying into this latest mini-olive branch.[9] They aren't on side with the United States or the European Union.

Up until Cancún, few insiders dissented from the prevailing orthodoxy that held that the WTO was a far superior organization to the GATT, which had served the world trading system for almost 50 years before it was folded into the WTO in 1994.[10] The richest traders had forced developing countries to accept a trade agreement that was not in their best interests. Increasingly, this is the primary explanation for why the WTO is in crisis.

Protectionism is not an option

As an institution, the WTO's legitimacy never fully recovered from the "battle in Seattle" despite the fact that today more nations belong to the organization than ever before. Even China is a member of the club, but this has not made reaching a new consensus any easier. China is at loggerheads with the United States on a range of trade issues, but particularly over the new quotas Washington imposed in 2003 on Chinese textiles, apparel and other goods. China's tariffs have fallen, but US anti-dumping measures are aggressively visible. The WTO has had no visible dampening effect on Washington's recourse to pre-emptive trade unilateralism.[11]

For instance, US shrimp fishermen are seeking the imposition of stiff tariffs on Thailand, China, Vietnam, Ecuador and a handful of other nations. Shrimp imports are up about 20 per cent compared to the same period in 2003. US shrimpers are aiming to increase prices and reduce supply. The strategy in most industries is virtually identical: reduce foreign supply, cut the legs from under foreign competition and ratchet up domestic prices.[12] The global South can expect to face all kinds of restrictions from non-tariff barriers as well as politically motivated anti-dumping measures barring their entry into the US market.

The United States will continue to be the primary champion of the WTO's rules-based system, if for no other reason than that the WTO is very much a US creation and its laws and rules benefit US multinationals. Aggressive multilateralism has worked in its favour.[13] Increasingly, the United States is shifting gears and using a form of coercive bilateralism to whipsaw the world trading system, if and when US trade policies are found to violate WTO rules. Washington has signed dozens of bilateral treaties in the recent period; the advantages of end-running WTO trade law are plain.[14]

In a one-on-one negotiation, the United States, as the larger and more powerful country, virtually dictates the terms and conditions of agreements. It has opened negotiations with many small poor countries like the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua. To increase its leverage with the Bush Administration, the Dominican Republic is sending 300 soldiers to Iraq in support of the US-led coalition.[15]

The US Administration announced in December that it had concluded a deal with these struggling Central American countries not only to phase out existing tariffs over the coming decade, thus ending the protection of their "infant" industries, but also to deregulate most sectors of their economies. In June 2004, the Bush Administration signed a free trade agreement with Central American nations. The crown jewel in the deal

is that these countries are required to adopt tough new legislation protecting US patents and copyrights. Central American nations have also agreed to phase out subsidies to particularly sensitive industries for farm and diary products. While Washington describes this concession as unprecedented in US trade agreements,[16] the US Council on Foreign Relations warned in a recent report that the US policy is myopic and dangerous to the region.[17]

It is very advantageous for the United States to push the bilateral trade agenda as hard as possible now because the United States itself has increasingly become a major violator of WTO rules. In terms of its illegal imposition of steel anti-dumping duties, an Administration spokesperson stated bluntly in November that the United States would defy the WTO ruling because it went against US interests. In the end, the United States backed down only because the European Union was able to threaten even tougher trade sanctions against Washington. Bush announced that the United States would comply, but a major escalation on the part of the European Union was required to obtain Washington's compliance with the WTO's legal rules.

Aggressive bilateralism and the Bush Administration

The WTO is in a mess because of the aggressive bilateralism of the United States and not the knockout punch delivered by the leadership of the global South at Cancún. With the WTO so polarized internally, it is uncertain that it can weather another shock or failure on the scale of Cancún – but no one should read this to mean literally that countries are retreating into economic protectionism and closing their borders to exports. There is no empirical evidence to indicate that exports are in sharp decline because states are not ready to negotiate a new round of global free trade. Despite the WTO's institutional crisis, the world keeps on trading.

Trade remains one of the drivers of all economies, North and South, because average tariff rates have fallen to record lows, around 3 per cent, for non-agricultural products. Market access is very broad and growing despite the breakdown in trade talks. Mexico, MERCOSUR and even the much-troubled Caribbean countries have cut their tariffs and opened their markets to Northern industrial and agricultural goods.

For instance, NAFTA exports have grown at record rates, as have exports between the MERCOSUR partners. A competitive Canadian dollar and a super-competitive Mexican peso are the story in NAFTA. Flexible exchange rates in Brazil and Argentina have boosted these countries' exports too. Regional trade blocs in the hemisphere are firing on all cyl-

inders. So even in the absence of a new post-Uruguay round or a comprehensive Free Trade Agreement of the Americas, trade ties within the hemisphere are deepening despite the difficult conditions.

Latin America is not getting its share of foreign investment flows for the equity and bond markets, but it does have China banging on the door for raw materials such as copper and iron ore as well as soya to feed its rapidly growing population. Rising commodity prices and new trade links with Russia, China and India have become very important. Brazil's trade with China has taken off.[18] Emerging market economies are at the forefront of the international recovery. In China, Brazil, Argentina, Korea and Mexico, industrial production growth is in the 10 per cent range and commodity prices are breaking recent records. US imports from China rose 43 per cent in 2002–2003 compared to a paltry 2.8 per cent growth in imports from Mexico. NAFTA effects are clearly wearing thin.

The principal difficulty remains that even though regional trading blocs are more export-oriented than ever, global unemployment has hit record highs. Higher global growth failed to create enough jobs worldwide. If one of the goals at Cancún is to reduce poverty by generating enough jobs to meet the UN target of halving poverty by 2015, the world trading system is failing to create sufficient amounts of employment to eradicate poverty. There is very little development in the so-called development round. The failure to liberalize trade for agricultural exporters is particularly costly. Developing countries are disproportionately labour-intensive and any decision about liberalization and access to Northern markets has immediate consequences.

In the global South, joblessness among young people aged 15–24 resulted in a poverty rate of almost 15 per cent in 2003, two and a half times the worldwide average.[19] Female unemployment is two to three times the regional average. In its latest report, the International Labour Organization (ILO) calls on governments to stop treating poverty as an "afterthought".

It is wrong to think that G20+ Southern states are in revolt against globalization, but they have become smarter and much more discriminating in their response to global integration. They are no longer unconditional supporters of the WTO's idealized, but deformed, view of the market. They have climbed off the world trade express train, at least for the time being, with the basic political understanding that to succeed in the global economy much different strategies are needed. At Seattle the WTO was paralysed by street protests and at Cancún the negotiations collapsed when an unbridgeable political divide between rich and poor countries broke up the meeting. WTO bureaucrats were naive not to have seen the crisis coming. It is hypocritical and unsustainable for rich countries to demand that poor nations liberalize their trade when these

powerful groups in the global North insist on domestic protection for their own self-interest.[20]

Global publics and heightened expectations

Millions of citizens worldwide are convinced, in a way that even five years ago they were not, that the idea of a single global order anchored in the WTO's governance capacity has been discredited. Global dissent has its own iconography, popularized by such worldwide bestsellers as Canadian Naomi Klein's *No Logo* and Mark Achbar's surprise documentary hit *The Corporation*. Michael Moore's no-holds-barred books and films attacking American abuse of power at home and abroad round out this genre. There are dozens of films, books and documentaries in other languages feeding the culture of anti-corporate and democratic dissent.

The perception is that globalization as an economic entity is composed of a series of bilateral trade deals and shifting strategic alliances organized out of Geneva, Washington and Brussels. The message of the dissenters, doubters and sceptics is that the WTO's narrow political culture has to be radically altered if rising global inequality is to be reversed.[21] The driving force behind these normative communities of citizen engagement is that the institutional failure of the WTO at Cancún and in other international fora like it needs to be brought into the open, discussed, challenged and addressed by political action. The emerging consensus feeding the global public's discontent is that trade liberalization cannot go forward without significant and substantial social regulation.

International civil society has acquired legs that were scarcely present a decade previously. It is not insignificant that according to the most reliable estimates, the NGO global public, an omnibus of groups, civic organizations and coalitions numbering in the tens of thousands, mobilized 25 million people worldwide to march in 2003, weeks before the United States invaded Iraq. Global protests like this, and many others that are not in the public eye, have taken the dissent movement to new levels of intensity.

The deepening of dissent can be gauged in other quantitative ways. One measure is that there were close to 1,000 NGOs registered at Cancún, a figure slightly smaller than the number of official delegates (roughly 1,300). At the Singapore ministerial there were only 150 NGOs present and since then the steady growth has been unprecedented. NGOs and the social movements are proxy organizations for a variety of highly motivated and determined public interest advocates and defenders. Their capacity for political mobilization and their mastery of complex policy issues have transformed the "nixers" (most radical) and the "fixers" (more

reform-minded) into a quasi-permanent but highly effective global opposition.[22]

Today, many global NGOs are specialized. Medecins Sans Frontieres (AIDS and public health), Jubilee Research (debt relief), Greenpeace and Friends of the Earth (the environment and the protection of the global information commons), Save the Children and UNICEF (poverty eradication), and Oxfam (poverty and trade) are some of the most prominent. They are funded through their own sources and individual contributions as well as through international foundations, trade unions, national governments, the European Union and UN organizations.[23]

So far, global dissent has gained credibility but it is still far from being "mainstream" for a particular reason. A vast public is connected in ways that no one could have predicted even a decade ago. You may not be "the first to know", as CNN boasts, but people worldwide are informed about trade politics and the global social environment.[24] Significantly, the lag effects between the conscious ability to create a new world of structures, organizations and stable social forms are smaller than a decade ago but are still demonstrably large. One important development is that today news flows from diverse sources are organized to broadcast public events and news on a global basis. CNN, Al Jazeera, BBC World and TV5 reach over the heads of the anti-globalization movement and governments to audiences worldwide.

What is remarkable is that this recent upsurge in interest and public attention has not followed the predictable path that Anthony Downs wrote about so persuasively in the early 1970s in his seminal article on the "Issue-Attention Cycle".[25] Downs explained that with most public issues, the "problem suddenly leaps into prominence", rivets the public's attention and then quietly fades from view, largely unresolved. Downs's theory predicted that consumers of information get bored with big issues such as the environment and governance. Today's global public possesses a longer attention span, which has been revealed to be more committed and less fickle than Downs' theory suggested (see figure 6.1: Global cycle of dissent post-Cancún).

Although it has taken the better part of a decade to get up and running, it is now almost impossible to turn off the global dissenting public's attention-getting activism because so many issues, from the environment to the growth in global poverty, are linked to the WTO and its impact on public policy. We haven't yet thought about the different aspects of the global public from a political economy perspective. The recent past underscores the fact that there are many connections between cultural flows that make powerful new claims on the WTO and the real and symbolic political economy – the images, lifestyles and ethnicities – of dissent. What is the magnitude of these flows, and why are they surging?

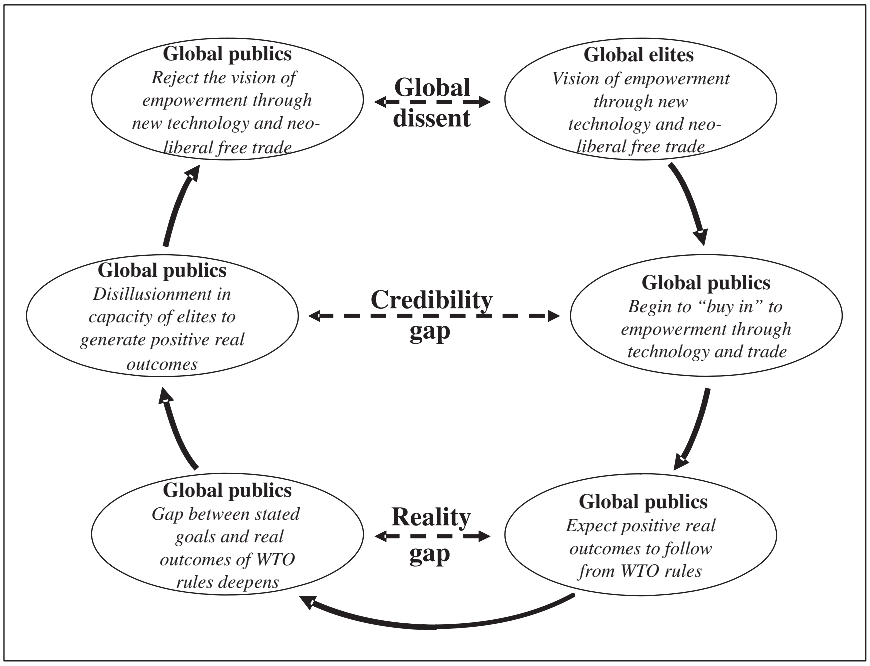

Figure 6.1 Global cycle of dissent post-Cancún (*Source:* Robarts Centre, 2004).

Structurally, why are global cultural flows frequent competitors and rivals to global financial flows? For now and into the future, what kinds of institutional pressures are driving global dissent? Where are we in the dissent cycle – still on the upswing, entering the long plateau, or heading toward the inevitable downturn?

Agenda-setting ideas

What the global public has been persistently searching for is a way to transform state-centred authority and a generalized public interest into a highly effective mechanism for transnational society's self-organization. If there is a core idea behind the growth in global dissent, it is that the public interest can never be an effective voice without strong institutions and pluralistic publics. At Cancún but also in many global governance organizations such as the WB and the United Nations, social movements have succeeded in bringing new groups and issues into the public sphere. The adversarial conflict which this gives rise to has been essential for the cre-

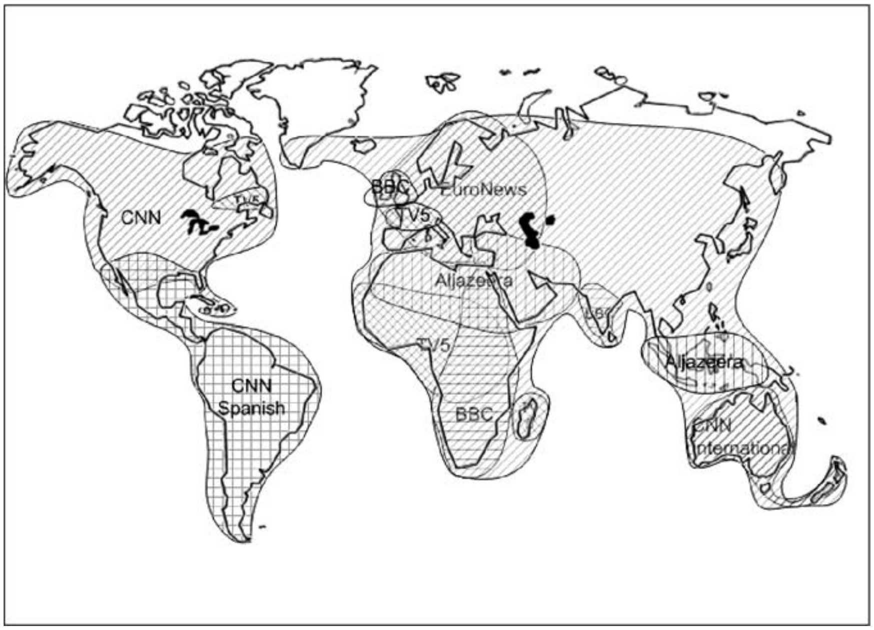

Figure 6.2 Linguistically segmented global publics (*Source:* Robarts Centre, 2004).

ation of new forms of democracy. Global dissent's strength has been to generalize from individual experience and give expression to the unfulfilled demands of society. The global public has always had a potential for self-transformation, largely in the space created by the collision between the agenda of the economic elites globally and those of popular publics. These movements of people, ideas and texts give the global public the means to dialogue with itself.[26]

The success of free trade and access to new information technologies has built a global public of viewers and the demand for a global market for ideas and news. The global audience watching CNN, TV5, BBC World and Al Jazeera is, quite obviously, divided by language, geography and politics (see figure 6.2: Linguistically segmented global publics). Yet the proliferation of all kinds of global reports spreads a way of thinking against global capitalism, with its omnipresent neo-liberal values, and the deal people are getting from it. *The Human Development Report*, *The Global Competitiveness Report*, *The Arab Development Report*, *The Global Information Technology Report*, *Corporate Governance and Capital Flows in a Global Economy*, *World Investment Report*, dozens of OECD studies, and studies from the WB, IMF, UNCTAD, ILO, and Save the Children Fund all address quality of life concerns rather than

narrow economic management issues. The meeting at Cancún failed because the Doha Round of trade negotiations did not represent the interests of the developing countries and the problems that pushed some of the poorest African countries to walk out of the meeting are much broader and deeper. Fundamental reform of the Doha talks is needed.

Schumpeter predicted 60 years ago this kind of systemic breakdown in the international order. He foresaw that the market destroys other values that are needed for capitalism to thrive. Even a genuinely free market has to fulfil social needs and requires large public expenditure and state intervention to ring-circle markets, reduce the reach of corporations and address pressing environmental and developmental issues. It has to protect society from the market's harshness and crudity. In the last decade of unprecedented wealth creation, markets have surpassed themselves in their pernicious effects and misconceived priorities. In Schumpeter's words, "capitalism creates a critical frame of mind which, after having destroyed the moral authority of so many other institutions, in the end turns against its own. The bourgeois fortress ... becomes politically defenceless".[27] This was precisely the situation at Cancún for the G20. Fundamentalist liberalism has created new possibilities for more social exclusion and inclusion simultaneously.

The novelty of political dissent

Two decades ago, global public dissent was in its infancy and at the margins of global governance. Today, the global public's loyalties are divided between the "nixing" and "fixing" camps. These counter-publics function as a kind of "democratic dam" against the encroachment of the private use of public interest. While transnational dissent may never get its hands on the levers of power, the global activist public has been forced to make alliances and build powerful temporary coalitions along the way. Global dissent is anchored in a deep critique of the way social power is exercised, distributed and acquired.[28] The election of Lula (Luiz Inacio Lula da Silva) to the presidency in Brazil and of Nestor Kirchner in Argentina has created a world social forum of leaders who speak out against what Friedman has depicted as the "golden straitjacket" of neo-liberalism.[29]

The issue that we need to think about a great deal is how and why the global information age has transformed once docile consumers of news and information into an agitated, highly opinionated citizenry. There is an appetite for a culture of dissent based on more public participation, more education, more debate and, above all else, more public accountability in international organization.[30] In a world dominated by new information technologies and complex global financial flows, dynamic and

complex global cultural movements of people, texts and ideas exhibit an impressive array of agenda-setting powers. What kind of future lies in store for the proposed L20?

People power and global dissent

Many governments are clinging to the remnants of the Washington Consensus even though these discredited policies are a key factor contributing to the growth of global dissent.[31] It has not escaped the attention of the global public that one of the most sacred pillars of global supply-side economics was that countries cannot run deficits.

In a way that was unimaginable a scarce five years ago, both France and Germany are in violation of the EU Stability Pact – and if the European Union was stricter in the way it keeps its accounts, it would have to include Portugal and Greece in the default column as well. In November 2003, the European Union voted against sanctions and did not enforce disciplinary action on Berlin and Paris for their failure to conform to the Eurozone's fiscal framework.[32] Instead it accepted promises from Paris and Bonn voluntarily to do better. "More flexibility" are the code words for moving away from the strict letter of the old consensus which interdicted members from running a deficit of more than 3 per cent of GDP, particularly at times of high unemployment and low growth. In fact it now appears that France will not meet the EU Stability Pact through to 2007. If this happens, France will have broken EU rules for six successive years running, but with the need to spend more on healthcare and employment benefits, there is little chance that it will comply with the pact.[33]

In the United States, President Bush has abandoned, for the foreseeable future, the principle of a zero-deficit target. The massive US$300 billion defence budget and implementation of deep tax cuts have buried key elements of the Washington Consensus in a way that the anti-globalization movement could never have predicted. The US deficit is at 4.2 per cent of GDP for 2004 and well on its way to being closer to 5 per cent by 2006/7. Plans to cut taxes and to spend more on healthcare reform and defence will make it next to impossible for Bush to cut the budget deficit.[34]

It is evident that many academics mistakenly treated the zero-deficit/zero-inflation targets as holy scripture, but the Washington Consensus was never the "Ten Commandments" of public policy.[35] In many jurisdictions, state sovereignty visibly declined and governments had little appetite or interest in promoting social justice.[36] But in practice, the one-world template was applied in dramatically different ways across national jurisdictions, by the local elites in their own self-interest, and as such it is

hard to discern any singularity of application or outcome from this highly generalized ideology.

Take the examples of Germany, France, Italy and the Scandinavian group of countries. Against all predictions to the contrary, these once social democratic countries remained high spenders on public goods, high-tax regimes and high-wage economies when compared to the United States and Britain. Even Canada and the United States did not interpret the Washington Consensus principles with one mind. While the Bank of Canada set an inflation target of zero in the early 1990s, the US Federal Reserve set its target at 3 per cent. Canada had twice the level of unemployment as the US rate, which was under 4 per cent.[37]

Some countries did much better by rejecting the Washington Consensus rules. Both India and China ran deficits, used subsidies and tariffs to strengthen their export performance, gradually liberalized their highly regulated economies, battled inflation and increased exports. Their non–Washington Consensus mix of policies achieved impressive growth rates! The once mighty "silver bullets" of the Washington Consensus rules have proven to be duds. Countries have found they need better ammo and a much larger public arsenal to be effective players in the global economy.

There are ways to acquire this leverage, and for some countries going outside the rules-bound WTO legal culture is the most effective measure. In the critical area of public health, the price of medicine has to fall for cancer, heart disease and diabetes treatment in the global South, but with trade talks stalled indefinitely the multinational pharmaceutical giants are not going to lower drug prices voluntarily.[38] Still, South Africa has just concluded a licensing agreement with multinational drug companies that grants voluntary licences to local generic drug manufacturers. This is a big breakthrough and will lead other countries to negotiate similar arrangements for cheap AIDS drugs. Similarly, Brazil is not waiting until an agreement is reached on new investment rules. Instead it is fast-tracking legislation to develop private–public partnerships to rebuild its run-down infrastructure, including roads, railways and ports. It is using the same kind of legislation seen in Germany and Portugal's experience of using private funds to finance large-scale public projects.[39]

Brazil, Argentina, Mexico and a score of other G20+ countries want to stabilize their economies and protect them from external shocks triggered by runaway inflation. For the newly elected governments in Argentina and Brazil, job creation and poverty eradication remain the top priorities.[40] Fiscal discipline is an important part of any recovery but it is inadequate as a single template for public policy. Argentina is determined to write off as much as 75 per cent of its debt. The Argentina Bondholders' Committee, a New York-based group representing about US$7 billion in defaulted loans, has recently proposed a 35 per cent

write-off. In a recent speech, President Kirchner pledged ‘‘to wage battle against private creditors’’.[41] In his opening remarks to the Summit of the Americas in Monterrey, Mexico, Canadian Prime Minister Paul Martin summed up ‘‘the new normal’’ in these words: ‘‘Fiscal discipline is important but has to be balanced by social policy’’.[42] A strategy of salvage and retrieval of the ruinous neo-liberal political and economic models that have dominated public policy for the last two decades requires a much broader and fuller response to eradicate poverty, alleviate hunger and build sustainable development.[43] The fundamental question is: does the project of creating a Leaders' 20 Summit have the intellectual resources and political will to cope with the dilemmas created by the wreckage of neo-liberal ideology?

A turning point? A world polity without elections

The very idea of having a development round was a major shift in direction for the WTO.[44] Trade insiders had long insisted that the WTO was first and foremost a trade organization and that to have a so-called ‘‘development round’’ exploded one of its founding myths – that trade was only about market access, a level playing field and international competitiveness.[45]

All but the most orthodox of trade hardliners now acknowledge that, after a decade of detailed and compelling research on poverty eradication by some of the world's leading economists, the unregulated growth of exports and capital flows had visible and disastrous effects on the environment, the most vulnerable, rural women and the household, whether intended or not.[46]

There is no room for ambiguity on the basic question; all Southern countries want to trade and to be part of the global trading system. Exports are a vital part of a national strategy, but the WTO rules have to be equitable, fair, beneficial and positive. India, Mexico, China, Brazil and Korea are more dependent on exports and market access than previously. Southern G20+ countries face trade barriers that are twice as high as those faced by Northern countries. The world trading system cannot continue to operate to the disadvantage of the global South. Calls for reform are multiplying.[47] The question is whether the G20+ will play any significant role in the ‘‘fix-it’’ movement to radically reform perceived shortcomings in the WTO processes and norms. There are other obstacles that are not tied to WTO rules. US protectionism is persistent, ad hoc and widespread. On cotton, citrus fruit, sugar, shrimp and textile imports, the US Congress operates largely independent of Bush and has its own autonomous views that US producers always need support and pro-

tection. It is unlikely that the unfavourable cotton panel report in early 2004 will lead to big cuts in farm supports. Certainly, the Bush Administration does not believe that US programmes are the problem.

One positive effect of the failure at Cancún is that the global South has been forced to develop its own agenda to create a new global architecture of trade. Brazil, India and China have committed resources and political capital to the idea. Poverty eradication remains the priority and India is making protection of its farmers one of its key demands. The Singh government has gone on record that there will be no more tariff reduction without safeguard protection for India's rural producers. The idea of asymmetrical concessions and the need to modify dramatically the spirit and letter of the "single undertaking" is likely to gain currency and credibility among prominent Southern nations.

Without a mainstream champion, the anti-globalization movement has had to look as much inward as outward for staying power and influence. This is why Appadurai's idea that disjunctive flows "generate acute problems of well-being" and encourage "an emancipatory politics of globalization" is so powerful.[48] People are being forced to resist state violence and seek social redress wherever they find themselves. Dedicated information flows and the movement of peoples create new expectations and vistas that are, by definition, increasingly transnational. Bypassing unilateral state sovereignty is one of the main drivers reconfiguring state–citizen relations. The smart citizen no longer believes as an article of faith that matters internal to their country are solely to be determined by their state. This mind/value shift has destabilized existing political hierarchies and opened a range of emergent possibilities.[49]

The current imbalance between public and private has many parallels with the inter-war system of laissez-faire free trade, the direct antecedent of our modern experiment with free trade. The earlier universal system collapsed in the 1930s because it failed to generate a new broad policy framework that placed public good ahead of private interests. The question is: are we reaching a similar fork in the road where the global trading system is again dangerously out of touch with the needs of the globe to protect the social bond and eradicate poverty?

When mistrust is endemic

The primary conclusion of this chapter is that the lack of accountability and transparency in global governance now feeds a cycle of dissent. Knowledge and knowledge-based communities empower these diverse counter-publics as advocacy networks and new information technologies become key instruments in organizing across national boundaries. In this

context, when we speak of the ‘‘Public’’ as a noun with a capital ‘‘P’’ it means those actions, policies and beliefs that are ‘‘open and available to, used or shared by all members of the community for the promotion of the general welfare’’. The defining quality of counter-publics is that they cheer and fight for the integrity of their community. Counter-publics give a lot of themselves because they have to establish their credentials as a significant force in domestic and global politics.

We are still in the early stages of the global dissent movement, and the peak of the cycle is not yet in sight. The tough but essential questions that demand more convincing answers are: how can the forces of globalization be harnessed for public good? What is the vision behind global dissent? What is being asked for instead? In the end, the political economy of dissent cannot escape the core issues: agency, political will and capacity. Normative questions require normative solutions; strong and vigilant publics are demanding comprehensive action to eradicate inequality and protect social and cultural difference. Compared to a decade ago, the psychic dichotomies that once pitted the local against the global are less relevant than ever. Tant mieux.

Notes

1. This chapter has received helpful feedback from the global cultural flows working group at the Robarts Centre for Canadian Studies. Thanks to David Clifton for producing the figures and for his many discussions about the meaning of global cultural flows. Marc Froese provided critical input, as did Marco Morra. Seth Feldman and Ken Wiwa made a number of suggestions to strengthen the text. Laura Taman supplied editorial polish. Support for this paper has been provided by the SSHRC RDI project on global cultural flows.
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3. Christian Lammert, *Modern Welfare States under Pressure: Determinants of Tax Policy in a Globalizing World*, Montreal: IRPP, 2004, pp. 1–18, available from www.irpp.org.
4. Joseph S. Nye Jr, *The Paradox of American Power: Why the World's Superpower Can't Go It Alone*, New York: Oxford University Press, 2002.
5. The Robarts Centre currently has a project under way to analyse the complex nature of these global cultural flows empirically and to determine their impact on global publics. This chapter is the first in a series of pilot studies. In this chapter, dissent is used generically to refer to normative groups or communities engaged in public activities on a multitude of issues that challenge and question existing patterns of authority, values and ideas.
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7. Frances Williams, ‘‘WTO Aims to Revive Stalled Trade Talks Next Year’’, *Financial Times*, 16 December 2003.
8. Daniel Drache and Marc Froese, *The Great Global Poverty Debate: Balancing Private

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9. Edward Alden and Lionel Barber, "US Moves to Restart Stalled Trade Talks", *Financial Times*, 12 January 2004.
10. Joseph H. H. Weiler, ed., *The EU, the WTO and the NAFTA: Towards a Common Law of International Trade*, Academy of European Law, Oxford: Oxford University Press, 2000.
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12. Neil King Young and Margot Cohen, "Shrimp Fishermen Seeking Tariffs", *Globe and Mail*, 31 December 2003.
13. Canada, along with a group of other countries, brought a case against the United States at the WTO that won a landmark victory. US producers were found to be in breach of the WTO's trade rules in being allowed to keep part of the anti-dumping illegal duties. Under this arrangement, Washington was creating an incentive for industry to bring anti-dumping disputes against any country where US competition was doing poorly. Although the Byrd Amendment violates WTO rules, politically Ottawa seems ready to accept a "dumb" compromise that allows the United States to continue to impose quotas on Canadian softwood exports, keep half of the wrongfully imposed anti-dumping duties and restrict Canada's access to the US market (*Globe and Mail*, 9 December 2003). As far as Washington is concerned, WTO trade rules are not an inviolable high standard, particularly when they collide with US interests.
14. Richard Higgott, *The Limits to Multilateral Economic Governance*, Council for Asia Europe Cooperation, Task Force on Global Governance, Seoul Meeting, 26–28 September 2003.
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17. US Council on Foreign Relations, Report, January 2004, available from www.cfr.org.
18. *Financial Times*, December 2003.
19. ILO, *Global Employment Report 2003*, Geneva, January 2003, available from www.ilo.org/public/english/employment/strat/global.htm.
20. Jagdish Bhagwati, "Don't Cry for Cancún", *Foreign Affairs*, January/February 2004: 52–63.
21. Drache and Froese, *The Great Global Poverty Debate*.
22. Sylvia Ostry, *What are the Necessary Ingredients for the World Trading Order?*, Kiel Institute of World Economics, 2002; Sylvia Ostry, *The World Trading System: In Dire Need of Reform*, paper presented at the Canadians in Europe Conference, 2002.
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24. Pew International Survey, 2003.
25. Anthony Downs, "Up and Down with Ecology: The Issue-Attention Cycle", *Public Interest* 28, Summer 1972: 38–50.
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27. John Gray and David Willetts, *Is Conservatism Dead?*, London: Profile Books, 1997.
28. Scholte, *Democratizing the Global Economy*.
29. Thomas L. Friedman, *The Lexus and the Olive Tree: Understanding Globalization*, New York: Anchor Books, 2000.
30. Scholte, *Democratizing the Global Economy*.
31. The ''Washington Consensus'' was the name given by John Williamson to an ensemble of market-led policies promoted by economists and trade experts who flew in to Washington to advise the IMF, the WB and the US Treasury Department in the early 1980s.
32. Tommaso Padoa-Schippa, ''The Eurozone's Fiscal Framework Survives'', *Financial Times*, 15 December 2003.
33. Georges Parker and Jacques Docquiert, ''France Puts EU Pact in Peril to 2007'', *Financial Times*, 27 January 2004.
34. Christopher Swann, ''Scepticism Grows over Bush Vow to Slash Budget Deficit'', *Financial Times*, 28 January 2004.
35. Robert Bartley, long-time editor of the *Wall Street Journal* and champion of supply-side economics, coined the phrase ''free men; free markets'', but Margaret Thatcher's formulation, ''there is no alternative'' (TINA), remains the signature phrase of free market economics. Moisés Naím, ''Washington Consensus or Washington Confusion?'', *Foreign Policy*, Spring 2000; Geoffrey Underhill, *States, Markets and Governance: Private Interests, the Public Good and the Democratic Process*, inaugural lecture, University of Amsterdam, 2001.
36. Harry Arthurs, ''The Re-constitution of the Public Domain'', in Daniel Drache and Richard Higgott, eds, *The Market or the Public Domain: Global Governance and the Asymmetry of Power*, London: Routledge, 2001.
37. Robert Boyer and Daniel Drache, eds, *States Against Markets: The Limits of Globalization*, London/New York: Routledge, 1996.
38. Nicol Degli Innocenti and David Firn, ''Drugmakers Pave Way for Cheaper Aids Medicines in South Africa'', *Financial Times*, 11 December 2003.
39. Raymond Colitt, ''Brazil Offers Guarantees to Lure Private Investors'', *Financial Times*, 23 January 2004.
40. Brazil's Lula and Argentina's Kirchner belong to a generation in South America that was persecuted by military authorities; they strongly oppose the use of force. Since the collapse of the Argentinean economy in December 2001, Kirchner's government has been giving 2 million households relief in order to survive. Cutting safety nets, a singular priority of the Washington Consensus, is not part of their current agenda, but tough austerity measures remain in place. See Degli Innocenti and Firn, ''Drugmakers Pave Way''.
41. Adam Thompson, ''Argentina sees Growth Outstrip even Optimists' Best Estimates'', *Financial Times*, 24 January 2004.
42. Paul Martin, *Prime Minister's Opening Comments to the Summit of the Americas*, Monterrey, Mexico: Department of Foreign Affairs and International Trade, 13 January 2004.
43. Meeting between President Jacques Chirac, President Luiz Inácio Lula da Silva, President Ricardo Lagos and United Nations Secretary-General Kofi Annan, Geneva, 30 January 2004, Joint Declaration, Action Against Hunger and Poverty.
44. The failure of the UN-sponsored Development Decade, in the early 1960s, to eradicate global poverty is an earlier antecedent. See Adam Sneyd, *GATS and Asymmetrical Trade in Services: The Non-OECD World's Case for a New and Improved Model*, Toronto: Robarts Centre for Canadian Studies, York University, 2003, available from www.robarts.yorku.ca.
45. Claude Barfield, *WTO Dispute Settlement System in Need of Change*, Evian Group Compendium, December 2002.

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47. Joseph E. Stiglitz, *Globalization and Its Discontents*, New York: W.W. Norton and Company Inc., 2002.
48. Arjun Appadurai, ed., *Globalization*, Durham and London: Duke University Press, 2001, p. 6.
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7

Toward multilateral reform: The G20's contribution

John J. Kirton

Since its 1999 start, the Group of 20 systemically significant countries has attracted increased attention and appeal as a major institution for global governance in the twenty-first century. Since the inception of the G20 as an annual forum for finance ministers, through to the recent proposals of Canadian Prime Minister Paul Martin, there have been many advocates of elevating the existing institution into a summit-level leaders' forum, akin to the Group of Eight major market democracies whose leaders have gathered in an annual summit for 30 years. To be sure, there are some ''rejectionists'' who judge the idea of a Leaders' 20 Summit to be expanding the existing G20 institutions ''well beyond the level of their competence''.[1] Yet a larger group of ''reinforcers'' advocate adding an L20 to the existing array of global governance institutions, perhaps as one of many models to respond to globalization,[2] as an ad hoc meeting to address a particular pressing global issue,[3] or as a more permanent body with a more comprehensive agenda.[4] Much more ambitiously, a growing group of ''replacers'' call for the creation of an L20 to substitute for a G8 that would effectively fade away.[5] Their sympathizers suggest that an L20 meeting could revitalize an otherwise immobilized United Nations.[6]

The enthusiasts for replacing the G8 with an L20 advance their claims largely on the basis of assertions about the failure of the G8 and UN systems, and the assumed advantages of a more weighty and representative L20 in addressing twenty-first century needs. Almost never is the case made on the basis of a detailed analysis of what the model and nest for

a Leaders' 20 Summit – the existing G20 Finance – has actually done during its first half-decade in operation. To be sure, select institutionalized plurilateral bodies directly designed and delivered by leaders add an essential element that mere ministerial fora lack, as the evolution and coexistence of the G5/7/8 finance ministers' fora and the G6/7/8 Summits show. Yet a close examination of the design and evolution, operation, and impact of the existing G20 Finance provides an essential empirical foundation for claims about the role of a prospective Leaders' 20 Summit. Once this foundation is firmly in place, the leap to the leaders level can be made, in part, with the 32-year experience of the G8's finance ministers–leaders evolution and interaction as a further guide.

A second school of thought, that of the L20 as G8 reinforcement, more modestly judges the G20, on the basis of its operation during its first few years, to be a promising institution with a potentially valuable higher-level contribution, if several substantial challenges are met.[7] This assessment is supported by those who see the G20 as "an effective and legitimate institution that delivered significant achievements" during its first two years, or an institution that has worked during its first half-decade.[8]

A third group of rejectionists concede the "competence" of the existing G20, but do so implicitly, or point to the formidable institutional defects or uncertain future of the G20.[9] And a fourth type of argument indicates that the idea of an L20 is itself "redundant", on the grounds that the existing G8, with its now routine inclusion of other countries, especially at the 2003 Evian Summit, has already become an L20-like summit itself.[10]

Amidst this rich debate, no one has yet analysed, alone or in a comparative context, the full span of performance with respect to the existing G20. Nor has anyone credibly connected the G20's alleged advantages in weight, inclusiveness, representativeness and legitimacy, in its current, largely constant configuration, with the changing pattern of successes and failures it has presumably enjoyed.

What, then, has the G20 actually done, and what can and should it do, in reforming the international financial system and the integrally interlinked larger global governance system and order built on this base? To address these questions, this chapter examines in turn the creation, constitution and charter of the G20 Finance, its strong start in 1999 and 2000, and its institutional and normative evolution and impact over its full five years in operation. On this foundation, the chapter concludes by considering the G20 for the next generation, concentrating on the contributions it is capable of making and the challenges that lie ahead.

Based on this analysis, this chapter argues that the G20 was created as a consequence of American and G8 leadership as a consensus-oriented

forum of systemically significant global countries with a mission to prevent financial, economic and resulting crises and to institute the social protections that would make globalization work for the benefit of all. Based on a strong start in its first two years, it has evolved during its first half-decade from a largely deliberative forum to one setting new normative directions, taking collective decisions, and developing global governance both by broadening its own agenda and by thickening its own structure, and by working in conscious interdependence with other multilateral organizations and the G8. It has increasingly had an autonomous impact as an international institution in bridging differences between and within the developed and emerging countries, and in hastening agreement on ''constitutional'' issues in outside governance forms. Yet essential to its success has been its pattern of working closely in tandem with the similarly constructed, much more experienced, and much more cohesive G8, in support of the principles of transparency, openness, democracy, social advancement, and equity that the G8 has at its institutional core. The most likely emergence and valuable contribution of an L20 is as an outgrowth of the G8's sustained twenty-first-century move to outreach and inclusion, in the global strengthening of the core G8 principles of open democracy, individual liberty and social advancement, under a steady succession of shocks to these values that the G8 and other institutions cannot eliminate on their own. The time is thus ripe for an L20 to be born, but in a somewhat different form than the recent appeals have foreseen.

The G20's creation, charter and constitution

The formative causes

The G20 resulted from a combination of factors. US President Bill Clinton, and some of his ranking G8 allies, wanted to find a more inclusive and informal but still effective forum at both the leaders and ministerial level. In general terms, this push for reform was viewed as a means to deal with the challenges associated with the rapidly accelerating pace of globalization. More specifically, it was designed as a response to the rising capabilities of emerging countries, particularly in Asia, that were not well-connected to the inner management core of the global governance arrangements constructed in either 1944/5 or 1975.

Clinton's leading achievements included the elevation of the Japanese/Australian-inspired APEC forum into an annual autumn leaders' meeting in 1993, and the expansion of the G7 Summit into the ''Denver Summit of the Eight'', with Russia included, in June 1997.

The advent of the Asian-turned-global financial crisis in July 1997 quickly intensified US initiative and brought its G8 allies robustly into the innovation in global governance game. At the Canadian-hosted APEC leaders' meeting in Vancouver in November 1997, President Clinton pioneered a short-lived G22 to discuss the unfolding Asian financial crisis and the possible ways to strengthen the international financial architecture in response. At the Summit they hosted in May 1998, the British permanently expanded the G7 into a G8 leaders' meeting, and admitted the Russians to most – if not all – of the now separated finance and foreign ministers' meetings and the many other ministerial fora that the G7/8 had created since 1994. Under German hosting in the spring of 1999, the G7 created a new body, the Financial Stability Forum, first for itself but soon with four new members added. The Forum was intended to confront the challenge of dealing with once technical issues among highly like-minded G7 members, but issues that had now become of greater political consequence and relevance to a broader world. At the same time, the International Monetary Fund created a New Arrangements to Borrow group of 25, to overcome earlier resistance to the G7 direction and to provide the additional available in-place financial resources that the Mexican meltdown of December 1994 had shown would be needed to contain financial crises in the new age. The IMF also created a new International Monetary and Financial Committee, with Britain's Chancellor of the Exchequer, Gordon Brown, as the first and still only chair.

By far the most ambitious attempt to move from the G7 to a broader forum for global financial governance came with the creation in September 1999 of the Group of 20, in accordance with the commitment made by G7 leaders at their Cologne Summit in June 1999. As with the G7 at the moment of its creation in 1975, the formal mandate of this new political-level forum centred on financial matters but also embraced the full economic domain. As with the G7 in 1975, the members of the G20 collectively contained a predominant share of the world's economic capabilities. Moreover, in sharp contrast to other G7-incubated initiatives, the G20 quickly generated claims that it had moved to become an effective mechanism at the centre of global governance in a crisis-ridden world.

The G20 Finance was thus born from several forces. The most basic were structural changes in the challenges bred by globalization, the new strength of emerging, particularly Asian economies, the failure of the existing international organizations (as shown by the 1994 Mexican peso crisis and the G7's 1995 Halifax Summit UN reform effort), and US initiative through the agency of President Bill Clinton. But equally essential were three more proximate propellers. The first was a steady succession of ever-more severe shocks that escalated through Asia in 1997, came to

defeat Russia and immobilize the United States itself in 1998, and spread to the Americas and elsewhere afterward. The second was the active initiative of the United States' G8 partners, notably the American–German–Canadian coalition, and the institutional nest of plurilateral institutionalized summits and ministerial meetings such as APEC, but above all the G7/8, to foster this coalition and give the G20 its formal birth. The third was the inadequate performance and response of the existing multilateral organizations, above all the British-chaired IMFC, in a world where "hard law" institutions still commanded much hard power and far superior claims to inclusiveness, representativeness and legitimacy, and where several soft law informal plurilateral institutions beyond the G20 were also being born.

The normative "charter"

If the G8 nest was important in giving birth to the G20, it was even more important in determining the charter-ensconced core mission, and the particular constitution of the membership in the new forum. The G8 leaders at their 1999 Cologne Summit, after welcoming the establishment of the FSF and IMFC, gave birth to the G20 by further welcoming "the commitment to work together to establish an informal mechanism for dialogue among systemically important countries, within the framework of the Bretton Woods institutional system".[11] Following these instructions, the G7 finance ministers, at their 25 September 1999 meeting, formally created the G20 "as a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system", but immediately added "to broaden the dialogue on key economic and financial policy issues among systemically important economies and to promote co-operation to achieve stable and sustainable world growth that benefits all".[12] The function of the forum thus quickly expanded from "dialogue" to "broader dialogue" to the potentially decisional role to "promote co-operation". The mission had similarly broadened from the narrowly financial Bretton Woods framework and its principles to economic issues aimed at "world growth" that was stable, but, in a burst of temporal and spatial equity, was "sustainable" and would benefit all as well. And the membership had been defined as the "systemically important" countries, subsequently qualified as being from "regions around the world", as well as representatives of the European Union, IMF and WB.

These decisions were exclusively made by and negotiated within the G8, and reflect the outcome of the varying perspectives and hard bargaining there. The G20 reflected American dissatisfaction with the slow, conservative, Eurocentric Bretton Woods institutions, and the US unilateralist initiative in creating the US-defined, invited and hosted G22, Will-

ard Group and G33 as informal clubs to bypass the old. Yet the phrase ''within the framework of the Bretton Woods institutions'' reflected British and French concern, backed by the Italians, for the IMFC and IMF that their nationals headed. It also reflected Canadian questions about whom the envisaged ''Gx'' body would report to, from whom its mandate and legitimacy would come, and how credible it would be if it was seen as a body chaired by the United States, meeting in Washington's ''beltway'' and thus subject to the vicissitudes of the unpredictable politics there. The final formula satisfied the ''Gx's'' catalytic Americans, the enthusiastically supportive Canadians, the favourably disposed British, Germans and Japanese, and the resistant French and Italians, who were wedded to their pre-eminence and prerogatives at the IMF and WB. Flowing from this compromise were the decisions to hold the first meeting in Germany, and have as the first chair Canada's Paul Martin (who beat out Britain's Gordon Brown in an informal G7 poll).

In similar fashion, the mission and the agenda grew well beyond the prevailing financial focus and principles at the core of the Bretton Woods framework of 1944–1999. The German-hosted G8 Summit, under the impact of compounding crises, had just pioneered a new Cologne Consensus on socially sustainable globalization that was distinctly different from the ''Ronald Thatcherism'' or ''Washington Consensus'' that dominated the earlier G7 and the Bank and Fund to that day. As the inaugural 1999 G20 was also hosted by a Germany that was newly led by the Social Democratic party in coalition with the Greens, it was understandable that the ''red'' value of equity for all in outcomes, and the ''green'' value of intergenerational and thus ecological sustainability, quickly found their way into the mission statement of the G20. Canadian Paul Martin, as chair of the first meeting, provided support from North America for these values, which were compatible with those of which the Clinton–Gore Administration approved. Promoting global growth appealed to the many, within and outside the G7, who had not yet shared in the locomotive effects that the US ''goldilocks'' economy at the time so impressively produced. Moreover, within the financial core, an analysis of the recent crises showed many that exchange rates, liability management and international codes and standards were key issues for the G20's work.

The constitution of the membership

Although form substantially flowed from function, the question of how many and which actors would be admitted to the Gx was the subject of vigorous dispute. The final decisions were essentially made by the US

Treasury Secretary and Canadian Minister of Finance. All G8 countries and China were on everyone's list. India was also a clear admit. But some lists excluded Australia, Korea, Turkey and Saudi Arabia, which all made it. The Europeans succeeded in securing a place for the European Union and European Central Bank, uniquely among regional organizations. In the end, economic and especially financial capability proved decisive, as the admission of Saudi Arabia (backed by its oil resources and Middle Eastern location) and the exclusion of Thailand showed.

But the G8's core mission of "open democracy, individual liberty and social advancement", transposed into the new G20, also mattered a great deal. Turkey, a consumer rather than a producer of financial security, was admitted to the G20 (but not the European Union, as it desired) in order to sustain its character as a stable, Muslim democratic polity in a Muslim-dominated Middle East. Similarly, Indonesia had a place reserved for it once it had proved that its embryonic democratic revolution, and the respect for human rights and anti-corruption commitment that came with it, were for real. Asia's Malaysia was excluded, not because of its flirtation with capital controls but because its leader's autocratic treatment of its well-respected Finance Minister defied the basic standards of democracy and the rule of law cherished by Canada's Finance Minister, a close colleague of his Malaysian counterpart in the Commonwealth club.

The G20 was thus born as a substantially compromised institution on all defining dimensions, into a very institutionally competitive world. But the G20 had the great benefit of its G8 maternity, and shared the seminal thrust toward open democracy, individual liberty and social advancement.

The strategic concept of the Canadian chair

Another benefit was the highly developed, and highly ambitious, strategic vision of its first chair, Canadian Finance Minister Paul Martin. Here the G20 was seen not just as a deliberative body, but one that would encourage "the formation of consensus on international issues".[13] While the G20's first crisis-bred focus was finance and its function was to provide financial stability, from the start Martin aimed much more broadly. He declared: "There is virtually no major aspect of the global economy or international financial system that will be outside of the group's purview".[14] In his view, the G20's task was "translating the benefits of globalization into higher incomes and better opportunities everywhere", including for working people around the world.[15] Six months after the G20's first meeting, Martin expanded its mandate into innovation in global governance as a whole, with the words:

> It has a mandate to explore virtually every area of international finance and the potential to deal with some of its most visible and troubling aspects of today's integrated world economy – including the devastating effects of financial crises, the growing gap between the rich and poor, and the system of governance that has not kept pace with the sweeping changes taking place in the global economy.[16]

Just before he chaired the second ministerial meeting, Martin added tackling ''the broader problems associated with globalization'' to the G20's agenda. The G20 was thus to be a major source of political-level, longer-term strategic leadership, rather than a technically oriented, limited, issue-specific forum reacting to the immediate issue of the day.

Institutionally, in the Canadian conception, the G20 would involve the chair of the IMF's Interim and Development Committees and the President of the European Commission to ensure that its work was ''well integrated'' with that of these existing organizations. More ambitiously, the G20 would also ''help coordinate the activities of other international groups and organizations, such as the Financial Stability Forum'', ''facilitate deliberations'' in the IMFC, and potentially develop ''common positions on complex issues ... to expedite decision-making in other fora''.[17] Its function was thus to be the source for the direction and development of global governance in the wider institutional world.

Internally, the G20 would have a chair firmly controlled by the G7 at the start, a two-year rotational cycle for the chair, a link between its meeting and those of the G7 at the start of each year, a deputies process to prepare and support the ministerial meeting, and an ability to call on the resources of the IMF, the WB and outside experts and to ''form working parties to examine and make recommendations'' on its own.

To achieve these ambitious objectives, Canada sought an inclusive, regionally balanced group of individual countries that would focus on sharing experiences through open discussion, rather than on restating fixed positions from the briefing notes for hard law bodies elsewhere or from the familiar North–South dialogue of old. Here Canada had to fend off the instincts of some to use the G20 to press the issues of the South against the North, the fears of others that it would produce a US-led ''G7-ization'' of the world through a forum where the South lacked the hard law protections of the IMF and WB, and the concerns of still others that it might lead to a loss of control on the part of the G7.

Critical to the success of the new body was the decision to join by China, a weighty country that had long been internationally unengaged and that saw itself as standing between the North and South rather than as a member of either group.[18] Martin's desire to use the G20 to promote better supervisory and self-regulation arrangements made it easy for China to join.

The strong start: Berlin 1999 and Montreal 2000

Vancouver, November 1999

At the first preparatory meeting in Vancouver, Canada in November 1999, G20 deputies determined, for ministerial adjustment and approval the following month in Berlin, rules of the game that would have the new body sustain, rationalize, legitimate and globalize what was neglected in the G7. The deputies agreed that the G20 should efficiently exchange ideas on the key issues of finance, build consensus on them, and then lead by example. The Group's finance ministers and central bankers would avoid the broader economic issues dealt with by the G7. There would be one ministerial meeting per year and two deputies' meetings. The Bank and the Fund would provide input for the G20's work. The G20 would not be a decision-making forum, would work on a confidential basis, and would have no secretariat and no working groups.

Beyond this deliberately modest start, there were substantial differences about what the substantive agenda, and by implication the ambition, of the Group should be. The IMF led the tendency to argue that the G20 should focus on difficult issues on which the IMF's own Executive Board had not been able to agree. The counterargument, led by Canada, was to start gently, by focusing on central issues, such as appropriate exchange rate regimes and private sector involvement, on which there was substantial existing, emerging or prospective agreement among all in the Group. The fledgling Group would thus tackle tough and important issues, but also build momentum for, and comfort and confidence in, the new body. Canada won its case. Nor was the IMF able to secure agreement that the G20 examine contingent credit lines, collective action clauses for modifying bonds (where a Joint Public–Private Sector Working Group was suggested), and debt standstill, with a view to securing a G7–G20 agreement on reform. The G20 deputies also discussed exchange rates, capital accounts and financial sector debt management, but broke little new ground.

The deputies finally agreed that their discussions would serve as the agenda for the ministers, and that there would be only a relatively informal chairman's concluding statement rather than a collectively drafted and agreed communiqué. The ministers would start, as Canada insisted, with issues where there was some reasonable prospect of an effective consensus being secured.

Berlin, December 2000

The inaugural Berlin ministerial was designed as an informal, "get to know you" round table that would set the rules of the game and identify

the purpose of the Group. Documentation for it was prepared by the Canadians as chair and the Germans as host, and only to a lesser extent by the United States.

Starting in the evening and proceeding for the following full day, the Group dealt with standard broad topics through an open dialogue that Martin encouraged all ministers to join. Its discussions of macroeconomic forces and prospects focused thematically on areas where the global economy as a whole was vulnerable, rather than on individual countries.

As the Canadian chair had hoped, the meeting featured free-flowing discussion, even if the conclusions were familiar. However, the European venue, German host and EU presence did encourage the European members to speak with a single European voice. This result reinforced the reluctance of some non-European members to add more European claimants to the club.

Once again, the IMF-led coalition, with Europe's France and Italy within, asked that the G20 deal with issues where there was no consensus in the European Central Bank, IMFC or international community. Once again, the Canadians, with Germany and the United States, won with their consensus-based approach. Their victory eroded any initial hope or fear that the G20 would be a forum for the rapid legitimation of US-bred, G7-approved ideas for IMF and international financial system reform. Moreover, contentious issues such as Larry Summers's public call on the eve of the meeting for reform of the IMF were discussed only a little, as part of the dialogue on "vulnerabilities" in the international system. The G20's agenda focused rather on exchange rate arrangements, financial sector regulation and supervision and prudential liability management – all areas, in Paul Martin's judgment, "of architectural reform in which national governments working collectively have become increasingly prepared to take the steps required to reduce vulnerabilities to crises".[19]

Having resisted capture by either the IMF and France or the G7 and the United States, the meeting made some small progress in bridging the old North–South or potential established–emerging economy divide. On issues such as codes, an "Anglo-Saxon"/German project, Canada and the United States were encouraged that the Turks and others appeared to agree, rather than voicing the hesitations they had aired in the IMFC and IMF. The developing countries, much more modestly, viewed the meeting as a way to learn and to exchange views rather than as a negotiation from which decisions would come.

The G20 ministerial in itself did not immediately and clearly change any minds on the part of resistant emerging economies about the issues of transparency, codes, and governance. The three Anglophone countries (the United States, United Kingdom and Canada), usually backed by

Germany and to a lesser extent by Japan, regarded these issues as the foundation of a new international financial architecture. Following the meeting, China and Brazil continued to express their deep concerns about IMF programs and, along with Mexico and Argentina, about strong conditions imposed from an external source. Partly as a result, the G20 ended by creating no working groups. Yet all G20 countries agreed to ask the IMF and WB to examine how their national financial rules measured up to international standards and how they might be strengthened. Open deliberation had thus generated a balanced consensus leading to one clear decision, on codes, and a minimal form of developing global governance, to follow up the request to the IMF and WB. It was a promising start, if not quite the "important breakthrough in the establishment of generally accepted principles of global governance" that the Canadian host optimistically claimed.[20]

Hong Kong, March 2000

G20 deputies met in Hong Kong in March 2000 to review the results of Berlin and begin preparations for the next ministerial, to be held in Montreal, Canada on 24–25 October 2000. The G20 could claim "first-mover advantage", for the deputies met just prior to the IMFC deputies preparing for the first ever IMFC meeting at the semi-annual Bank–Fund meeting, in mid-April 2000. The G20 deputies proved to be pleased with the results of Berlin. This led the Canadian chair to adopt a more ambitious approach to the second ministerial in Montreal. Canadian ambitions were further fuelled by the somewhat disappointing experience of the G20's major competitor organization, the IMFC, at the latter's inaugural outing in Washington.[21]

Toronto, August 2000

At the subsequent G20 deputies' meeting in Toronto in August, there were strong signs that the fledgling G20 had secured real buy-in from its major emerging market members. Russia was more energized. South Africa was very active. From the Muslim world, Indonesia was variable and the Saudis were good team players. Above all China, having just decided on international engagement with its decision to join the WTO, was a strong supporter of both the G20 forum and the preferred Canadian approach.

Montreal, October 2000

At the Montreal ministerial in October 2000, the G20 moved beyond the narrow, often technical issues of finance, to confront the broader problem

of globalization and assure those outside the G7, and many within, as well as global civil society, that their concerns were being heard, understood and addressed. The G20 took its first major step into normative governance by setting new directions in global economic, social and ecological governance as a whole.[22]

At the first meeting in Berlin, G20 ministers had come to a consensus on a core agenda, an identification of the problem, and an agreement to work by cooperation on standards and rules, if not regulations, on international and domestic banking and private sector involvement. As the first year unfolded, the G20 generated a growing consensus that it was needed, that there were serious social costs to globalization that must be addressed through new initiatives, and that new limits must be set. A more precise consensus emerged that codes and standards were needed and that they could be shaped by developed and developing countries working together, and on the principle that the private sector must to some degree accept risk and be involved in the solution. There was also a consensus on exchange rates and mechanisms, with all agreeing that different approaches and mechanisms were required in different circumstances. Yet this emerging G20 consensus had not yet changed what member representatives argued within the Executive Board of the IMF or WB.

The Canadian chair and emerging country members felt strongly that there was a shared interest in reducing the social costs of globalization, and involving civil society in the task of determining how to do so. They thus had the broad topic of globalization form the centrepiece of the G20's Montreal agenda. Here Canada was supported by Britain and Australia, and opposed by a France that was still protective of the prerogatives of the IMF. The United States, while not wanting to undermine its hard law veto at the IMF and WB in favour of a freewheeling forum where it was just one of 20 equal members, was comforted by the chair being held by its North American neighbour, and persuaded by intellectual arguments in favour of the Canadian approach.

Procedurally, the Canadians sought highly interactive sessions, with no distractions from social, bilateral or G7-specific sessions. Institutionally, they sought to secure the future of the forum by identifying its meeting schedule and chair for the following year. Substantively they sought to secure a concluding recognition that globalization had two sides – the finance and economic side and the social side, including health, education, welfare and employment.

Martin felt very strongly that civil society organizations were raising real issues. He agreed, as chair, to meet NGOs before the G20 meeting and to bring those views into the G20 meeting itself. While Martin personally wanted to do more, there was no consensus on having representatives of civil society organizations involved in the G20.

The deliberations proved to be spontaneous and substantive, dealing with four themes: responses to the challenges of globalization; the state of the world economy; action on an FSF presentation; and follow-up on means to reduce vulnerability to crises.

The discussion on globalization was an open, even soul-searching exchange about the reasons for the reactions to globalization that members were witnessing, and what the G20 could do to better engage globalization's opponents. Participants spoke of the marginalization of many countries in the globalization process and the insecurity that this bred, the invisibility of the benefits of globalization, the increasing distance between winners and losers, and the increased demand for redistribution and insurance. Yet as globalization made it more difficult for governments to tax their citizens and corporations because of their ability to move, governments had less money to meet their demands. One result was a loss of control, as individuals and institutions beyond borders and beyond the electoral process were seemingly making decisions that affected people, without direct accountability to the populations of sovereign states. Globalization was infringing on sovereignty, and in the view of one participant, leading to the victory of the Anglo-Saxon model of economic and social organization.

All agreed that the challenge to globalization was increasing, would continue to do so, and would require constructive action by the international community. While there was no simple solution, current developments must be put into perspective to show the gains made and more active energetic efforts taken to reduce the imbalances created by globalization. The G20 must deal aggressively with trade (including impediments to access in industrial country markets), ensure that the rules keep pace with global integration, deal with poverty (including through increases in official development assistance), and speak forcefully on these issues.

The discussion on the state of the world economy, centred on a presentation of the World Economic Outlook by the Chief Economist of the IMF, saw some divergence about the importance and implications of the US current account deficit. Here the United States and one G7 central bank governor saw little risk in the new world of private sector-dominated capital flows. Two continental European G7 governors countered that the combined European and US deficits and their exchange rates posed important risks. The developing countries generally backed the Europeans, arguing that turbulence in G7 exchange markets was a significant problem for their economic growth, and needed to be limited in some way. Both G7 and developing countries expressed concerns about the price and volume of oil, but agreed that prices were driven by political rather than economic factors. The oil exporters argued that

prices should fall once these short-term politically driven developments passed.

The last session, on reducing vulnerability to crises, dealt once again with standards and codes, external liabilities, exchange rate regulation, and private sector involvement. On standards and codes there was some concern about the process being too rigid, with developing countries arguing that there should be more than one model. It was also innovatively suggested that there should be standards on the delivery of official development assistance. On exchange rates there were polar extremes, but more support for believing that floating exchange rates were the only viable long-range option. Some intervention was consistent with this approach. The United States finally gave a very positive assessment of the prospects for HIPC legislation being passed by Congress, which was eventually the case.

The Montreal meeting was important in the deliberative domain, in making the G20 a more comprehensive centre of global governance. The G20's agenda went well beyond the hardcore finance subjects of crisis response, architecture construction, and stability, to embrace debt, development assistance, trade liberalization, health, agriculture, the environment and social policy. As Martin importantly noted, its agenda would make the conclusions of Montreal the subject of discussion among many other ministers in national governments. It was also an agenda whose breadth, and arguably ambition, was appropriate for G20 leaders themselves collectively to address.

Montreal was also important for the new principled and normative directions it set. It offered what Martin called the "Montreal Consensus" on globalization, with shared benefits and social protections for all. The Montreal Consensus, much like the G8's 1999 Cologne Consensus before it, consisted of an interlinked and balanced affirmation of three central points: that globalization was good for all; that its benefits had to be more broadly shared; and that the poor had to be protected from its costs.[23] In the new normative trilogy, liberalization, stability and equity through protection had an equal place.

Yet the Montreal Consensus importantly moved the Cologne Consensus into and beyond a representative group of consequential developed and developing countries, and hastened the global normative shift from a singular focus on stabilizing the global economy to the need to share its benefits and safeguard the poor. Montreal was also the first time that the enormously diverse and influential countries assembled in the G20 all affirmed that globalization was the proper direction for them individually and the global community as a whole to take. Coming in the immediate wake of the 1997–1999 global financial crisis and embracing countries such as China and Saudi Arabia, this acceptance was remarkable indeed.

Yet the effectiveness of the emerging economies' voice, and the importance of the distributional dimension, was heard in the communiqué passages calling for "improved access for developing countries' exports to advanced economies' markets" and affirming that "Governments have an important role to play". The consensus of embedded liberalism had returned to triumph over the "Ronald Thatcherism" that had displaced it during the previous two decades.[24]

Perhaps most importantly, the concept of globalization endorsed by the G20 was broadly defined as "the increasing integration of national economies resulting from the greater international mobility of goods, services, capital, people and ideas". It was thus far more than the mere economic liberalization at the heart of the neo-liberal "Washington Consensus" of old. Indeed, it was infused with political content, in its celebration of globalization's generation of "greater access to ideas". The G20's normative contribution to globalizing the G8's core value of "open democracy" had begun.

Of less prominence and potency on the surface were the specific commitments made at Montreal. Little new was contained in the promises to improve the effectiveness, transparency, and cooperative spirit of international institutions. The measures taken with regard to the international financial architecture, detailed in an annex, represented at best small steps forward, although the emphasis on implementation was a useful reminder of the work that remained. Of more magnitude, coming from finance ministers with great influence on national budget expenditures, was the recognition that "emerging market economies should be supported with technical assistance" and the pledge to "contribute to international efforts to increase the provision of other public goods" regarding infectious disease, agricultural research and the environment. The passage on HIPCs reaffirmed the need for a sharp focus on poverty reduction and economic reforms, and added a veiled reference to the need for the United States to contribute its share. Here the G20 finance ministers moved into the realm of mobilizing money to put into effect their principles and promises, with an emphasis on transferring new G8 money to the poor.

Also significant were the institutional processes that the G20 put in place. The agreement to have two deputies' meetings and one ministerial meeting (time and place to be determined) in the following year represented a weakened continuation of the year-one pattern, rather than a move to a more dense schedule. It did, however, ensure that the G20 had become a permanent body, with an agenda – guiding globalization – to give it a rationale well beyond its initial purpose of crisis response and architectural reconstruction once the 1997–1999 crisis had passed. Moreover, with Paul Martin apparently chairing the body for another full year

and thus prospectively hosting the 2001 ministerial, the body could be guided by an enthusiastic and effective chair as it went through its third year. In addition, the ministerial mandated three follow-on processes: a series of case studies of real-world countries' experiences in being affected by and responding to globalization, which were aimed at providing a common diagnosis and balanced evaluation to advance the debate and identify key factors; a study of international institutions, conducted by G20 deputies, to look at the gaps and overlaps and functional responsibilities for global governance; and a G20 seminar on exchange rate regimes aimed at providing concrete advice to guide real-world decisions. Private sector representatives would be involved in these activities, as they had been when G20 deputies met in Toronto in August. It was clear that the emphasis had shifted from Berlin's directions to other international institutions, to Montreal's development of the G20 as an institution in its own right.

The G20's institutional and normative evolution and impact

Since its strong start in its first two years, the G20 has produced a mixed performance in both the institutional and normative domain. Institutionally, it has done much to develop internally as a balanced, full-functioning, soft law institution of equals. But it has done less to reach out beyond the international institutions in which it was nested to involve other increasingly consequential countries in its expanding governance tasks. In the normative domain, it has extended throughout its membership at least formal adherence to the G8's core principles of open democracy, individual liberty and social advancement, and spread the compromises first incubated in a G7 context throughout the G20 and then into the multilateral hard law institutions of the Bretton Woods bodies and the United Nations. But this G20 normative consensus has come primarily when its G7 members have been internally divided and then come in the first instance to an accommodation among themselves that is minimally compatible with the preferences of the emerging countries in the G20. The G20 has thus embryonically served as a potential court of appeal that has induced G7 members to come to prior consensus among themselves, rather than airing their full divisions in a broader group. The G20 has in particular helped the G8's smaller, more economically open and resource-dependent economies, notably Canada, to strengthen their principles and preferences in that club. But there is still no strong evidence that the G20 has enabled its systemically significant members to initiate norms or collective decisions of any consequence that have altered an existing consensus within the G8, or shaped outcomes in other

institutions and the wider world where a united G8 has been opposed. Nor has it, in cases such as the successful conclusion of the Doha Development Agenda by its specified deadline, helped the G8 succeed on matters where it has performed well in the past but is now widely thought to be impotent in acting alone.

This pattern further suggests that a G20 leaders' forum should be constructed in such a way as to avoid the temptation for G8 leaders to delay or otherwise duck tough issues with which they have successfully dealt in the past, on the grounds that these issues should now be dealt with by a G20 summit, where the onus will be on a much more diverse and disparate group of systemically important countries to deliver and claim responsibility for success or failure. The failed Montebello-to-Cancún global negotiations cadence of 1981, the failure of a G20-like group at the autumn 1982 ministerial, and the failure thus far to deliver Doha in a world where the leaders' G8 has recently backed off in favour of the two G20s that now exist, underscores the importance of forging a properly tight and appropriately sequenced G8–G20 link.

Institutionalization

During its first half-decade in operation, the G20 has done much to develop internally as a "thicker", still flexible, innovative institution of 20 equal members, performing effectively in the deliberative, directional, decisional and developmental domains of global governance.

Its first accomplishment has been to meet the liberal-institutionalist standard of providing a predictable transaction point, with a lengthening shadow of the future, from which efficient interaction, transparency and trust can come. The G20 has evolved into an institution that meets at the ministerial level once a year, in the autumn, for a two-day event that begins with an opening dinner and continues for the next full day. It has largely avoided the distractions of social events or of subgroups caucusing on a G8, emerging economy or other basis. However, the Moreila ministerial in 2003 saw an outburst of bilateral activity, especially on the part of the United States, that affected the tenor and public impact of the meeting. The G20 has also "self-institutionalized" by increasingly declaring at the end of one meeting who would host and chair the next year. At Moreila in 2003, it decided who would do so for the subsequent two years.

From a bifurcated beginning, the G20 has come to give the chair and hosting to a single country for a full year. In doing so it has increasingly acquired G8–emerging country balance, as the hosting and chairing by G8 members Canada and Germany during the first three years have

passed to emerging member India in 2002, Mexico in 2003, Germany in 2004 and China in 2005. To be sure, the move from G8-hosted gatherings did make the Indian-hosted meeting less well attended than the others. But the back-to-back chairing by India and Mexico has done much to restore balance more broadly after the three-year G8-hosted start. The most recent Mexico–Germany–China cadence suggests that an annual G8–emerging country rotation for hosting/chairing has become the new procedural norm. The G20 is thus moving steadily from being an institutionally G8-dominated to a fully balanced G8–emerging country club. This is particularly the case if one notes that Canada's 2001 chairing was a result of the September 11 terrorist crisis, which made some G20 members reluctant to travel for a long meeting in a distant locale such as India. The fact that the 2001 meeting was held at all, and held in North America, was a sure sign of the G20's institutional resilience under crisis, and a visible display of global faith in a shaken North America now under attack. The Ottawa meeting showed that the G20 was needed by all its members, including the United States, in the radically different post-9/11 world. It also indicated that the United States needed the assistance of the G20, and in particular its emerging members, to win the new ''war'' into which it had suddenly and brutally been thrust.

The hosting/chairing sequence further speaks, in a political science version of the economists' ''revealed preference'', of the G20's success in furthering its seminal if nascent norms. Unlike the G6/7/8, and unlike APEC at the 1989 ministerial or 1993 leaders level, it is noteworthy that in the G20, the United States, and other G8 members France, Britain and Japan, appear nowhere in the existing or intended hosting/chairing sequence. This represents a realization of the seminal Canadian instinct to have the new body not appear as a US-designed and US-dominated project. Yet it also raises questions about the existing and prospective buy-in of major G8 members, with their privileges at and preferences for the IMF and IMFC.

The German anomaly (of hosting in 1999 and chairing in 2004) does little to assuage US concerns about the undue Eurocentricity of the 1944–1945 institutions, and of the subsequently created ''Gs'' from the G10 to the G8. Among non-G8 members, where emerging countries rather than developed Australia or oil-rich Saudi Arabia have been selected, Asia (with India and China) has been the big winner. The Americas, with Mexico, have had a place as well. While this regional balance may roughly correlate with regional weight in the world economy, the omission of the Middle East and Africa stands out.

The sequence also suggests the primacy of the various principles that account for membership, and by extension prominence, in the club. Among G8 members, the Canadian–German combination suggests that

the G20 is particularly committed to rendering more prominent those systemically important countries that were, for various reasons, awarded less than first-tier positions in the organizations created in 1944–1945. In the case of the emerging members, the selection of India first, Mexico second and China only third points to the primacy of the principle of durable, developed democracy, over raw capability or vulnerability of systemic importance. With 12 per cent of India's 1.1 billion people being of Muslim faith, it may also speak to the embryonic importance of domestic diversity in language, culture and religion, and of the need for multicultural dialogue and tolerance, especially in a post-9/11 world.

The G20's deliberative performance

The performance of the fledgling institution should be first assessed, especially given its seminal purpose of open dialogue, as a deliberative forum aimed at a free exchange of views among its members, with transparency, trust, understanding and an emerging consensus on legitimate and key issues as the key results. When measured by its collective, public product released to the world in the written record at the end of each ministerial meeting, the G20's deliberative record has been mixed. From its slender start at Berlin in 1999, with a communiqué of only six paragraphs and no substantive annexes, it soared at Montreal in 2000 to produce a communiqué of 14 paragraphs, and a substantive annex of 24 paragraphs more. Crisis-afflicted Ottawa in 2001 saw a sharp drop to nine paragraphs, but these came with an Action Plan on terrorist finance that added another 22 paragraphs. The subsequent two meetings have held steady at a 9–10-paragraph communiqué, with no annexes.

This initial indication of declining performance, however, is strongly qualified by a closer look at the issues on the agenda, and the iteration and innovation this agenda contains. At first glance, the individual issues on the agenda show the same cadence of a slow start in 1999, with only five issues on the agenda, a great leap forward in 2000 with 19, and then a fall-off in crisis-ridden 2001, to 13. But there was a rapid return to a high-level and thus broad agenda in 2002, with 19, and in 2003, with 18 issues discussed. More importantly, as befits a flexible forum for free exchange, there has been a major expansion of the agenda, with 13 new issues added in 2000, 4 in 2001, 3 in 2002 and 6 in 2003. There has also been some selectivity, with many earlier issues being dropped in 2001, 2002 and 2003.

Taken together, the G20 has thus featured a core agenda of three subjects discussed at every meeting – global economic growth and conditions, trade liberalization, and international codes and standards. Although they

were not covered in crisis-ridden 2001, two other subjects – financial system vulnerability and crisis response and prevention (the initial focus for the forum) – can be added to the list. The 2000 great leap forward added two items that have survived – poverty reduction and development assistance. 2001 added terrorist finance as a continuing item. 2003 brought the Millennium Development Goals and New Partnership for Africa's Development.

This evolution in the core agenda shows that the initial financial crisis-inspired focus on the G8 agenda of growth/trade/codes quickly added (in 2000) the emerging economy agenda of poverty reduction and development assistance, and, a year later, the ''American and all allies'' agenda of terrorist finance. In much the same way as the G7 Summit, the G20 thus expanded from an economic forum into one with a development and then political-security ambit. Terrorism on aircraft provided the spur for this ''politicization'' of the G20 in its third year, just as it had for the G7 Summit in its fourth year with the issue of ''skyjacking'' at Bonn in 1978. In addition, the rather neo-liberal agenda of growth, trade and codes quickly passed into a distributive agenda of development, then a ''common enemies'' (or ''public bads'') agenda of terrorism and crime, and finally an embryonic ''democratization as good governance'' agenda with the addition of NEPAD in 2002. At the same time, the agenda moved from general issues such as globalization into more specific, targeted, and action-oriented concerns, including country-specific crisis response, as in the case of Argentina. However, many of Canada's social policy expansions at Montreal – notably the public goods of health, agriculture, the environment and social safety nets – have quickly been purged.

The G20's directional performance

The normative evolution and impact of the G20 can be assessed by tracing its development of publicly declared consensus principles on the three dimensions of distribution, embedded liberalism under globalization and democratization, against the G20's core values of stability, growth and equity, and the G8's comparable trilogy of open democracy, individual liberty and social advancement.

Since its start, the G20 has constantly affirmed that its ultimate core values or targets are those of stability, growth and equity. As the 1999 communiqué noted, the G20 sought ''to achieve stable and sustainable world economic growth that benefits all''. Ottawa 2001 extended this to ''growth, equity, and well-being for all our peoples''. New Delhi in 2002 ended with ''a more stable, prosperous, and equitable global economy''.

This constant core normative commitment stands in considerable contrast to the G8's equivalent, ''constitutional'' normative trilogy of ''open democracy, individual liberty and social advancement''. Yet over the first five years, the G20 has come much closer to the G8's core normative commitment, through significant G20 extensions toward a new consensus on embedded liberalism under globalization in the economic and social domain, and on open democracy, if not individual liberty, in the political sphere.

The first normative evolution came in regard to distribution or equity. The sparse distributional principle adopted in 1999 of ''growth that benefits all'' expanded in 2000 to a focus on income inequality, poverty reduction, and benefits to the poorest countries and most vulnerable groups and individuals in society. 2001 brought minor extensions, 2002 a specific attachment to the MDGs and 2003 a ''fairness'' norm. The strong sustained commitment to delivering benefits to all members of society, particularly the poorest and most vulnerable, is clear.

A second normative development came in regard to embedded liberalism under the conditions of globalization.[25] This centred on changes in major values related to international opening/closure and domestic opening/closure and adaptation/strengthening, and the balance between them. International openness has been a constant value. It started with trade liberalization, added globalization in general in 2000, extended to ''well'' and then ''appropriately'' sequenced capital account opening in 2000 and 2002, and added the internally interventionist principle of ''no safe haven'' for terrorists from 2001 onward, and internal access to combat financial abuse in 2003. Yet this normative attachment to expansive forms of international openness was tempered from the start with a strong emphasis on domestic protections by national governments. These started in 1999 with sound economic and financial policies that could differ by country, and extended in 2001 to domestic government's important role in producing policies that spread benefits to all and promoted social safety nets to protect the vulnerable. As the initial financial crisis of 1997–1999 was superseded by the terrorist crisis of 2001, the domestic emphasis shifted to sound policies that accorded with international best practices, sound structural policies, and efficient and solid markets. Yet these domestically adaptive neo-liberal additions were balanced by an equally strong extension into strong institutions, sound social policies, investments in infrastructure and human capital, and appropriate management of the process of reform. Taken together, the overall emphasis had shifted from the question of ''how much and what can and should a national government domestically protect'' to that of ''what should national governments domestically build''. The embryonic additions of environmental values in 1999 and 2000 were soon ended, stopping the G20 from

evolving into the consensus on embedded ecologism that had become a hallmark of the G8.[26]

The third normative development came in regard to ‘‘open democracy’’. The G20 started in 1999 on the fragile foundation of ‘‘transparency’’ alone. But in 2000 it quickly added international mobility and citizens’ access to outside ideas in all countries of the world. Since 2001, ‘‘good governance’’ has formed the new core, with India’s ministerial (hosted by the world’s largest democracy) adding global surveillance, the rule of law, support for NEPAD, and information and knowledge exchange. Although Mexico’s ministerial in 2003 saw some fall-off, the generic principle of ‘‘good governance’’ remained firmly in place.

Even more important was the way the G20 progressively linked these principles in an ever-tighter causal model. The major move came in 2001 with a communiqué stating:

> To obtain the full benefits of globalization, our governments have a *critical* role in creating well-developed domestic institutions, good governance and sound domestic macroeconomic, social, and structural policies. As reflected in the Montreal Consensus, by sustaining such policies we *ensure* that our economies are better able to maximize the contribution of open markets to growth, equity and well being for our peoples [emphasis added].

2002 proclaimed that ‘‘strong institutions, a climate that fosters savings and investment, transparency, and the rule of law, coupled with increased investments in infrastructure and human capital in developing countries, are *essential* ingredients for promoting growth and reducing poverty’’ (emphasis added). 2003 declared that ‘‘The G20 is uniquely placed to deepen the linkages between aid, good governance, financing and trade’’. In the G20’s consensus, democracy in the form of good governance and the rule of law had thus become instrumentally essential to producing the ultimate goals of growth, equity, social well-being and poverty reduction. The G20 has also become essential for forging the link between liberalized trade, aid and finance for development, and democratic good governance.

The G20’s decisional performance

The G20 has also put in a respectable performance in the decisional realm. Since the start, the G20 ministerial meetings have generated a steady stream of collective commitments, with the dip to only two in 2002 followed by a bounce back to six in 2003. However, the level is well below that of the G8 Summit during its early years, and that of

most G7 finance ministers' sessions from 1999 to 2003 (notably the average of 15 per meeting from 20 April 2002 to 17 May 2003). Moreover, there has been no trend towards a rising decisional performance in recent years. Indeed, 2001 stands out as the great peak and outlier, by virtue of its Action Plan on terrorist finance.

The G20's development of global governance

At the same time, the G20 has done much to develop global governance, both as an institution in its own right, and as one that has provided direction and support to an expanding array of other institutions in the world. Internally, the G8 has made increasing reference to its past and future, monitoring its follow-up on past directions and decisions and giving itself ''remit mandates'' to return to specified subjects in future years. It has also moved to mobilize money to back its promises. While no comprehensive audit of the G20 members' compliance with their commitments has yet been conducted, these internal mechanisms for self-binding indicate a respectable compliance performance.

The G20 has also done much to ''thicken'' itself institutionally. In its vibrant deputies' process, senior officials meet twice a year to follow up and prepare for the ministerial meetings. The G20 has conducted a rich set of workshops and conferences and involved the private sector on specified subjects.

At the ministers level, the G20's performance has been mixed. In the Darwinian world of international institutional competition and selection, it is surviving well, as more influential individuals favour the G20 taking over the FSF, and understand the scepticism developing countries have of an IMFC dominated by the G7. More than the G8, the G20 has regularly welcomed presentations by the heads of international organizations, and most recently by the head of a US-based ''think tank''. This is consistent with its emphasis on deliberation and direction-setting, as opposed to the decision-making of the G7 and G8. Yet unlike the G8, the G20 has done nothing to include outside countries, on even a partial and flexible basis, in its forum. Far more than the UN Security Council or G6/7/8, the G20 has been a closed club that no one else can join or even participate in, regardless of their claim to relevance in the changing world from 1999 to 2004.

Perhaps the clearest evidence of the growth of the G20 is the role it has played in developing an alternative to the IMF-proposed, US-backed sovereign debt restructuring mechanism as a way of dealing preventatively with destructive defaults of the Argentine sort. The G20 had an important role, second only to the G7, in securing acceptance of a voluntary, market-based collective action clause mechanism, rather than

a mandatory, intergovernmentally driven sovereign debt restructuring mechanism. The G7 then asked the G20 to play the major role in the second stage of developing a voluntary code of conduct that would outline the rules of the game and, unlike in the Argentinian case, let everyone know in advance what should and would take place when a sovereign borrower faced default. The G20 was chosen because it was thought to be a balanced group of debtors and creditors, unlike the IMF and IMFC, which were seen as the captive of G7 creditors, with much less ongoing contact than the G20 with relevant stakeholders such as policy makers at the banks, controllers of currencies, and financial market operators and supervisors. Even with this recent success, those within the G20 prefer to keep it as a technical, intimate club, rather than pushing it into a leaders-level forum with the large decision-making burdens, stress and global attention that such a body would inevitably involve. Should such a G20 summit emerge, it will thus need a pull from the leaders outside, rather than flowing naturally from a push from below on the part of those within.

Conclusion

From this record, it is clear that the G20 was created as a consequence of US and allied leadership as a consensus-oriented forum of systemically significant global countries with a mission to prevent financial, economic and resulting crises, and to institute the social protections that would make globalization work more equitably and assuredly for the benefit of all. It got off to a strong start in its first two years, especially with a great leap forward in its institutional and normative contribution, and in its deliberative, directional and developmental global governance performance at its second meeting, in Montreal in 2000. The shock of 9/11 showed the G20's resilience, legitimacy and necessity in the judgment of its members. The G20 held its third meeting in Ottawa in the immediate aftermath of the attack on North America, and shifted its deliberative agenda, normative directions of domestic intervention to fight common enemies, decisional commitment to collective action, and development of global governance to the fight against terrorism and crime in the global security field. These achievements have largely endured, even as hosting has passed from G8 to emerging country members in India in 2001 and Mexico in 2003. Montreal in 2000 showed the influence that the smallest G7 member, Canada, has in the G20. Ottawa in 2001 showed the G20's importance to the largest G8 member – a shocked and highly vulnerable United States now under attack. New Delhi 2002, with its strong emphasis on both development and democracy, indicated that the G20's most

democratic and second most powerful emerging country member could also be influential in shaping the still fledgling forum, to bring its values of equity together with those of open democracy at the core of the G8 club.

Yet there are still few signs that the G20 has become, or is even trending toward becoming, an institution strong enough to replace the G7/8 at the level of either the finance ministers or the leaders themselves. In particular, its decisional performance has been weak. In developing global governance, unlike the G8 system, it has shown no sign of involving other portfolio ministers in its existing fora, nor of inspiring colleagues in other portfolios to construct G20s of their own. And while doing well in involving international organizations and civil society think tanks, it has completely frozen outside countries out.

The overall cadence of the first half-decade shows that the G20 has served as the essential connector, transmitting G8 principles into a commensurate consensus among a broader array of consequential countries, and then pushing that consensus into and through a wide array of multilateral institutions, both formal and informal, in the economic and security fields. Most noteworthy has been the G20's move from its normative core of stability, growth and equity, towards its adoption of the G8's charter principles of open democracy and social advancement, if not individual liberty, and if only as essential instruments to reach the G20 target trilogy rather than as ultimate values in their own right. Even so, a consensus incubated in the G8, then broadened and reinforced in the G20, has thus helped set the pace and path for the diffusion of democratic norms and behaviour in the broader multilateral world.

The G20 has served as an intervening institutional variable through its role in driving normative consensus in particular directions, when the G8 members have been divided and when the G20's lesser members have found it useful to have a broader constituency to back their case. Yet essential to the G20's success has been its pattern of working closely with the similarly constructed, much more experienced, and much more cohesive G8, in support of the principles of transparency, openness, democracy, social advancement, and equity that the G8 shares at its institutional core.

The most likely emergence of and contribution from a leaders-level G20 or L20 is thus as an outgrowth of the G8's sustained twenty-first-century move to outreach and inclusion, in the global strengthening of the core G8 principles of open democracy, individual liberty and social advancement, under a steady succession of shocks to these values that the G8 and other institutions cannot eliminate on their own. The time is thus ripe for an L20 to be born, as an outward-looking G8 reinforcement, in a specific form that plays to these particular strengths.

Probably the easiest and most productive way to bring a Leaders' 20 Summit to life is to hold it in the immediate lead-up to, or as the first part of, a regular or even special inter-sessional G8 Summit, along the same lines as all twenty-first-century G8 Summits, with regional leaders from Africa and the Middle East and with a larger select group of leading countries from around the world. Such an L20 Summit could indeed have a single-issue focus, ideally one similar to the thematic emphasis of the G8 Summit, as did the 2002 G8 Kananaskis Summit that culminated in a joint session with invited African leaders.

Such a gathering, as at Rambouillet in 1975, could usefully be presented as an ad hoc one-off event, in part to make it easier to add to, or even adjust, the existing G20 membership to deal more optimally with the specific single issue at hand. An L20 gathering focused on terrorism would have very different representation than one concentrating on the WTO's Doha Development Agenda. Moreover, the desire to support the normative democratization of the L20, and its effectiveness as a link in taking the democratic revolution from its G8 core to global governance as a whole, would reinforce the claims of specific countries such as Nigeria. It is unlikely that the existing G20, picked as a result of the financial crisis in 1999, will be the optimally constructed permanent group to globally govern all subjects for all time. But as with the G4/5/6/7, growing upward from the finance ministers to the leaders' level, and outward from the ''Berlin dinner four'' to a regionally representative and globally weighty G7, from 1973 to 1977, it would be best for an L20 Summit to remain flexible and potentially open to others in its early years.

The G8's Sea Island Summit of June 2004 suggests that the moment may be at hand to give birth to a new forum. Sea Island showed a United States willing to listen, learn and adjust to the priorities and perspectives of its G8 partners, to address a broad range of global issues, and to include 13 outside leaders, from the Middle East and Africa, for a dialogue with the G8. Both the G8 leaders and their guests found the dialogue productive, despite the rather late decision to add it to the long-scheduled G8. Moreover, at Sea Island there was a consensus among all the G8 leaders, virtually all of whom had been meeting with outside leaders at all their G8 Summits for the past four years, that it would be valuable to expand participation in the G8. Yet as with the perennial debate over UN Security Council reform, the leaders then became deadlocked over which new members should be included, and how many. The use of an upgraded version of the existing G20 would solve this impasse. The G20 has already proven its worth on the subjects of Africa and financing for development, if not sustainable development and climate change, that will be the focus of the G8 at the 2005 Gleneagles Summit in the United Kingdom. A G20–G8 dialogue at Gleneagles could

also address the vital question, core to both the G8 and the G20's seminal agenda, of reform of the international financial system – a subject that the G8 alone neglected as the world marked the sixtieth anniversary of the creation of the Bretton Woods principles, rules, decision-making procedures and institutions in 2004.

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8

On sherpas and coolies: The L20 and non-Brahmanical futures

Yoginder K. Alagh

Sherpas help summiteers in carrying essential baggage, but also in sorting out strategic paths in the final phases based on their inherited fund of local knowledge. To coin a phrase used by Smith and Carin in the opening chapter of this book, they are an important part of "shaping" the final assault. But the final "paths" emerge block by block from the activities of "coolies", in base and higher camps. They are, as they were, the "hewers of wood and drawers of water". There are no Brahmanical ways of changing the world, either in mythical Malgudi[1] or in real Boston (or still more to the North). If the goal is as ambitious as a smoother transition to a globalizing world, the threats to the process have to be anticipated in each phase and strategic solutions configured (shaped) and provided for. There is, then, no escaping the link between the local and the global. Summiteers, sherpas and coolies are all important and have to work in tandem. At the highest level, the political process has to shape the future. The sherpas are important to feed the summiteers and in turn to inform the others of the shape of things to come, but the coolies are also important, for they have to discover and anticipate the "building blocks" which shape the problematique in a practical sense and again help to engineer the future. The three levels – the political, the sherpas and the coolies – are each important. The solutions have to come from decomposing the present in terms of the requirements of the future, otherwise globalization remains a tautological, self-contained, definitional slogan.

Getting away from allegories, it is argued that the outcome at Cancún could have been anticipated and avoided. At any moment in time, there-

fore, we need early warning systems to alert us to threats to the shape being given to the change process, and strategies to avoid them. This will involve local knowledge-based think tanks, networked with official machineries. Much the same requirements emerge from the other two long-haul considerations listed by Smith and Carin, namely a new financial architecture for a world currency and practical steps for sustainable development in terms of energy/non-renewable binds.

Cancún

Agricultural trade had not increased after Marrakesh, as was anticipated earlier, and yet through the 1990s, through the agricultural trade cycle, many developing countries had kept up agricultural net trade deficits of a magnitude similar to the levels seen before the advent of the World Trade Organization. This gave comfort to many commentators as the gains from deeper reform were anticipated. Agricultural prices rose sharply in the first half of the 1990s and then changed adversely. In the 1990s also, agricultural models had shown that gains from trade would vary depending on the nature of policy changes – for example, unilateral reform led to low gains. Yet the problem was not the volume of trade, which, while varying, did not fall. The problem lay in another direction. Diversification of agriculture was the engine of widespread growth and poverty removal and it was threatened severely in the 1990s. The problem was not that this happened, but that it was not seen or known to be a problem. For as Smith and Carin state: ''Only leaders can mandate the crafting of domestic policy packages to compensate the losers in the agricultural sector. Only leaders can mobilize the international financial resources to compensate those disadvantaged by agricultural trade liberalization in developing countries.''

But leaders need early warning systems for problems. Together with Peter Petri, a student of Leontief, I had worked on the first large model of global agriculture at the Food and Agriculture Organization (FAO), called Agriculture Towards 2000.[2] Based on a survey of 90 countries, we worked out that a 4 per cent growth for agriculture meant roughly a 2 per cent rate for grains, 5 per cent for commercial crops and around 7 per cent for non-crop agriculture. This pattern of growth created the incomes for people to eat and beat malnutrition. The FAO kept on revising that work and the 1990s version showed again that the diversification of the agricultural demand basket became a significant feature of the growing economies from the mid-1980s onwards. The FAO projected that, up to 2010, GDP growth would be 7 per cent annual in East Asia and 4.4 per cent in the Near East and North Africa, with the West Asian (Near East)

component growing faster. Per capita income growth was 5.7 per cent annual for East Asia. With this kind of income growth there was a shift in demand to non-cereal food items and commercial crops. Countries projected to have high volumes and growth of agricultural imports were Japan, Hong Kong, the Republic of Korea, Saudi Arabia, Singapore, Malaysia, Indonesia, the Islamic Republic of Iran, Thailand, Kuwait and Oman. These countries were estimated to be large and growing markets for fruit, vegetables and meat, and countries like Japan and Korea for fish. In fact, up to the mid-1990s, the agricultural import of many countries in East and West Asia was growing between 4 per cent and 8 per cent annually.

All this changed in the mid-1990s, and the East Asian slowdown led to a slowdown in the diversification of the agrarian economies of the newly industrializing economies – International Food Policy Research Institute models have conclusively demonstrated that without trade and infrastructure reform for diversification, the poverty and food security agenda would definitely suffer a setback.[3] A simple indicator of diversification, namely the change in the index of livestock production in a country divided by the index of agricultural production, shows this. According to the World Development Indicators, the long-term annual GDP growth rate through 1997 was 6.9 per cent, 7 per cent, 7.3 per cent and 8.1 per cent for Indonesia, Malaysia, Thailand and the Republic of Korea respectively. In the period 1984–1994, the incremental livestock to agricultural production ratio was 2.12, 2.18, 2.59 and 2.56 respectively for these countries. This emerged from the Engels Law. The GDP growth of these countries went down to 4.7 per cent, 2.9 per cent, 0.3 per cent and 4.4 per cent respectively, and the incremental livestock to agricultural production ratio went down to −1.79, 1.01, −1.61 and −0.72 respectively in these countries from 1994 to 1999. Again, detailed data on vegetable and fruit production is available only for the 1990s, but the incremental vegetable to cereal production ratio is −1.14 in Indonesia, −2.58 in Malaysia, −0.3 in Thailand and 1.43 in South Korea from 1994 to 1999.[4]

This meant that a trend towards diversifying growth was being reversed. When I was reporting these trends in my World Food Day lecture at the FAO, Bangkok, on 16 October 2002,[5] chicken and poultry farmers from upcountry Thailand were protesting, sometimes violently.

Since grain export is highly subsidized in the OECD countries, there are further constraints on diversification as some Asian countries are also grain exporters. They also subsidize exports, and no one can stop them. In many countries grain exports have gone up since the mid-1990s. In India, cotton farmers – 7 per cent of the agricultural labour force – were holding the political process to ransom, as they lost out to rice. These are fairly serious matters that highlight the importance of macro policies to

avoid the ''Dutch disease'', if trade-reforming, poverty-removing agendas are to be given priority.

The issue is not grain, but access. You need money to buy food, even if your farmers produce it and your shops have it. You need agricultural growth, not to grow grain, but to create a source of income on a widespread basis. When a large number of people live in rural areas, only widespread agricultural growth can trigger broad-based rural growth, and this is the only guarantee of reducing hunger. It was this process that was in jeopardy in the second half of the 1990s, and which led to a lot of the tension in the global negotiations at that time.[6]

Conventional trade theory provides us with somewhat ambiguous guidance. Trade can lead to specialization, and the purist may want Asian countries to be net grain exporters. But given their agro-climatic diversity, countries like Indonesia, Brazil and India could perhaps have diversified their production baskets in a more efficient trade regime. I call them ''worlds within the world''.[7] The point we are making is that women and men of goodwill can find solutions to such problems, given time and the opportunity to do so. To repeat: the point is not that the problem was not solved or that it existed, but that it wasn't known and in turn became an obstacle.

Financial architecture

Smith and Carin have proposed that we should look at a single world currency as a long-term possibility. The idea is so audacious that it might work. There is no question that global production will require major shake-outs. But to get them going, in some sense the local, the national and the global will need a level playing field in terms of the rules of the game. The power of the credit card and the derivative will need to be available in the desert and on the hill slope.

The questions of support and organization for global and local production are largely common. The differences lie in the nature of policy support. The global aspect of adjustment is far more important in participation in global markets. The questions of building and supporting peasant- and artisan-based groups in production, finance, marketing, technology and infrastructure support is necessary for both markets, although the degree of support required would vary in specific cases. Not much can be said on an a priori plane here. The approach is to actualize inherent competitive advantages in areas where markets are fragile. The difference in support bases arises in the approach to reform in the two cases. The global aspect needs much greater care on the international

front, and the local aspect in the transitional paths and harmonization of domestic policies.

In a national exercise for strengthening globalization trends, we noted that there had to be identification of agricultural- and artisan-based strengths, which need to be heightened in order to compete in local, regional, national and global markets, and that such areas of enhancement required the support and development of market-based, financial infrastructure, which was generally lacking. Again, in fragile agro-ecological regions and areas with high levels of artisan-based industrialization and services, replication of demonstrated potential needed sharply focused and limited forms of community action. The organizational rules for such newer forms of organizations were not in place, since considerable ingenuity was needed to fashion them as compared to private or government institutions in place already. Cooperatives, producer associations, self-help groups, local bodies and non-governmental organizations were increasingly entering into strategic alliances with each other, and with corporations and governments. Such alliances need to be provided for in the policy, legal, and administrative space. Financing and credit mechanisms for these newer initiatives were needed, including community collateral, lending through weather and project cycles and other innovative forms of financing. It was argued that economic and financial reform had to be deep-rooted; otherwise policies of structured subsidies and support to those who help themselves would not be possible.

These kinds of reforms that relate globalization with the large manpower and production systems of poor countries have obviously to be seen in tandem with currency system reform. The architecture for a world currency will therefore need to be worked out carefully in order to make it acceptable, to put it rather mildly. At the global level, such policies have been designed but are not yet at the cutting edge. For example, one of the more serious preparatory meetings for the World Summit on Sustainable Development at Johannesburg was the Expert Thematic Round Table on Promoting Sustainable Development in a Globalizing World in February 2002. This expert group squarely addressed the issues we have been pleading for, as listed above. The former Swedish Prime Minister Ola Ullsten, the present author and the former Environment Minister of New Zealand were the monitors for the different sections of the discussion. The following proposals for action (amongst others) that emerged from the discussion of the Round Table are important, because with minor changes they have been incorporated in the Johannesburg Declaration:

- Improve investment processes in developing countries and countries with economies in transition to facilitate access to credit lines as well as to preferential terms of financing and of providing funds for collat-

eral support systems and sharing of investment risk. In this context, provide securities for local institutions involved in infrastructure development and specific knowledge-based activities to support sustainable economic growth, through, for example, creation of collaterals, interest differentials and trading of financial papers. These processes should be targeted, amongst others, to artisan and producer groups linked with local and global markets, local government agencies providing social and economic infrastructure, and farming and rural communities.

- Improve coordination among international financial institutions and redirect funds to sustainable development projects.
- Develop new or strengthen existing mechanisms such as the Clean Development Mechanism, to finance or refinance community projects in rural areas aimed at land and water development, agricultural diversification and agro-processing, development of infrastructure, trade, and rural energy supply.
- Use debt swap mechanisms to finance sustainable development projects including projects for environmental conservation.
- Create fairer trading systems through, for example, initiating consumer–producer partnerships for the production and consumption of goods and services that have positive social and environmental impacts and developing production and product standards for improving the competitiveness of those goods and services.
- Strengthen international support to developing countries for efforts of sustainable agricultural practices, while the global agricultural markets are being reformed.
- Study for the purpose of replication, existing models for providing access on the part of rural communities to information and communications technology in order to enhance the level of information in rural communities on production, crops, markets, prices and technologies, as well as in support of medical services and education.[8]

From the Delhi expert meeting, these kinds of arguments for financial reform entered the Monterrey discussions and then the Johannesburg Declaration, although action was thin.

The interesting point is that some of these concerns find expression in the preparation for Cancún. For example, in the Harbinson Draft, they find expression for the first time in the WTO negotiations. By the time the Cancún meeting was approaching, India, having made its position clear in the Committee on Agriculture, was willing to negotiate around the Harbinson Draft. On 17 February 2003, Stuart Harbinson, the Chairman of the Special Session of the Committee on Agriculture of the WTO, released the First Draft of Modalities for the Further Commitments of the Negotiations on Agriculture.[9] This document was based on work carried out by the Special Session of the Committee on Agriculture and

technical and other consultations following the mandate at Doha in March 2002.

In accordance with the Mid-Term Review Agreement that government measures of assistance, whether direct or indirect, to encourage agricultural and rural development should be an integral part of the development programmes of developing countries, and in accordance with paragraph 13 of the Doha Ministerial Declaration, the following measures in developing country members were made exempt from domestic support reduction commitments:

- subsidies for concessional loans through established credit institutions or for the establishment of regional and community credit cooperatives;
- capacity-building measures with the objective of enhancing the competitiveness and marketing of low-income and resource-poor producers;
- government assistance for the establishment and operation of agricultural cooperatives;
- government assistance for risk management of agricultural producers and savings instruments to reduce year-to-year variations in farm incomes;
- domestic support meeting the criteria of this paragraph would not be required to be included in a member's calculation of its current total aggregate measurement of support.

It may be noted that the Harbinson Draft came down heavily on governmental subsidies in any form, but it supported for discussion the strengthening of a global financial architecture for decentralized local development. If we can begin the long road to creating financial markets and making them a part of the global reform process, we can start to think seriously about currency unification. These issues coming up in the sustainability and trade discussions and negotiations are essentially financial issues. I am arguing that in a very rudimentary sense the "primitives" (the common words and categories which precede discussion) for such an exercise are perhaps already getting in position.

Growth and climate change

In a very thoughtful series of sentences, Smith and Carin state: "The United States needs to be brought back in the tent, something that will not happen by trying to push US acceptance of the Kyoto framework. The developing world must be included, above all China and India. For that to happen there must be incentives in terms of growth potential for those countries. There are ways to make this happen."

I would like to argue that this is not just a question of incentives, but also of some empathy with development styles and languages. For

example, in consultation with the Office of Strategic Management of the Secretary-General of the United Nations, the United Nations University had initiated studies on A Sustainable Development Framework in Large Developing Countries such as China, India and Indonesia.[10] Large countries matter in this context on account of their size, their impact and the possibilities of strategic choices.

The illustrative quantitative magnitudes of such studies show the sharp breaks in many indicators and unmanageable problematiques emerging in areas of major concern. Solid waste disposal levels of more than 100 million tonnes, slum population of around 100 million persons, acute water shortages and air and noise pollution of a severe kind, all manifest themselves. The serious environmental implications of burning poor-quality coal are apparent, underlining the critical energy situation. The UN case studies on large countries also bring out the severity of constraints being faced and the need to move towards "favourable" paths immediately. China and India are two such examples. Growth in large countries underlines the quantum jumps being faced. Indian studies make the point that if severe water shortages are to be avoided, improvements in irrigation efficiency and cropping intensity will have to be much faster than they have been historically. If bad coal of over a billion tonnes is not to be burnt for power needs, alternative energy management styles will have to be implemented and hydro and nuclear options considered, in addition to a major focus on renewable sources of energy.

If biochemical oxygen demand disposal from slums is to be kept within reasonable limits, a strategy of decentralized urbanization will have to be followed. Modern technology will have to be integrated with artisan and rural populations so that the benefits of national and global markets can percolate to the workforce.[11] Trade and globalization will have to grapple with these questions. Regional arrangements may well be a part of the answer. If these kinds of links cannot be established in concrete terms, the concept of an enduring future will remain an empty box.

Sustainable policies are not just a question of global negotiations. Rather, they must grapple with issues of energy requirements, land use, food demand changes and agriculture and technology for meeting industrial and service requirements. If communities are out of balance with their resource endowments, there can be no question of significant advance in areas of global concern such as carbon sequestration and biodiversity.

It will be belabouring the obvious to say that there are possibilities to bring large countries together in a framework of discussion on such questions. Unfortunately, the world has not yet learnt to negotiate on these terms and the knowledge base listed remains untouched. The language

used by other countries remains an enigma, as illustrated by the relationship between large countries. In August 1982, I was a member of the first Indian delegation to go to China for almost a decade and a half. Vice-Chairman Deng Xiaoping met us in Beijing's Great Hall of the People. In 90 minutes he described the path that China would take for the next two decades. Large countries have options and these have to be placed within the design of a global framework.

Design questions

The design of the three-level structure remains a question that needs more work.[12] A network of coolie organizations to backstop the questions with which we are grappling seems necessary. In these kinds of areas, like early warning systems, the financial architecture and large countries, and energy, water and emission questions, we need some detailed study of the manner in which principal stakeholders – in this case, members of a Leaders' 20 Summit – could pursue specific interests creatively in the larger contexts being conjured. These studies would create the knowledge systems with which the structure of a network to back the official sherpas could be designed in such a way that it is flexible, lean in design and linked through technology. The network would be autonomous (maybe being housed within the Centre for International Governance Innovation located in Waterloo, Ontario, Canada), but strongly linked to the sherpas.

Some initial free thinking on the possible outlines of work on designing such structures may be in order. Somewhat tentatively as far as the borders for designing such structures are concerned,[13] we propose that research may consist of:

- An understanding that as the state withdraws from direct delivery of goods and services, governance would need to establish a regulatory framework for the functioning of the economic and social sectors, and also to lay down the institutional framework, the incentive and disincentive mechanisms, and the fiscal structures for civil society institutions such as decentralized, local institutions of government, cooperatives, NGOs and newer "mixed" forms of similar organizations, to function.
- Non-renewable resource scarcities will become far more severe, and concerns over resources such as water, quality land, energy and sustainability will become acute.
- There will be a much greater emphasis on the rights of individuals and groups, including participatory forms of decision-making. This in turn

will demand greater fairness and self-restraint in the use of governmental power. Related to it will be demands on transparency and the right to information.
- There will be a demand for protecting vulnerable groups, either the historically underprivileged or the victims of marketization, and new sensitivities for the human rights of specific groups such as women, children, minorities in other nations, and the mentally and physically challenged.
- On the flip side, modern technology will be seen as providing cutting-edge, knowledge-based solutions to emerging scarcities or problems, and therefore there will be greater use of information technology, biotechnology, systems networking, new materials and strategic management responses; at the global level, organizational systems will need to synchronize with these possibilities. Thoughtful groups will see security concerns becoming more acute, arising from socioeconomic political dichotomies and resultant tensions as well as from the more basic issues of energy, food and water security.

As those groups think ahead on these kinds of problems, the link between the local and the global will become obvious. This will then raise in concrete terms the architectural questions of the link between national and global institutions and the future of an L20 as an operational exercise.

Who will guard the guards? This is an important question on which little a priori discussion is possible. The issues associated with decentralization are of another kind. It should remain a matter of priority for state policy to help those who help themselves in the core areas of local and global concern. As preparations for Kyoto and later developments showed, in relation to targets, performance has been well behind in the interrelated areas of energy and sustainable use of land and water. What are the civil management and organizational issues here at the local, national and global level in the case of a problem that is at the heart of food security and employment and energy sufficiency?[14]

Problems arise partly because the existing legal and administrative systems and financial rules are structured for formal organizations in the public or private corporate sectors. So are global financial institutions. Newer kinds of institutions with strategic mixtures of organizational styles, co-ops and NGOs, do not enjoy a level playing field with corporations and governments. Recently a bill has been passed in the Indian parliament that allows cooperatives to register as companies, based on the report of the 2000 High Level Committee on Legislation for Corporatization of Cooperatives. Such innovative approaches are rare and, in any case, controversial. The structure or incentive and disincentive systems for this kind of growth should begin with a taxonomy of complementar-

ities of policy rules at different levels of policy-making, such as a rule that no level can spend more resources than they have access to. But resources, which are short or binding constraints at national or global levels, are elastic at local levels. However, their mobilization requires policy changes at higher levels. For example, it is easy to buy a tax-free bond of the New York civic bodies, but very little attention has been paid to markets for local bodies' bond paper in developing countries and the fiscal reform that has to precede them. There is no attempt to integrate these issues with global financial reform architecture, although as we saw, the problematique has been posed at Monterrey, as well as before Cancún. The reform process has to be fairly deep-rooted for widespread land- and water-based poverty-reducing growth processes to take place. The kind of growth discussed meshes well with higher output, income, employment and trade levels. Improved management of water leads to crop diversification. The typical sequence is a poor-yielding, inferior mono-cereal economy with no diversification, succeeded by a high-yield cereal and commercial crop, or tree crop. In the Indian case, exchange rate reform led to higher growth of agricultural exports, before the East Asian crisis cut down demand in the fastest expanding markets; recent evidence suggests that in the upswing, countries sourcing non-traditional exports have gone through a phase of land and water development sequences. But such policy complementarities have to be planned for.

The issue here is the requirement of systems to be alert to field-oriented developments. Such systems have to assess constantly their organizational, legal and financial system requirements. It can be said that this was always so. The pressing change now is that the requirements are to involve civil society in the process. This makes the networking and knowledge requirements more intense. The ability to communicate well, along with having the energy to follow more complex goals, will also be required in this phase.

As seen earlier, it is interesting that in recent global meetings these issues are already getting attention. But the discussion and negotiations have become sporadic and the preparation for them primitive. Also, there is considerable "stop-go". The Harbinson Draft discussed earlier, emerging from a year of negotiations after Doha, could not be discussed with the last-minute chaos at Cancún. Luckily, it is again coming to the fore. It is obvious that newer structures and strategies have to be operationalized in these areas, and with a sense of urgency.

The public management issues involved in rapid and decentralized growth are so obvious that they do not need elaboration. Awareness of technology, system interrelations, decentralized planning foci, and self-reliant institutions which can productively borrow and build and run systems have all been discussed, and yet only a small beginning has thus far

been made. These are going to be the great challenges of the next phase. The ability to raise and use resources productively will be at the heart of the matter. As local communities integrate with national and global markets, institutions and policies at global levels will become increasingly important. Large developing countries are now asking for level playing fields and have become pro-trade, as the Cancún and outsourcing debates show. The issue is to capture growth spaces in the global regimes. The governance structures will be playing the role of strategic planner and facilitator of change. The system must play the role of facilitating innovation. It must create rules for organizations to implement such change and sort out the inevitable problems that will arise. These are complex issues, with a strong interface with good governance.

Serious research during the last decade and a half has shown fairly conclusively that the tremendous opportunities that are available with the new technology require groups and systems that can manage its interdisciplinary nature, since applications cut across areas like biotechnology, communications and computerization. If the preconditions are available, the new technology spreads very fast, both through space and through sectors in economy and society. But if the infrastructure – organizational, physical and human – is not there, vast areas will be left out, including some in the developed world. There is also the need for quick responses. As Ricardo Petrella of the European Commission's FAST Group pointed out, each generation of innovations is building on the corpses of earlier ones.[15] Established state and parastatal agencies find it difficult to perform in this framework. Major think tanks working on the character of the neo-Fordist (assembly line) technological revolution have emphasized that it is compatible with flexible industrial specialization networks. India had convened for UNESCO a Prepcom meeting at Bangalore for the World Science Conference, and the Bangalore Declaration strongly reiterated that the spread of technology was an institutional and not just a technological issue. Again, the need for partnerships, for community initiatives to back those who work, and for links with higher-level machineries at national and global levels, is obvious.

Another dimension that conditions the functioning of civil society in modern times is the profusion of laws, national and international, relating to economy, ecology, technology and international treaty obligations. The change in the concept of property from something tangible to forms that are intellectual and intangible brought with it a revolution in the laws of trade and commerce. Intellectual property law and trade-related intellectual property rights have become critical in economic governance globally. Added to this is the revolution in information and communication technology that has thrown up a new legal framework for doing business within and outside government. Globalization is happening not only

in relation to the market but in respect of all conceivable aspects of organized life, resulting in the fast-changing legal climate in all these matters, which influences both policy development and administration. Similarly, another legal dimension impinging public governance at all levels is the jurisprudence of sustainable development. There are today legal parameters in the use of administration that have to be accommodated within sustainable limits. These are some of the significant legal perspectives that are critical for civil society in the future.

A possible method of pursuing these design goals is to commission a set of studies at the national level under a coordinated global arrangement in order to sketch in greater detail the requirements that emerge as nations look ahead along the lines indicated above.

The analytical issues and India's position

Since this chapter was initially prepared, there has been some movement on the world stage. An argument is made here that the Cancún outcome was in fact a detour that could have been avoided if the kind of understanding initially argued for in this chapter had been in place. Indeed, I believe this is precisely the reason why Prime Minister Martin talked of issues such as agriculture, water and health as a focus for global problem-solving in the reformulated L20 project.

Cancún showed that understanding of the developing countries' position was immensely flawed. The Harbinson Draft met some of the requirements of the developing countries from a negotiating position standpoint. For example, attachment 6 was on state trading enterprises, as noted earlier. Since many OECD countries and others had moved away from direct government budgetary subsidies to working through commodity boards and similar arrangements, and such bodies have huge reserves of money, the effort was to bring such interventions under some sort of discipline. However, to take the example of the Indian price intervention, programmes also operated through state trading enterprises and while all the disciplines will not apply to developing country members, they will be required "to ensure that exports of a product by a governmental export enterprise do not take place at a price less than the price paid by such an enterprise to the domestic producers of the product concerned". Interestingly, India was willing to negotiate around such issues. In fact, a committee had already been set up under my Chairmanship in the Ministry of Agriculture to build up a WTO-compatible strategy for agricultural price interventions in India.

The strategy the Indian policy-makers were working with was to integrate monetary policy and tariff policy changes in a medium-term policy

reform package that moved away from direct parastatal intervention to a crop-wise strategy that was reform- and WTO-compatible. The details of this have been covered elsewhere and so are not repeated here.[16]

It was interestingly on the growth aspect that the Harbinson Draft had a basis for further discussion. This was important to India, since by now it was committed to trade as a policy tool. In the growth aspects, many of India's general propositions were recognized. There will be great difficulty in giving direct income support to farmers, but there was full recognition of a point we made in Doha, namely that there has to be support for community-based institutions of farmers' and producers' associations for land and water development, development of markets, agro-processing and diversification of agriculture to support broad-based development of agriculture. Some of these concepts developed in India[17] have entered the post-Rio dialogues, as seen earlier, and now the arguments have found their way into the WTO debates. Attachment 9 to the Draft provided, for example, subsidies for concessional loans through established credit institutions or for the establishment of regional and community cooperatives, capacity-building measures with the objective of enhancing the competitiveness and marketing of low-income and resource-poor producers, government assistance for the establishment and operation of agricultural cooperatives and for risk management of agricultural producers, and savings instruments to reduce year-to-year variations in farm incomes.

Paragraph 13 of the Doha Ministerial Declaration, as discussed earlier, states:

> We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the Schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.[18]

It was obvious that special and differential treatment of developing countries would be an integral component of the negotiations. The Harbinson Draft states:

> In implementing their market access commitments, developed country Members should take fully into account the particular needs and conditions of developing country Members by providing for greater improvement of opportunities and

terms of access for agricultural products of particular interest to these Members, including the fullest liberalization of trade in tropical products, whether in primary or in processed form, and for products of particular importance to the diversification of production from the growing of illicit narcotic crops, or crops whose non-edible or non-drinkable products, while being lawful, are recognized [by WHO] as being harmful for human health.

From the Indian viewpoint, the limits of the draft concessions were narrow (tropical products and diversification away from narcotics), but this was only the beginning of the negotiation process. India would have to set up the required mechanism quickly to decide on questions like the nature of strategic products for SP status and to evaluate tariff policies on a continuing basis. Also, it wanted the consultative process for the negotiations to be transparent, knowledge-driven and broad-based. Within the country there would have to be continuous assessment of the possible impacts on Indian agriculture and, accordingly, adjustment in the negotiating positions and tariff levels. The mechanism involved would be such that timely and prompt action would be taken to protect the interests of the Indian economy and its farmers.

India was willing to treat the Harbinson Draft as a base for discussion, since its interests were in laying the foundation for more open trade as part of a widespread growth process. Issues of rural growth, employment and food security were important to it in the emerging trading world. The issue, as we saw earlier, was not grain, but access. The state can feed a few people, and it must do so. The really starving are the destitute, women-headed households, disabled wage earners, and the destitute elderly. They have to be given grain. You have to give the poor girl a free lunch to keep her in school, and the poor pregnant or lactating mother needs assistance. There are also sharply defined geographical pockets of starvation put in place by the atrocities of man on nature and the environment, and they need special attention. Paradoxically, to grow on a widespread basis, grain growth must slow down more than in the past. In fact, livestock production grew by 4.3 per cent in South Asia, and generally the pattern is that non-grain crops grow faster than grain crops and animal husbandry and fish even faster. Diversification is the name of the game and incomes grow fast in response to demand changes. But it is not happening fast enough. You need investment in land and water and as the FAO's Bangkok Declaration says, there is synergy in land and water investment when they are made together. You need reform and investment in rural infrastructure. This reform is more difficult because the rural economy is so complex.

There have to be well-identified shelves of a large number of small projects on land, water and other infrastructure projects available for fi-

nancing. Financial institutions have to design structures in such a way that community collateral by farmers and their organizations is possible for viable projects. Other examples include farmer-organized and -run market and rural infrastructure facilities, land and water development groups, local infrastructure projects in road or communication sectors, producing goods developed in R&D institutions, training for production with improved techniques, and market development schemes.[19] These arguments were first suggested by India, but as we suggested, there was by Cancún considerable acceptance of these needs in the global debates.

On negotiations

It is obvious that by the time of the Cancún meetings, countries like India were better prepared and, on the issue of agriculture, developing countries such as Brazil, India, South Africa and China formed an effective coalition that submitted a counter-proposal in Geneva to the EU–US proposal. The coalition kept growing and became the Group of 20 at the start of the ministerial meeting, and of 23 by the end. The Draft Ministerial Text, as we know, did not reflect the concerns of the earlier negotiations and followed the EU–US proposals in the main. This time, as we have seen, there was substantial preparation in terms of interests and, in addition to China and India's livelihood concerns, countries such as Brazil and South Africa had their trading agendas. The collapse at Cancún was inevitable, but it is interesting that in the subsequent discussions (and as this chapter was being revised) it seemed as if the issues raised in the Harbinson Draft were once again back on the table. The analytical issues raised in this chapter emerging from India's experience will, I believe, keep on recurring as we move forward.

The Committee of Agriculture's meeting at Geneva earlier this year was inconclusive. This was not just due to disagreement on formulae used for tariff reductions, since market access, as mentioned above, could not be de-linked from the issue of domestic or export subsidies distorting agricultural markets. The United States Trade Representative called a mini-ministerial meeting and the European Union, Mexico, India, Brazil and South Africa were invited. India could not be represented at the ministerial level on account of its elections. The short-term deadline for resolving agricultural liberalization modalities is unlikely to be attained. Indeed, in the face of the US elections, the December 2004 deadline for the Doha Agenda proved to be impractical. But once again the acceptance of the Harbinson Draft as a basis for discussion will go a long way in resolving matters.

Another interesting aspect is the regional arrangements that are moving ahead. In South Asia, regional discussions to phase out the Multi-Fibre Arrangement quota regime in textiles are gaining urgency. India's agreement with MERCOSUR, South Africa and others on agriculture and the implementation issues has to be handled with urgency given the short-term deadline.

It is obvious that given the long-haul nature of the problem and the complexity of issues discussed in this chapter, a ''watchdog'' body of developing countries is important, as is technical assistance, on the way to the Leaders' 20 Summit we are discussing.

The global trade negotiations will have to be placed in the context of broad-based rural growth in poor countries, and concepts and instruments developed accordingly. As Paul Martin has been emphasizing, in the L20 meetings, issues such as agricultural negotiations, climate change and development finance have to be discussed in a manner by which there is an ability to come to grips with fundamentals that need attention at the highest political levels, rather than posturing. This chapter attempts, by deconstructing the recent past and the problems faced in it, to take a step towards that understanding.

Notes

1. The celebrated Indian novelist R. K. Narayan created a mythical village called Malgudi inhabited by very real people, including very real Brahmins.
2. Nikos Alexandratos, *World Agriculture Towards 2010: An FAO Study*, Chichester: Wiley, 1995.
3. Yoginder K. Alagh, ''Poverty, Food Security and Human Security'', *Journal of Global Management*, Rajiv Gandhi Foundation, Special Issue, 2002.
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9

China's evolving global view

Yu Yongding

Immediately after the creation of the People's Republic of China, and to a large extent due to President Truman's support for Chiang Kai-shek during China's civil war and the United States' hostility towards the newly founded China, Chairman Mao Zedong tilted China one-sidedly towards the Soviet Union. For more than a decade the concept of conflict between two camps, the socialist camp and the capitalist camp, dominated China's global view. It was believed that, notwithstanding the desire for peace by the socialist camp, military conflicts between the two camps were inevitable. The dialectical movement of history would lead to the eventual victory of socialism.

After the rupture of the Sino–Soviet relationship in the 1960s, Mao put forward a theory of "three worlds". According to Mao, the contemporary world consisted of three parts: the United States and the Soviet Union constituted "the first world", developing countries "the third world", and countries in between "the second world". China's foreign policy was aimed at uniting the third world and befriending the second world so as to form the largest possible united front to fight against the two hegemonic states: the Soviet Union and the United States. China's resources were mobilized to prepare for an invasion by the two hegemonic powers, whether individually or jointly.

Through this period China lived in constant fear of being invaded – a fear which, unfortunately, was not entirely irrational. Mao's slogan during the "Cultural Revolution" was to "dig caves deeply and store food widely". China's global strategy, if there was any, was centred on its

own safety. Its leadership was preoccupied with how to react to the conspiracy of imperialism and hegemonism.

Western countries' arrogance, which was manifested most vividly by Secretary of State John Foster Dulles's refusal to shake hands with Premier Zhou Enlai, aroused China's nationalism, an emotion that has lasted, on and off, for more than a century and a half. The motivation behind China's staunch support for revolutionary movements in the rest of the world was mainly ideological, and had virtually nothing to do with China's national interest, which, for a long period of time, was a concept rejected with disdain by the Chinese leadership as being unethical.

Due to the fear of falling into the traps set by imperialism and hegemonism, as well as the determination to defend national pride, China's foreign policy was characterized by extreme cautiousness, sensitivity and defensiveness. China's foreign policy was largely inward-looking but constantly interrupted by outbursts of revolutionary fever.

China was awakened by the disastrous result of the Cultural Revolution in the late 1970s. Under the leadership of Deng Xiaoping, the Chinese government modified and revised its global view. To prepare the Chinese people for policy changes, China's leadership reshaped its view of the contemporary era. Earlier, in line with Lenin's teachings, the era was characterized as one of imperialism and proletarian revolution. Now, according to Deng, the main themes of the contemporary era became peace and development. A pragmatic foreign policy was adopted. The mantra of "whatever our enemy opposes we shall support, and whatever our enemy supports we shall oppose" was replaced by a more relaxed attitude of judging things on their own merits. The evolution in Western countries' policies towards China facilitated China's transition in its global view. Since Deng took the helm, China's foreign policy goal shifted towards creating a peaceful international environment that would allow China to concentrate on domestic economic development. During Deng's time, China's foreign policy was characterized by low-profile diplomacy and passiveness.

Over the past decade, as a result of the dramatic increase in contact with the outside world and rapidly increased economic strength, China's attitude towards the outside world has become incrementally more diverse, open-minded and flexible. Western countries' constructive attitudes also help. In the current era, China is ready to embrace any country on a bilateral basis as long as that country does not support the independence of Taiwan or want to interfere with China's domestic affairs. However, it is worthwhile mentioning again how relative this new development has been. Until quite recently, China was very cautious about joining in any multilateral and regional arrangements. The main obstacle

to China's participation in such arrangements continued to be the fear of infringements upon China's national sovereignty.

China's evolving relationship with key international organizations and international treaties

According to Professor Wang Yizhou,[1] the development of the relations between China and international organizations and other forms of multilateral arrangements may be divided into three stages. The first stage was from 1949 to 1970. In this period, China pushed hard for entry but failed to gain its seat as the exclusive legitimate representative of China in the United Nations. In the 1950s, China submitted entry applications to many global organizations, such as the World Health Organization, the World Meteorological Organization, the International Civil Aviation Organization, the International Labour Organization, the International Monetary Fund, the International Bank for Reconstruction and Development, and the Universal Postal Union. However, all these efforts went for nought.

The second stage took place from 1971 to 1978. In 1971, China took its seat in the United Nations and was admitted into most international organizations, which included the UN Development Program, the UN Environment Program, the UN Industrial Development Organization, the UN Conference on Trade and Development, the Food and Agricultural Organization of the United Nations, and the UN Educational, Scientific and Cultural Organization. China also established or restored its relationship with the European Community, the Latin American Nuclear-Free Zone Organization, the International Commission on Large Dams, the International Olympic Committee, and the International Organization for Standardization.

The third stage began in 1979 and is still in progress. In this period, China has taken part in the disarmament negotiation conference of the United Nations, signed a series of documents on disarmament and non-proliferation of weapons of mass destruction, and has entered the WTO after 15 years' hard negotiation. Up to now, China has established relations with or joined almost all major international organizations.[2]

Undoubtedly, the United Nations stands out as the single most important international organization for China. Membership means the recognition of a country's legitimacy by the international community. The veto power makes China feel safe and comfortable. In the UN system, China can find more friends who share its wishes and worries. China respects the authority of the United Nations, and wishes to strengthen its authority heart and soul. However, as pointed out by some foreign observers,

China does not want to offend other countries and hence does not want to take a position on controversial issues; this has been witnessed by its high rate of absence in voting. China rarely uses its veto power, unless of course its own sovereignty is on the line.[3] Nonetheless, in recent years, China has begun to change its passive attitudes and has tried its best to cooperate with other members of the Security Council. According to Paul Taylor, permanent membership in the Security Council elevates France and the United Kingdom upwards to a position equal to that of the United States in the United Nations. Outside the United Nations, however, the two countries' influence and status are much lower than those of the United States. Permanent membership helps the two countries promote their positions in the world. This is why they pay more attention to their role in the United Nations than does the United States.[4] The same is true of China.

China has long regarded the IMF, WB and WTO/GATT as the three pillars of the world economic order. China has maintained very good relationships with the IMF and WB, especially the latter, due to these two international organizations' sympathetic attitudes towards China's reform and opening up since the early 1980s. Even during the Asian financial crisis, China's criticism of the IMF was very muted. When Japan proposed the Asian Monetary Fund, China rejected the proposal out of fear that it would weaken the authority of the IMF.

China's entry into the WTO in 2001 was a watershed in China's policy toward international organizations and global governance. The WTO worked out detailed rules on a related code of conduct for international trade (including financial service trade) and established an arbitration mechanism to deal with trade disputes between member nations. Various countries must observe the unemotionally accepted code of conduct in carrying out international trade and investment activities, and some decisions that were traditionally within the sovereignty of one state must be subject to the arbitration of supranational international organizations such as the WTO. China's entry into the WTO shows that China has accepted the fact that with the growing role of international economic organizations in world economic affairs, state sovereignty is under increasing erosion. The role of supranational world economic organizations will be further enhanced in the twenty-first century, and sovereign states will have to accept the arrangements and arbitration made by international organizations in many aspects. China is moving towards the direction of preparing to surrender a certain proportion of its sovereignty in exchange for the prospect of world peace and prosperity as well as its own long-term interests.

As mentioned above, China has participated in or engaged in the negotiations of almost all the important treaties. International regimes of nu-

clear non-proliferation and environment protection are two of the most prominent areas.

At the outset, China's position was that, as the first step towards nuclear disarmament, nuclear weapons states needed to make a commitment not to use nuclear weapons on non-nuclear weapons states or in nuclear-free zones. In 1984, China declared its acceptance of the Nuclear Non-Proliferation Treaty and became a member of the International Atomic Energy Agency. China signed and ratified the treaties of Tlateloco (1973), Antarctica (1983), Rarotonga (1987) and Pelindaba (1996), the Outer Space (1983) and Seabed (1991) treaties, and so on. By 1996, China had signed 85–90 per cent of all treaties on arms controls.

China's participation in treaties dealing with environmental protection has been equally active. China has signed and ratified the Ozone Layer Convention, the Montreal Protocol, the London Amendment and the Copenhagen Amendment. China is also a member of the United Nations Framework Convention on Climate Change and has signed the Kyoto Protocol.

China has complemented its multilateralism with a regional approach. It has participated in almost all key international organizations, signed most of the important international treaties, and played a more and more active role in global governance. Yet in recent years, especially after the AFC, China has also paid increasing attention to regional cooperation.

The Asia-Pacific Economic Cooperation is the first regional economic arrangement in which China has actively participated. There are two different scenarios that frame the nature of APEC. The first is that APEC should be an institutionalized and exclusive economic arrangement that is based on binding treaties, rules and regulations. The second scenario suggests that APEC should be an open, voluntary and flexible forum based on mutual respect, reciprocity and equality. Faced with strong opposition from ASEAN and other Asian countries, the United States had to give up the intention of making APEC a "community". In the Bogor Declaration, the aim of APEC was defined as "strengthening the open multilateral trading system; enhancing trade and investment liberalization in the Asia-Pacific; and intensifying Asia-Pacific development cooperation". These goals have persisted, but largely because of the fundamental differences between the United States and the majority of Asian countries, APEC failed to produce anything important in the area of trade liberalization or a coordinated approach to help stabilize the Asian economy when the AFC struck.

Despite these problems, China is still very positive about APEC. The most important rationale behind China's positive attitude is the fact that APEC as a forum has provided leaders in the region with good opportu-

nities to meet and become acquainted with each other. This window of opportunity for leaders to "agree to disagree" is precious.

The G7 and China

According to Hisashi Owada,[5] there existed two very different approaches to what has come to be known as the G7 summit. One path was typically represented by one of the founding fathers of the G7, French President Valéry Giscard d'Estaing, who conceived of it as an occasion on which the leaders of the major Western economies could take to heart their economic and political responsibilities and exchange views on possible lines of concerted action. The other was represented by the US Secretary of State, Henry Kissinger, who called for a permanent machinery "periodically to follow up our policy directions set out at the summit and to review what further decisions may be needed". The G7 summit is a sort of "club of the leaders of like-minded countries".[6] The raison d'être of the summit, from the time of its inception to the present day, has been to provide a forum – in a non-institutional sense – for the leaders of like-minded countries or countries showing a common set of purposes and common perceptions of the world order to get together to share their thoughts on the problems concerning them in such a way that policy convergence or policy coordination on a voluntary basis can emerge.[7]

The topics that have been discussed at G7/8 summits include economic policy coordination, energy commitments after the second oil shock, international trade, a common Western position in confronting the Soviet Union, the international environment and a range of issues linked to international crime such as money laundering, drug trafficking, the revival of terrorism, nuclear smuggling and corruption in business. The G7/8 has also discussed help for the countries of the former Soviet Union to rebuild market economies and working democracies, globalization and its consequences, and the reform of international institutions such as the IMF.[8]

The G7 is at its essence a forum on economic issues. Through policy coordination, the decisions made by the G7 ministerial meetings and summits can produce important impacts on the global economy. Yet, in some instances, the G7 goes well beyond economic issues and produces important impacts on global politics.

In the first 10 years after its creation, China was not a special concern for the G7. However, as the G7 became increasingly involved in geographical and political issues, such as global arms control, Indonesian–Chinese refugees and the security of the Korean Peninsula, the importance

of China was gradually recognized. China began to be placed on the agenda. Still, China was never mentioned explicitly in the communiqués of the G7 until the 1987 Venice Summit. In 1989, the G7 condemned China for the Tiananmen Square tragedy, and expressed concern over Hong Kong's return to China. At the 1989 Summit, the G7 expressed the wish of an early end to China's isolation. At the 1990 Houston Summit, the French and Canadian Prime Ministers expressed similar wishes. In 1991, China's attitude towards the Iraqi invasion of Kuwait was praised at the London summit. At the 1992 Munich Summit, China was commended for its acceptance of international arms control treaties and its economic achievement, but at the same time the leaders called for China to improve its human rights record. At the 1995 Halifax Summit, China was bestowed some encouragement for its active participation in international and regional consultations on political, economic and security affairs. The summit expressed the wishes of the member countries to conduct a dialogue with China with respect to concerns of world stability and prosperity. At the 1996 Lyon Summit the G7 expressed its welcome for China's participation in the South Pacific Nuclear-Free Zone Treaty. At the 1997 Denver Summit, the G8 welcomed China's negotiations with the Commonwealth of Independent States on border issues. Nonetheless, concern with political freedom in Hong Kong after its return to China was expressed. After the summit, the United States made a gesture by refusing to send a delegate to attend Hong Kong's handover ceremony. At the 1998 Birmingham Summit, Tony Blair praised China's role in the AFC. Since the 1999 Köln Summit, the G7's interest in China has increased greatly. In response, China joined in the Gx, which was later renamed the Group of 20 Finance Ministers.

Over the past two decades, China maintained an average annual growth rate of more than 9 per cent. Consequently, China's economic strength increased dramatically. During the AFC, China's policy of non-devaluation made a great contribution to the stabilization of the Asian economy. In recent years, China has become one of the few important engines of economic growth of the world economy. In 2002, China became the fourth-largest trading nation and the biggest recipient of foreign direct investment. Since the AFC, China has launched a series of initiatives to promote regional trade liberalization and participated in the efforts to reform the regional financial architecture and create mechanisms for the coordination of regional exchange rate regimes in the East Asian region. After entry into the WTO, China's performance in implementing the agreements has been universally applauded. During the aborted Cancún conference, China naturally became one of the leading countries in the trade G20+ of developing countries. Last but not least, China completely changed its long-standing policy of keeping a low pro-

file in the nuclear issue of the Korean Peninsula, and became a very positive mediator. Externally, China's role in world affairs can no longer be ignored. Internally, China has achieved significant progress in political and legal reforms as well. Consequently, the debate on whether China should be welcome to join the G7 club has recently intensified.

For many Western scholars, "any major move toward full membership must await China's demonstrable acceptance of the domestic political values that all G8 members share".[9] According to C. Fred Bergsten, who often visits China and is widely regarded as a good friend of China, China's continued failure to democratize rendered its participation in the G7/G8 premature,[10] since "democracy and human rights [are] the core shared property of G7 members, and China [has an] attachment to antithetical values".[11]

It is noteworthy given this context that China's attitudes towards the G7 have gradually changed. For a very long period of time, the Chinese government was satisfied simply to watch what the G7 was doing without overly concerning itself with the G7's activities. The reason for this was straightforward: the G7 is just a forum of rich countries and not a global regime with legitimacy of enforcement that is recognized by the sovereign governments of the rest of the world. On the one hand, China did not think it could have any influence on what the G7 was going to do. On the other, China did not think the G7 could do anything about China either: the G7 was not the United Nations, nor could it draft any binding international agreements. Moreover, China was not amused by the G7's lectures on China's domestic issues. However, China's reactions to the comments made by the G7 were mostly conciliatory. During the 1990s, the relationship between the G7 and China was positive, despite the fact that China launched its protests indignantly when the G7 made its self-righteous comments on the issues of Hong Kong and Taiwan. China was fully aware that, in some Western people's minds, the G7 was an exclusive forum of like-minded members with the advanced economic credentials and knowledge necessary to perform the essential task of stabilizing the world economy,[12] and China was not qualified for the membership. But nowadays China is confident and has matured enough not to react to criticisms by Western governments or individuals in an emotional manner.

Nor does China covet membership of the G7. As a developing country that is still in the process of transformation, China will and must continue to concentrate on its Herculean domestic problems. China will and must listen to outside criticisms in a cold-minded manner. Human rights? Yes, China must improve its human rights record for the Chinese people and appreciate those criticisms that contain no hidden political agenda. Chinese intellectuals who personally experienced systematic human rights

abuse during the Cultural Revolution cherish human rights no less than anyone else in the world. Democracy? Yes; however, this is a long and time-consuming process. China is not the former Yugoslavia. The Chinese know how demagogues can destroy countries in the name of democracy. In short, China has its own reform agenda based on its own painful historical experience. China needs foreign help, but not foreign interference. Based on the above-mentioned thinking, China is ready to cooperate with the G7 but will not yield to any pressure exercised collectively by the G7 or individually by its member countries.

In the second half of the 1990s, following Hong Kong's participation in the New Arrangements to Borrow, China started involving itself in the international cooperation led by the G7. Following the commencement of the G22 ministerial meetings of finance ministers and governors of central banks initiated by President Clinton, China strengthened its cooperation with the G7. On 22 February 1999, the G7 finance ministers' Financial Stability Forum was founded. On 14 September 1999, China, together with the Hong Kong Special Administration Region, Singapore, Australia and Holland, participated in the conferences organized by the forum. In 2003, Chinese President Hu Jintao was invited by the G8 to attend the discussion between the G8 and some major developing countries. This was the first time that the Chinese head of state was involved in a discussion initiated by the G8.

To summarize, the Chinese government fully understands the importance of the G7/8. China wants to develop its dialogue with the G7/8. China's leader would like to utilize opportunities to meet with the heads of state of the G7/8 and establish friendly, personal relationships with them. However, China sees no necessity to join the G7/8 at this moment, even if it were to be invited. China does not want to be intrusive into an exclusive club consisting of so-called "like-minded people". China does not want to bear a responsibility that is not China's to bear.

Nonetheless, China might eventually join in the G7/8 and play a role that is proportional to its economic strength. However, that time has not yet come. It would be ideal if there were some mechanism that could help China to familiarize itself with the mechanisms of the G7/8, thereby providing China's ministers and deputy ministers with opportunities to acquaint themselves with their counterparts.

The G20 and China

On 25 September 1999, in Washington, D.C., the finance ministers of the G7 created the G20 as "an informal mechanism for dialogue among systemically important countries within the framework of the Bretton

Woods institutional system''. This forum of finance ministers and central bank governors was to consist of 19 countries, the European Union, IMF and WB. The mandate of the G20 is to advance discussion, study and review of policy issues among emerging markets as well industrialized countries, with a view to promoting international financial stability. The hope was that through broad participation the G20 could promote broad consensus on the major international financial issues. Different from larger international organizations such as the United Nations, WB and IMF, the G20 has no permanent secretariat. The size and structure of the G20 is designed to encourage the informal exchange of views and the formation of consensus on international economic and financial issues.

One of the arguments put forth was that the lack of emerging-market representation in the G7 limits its ability to deal with some issues related to developments in the international economic and financial system. In today's economy, broader representation in policy discussions is crucial. The G20 is designed to fulfil this need for representation from emerging markets.

In his 27 April 1999 remarks to the Interim Committee of the IMF, Minister Martin highlighted the need for more representative institutional arrangements. This need was further reflected in the June 1999 report of the G7 finance ministers to the Köln Summit on ''Strengthening the International Financial Architecture''.

The main issues for discussion at the 2003 G7 ministerial meeting in Morelia, Mexico were crisis prevention and resolution, preventing abuses of the international financial system (promoting transparency and information exchange), combating terrorist financing, and globalization (economic growth and the role of institution-building in the financial sector, and financing for development).

Since 1999, China has actively participated in all G20 meetings and has made its due contributions to reform of the international financial architecture and global economic development.

On 15–16 December 1999, upon invitation by Canadian Minister of Finance Paul Martin and German Finance Minister Hans Eichel, a Chinese delegation led by China's Minister of Finance and the Governor of the People's Bank of China attended the ministerial meeting in Berlin. There the ministers exchanged views on the global and regional economic and financial situation, and reform of the international financial system. On 28 March 2000, a Chinese delegation attended the second G20 meeting at vice-ministerial level in Hong Kong. The Chinese delegation exchanged views with its counterparts on the issues of crisis prevention and financial supervision as well as the global and regional economic and financial situation, and reform of the international financial system. From 24 to 25 August 2000, the third G20 meeting of sherpas was held

in Toronto. The Chinese delegation, led by the Vice-Minister of Finance, participated in the meeting and exchanged opinions on issues of eliminating the consequences of the financial crisis and meeting the challenges of globalization. From 24 to 25 October 2001, the G20 Finance meeting was held in Montreal. The exchanges centred on how to respond to the challenges of globalization. The Chinese Minister of Finance and the Governor of the People's Bank of China participated in the meeting. From 18 to 19 February 2001, the fourth G20 meeting of sherpas was held in Istanbul. Again, the Chinese delegation attended the meeting. The subject of the discussion was again how to respond to the challenges of globalization and the creation of international standards and the rules for their implementation. From 29 to 30 October 2001, the Chinese delegation attended the fifth meeting of sherpas, the main topics of which were how to establish effective international capital markets and the impact on the global economic and financial system of the September 11 terrorist attacks. From 16 to 17 November 2001, the Chinese Minister of Finance and the Governor of the People's Bank of China attended the third G20 ministerial meeting in Ottawa to discuss the impact of September 11 on the global economy and the fight against terrorism in financial activities. From 15 to 17 July 2002, the Chinese delegation attended the sixth meeting of sherpas in New Delhi. From 22 to 23 November 2002, the fourth G20 ministerial meeting was held in New Delhi. The same Chinese Minister and Governor of the People's Bank of China attended the meeting. From 3 to 4 March 2002, the eighth sherpas' meeting was held in Cancún. The Chinese delegation duly attended. The creation of the G20 represents a new stage in informal consultation among industrialized countries and developing countries, which can help to bridge different opinions and promote mutual understanding so as to form consensus between countries more widely. The creation of the G20 was thus a timely gift for a Chinese government that wishes to have closer cooperation with the G7/8 but does not want to be part of it for the time being. Given these circumstances, China's attitude toward the G20 is very positive.

Suggestions for an L20

For China the international order is based on the consensus of sovereign counties. Bilateral and multilateral agreements and treaties between sovereign countries are the most important ingredient of the international order. The sovereignty of a nation-state is inviolable. From one perspective, China accepts the current international order, which reflects the political and economic reality after the Second World War in the form of the authority of the United Nations and the Bretton Woods institutions.

Through another perspective, China wishes to reform the international order to better reflect the changes that have occurred since the end of the Second World War. China does not have a problem with the G7/8, as long as this informal forum has no intention to replace or weaken the authority of the United Nations or to impose its will on the rest of the world.

China is interested but not keen on joining the G7/8. Chinese leaders will be happy to utilize the opportunity provided by the G7/8 summits to acquaint themselves with the leaders of the major developed countries in attendance. Nonetheless, Chinese leaders certainly are not interested in attending lectures or showing solidarity with the rich and powerful to gang up on the less rich and less powerful. It seems that in the foreseeable future, China will not take any initiative to join in this exclusive club. The Chinese are not in the habit of being an uninvited guest. But Chinese leaders certainly would accept invitations along with other major developing countries to meet the leaders of the G7 before or after their formal meeting. In contrast, China does not have any problem whatsoever with the G20. China has been and will be keen to participate in the discussions of the G20 actively, along with other major developing countries.

Despite the fact that the G20 is a better forum for China to exchange ideas with the rest of the member countries, the size of 20 countries seems too big to form consensus on important and controversial issues that by definition are difficult to achieve consensus upon. APEC's failure to reach significant agreements is a good point of reference. Therefore, to upgrade the G20 to the level of heads of state seems unwarranted. As an outsider, I personally feel that the role of the G7/8 is irreplaceable, so it should be left alone as it is. The diversity of the G20, consisting as it does of vastly different countries, predetermines the difficulty of reaching consensus among member countries. It is also undesirable to transform the G20 from a loose forum to a permanent organization with a secretariat. Neither the G7/8 nor the G20 should become a miniature version of the United Nations. There is no need to seek legitimacy for the G7/8. Being a forum of rich and influential countries, it does not have and does not need to seek legitimacy. The same is true of the G20.

On the other hand, we should also recognize the fact that if a forum cannot produce anything significant and fails to be relevant in dealing with important global or regional issues, member countries will lose interest in that forum. Fatigue will set in, people will become bored attending the meetings, and the public will lose interest in the goings-on of this forum. Accordingly, the key to keeping the G20 alive is to define the subjects of discussion in a correct and timely manner. To accomplish this goal, it may be necessary that the preparation for each meeting be better prepared, and a precondition for achieving this objective is active partic-

ipation by academia as well as government officials. Each member country should assemble a team of researchers to choose the themes for the next meeting and to prepare related documents long before the ministerial meetings.

In summary, with regard to China's position, the existing supranational international organizations, such as the IMF, WB and WTO, and especially the United Nations, should be allowed to continue to perform their traditional roles in global governance. Reforms are needed in all of these institutions, but there are no better alternatives on the horizon that can replace them. Secondly, NGO voices should be heard and their opinions should be respected. However, NGOs by definition have a fundamental problem of legitimacy in speaking on behalf of a stable constituency. As soon as a civil society organization becomes powerful enough, it tends to have its own interests and become bureaucratic. NGOs are very good pressure groups and they should remain as such. Thirdly, it is hard to envisage the possibility of establishing a new organization of global governance that is more representative and legitimate. The attempt will be too risky and costly. Fourthly, the G7/8 does not have and should not strive to have the legitimacy or authority of a global supranational international organization. It is certainly extremely powerful in shaping the course of globalization and the world economy. However, the G7/8 should not try to impose its will on the rest of the world. It should not try to replace the role of the United Nations and the Bretton Woods institutions. It can set a good example for the rest of the world (for example, the G7/8 countries, especially the United States, European Union and Japan, can do a great favour to the rest of the world by stabilizing the exchange rates of their currencies), if it can act more unselfishly.

The G20 can serve as a supplement or complement to the G7/8 by making the G7/8 hear the voice of developing countries. It is not very realistic to expect the G20 to do more. For a long period of time in the future, the role of the G20 might still be limited. To talk about a transformation to a Leaders' 20 Summit seems premature.

From China's point of view, the question of how to manage globalization is indeed a central one. Under the title of the management of globalization, many more specific questions need urgent attention. The list that needs to be discussed includes problems such as how to salvage multilateral trade talks, how to stabilize the exchange rates of the key currencies, how to reform the international financial architecture, how to alleviate poverty and narrow the ever-widening gap between the North and South, how to promote regional trade liberalization, how to implement the Kyoto Protocol, and so on. The world is suffering from a poverty of thoughts; only constructive debate can create a fulcrum so that the earth can be moved.

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Brazil's multiple forms of external engagement: Foreign policy dilemmas

Ricardo U. Sennes and Alexandre de Freitas Barbosa

This chapter seeks to present some variables that have influenced the position of the Brazilian government with respect to the discussions on reforming and deepening the role of the Group of 20 Finance Ministers, an informal forum that was established in the late 1990s with the purpose of discussing the effects of the Asian financial crisis.

The objective of the proposal – raised most notably by the Canadian Minister, Paul Martin – is to widen the role of the present G20 Finance, transforming it into a Leaders' 20 Summit or L20 in the same format as the present G8. The forum would include not only the traditional economic world leaders, but also leaders from emergent countries that have a significant participation in international policy, such as China, India, Brazil and South Africa.

According to this vision, by incorporating and giving voice to important regional powers and representatives of different quadrants and even civilizations, such a body would make possible the appearance of an alternative organization in the international system, structured in such a way as to recognize and provide an isonomic treatment to the different economic, social and safety requirements involved, anchored in a new concept of international governance.

In addition to a more representative composition of international actors, it is mooted that this reform process would expand its functional agenda beyond financial issues to include as part of its potential agenda such themes as agricultural subsidies and the WTO; the post-Kyoto architecture; HIV/AIDS and infectious diseases; access to water; terrorism

and weapons of mass destruction; and the proposals at the core of the document "The Responsibility to Protect".

In order to ascertain the main variables that will influence the Brazilian position on this ambitious proposal, this analysis places the response into the context of the recent path of economic policy, as well as the international strategies adopted by Brazil. Although overshadowed by the immense shifts that took place in its domestic economic policy, the Brazilian foreign policy stance towards the multilateral economic fora underwent some important changes from the end of the 1980s. In contrast, Lula's first years in power have shown a greater readiness to promote changes in the country's foreign policy than in the country's domestic economic policy.

In looking at Brazil's foreign policy, with a specific focus on the international economic fora, the aspect that stands out is the enormous difference that separates the performance of the country in trade and financial fora, as the activism of Brazil in the trade fora contrasts sharply with the virtual absence of the country as an active participant in the financial fora.

This line of analysis will investigate in detail the logic that explains the contrast between a passive performance in financial international fora (the IMF, WB and G20 Finance) and a growing activism in regional trade negotiations, in political fora and within the WTO, including a leading role in the trade G20+. It must also be pointed out that while these different strategies in the two foreign policy arenas were already present during the government of Fernando Henrique Cardoso (FHC), especially in his second term (1999–2002), the strongest tensions have surfaced during Lula's government. After highlighting this component of the wider context, the chapter will draft some conclusions about the conduct of Brazil's external engagement with reference to the main internal divergences on economic strategy.

Brazilian economic policy in the 1990s

The objective of this section is to analyse the evolution of the Brazilian economic policy during the period 1994–2003, and the possible contradictions that appeared between the applied model and the economic reality. Priority will be given to tracing the three main phases of the macroeconomic administration during this period, giving emphasis to the changes and continuities therein:

1. 1994 to 1998: monetary stabilization with an exchange anchor;
2. 1999 to 2002: exchange devaluation with a vigorous fiscal adjustment;
3. post-2003: maintaining the model, as an attempt to "calm down" international investors.

In July of 1994, the FHC government, by introducing a new currency, the "real", was not just concluding the last stage of the monetary stabilization programme. Parallel to this move, it brought into effect a series of structural reforms that had the intention of forming the basis for a new economic growth model. The main innovations were an end to state monopolies, a change in the patent law and an opening of the country to foreign capital and goods, enlisting in this way the support of the US government.[1]

The renegotiation of Brazil's foreign debt – an agreement that, it must be noted, was signed in 1994 with private banks and without the endorsement of the IMF – had a significant role in the country's monetary stabilization. The main resistance to the IMF came from those countries that were in opposition to the requirement of a primary surplus of around 2 per cent per year. In the diagnosis of the then Minister of Finance and current Secretary-General of UNCTAD, Rubens Ricupero, "the IMF helped in not disturbing" the agreement.[2]

According to one of the mentors of this new strategy,[3] the former President of the Central Bank, Gustavo Franco,[4] this approach would be capable of extirpating the addictions of inflation and of self-sufficiency, deficiencies considered to have been inherited from the previous model.

According to this perspective, the 1980s (known as the "lost decade") had been the result of an aggravation of the "structuring imbalances" originated in the past development strategy, which had been excused as a temporary condition.[5] Under the reform approach, the effects of "governmental flaws" would become cumulative, imposing the need to adopt a new model to correct them.

Through this perspective, the exchange rate anchor was not an end in itself, but a means to access the new centres of growth: increased productivity, attraction of external investments, privatization and trade opening.[6] The continuation of the tariff reduction (started in 1987) and the valorization of Brazil's currency – that, in real terms, had been taking place since 1992 – were an attempt to promote a new type of integration of the Brazilian economy at the international level.

During the period 1994–1998, Brazil increased its international exposure in every respect: the coefficients of imports of gross national product (GNP) increased from 6.1 per cent to 7.3 per cent, with an even more substantial increase when the apparent consumption of the industrial sector is calculated;[7] external direct investments jumped from US$2.1 billion to US$28.9 billion, greatly contributing to the privatization process; and foreign debt increased by more than 60 per cent. The deficit in current transactions in 1998, before the depreciation of the real, reached the order of 4.2 per cent of GNP. If we consider a longer period (1992–1998), net external liability doubled.[8]

On top of this, it is worth emphasizing the opening of capital accounts, starting in 1991, which enabled a considerable entrance of portfolio investments just before and after the Real Plan. In this way, while in 1989 there was an exit of US$400 million of portfolio investment, in the year of the Real Plan, the euphoria regarding the scenario post-stabilization resulted in an entrance of US$54 billion.[9] In other words, the Brazilian engagement with globalization had as its predominant feature integration into the financial sphere.

After 1994, Brazil's macroeconomic performance was characterized by instability, following a typical path of stop and go. The investment rate fell between 1994 and 1996 because interest rates went up following the Mexican crisis. This event happened in the first semester of 1997, but investment was to take a further plunge soon after in 1998, as a consequence of another increase in interest rates in November (when the nominal annual rate jumped from 20 per cent to 46 per cent in a year), in the aftermath of the Asian financial crisis.

If, during the first FHC government, a "mini-cycle of modernization"[10] became a reality, thanks to lowered prices on imported equipment,[11] this did not trigger the beginning of a more effective process of investments in the expansion of productivity capacity and in the development of new products.

Increases in investment rates were, however, aborted in a recurrent manner by high interest rates that depressed expectations of growth. In terms of product expansion, this phase – 1994 to 1998 – began with an annual growth of 5.8 per cent, ending at a modest 0.2 per cent.

Parallel to this, the entrance of external direct investments, in large part motivated by assets transfer, was also not able to sustain an increase in the level of investments in value added terms. The appreciation of the exchange rate resulted in a simultaneous expansion of foreign debt and of the deficit of current transactions, without making an effective contribution to the financing of the expansion of production capability. It thus promoted an increase in consumption by way of currency appreciation.

In practice, the need of precedence for trade liberalization with expansion of exports was neglected; instead, there was an opening of a capital account that transformed external insertion dependent on attracting short-term resources.[12]

As a result, the volatility of monetary policy reflected the extent to which the Brazilian economy had become a hostage to international oscillations, especially of portfolio investments and short-term bank loans. And in spite of the increase in external direct investments, these factors were not able to totally meet the deficit in ongoing transactions.

The devaluation of the real in 1999 changed the administration of the economic policy situation, but not the concept of the form of Brazil's

engagement in the world economy, nor the understanding regarding the role of structural reforms.

In spite of the reduction of the deficit in current transactions, Brazil still needed to assure its financing by way of rolling over the loans taken up during the previous period. External direct investments reached their highest point in 2000, a year after which the path curved. In 2002 alone, the impact of depreciation would be felt in the form of a significant trade surplus of US$13 billion. Nevertheless, Brazilian exports would continue to represent 0.9 per cent of the world total, well below the 1.4 per cent verified in 1984.

In the meantime, during FHC's second term, after the financial package of 1998, the country needed additional reinforcements to lessen the uncertainty of financial markets, having signed new agreements in August 2001 and August 2002. From an idyllic view of globalization, Brazil was gradually moving towards an understanding of the international economy as being deeply unstable, in addition to being "asymmetrical" and "unequal".[13]

In spite of a reduction in the relationship between external debt and exports, from the highest level of 403 per cent in 1999 to 222 per cent in 2003, it still maintained well above the level verified in most emerging countries. In taking into account the relationship between the service of foreign debt and exports, the Brazilian percentage for the period 2000–2002, of 72 per cent, is second only to the Democratic Republic of Congo.[14]

In the period 1999–2002, a new contractual fiscal policy was completed – under the IMF's supervision. It was based on the need to generate significant primary surplus with the aim of promoting the reduction of the relationship between public debt and GNP, which in the period 1994–2004 increased by about 30 per cent to 60 per cent. It must be pointed out, however, that the origins of this explosion of public sector debt can be found in the high interest rates put in place to attract short-term capital during the period of the exchange rate anchor, and not in a supposed lack of control of state expenses.[15]

In the period post-1999, monetary policy relaxed, although starting in the first four months of 2001 and up to the first quarter of 2003, following the US stock market crisis and, in view of the expectations and confirmation of the victory of the left in the Brazilian elections, one can see a new cycle of increases in interest rates.

The only year of "high" GNP growth in this quadrennium was 2000, at 4.4 per cent, against an annual average of 2.1 per cent from 1999 to 2002, inferior to 2.6 per cent for the period 1995–1998. In other words, exchange rate devaluation, not able to solve immediately the huge deficit in current transactions, and within a context of a high external debt – a scenario that became clearer through the aversion to the US stock mar-

ket post-crisis risk – prevented a relaxation in monetary policy. On the contrary, this became a new anchor, theoretically sustaining the model of inflation goals.

In this way, between February 2001 and March 2003, basic yearly interest rates jumped from 15.1 per cent to 26.3 per cent. Exchange rate pressures caused shocks that resulted in a reinforcement of the monetary policy, causing negative impacts on demand. Any increase in inflation, even if caused by cost pressures, ended up demanding almost automatic increases in interest rates.

It is not surprising in this context that the beginning of the period 2003–2004 was marked by a contraction of the Brazilian economy, followed by a recovery – starting in the last quarter of 2003 – that is still in too early a phase to attest to its sustainability.

2003 was characterized by a significant trade surplus (US$24.8 billion) generated by the effects of the 2002 devaluation. The improvement of Brazil's external account, the continuity of the economic policy of FHC's second term – supported on the tripod of primary surplus, monetary policy of inflation goals and exchange rate fluctuation – and the maintenance of US interest rates helped to explain the fall of the risk-country in the second semester of 2003. The dimension of net external liability seemed to suggest that the logic of FHC's policy approach in his second term had not been abandoned, although the short periods of calm were followed by a turbulence of lasting impact.

In other words, despite a small surplus in its checking account during 2003, Brazil seemed to continue to depend on an essentially stable international scenario in order to be able to reduce interest rates without significant impacts in terms of devaluation of the real, given the high service of the debt and the huge expenses that came with amortization, especially in a moment of shortage of external direct investments.

In short, everything seems to point to the fact that economic growth sustainability depends on a series of factors in which the administrators of macroeconomic policy have little control. Productivity gains, microeconomic modernization and private investment (national and international) expansion are well beyond the expected gains of the architects of the current economic model. The Brazilian economy is subject to a number of sources of externally induced instability, especially through increases in commodities (most notably oil), which demand both an increase in taxes and a temporary increase in interest rates.

The following questions arise: in practice, to what extent is a difficult and slow transaction being completed and aimed toward a new development model, and to what extent can the validity of a model that is unable to promote economic growth without repetitive external crises be verified?

In fact, these questions merely ''nationalize'' a ''global'' debate, that may be summarized as follows: do we live in a new phase of capitalism that is competitive and globalized,[16] or is the current situation only an acceleration of the world's intrinsic instability that is based on the absence of global regulating spheres and a lack of control of international financial flows?[17]

Concentrating on the Brazilian reality, such a dilemma can still be analysed from another angle: which are the sectors and/or areas capable of drawing in a slow and articulate growth in product and investment levels? The predominance of the agribusiness sector in Brazilian exports[18] and Brazil's external dependence on technologically advanced sectors both present structural issues for Brazilian development. This conclusion becomes clear when the nature of the recent trade surplus is analysed: 37 per cent is concentrated in non-durable consumer goods (a good part of it is centred in agribusiness) and 57 per cent in the intermediate goods sector, thanks to domestic market demand reduction. In addition, the deficit of the capital goods sector – where technologically advanced sectors are found – is only hidden by the context of economic stagnation.

During the first semester of 2004, the discussion regarding growth sustainability once again came up, just as it did in the first semester of 1997 and during 2000.[19] In the centre of the current economic policy, there is space for growth through a slow decompression of interest rates (up to a level that is self-imposed by an inflation goal policy), an expansion of the exporter sectors with consolidated comparative advantages, demand repressed by durable consumer goods, and expansion of investments in the privatized services sectors, in tune with the regulatory marks definition.

However, the macroeconomic consistency of the present policy and its relationship with the external insertion pattern inherited from FHC's second term continue to be present as an unknown factor, depending on new outcomes of the economic policies of the G8 countries and of the international economic policy of globalization, as internally, policy-makers occupying key positions in the economic sector – especially the US Treasury Department and the European Central Bank – seem to refuse to take more innovative attitudes in theoretical and practical terms.

Brazilian foreign policy in the 1990s

Brazilian foreign policy reflects in great measure the ambiguous position of a country possessing both a huge continental economy and a high degree of social complexity, featuring ambitious industrialization initiatives, and, at the same time, alarming social rates of poverty and income and

regional inequalities. More than dichotomous, the economic and social structure of the country is characterized by the coexistence and articulation, in varying degrees, of contrasting economic and social dynamics.

A significant part of the tensions and contradictions in Brazilian foreign policy can be explained by the fact that the country has a multifaceted international presence. At times this presence stands out in some economic aspects (GNP, industrialization level, dimensions of domestic market, export of strategic products, etc.), at times in political aspects (leadership or regional potential, limited military projection, leadership of alliances and international coalitions, presence in the multilateral fora, etc.), and at times in social aspects (cultural diffusion, population dispersion, population dimensions, etc.). This multifaceted presence allows the country to be simultaneously present, to various degrees, in several international fora.

Lima very precisely relates these contradictory patterns of strengths and weaknesses to Brazil's foreign policy: ''because of their condition as 'intermediaries' they have at times the characteristics of strong countries, and at other times the characteristics of weak countries, 'some times autonomous, other times dependent'. Because of this condition these countries deploy mixed forms of international action''.[20]

In this depiction, while what characterizes a great power is largely its outstanding and influential presence in basic international arenas, the characteristic of this intermediary condition is seen as being the heterogeneous presence in different arenas, where the prominent role and influence in some is shared with great vulnerabilities or a lack of influence in others.[21]

The period from the end of the 1980s throughout the 1990s was marked by a series of events that brought about significant changes not only in the political order but also in the international economic order. On the one hand, the end of the Cold War, more dynamism in regional systems, and the appearance of non-military security threats have all had a decisive impact on world politics. On the other hand, the acceleration of complex interdependence and new modes of technology and productive organization is reflected in the economic dynamics of the world's nations.[22]

Such movements were gradually building the bases on which Brazilian foreign policy, as well as its political alignments and ideological foundations, was supported. This would become even clearer with the adoption of a liberal national economic policy, which was predominant in the 1990s.

Undeniably, the reforms highlighted a growing tension and contradiction between the search for economic objectives and the traditional goal of political autonomy. If, in the centre of Brazilian independent foreign policy, such objectives were articulated and mutually reinforced, in the

present situation they seemed to be in growing conflict, although this could be avoided and assimilated in many ways, as we will see.

The international political context of the 1990s was characterized by the hegemony of the coalition of industrial powers under the leadership of the United States. In the words of Albuquerque, the international distribution of power characterized "a system in unstable balance, constituted by a superpower with undeniable military supremacy and political leadership and relative economic prevalence" contrasted to other countries "with unequal degrees of systemic relevance".[23]

However, such a situation does not imply – contrary to what has happened in the other post-war phases of the last two centuries – a new explicit political reorganization pact on the part of the winning coalition (in this case, the victor of the Cold War), and much less the creation of new institutions and international fora or a re-discussion of the role of the old ones.[24]

The political vacuum that followed the surprising disintegration of the Soviet Union is being progressively filled by the political leadership of that winning coalition, which at times uses multilateral fora to drive its actions (UN Security Council, GATT/WTO, WB, IMF), at times is present by way of minilateral fora (G7, OCDE, NATO), and at times acts in a unilateral way (Strategic Defense Initiative, invasion of Iraq, etc.).

Such a political context is far from being a stable and safe environment, and is a climate in which many countries – the powers in crisis (Russia), the emerging powers (China), and intermediate countries like India, South Africa and Brazil – are looking to redefine their roles.

The Brazilian perception regarding the international political and strategic context has been quite ambiguous. As Brazil is part of a secondary area in terms of strategic importance, the risks caused before by the Cold War were reduced. In addition, since the 1980s, the region has been declared a nuclear-free zone, and its existing international conflicts are of low intensity – notwithstanding the high-profile status of issues related to drug trafficking, guerrilla movements and growing tension on the Amazonian borders. In other words, Brazil is located in an area that is relatively stable in strategic terms and of low priority for US foreign policy.

That condition has been understood in two complementary ways. On one hand, it is believed that the current international context of "indefinite polarities"[25] makes the global game more complex than was the case in the Cold War period, and therefore, Brazilian participation and Brazilian alignment should correspond to this complexity, abandoning the traditional general references to "developing country" or "pariah country" commonly associated with Brazil.

In light of this, Brazilians have replaced the term used to refer to a country belonging to the third world with other expressions that accen-

tuate Brazil's condition as a country in advanced development: ''a country with some patterns of the First World'';[26] a ''developed, but unjust country''.[27]

Roberto Abdenur, subsequently appointed to the post of Brazilian Ambassador to Washington, summarized this change:

> Brazil dissociated itself from unproductive attempts, in vogue until the beginning of the eighties, of global questioning of the international economic order. We continued to criticize ... unjustifiable aspects such as the trade protectionism of developed countries, or the restrictions to the diffusion of state-of-the-art technologies. However, these criticisms have an objective and topic orientation, devoid of any connotation of a North-South confrontation.[28]

After years of resistance to the international organizations on many issues, Brazil started a process of ''cleaning up its international agenda''. Subjects that were not previously considered susceptible to negotiation – such as human rights, the environment, nuclear programmes and computers – were quickly dealt with. Most of these problems took a quick turn for the better, and the country became a signatory of various treaties and international agencies – in the case of human rights, during the Sarney government (1987); on environmental issues, during the Collor government (Eco-92); and even on the subject of computers, when Collor announced, in 1990, the promotion of imports in this sector.[29] The nuclear issue, which remained untouched until 1997, was reformulated with Brazil's signature and ratification of the Nuclear Non-Proliferation Treaty during FHC's government, in addition to several bilateral agreements with Argentina and the signing of the Convention against Chemical Arms.

These measures were in agreement with the profile of Brazil as a great emerging market[30] – in other words, a country that is externally opened, politically stable and balanced in its economic regulations – which the country had started to pursue. As Cardoso said in 1993 when he was Itamar Franco's Minister of Foreign Relations: ''the opening of the market, the attraction of foreign investments, the approval of the Law of Patents, the normalization of relationships with the international financial community, the determination in the protection of the environment and of human rights – are all indispensable policies that place Brazil on the path of positive trends in the international scenario''.[31]

In this effort to solve international problems in conjunction with the great powers and international agencies, adherence to the new economic agenda was of special significance, mainly with respect to foreign investment, protectionism and subsidies. Included in this approach were the ''new issues'' that were so salient to Brazil during the 1980s and in the negotiations on the GATT: patents, intellectual property and services.

These objectives persisted in several aspects of Brazilian foreign policy, although with clear oscillations in terms of diplomatic initiatives reflecting the ''intermediary'' condition of the country. One of the consequences of this has been a reinforcement of the strategy of going after certain objectives through international agencies as a way of increasing the country's presence and capacity for negotiation. Good examples here are the insistence with which Brazil has been defending – although in an intermittent way – the accomplishment of UN reforms and the articulations that were undertaken following the end of Sarney's government so that the country could be nominated for a permanent seat on the Security Council.[32]

Another change in the Brazilian stance happened in its policy of regional engagement, where the country has been able to achieve cohesion between its objectives of economic development and political autonomy. According to Cardoso, ''another mistake against which we should show caution would be to distance ourselves from our geographical and cultural circumstance to look for an agreement with the great economic poles''. Far from being insular, this regional focus would allow ''a clearer projection of Latin America in the world''.[33]

As a result, during the 1990s, Brazil witnessed a significantly greater presence in the region, reinforcing its leadership characteristics by taking advantage of the retraction of the United States' direct strategic interests in the region, and of the expansion of the conditions under which Brazil could move forward within the process of hemispherical integration.[34]

Following a strategy of gradual progress, Brazil left the phase of approximation and integration with Argentina – which ended up establishing itself as the hard nucleus of other processes – and moved toward the constitution of MERCOSUR, incorporating Uruguay and Paraguay, followed by Chile and Bolivia and, more recently, Peru and Mexico as associate members. In addition, in 1992 Brazil proposed the Amazonian Initiative, with the objective of increasing economic cooperation with countries of the Amazonian region, such as Venezuela, Bolivia and Peru. Bilateral agreements with Bolivia and Venezuela involving energy, transportation and technical cooperation also became common. In 1993, Brazil presented its proposal for a South American Free Trade Association, with the endorsement of other members of MERCOSUR, designed to establish a proposal for continental integration. And in 2000, Brazil hosted the first meeting of those South American countries.[35]

Some concrete consequences of this regional policy are obvious. The most evident of them has been the counterpoint role, in terms of programming, that Brazil has played in relation to the United States on the subject of the project of hemispherical integration, something that had al-

ready been announced during FHC's second term but that became more prominent during Lula's first year of government.

US analysts have been emphasizing the potential of a counterposition in Brazilian regional policy and in relation to US interests in the region. According to Smith, the consolidation of MERCOSUR may have important historical consequences for the region, because for the first time the possibility of a counterposition between the United States and a cohesive block of Latin American countries has emerged.[36]

Riordan Roett, in a letter written to the Office of the Trade Representative, the US agency responsible for conducting the negotiations on hemispherical integration, was clear when he affirmed that ''the USA should not expect any preference or special treatment'' on the part of Brazil.[37] Fauriol and Weintraub have made comments in a similar vein: ''Brazil and the other MERCOSUL [Mercado Comum do Sul, the Portuguese name for MERCOSUR] countries are undergoing a transformation that can significantly alter the form by which the USA will follow a hemispherical policy next century'', or even, ''the superior capacity of Brazil, and its latent aspiration of regional leadership, suggest a growing competition in some aspects with the policy of the USA towards South America''.[38]

In overall terms, we can say that since the 1990s Brazil has started to develop a regional policy with strong strategic content that has progressively occupied a central place in its external relations. Celso Amorim, at present the Brazilian Chancellor of Lula's government, expressed this in the following way: ''it is essential to reinforce the regional basis of our insertion in the world, consolidating MERCOSUL and making clear advances on the project of creating a South American Free Trade Zone''.[39]

The objectives of economic development and political autonomy thus gained a new articulate basis with regard to Brazilian foreign policy. The main tensions produced by the economic reforms had consequences not only in the multilateral policy of the country, but also in its regional policy. The goal of political autonomy was weakened by Brazil's adherence to the main regimes and international institutions present, while the active and gradual policy directed towards the construction of a regional space under the incipient leadership of Brazil sought to recompose part of Brazil's lost sovereignty.

It is worth noting the differences and continuities between FHC's first and second terms and Lula's government, in the way they dealt with major international insertion in the context of a global economy – in other words, how the objectives of economic development and political autonomy in the three terms were put together. FHC's first term, if one-sided, began a path aimed at enlarging the qualitative presence of Brazil in the world. It was anchored in a low-profile position with regards to multilat-

eral fora – financial or trade – in an attempt to ''clean the area'' of bilateral relationships with the United States, with the modification in the legislation of patents, the end of state monopolies in strategic sectors of services, and the review of discriminatory constitutional devices in relation to foreign capital. It was an attempt to gain the ''credibility'' needed for Brazil to fly higher. In terms of the WTO, there was still no move from the defensive and low-profile stance taken during the GATT period to a more pragmatic stance.

It can be said that this line of foreign policy, still timidly directed, was affected directly by the external crisis of 1998 that culminated in January 1999 in the devaluation of the real. On the one hand, FHC was pushed to follow a form of economic diplomacy against his will,[40] negotiating packages of financial aid. On the other hand, moves were made to reinforce MERCOSUR policy and to undertake ''tough'' negotiations both at the WTO level and at the level of the great trade blocs, the North American Free Trade Agreement and the European Union, which are always looking for an interregional negotiation structure.

Lula's government came to power in an environment of high distrust concerning national and international markets, which, in economic terms, had generated an inflationary bubble, very strong pressures on the exchange rate, capital flight and general freezing of investments. In this scenario, Lula's government did not have a wide margin of options. Even in the final phase of elections, it had already begun contacts and commitments to guarantee that it would not break signed contracts or alter the general line of economic policy that was in effect. Economic diplomacy focused on recovering the country's external credibility, taking up a stance with the adjustment profile recommended by the IMF. Brazilian financial authorities went to the extreme when they negotiated Argentinean post-moratorium foreign debt with a mixture of coldness and indifference, providing mere formal support.[41]

In the face of this economic strategy, Lula's government looked to raise the profile of its actions in the political arena and, to a lesser degree, in trade. It tried to balance this conservative stance in handling its economic policy with a strong international rhetoric, manifesting a diplomatic activism in areas unanticipated by FHC's government.

This objective was felt in the assertive campaign aimed at obtaining a seat for Brazil on the UN Security Council. Lula's government did this through a dialogue and articulation that was more determined than in the past, engaging with intermediary countries such as India, South Africa and China as well as within the regional context, with more emphasis given to the role of South American leadership. The insistence of a seat on the Security Council, in the face of a context of total paralysis in the discussions on the reform of this body within the United Nations, may

indicate a strategy that seeks to use that issue to, in fact, project Brazil into other international fora.

However, the idea of constituting a strategic alliance among emergent countries – initially including Brazil, Mexico, South Africa, China and Russia – was already expressed in Lula's governmental programme, being presented as a strategy to establish a counterpoint of representation between these countries and the agenda of the G8. Lula's political support was reinforced by the expectation that the condition of the emergent developing countries would guarantee them proximity in terms of economic interests and a political front to the bloc of developed countries.

Since the beginning of this group's attempts at negotiation, the difficulties have proven to be considerable, in particular in the cases of Russia and China. Because of this, Lula's government achieved a relatively close form of cooperation with India and South Africa, forming the G3. However, without the other members, the G3's political importance and capacity to influence the international agenda proved limited.

In the regional context, Lula looked to narrow Brazil's political ties with all South American countries. A first significant movement in that direction was the unprecedented way in which Brazil reacted to a political crisis in one of the Andean countries, Venezuela. Lula began his regional foreign policy even before his inauguration: 15 days before taking office he sent a political representative to Caracas to mediate the conflict and to offer to be a speaker and guarantor of political stability. Soon after, he took the initiative of constituting a group of friends, formed initially by several countries from that region that were politically close to Brazil. This precipitated an action by the United States, which first tried to block the forming of this group and subsequently attempted in a vehement manner to alter its composition.

A second demonstration of Lula's approach in this area was that, in the first six months of his government, he managed to have one or more meetings with all of the presidents of the region. Showing such clear priority to the region was unprecedented.

Other political movements indicated the general lines along which Lula would conduct Brazil's affairs in the international political arena. Building on his enormous internal and external popularity, in 2003 Lula participated in the World Social Forum in Porto Alegre, Brazil, and in the same week, in the World Economic Forum in Davos, Switzerland. More remarkable still, he gave practically the same speech at both meetings, and was in fact applauded at both!

However, Lula's main proposal in his international interventions has been the constitution of a world fund against hunger. Although the merit of such a proposal is unquestionable, it is insufficient as a political proposal of international action seeking to alter the bases of the world

economic system on behalf of an agenda of sustainable development. Because it did not arise through a representative articulation of countries, and is not part of a wider group of measures, this proposal has, unfortunately, served more in the context of rhetoric than of political action.

In any event, changes in relation to the previous government in foreign policy do not indicate a dramatic change of direction. It seems more appropriate to characterize Lula's foreign policy as a double reinforcement of the tension between a conservative economic diplomacy with a foreign policy of affirming Brazil in major international fora, and acting as a defender of developing countries and of national interests – through MERCOSUR – in negotiations with the great blocs.

The risks and opportunities of this double strategy, contradictory at times, have revealed themselves to be open-ended as they depend, in great measure, on Brazil's negotiating capacity, the performance of the great powers, and new trends in the global economy, but also on the outcomes of the national productive sector within the context of an essentially orthodox economic policy.

Foreign policy strategies in the commercial and financial spheres

It has become clear, therefore, that there is a stark contrast between the activism of Brazilian foreign policy in international fora and trade negotiations, including the widening of bilateral relationships with the great emerging economies, and Brazil's passive and seldom innovative stance in relation to the international financial agencies.

In the context of trade, Brazil's activism should be analysed in detail, particularly in light of the fact that today the country takes part in less than 1 per cent of the world's flow of trade. In recent years, two moments can be considered as turning points in Brazil's trade strategy. The first occurred during the Uruguay GATT Round, when Brazil abandoned its strategy of systematic blockage, accepting the need to discuss "new issues" and making agricultural issues again the priority, thereby distancing itself from the traditional stance of the G77 developing countries.

The second happened at the end of FHC's term, albeit consolidated with Lula, when once more Brazil altered the core of its strategy, taking back part of its political articulation with the main G77 countries and looking to compose the agenda with regard to its interests in short-term agricultural issues and issues related to development (investments, government purchases, etc.).

Certainly it is in this dimension that Lula's government has shown greater innovation and effectiveness in its external actions, achieving in

this specific arena a move from rhetorical to programmatic engagement. The articulation of the G20 in the WTO can be seen as the culminating moment of this process, including its decisive role in the unlocking of the Doha Rounds.

Contributing to this long revisionist process were not only the dynamics of the GATT during the Uruguay Round, but also Brazil's change in perceptions and priorities in the context of its own process of domestic economic reform.

From a diplomatic/political point of view, the end of the North–South polarized atmosphere – and the disarticulation of the G77 – drastically reduced Brazil's bargaining capacity on the world stage. Economically, its perception of the costs and benefits of trade liberalization was altered substantially. From that time onwards, it became a Brazilian priority to reinforce the rules for opening trade, mainly in the sectors where the country was competitive, as well as to strengthen the mechanisms for dispute resolution and trade defence. Through this change in strategy, Brazilian economic diplomacy began to concentrate on issues such as agriculture, anti-dumping regulations, safeguards and dispute resolution, instead of blocking such issues as services and patents. However, after the impasse in the Mid-Term Review in 1988, the trend moved towards a gradual loss of negotiating capacity for Brazil, as the negotiation process concentrated on the United States and European Union.

Brazil supported the collection and dissemination of trade information mechanisms – through the Trade Policy Review Mechanism – as well as the new procedures for the resolution of disputes. In a recent meeting between Ambassador Celso Amorim and Brazilian entrepreneurs, Amorim clearly attested that WTO negotiations are the main priority for Brazil, because the WTO is the forum that benefits Brazil's development project the most.[42]

In relation to its policy of forming alliances, Brazil, at the start of the Uruguay Round, engaged in a strong involvement in the G10 veto coalition, of which the country was one of the leaders as part of its coalitional activities within the larger G77. In other words, Brazil's preference for acting through alliance-building was clear. With the progress of the Round, and with the change in the country's stance and objectives, its coalitional policy would also alter. Brazil began to reinforce its involvement within the Cairns Group (activity that initially had been only formal) and started to move slowly towards regional coalitions, mainly MERCOSUR. Although this movement was much less significant than Brazil's traditional deep involvement with the G77, it represented a shift to a more specialized focus on the part of Brazil.

With the Doha Rounds (2001), the performance of Brazil followed the embedded pattern of the end of the Uruguay Round, but with some

tactical changes. In the face of formidable obstacles in advancing the negotiations associated with international political change (growing US unilateralism, political US–EU division over post-war Iraq, etc.) as well as domestic changes (the end of FHC and Lula's election), Brazil's negotiating stances became self-confident, without returning to the past alliance of the G77, and increasingly questioning of Brazil's own attitudes towards trade rounds.

With this new image, Brazil recovered its voice and strategy concerning sensitive issues related to development. The strong stress placed on agriculture was lessened to some extent to allow Brazil to work together with other states that were not net exporters of commodities but, as in the Brazilian case, had interests in issues such as services, investment and government procurement. Brazil, on the one hand, re-emphasized its political articulation in relation to developing countries – differently from the Cairns Group – and, on the other, managed to maintain its agricultural and short-term interests, connecting them to highly politicized issues related to the development agenda that had lost significant space in the trade agenda of the country, especially during FHC's first term.

According to Celso Amorim, the main strengths of the G20+ are "a legitimacy [gained through] the inclusion of a great number of developing countries which represent a majority portion of the world rural population, and the capacity of the group to translate the interests of their members into coherent negotiating proposals, with credibility."[43] As such, it is in the trade arena that the participation of Brazil gains strength, showing its sophistication and political relevance. In spite of its relatively small participation in percentage terms in world trade, Brazil has been achieving a reasonable degree of influence in the formation of the agenda and also in substantial negotiations. It has been participating in several restricted consultation gatherings and meetings, in which developed countries participate with a few developing countries. In the recent Doha Round, the Non-Group-of-Five was consolidated as the hard core of negotiations, of which the United States, the European Union, Australia, Brazil and India are a part, thus replacing the previous core that had the participation of Canada and Japan.

A quite different process has taken place in the arena of negotiations in regard to the system of international financial reform. Brazil has maintained its condition as one of the main debtors in the world, for several decades overburdened with the derived financial services of permanent renegotiations, rolling-over and payment of its foreign debt. This condition became worse with the announcement of the moratorium in 1987, motivated much more by the absolute impossibility of Brazil keeping its international commitments than by political or ideological considerations.[44]

After countless letters of intent that were not followed through, mission visits by the IMF's technicians, and a heated public debate, Brazil managed to sign a debt rescheduling agreement directly with the Club of Paris in 1992, even without the IMF's endorsement.

As seen above, FHC's stabilization plan, in particular its supervaluation policy of the real against the dollar, provoked a strong increase in the country's external debt between 1994 and 2002. At the same time, the negative effects still derived from the moratorium made the country particularly vulnerable to permanent international financial capping.

However, in clear contrast to the importance of this theme to the country, the involvement of Brazil in financial fora was extremely modest. This issue was treated exclusively in technical terms, with policies directed towards short-term ''administration'' of balance of payments. With the exception of the attempt to articulate with other highly indebted developing countries such as Mexico in the 1980s – by way of the Consensus of Cartagena – the issue has hardly arisen in the context of Brazil and in debates dealing with the strategic and long-term role of international financial institutions, even though critical references to financial deregulation have been made both by FHC and Lula.

Contributing to this condition was the fact that the country's financial themes were under the responsibility of the Ministry of Finance, with smaller participation on the part of the Ministry of Planning and the Central Bank. Usually a place of successive changes, the Ministry of Finance, during the two FHC terms, was in the hands of the same person: Pedro Malan. Not by chance, he was the main negotiator of Brazilian foreign debt in the short period in which FHC was Minister of Finance at the end of Itamar Franco's term (1993–1994).

Although FHC's period of government started a new era in terms of monetary stability and partial improvement in Brazil's relationship with developed countries, Brazil continues to be a country that is highly vulnerable to international ''bad weather''. The brief improvement in the governability conditions of the country at the beginning of FHC's government was, however, insufficient to elevate international financial issues to the status of strategic issues, and these matters continued to be dealt with in a punctual and ad hoc way.

In parallel terms, the international context in 1995 began a long cycle of financial crises inaugurated by Mexico and with enormous impacts on Brazil. During this phase, Brazil regularly approached the IMF to deal with the spillover from that crisis. Three agreements of preventive support were signed: in 1998 (US$41.5 billion), in 2001 (a stand-by agreement of US$15 billion) and in 2002 (US$30 billion). It must be pointed out that this last package, at the very end of FHC's government, had the

support of Lula, then president-elect, providing clear signs of his future policy in this area.

On several occasions, FHC expressed his concern with this issue, as was clear in 1999 in his speech at an International Development Bank (IDB) meeting: "The globalization of capital flows and the instability of finance markets place the countries of the region in the situation of needing to rethink ... the international financial system, as well as the role of the multilateral institutions".[45]

Besides dealing with this issue in several of his speeches, FHC proposed, through a letter to the G8 presidents and prime ministers, control measures for volatile capitals. However, there are no indications that those proposals ever constituted a priority for Brazil's international action. It must be pointed out, however, that in 1996, the country was invited, with seven other emerging countries, to join the Bank for International Settlements, as well as to participate in some informal groups on financial issues, with prominence for the G20 Finance.

A point that must be highlighted here is the fact that the recent IMF agreements with Brazil have had a character distinct from that of the traditional agreements in at least two aspects. First, and certainly most relevant, is the fact that they have had a preventive character. In other words, they foresaw the availability of credit lines that could be activated or not according to the country's needs. The second aspect is the amount made available in those agreements, which was well above the value of the regular quotas allowed for Brazil by the IMF.

In general terms, there were two factors that caused this. The first is certainly the relationship that FHC's government had with the IMF, which turned the country into a reliable candidate for that kind of agreement. The second relates to the possible spillover effects that a financial crisis in Brazil could generate in the region and in other emerging countries, as well as developed countries that are strong investors in Brazil.

Lula's election, although unexpected, did not alter this picture. Not even the political crisis in Argentina, with whom the Brazilian government reaffirmed its strategic alliance through the moratorium and the tense negotiating process, motivated Brazil to take a more assertive stance on this issue.

Beyond the proposal for the formation of a world fund against poverty that could be financed with an "international tax" on the trade of weapons and/or flows of short-period capitals, Lula's government has been satisfied to promote only small arrangements in the formulas traditionally adopted by the IMF to analyse the national accounts of countries in difficulty.

The two main proposals of Lula's government are the exclusion of investments of state companies from the account of public expenses, and an

end to the prohibition of financing in the public sector by state banks. Both of these proposals are clearly marginal to what is referred to as the international financial architecture.

How does one explain this divergent attitude in both fora, already pointed out during FHC's government, and which became more explicit after Lula's election? Several hypotheses can be raised. One refers to the very nature of international fora that deal with trade and finances, while another highlights domestic variables: institutional, ideological and even bureaucratic.

We can explore some of these possibilities, although not exhaustively. Taking the Bretton Woods institutions, it is easy to notice a clear distinction between the deciding processes of the GATT/WTO, in contrast to those of the IMF or WB. The GATT and WTO are presided over through meetings in which decisions are more inclusive and transparent than those of the IMF and WB, in the sense that each member country represents one vote and the decisions are, in general, made unanimously. When this process does not occur, plurilateral arrangements can be put in place, with voluntary adhesions. In contrast, the international financial institutions are structured on votes allocated according to the quotas set for each country, and as such are restricted to a select group of countries that possesses almost total control.

The process of making formal decisions within those institutions does not eliminate the capacity for political influence on the part of the core countries in the system, but while in the case of trade fora the formal procedures work to lessen this influence, those of a financial character reinforce it. This situation generates incentives for countries such as Brazil to give priority to participating in trade fora in the sense that they may, in theory, play a more relevant role.[46]

However, it is known that there are countless other ways to influence the decisions of those institutions and the formation of their agendas, such as acting through coalitions with respect to altering the game of general bargaining or combining strategies with bilateral or thematic commitments.

Another factor is the way in which the federal government of Brazil has structured itself to act in each one of these arenas. While trade issues are the responsibility of the Ministry of External Affairs, financial issues are the responsibility of the economic ministries, whose role is both planning-based and financial. Structured in quite different ways and directed to agendas with clearly different time factors, these ministries adopt contrasting perspectives in relation to each issue.

The most evident expression of Brazilian diplomacy and its involvement in the third world was in fact seen in the fora and discussions on trade, where, for instance, its involvement in the G77 was one of its

main features. On a lesser scale, this involvement permeated some political fora, as was the case in the UN General Assembly.

In practice, the debate on the tone and content of trade negotiations reveals a deep lack of consensus among the managers of Brazilian foreign policy, highlighting the rift between the nationalists (from the trade sector) and the internationalists (from the financial area).

The main innovation of the third period here analysed (post-2003) is that, even though the prevalence of the presuppositions of the economic policy of the 1990s is not questioned, the emergence of a new power nucleus is permitted at the governmental level that explicitly defends a new power coalition at the international level.

In practice, this reveals a contradiction that was already present during the FHC government between the acceptance of the limits of liberal trade and industrial policies and the government's involvement in additional liberalizations in conjunction with the great powers, as in the case of the negotiations for the formation of the Free Trade Area of the Americas and the creation of a trade agreement between MERCOSUR and the European Union.[47]

In other words, an important nucleus of the government has now begun to question the convenience of deepening the international integration of the Brazilian economy at the same time as it admits – with a certain amount of anguish, to be sure – that part of this new, more internationalist stance in the economic/financial sphere is irreversible. An attempt is made in this way to restrict negotiations of issues dear to developed countries – services, intellectual property and investment regulations – not considering them as exchange currency, but as conditions for the administration of a new model of development and international insertion.

Prevented from a radical restructuring of the external trade agenda – with more value added – by the constraints of its economic policy, Brazil's federal government retains a "sovereigntist" stance that does not criticize the orthodox model of economic policy, although there are obvious contradictions to this approach.

This paradox comes to the fore when the economic team (the Ministry of Finance and Central Bank) questions the government for the "harshness" of its external stances or for its supposedly low disposition to negotiate trade agreements. On the contrary, the development focus of Lula's government tries to occupy new spaces in the international power hierarchy, enlarging coalitional activity with developing countries and "measuring strengths" with the more powerful nations without running the risk of dealing face to face with those nations.

In short, the foreign policy of Lula's government cannot be characterized as strictly coherent, as it reflects an internal struggle of power groups

responsible for foreign policy that assimilate in a peculiar way the uncertainty regarding the evolution of the most structural aspects of globalization in Brazil's trade, productive and financial aspects, in addition to interpreting distinctly Brazil's potential in the new international economy.

Brazil and the controversy regarding the L20 proposal

This sketch of Brazil's economic and foreign policy shows that the country highlights the contradictions placed by the international economic architecture on developing countries with high productive potential.

The implementation of monetary stabilization and economic reform programmes has paralysed the country's capacity for growth and increased its external vulnerability. At the same time, adhesion to the main regimes and international economic fora did not manage to increase the country's international political capacity; Brazil has shifted towards other political arrangements, mainly of a regional character.

Therefore, the Brazilian case indicates the many dimensions of the crisis of the Bretton Woods institutions, as well as the dilemmas related to the promotion of global governance and of balanced and sustainable development among Northern and Southern countries. That fact has not gone unnoticed by the government or by academics and opinion makers in Brazil. On the contrary, by going back to a more active foreign policy both FHC and Lula's governments have placed the discussions concerning the best options for Brazil in a positive light: multilateralism, a South–South agenda, South American integration, strategic partnership with China, India and South Africa, and so on. In this context, the possible advantages and disadvantages for Brazil if it engages in a proposal for the replacement of the G8 with an expanded G20 in the form of a Leaders' 20 Summit must be analysed.

A small round of interviews conducted by the authors of this chapter with people active in the international arena, both in government and in the private sector,[48] reveals, in general, that reaction to the proposal is positive, but this position is marked by scepticism rather than enthusiasm.

A considerable distrust of the effectiveness and legitimacy of international institutions permeates the Brazilian analysts in the same way that can be seen in the evaluation that the great powers do not conduct their policies directed towards a global government. They would rather be predominantly focused on their own interests, or, in the most optimistic scenario, following a more pluralist agenda, at least as long as that agenda touches on some of their strategic interests.

From this analysis it becomes clear that there is great resistance in relation to more active international involvement, including the mobiliza-

tion of the country's significant resources, whether economic, political or military. The evaluation that the country can in fact do very little to influence the international sphere, that the international institutions are not capable of maintaining lines of action when faced with opposing interests from the great powers, and even that these institutions do not have enough resources to become relevant, produces an atmosphere that is not conducive to Brazil engaging itself in a daring or innovative manner in the international scenario.

The main international forum viewed as effective and capable of generating significant and beneficial results for Brazil is the WTO. The general perception is that, in spite of the reality that political and decision-making dynamics can at times be distorted, reasonable spaces prevail for negotiations and respect for effective trade regulations on the part of developed countries. For these reasons, the degree of the WTO's importance for Brazil's economic growth is seen as higher than, for instance, the possible role to be carried out by the agencies more directly focused on development issues, such as the IDB and WB.

Alternatively, institutions such as the IMF, with strong and relevant influence in the definition of the country's economic policy, are obviously seen as relevant. But given its low receptiveness to domestic interests, the IMF is not attributed the same strategic importance as the WTO. Brazil's relationship with the IMF is seen as being basically administrative and ad hoc – in the best hypothesis as a result of Brazilian external vulnerability situations – and as being scarcely related to the country's development policy. Brazil's relationship with the IMF is much more directed towards required conditionalities than actual resources brought into the country. In other words, the IMF is seen as one of the many variables to be administered and not as a partner agency that could potentially provide decisive help for the country.

Corroborating this vision is the fact that the IMF is quite debilitated with regards to the functions for which it was created by the brutal reduction of financial resources that it now has at its disposal. According to Ariel Buria, Director of the G24, this is clear when one observes that the resources of that agency, which represented 58 per cent of international trade in 1944, today do not go above 4 per cent.[49]

The same has happened with the WB. Its capacity to act as a bank encouraging development has been radically changed by an enormous reduction in its relative capacity for investments and loans. For instance, the National Bank of Economic and Social Development has a budget for annual reimbursement similar to that of the WB: approximately US$14 billion.

Another factor that permeates the Brazilian perception in relation to the degree of relevance of international institutions, in particular those

directed at economic issues, is the reduction in the capacity of state agencies to define and implement policies in the face of the high increment of economic conglomerates and the speed and permeability of operations of multinational corporations in the international market. For some analysts, this process is strongly associated with the acceleration of globalization.[50]

Faced with this situation, Brazil followed a mixed strategy, varying the nature of the policies it adopted in different areas. To a great extent, these different policies responded to the different perceptions and interests of economic, political and bureaucratic groups more directly involved with these issues. Therefore, the process of economic reform and of redefinition of Brazil's foreign policy in the 1990s and early 2000s was much more selective and heterogeneous than linear and harmonious.

Brazil, unlike other Latin American countries, has not assumed an international stance during this period of clear adherence to the Washington Consensus, even in the most liberal period of FHC's first term (1995–1998). But neither has it followed a policy of explicit resistance to orthodoxy, as occurred in the case of China and India.

In instances such as the bank restructuring carried out in the middle of the 1990s by FHC's government, even in the face of a strong globalization trend in the activities of financial groups, the government decided to sponsor the restructuring of a national financial system with substantive resources under the control of national government authorities. The way to do this was to inject massive resources into a few national financial groups so that these acquired numerous state and smaller banks that were in an insolvency situation.

Far from being a market solution, foreign banks only started to integrate this process when the capacity of national banks proved insufficient and came close to being exhausted. The result of this policy of strong direct state intervention was to guarantee the participation and solidity of national capital banks. While Brazil has a banking market in which national capital is responsible for about 50 per cent, Mexico – which did not adopt a similar policy – has today a market with about 90 per cent international participation.[51]

In other instances, Brazil has looked for regional arrangements, but also pursued policies that were strongly based on the intervention and protection of national states. This was the case with MERCOSUR, which combined, on one hand, high external tariffs and, on the other, strong fiscal incentives and lines of financing from public banks for the enlargement and modernization of factories already in Brazil, as well as incentives for new companies entering into the country.

The government, for example, adopted a similar strategy in the energy sector. In recent years, several companies have become part of the state

company Petrobrás in the sense of integrating the Brazilian gas and oil market with those of Argentina and Bolivia. The electricity market has also been integrated with those of Venezuela and Argentina, in addition to the traditional partner already in that sector, Paraguay.

A radically different direction was taken in several other sectors of the economy. In these cases, the dominant strategy was basically a market solution in the classic sense; it was applied to sectors such as automotive parts, electronics and the food industry.

Possibly the best way to understand Brazil's heterogeneous and selective stance in political and economic world engagement is in part caution, in part pragmatism. Even with the existence of a political hegemonic group within the federal government, around the economic sector, different bureaucracies and groups of interest mobilize themselves to internationally plan, implement and negotiate Brazil's opening and economic reform process, bringing varied, sectored results.

There is no doubt that this is both the strength and the weakness of Brazil's international attitude. On one hand, it avoids the risks of more pure political options. On the other, it means that Brazil does not benefit fully from any of the advantages resulting from these options.

This same diversity of perceptions and strategic options, combined with a strong pragmatism and caution on the part of the government, should permeate the positioning of Brazil in terms of the transformation proposal of the L20 to succeed the G8.

The main vector of interest in the L20 proposal is its "selective inclusive" character approach, which pleases several groups that are active in the international sector in Brazil. Brazil's own strategy of looking for a permanent seat on the UN Security Council also highlights this point of view: a vision of a Brazil that belongs to a class of countries relevant to the international political process.

The great risk of the proposal is that Brazil may have to give up a substantive part of its interest agenda, clearly identified with development issues, greater stability of the global financial market, reform of the Bretton Woods institutions, and trade activism.

Therefore, the trend will be for Brazil to support the project at a distance, with great enthusiasm from the groups and bureaucracies that are closer to internationalist strategies, as in the economic sector, and some resistance from those that are more nationalist and linked to the developmentist agendas, as in foreign policy.

In fact, such a trend has already been verified in the discussion concerning the entrance of Brazil into the OECD. On the one hand, the economic sectors, but also the Ministries of Development and Finance, defend this option as part of a strategy of showing the country's definitive disposition in accepting new international economic regulations. On the

other hand, the external sector, supported by bureaucracy segments, sees this option as a precipitated adhesion to the "club of the rich", which would cause damage to Brazil's alliances with countries such as South Africa, China and India. It is preferred here to delay the process – but not to stop it – on behalf of entrance into the bloc of great countries of the South in the context of the OECD.[52]

And finally, it is worth noting that a similarly pragmatic concern was raised during the interviews mentioned above: if the constitution of the L20 in any way lessens the distortions of the decision-making processes of multilateral institutions, as in the hypothesis of inheriting the current G8 dynamics, it should be constituted as a political nucleus above the formal decision-making instances of these institutions. As with the G8, an L20 could generate consensus that would guide the stances of the member countries in the several multilateral institutions of which they are a part. In this way, part of the lost legitimacy of existing multilateral institutions would be recovered.

A second aspect emphasized is, again supposing similarity with the current G8 dynamics, the constitution of a space for negotiations and conditionalities across issues; that is, a space where exchanges and connections can be established between issues that today are segmented in several different institutions, such as trade/environment and security/development.

The obvious risk in this kind of arrangement is that of the L20 failing to replace the G8, but becoming a second site of negotiation for G8 countries. The issues not resolved in the G8 would in fact be isolated from the L20, "liberating" those issues on which the G8 countries have already defined their preliminary stance.

Notes

1. Paulo Roberto de Almeida, "Relação do Brasil com os EUA: De FHC-Clinton a Lula-Bush (Relationship of Brazil with the US: From FHC-Clinton to Lula-Bush)", in Fabio Giambiagi, José Guillermo Reis, and André Urani, eds, *Reformas no Brasil: Balanço e Agenda (Reforms in Brazil: Swing and Agenda)*, Rio de Janeiro: Nova Fronteira, 2004.
2. Rubens Ricupero, "O Que Faltou Dizer sobre o Real (What Remains to be Said about the Real)", *Folha de Sao Paulo*, 4 July 2004.
3. In fact, this transition started at the beginning of the 1990s during the time when Marcílio Marques Moreira was the Minister of Finance, during the Collor government, when an attempt was made to recover the country's credibility among international financiers.
4. Gustavo Franco, *O Desafio Brasileiro: Ensaios sobre Desenvolvimento, Globalização e Moeda (The Brazilian Challenge: Essays on Development, Globalization and Currency)*, Sao Paulo: Editora 34, 1999.
5. Armando Castelar Pinheiro, "From Stability to Stagnation: Brazilian Growth Trends from the 1930s Onwards", *Global Issues, Local Networks* 4, Global Development Network, September 2004, available from http://gdnet.org.

6. Franco, *O Desafio Brasileiro*.
7. In terms of the degree of market opening, the level goes back to the pattern of the 1950s; that is, before the "conscious" period of imports replacement. Mauricio Mesquita Moreira, "Brazil's Trade Liberalization and Growth: Has it Failed?", *International Trade* 0412008, Economics Working Paper Archive at WUSTL, 2004.
8. Paulo Nogueira Batista, Jr, "A Desnacionalização Continua", *Folha de Sao Paulo*, 15 July 1999.
9. G20 Secretariat, "Economic Reform in this Era of Globalisation: 16 Country Cases", Washington, D.C., G20 Secretariat, 26 October 2003, available from www.bundesbank.de/g20/download/public/20031026_publication_economic_reform.pdf.
10. Ricardo Bielschowsky et al., "Formação de Capital no Ambiente das Reformas Econômicas Brasileiras dos Anos 1990: Uma Abordagem Setorial (Formation of Capital in the Environment of Brazilian Economic Reforms in the 1990s: A Sectorial Approach)", in Renato Baumann, ed., *Brasil: Uma Década em Transição (Brazil: A Decade in Transition)*, Rio de Janeiro: Campus/Cepal, 2001.
11. Imported machinery and equipment represented more than 40 per cent of the total amount invested in the country in 1997, compared to 15 per cent at the beginning of the decade. See *OECD Economic Survey, Brazil 2000–2001*, Rio de Janeiro: FGV/OECD.
12. Renato Baumann, "O Brasil nos Anos 90: Uma Economia em Transição (Brazil in the 90s: An Economy in Transition)", in Baumann, *Brasil: Uma Década em Transição*.
13. See de Almeida, "Relação do Brasil com os EUA". It became a consensus during the second government of FHC that "the effects of the international financial crisis of 1997 and 1998 interrupted, temporarily, the GNP growth trends and increase in investment". See Francisco Rigolon and Fábio Giambiagi, "A Economia Brasileira: Panorama Geral (The Brazilian Economy: General Overview)", Banco Nacional de Desenvolvimento Econômico e Social, June 1998.
14. World Bank, *Global Development Finance Report*, 2004.
15. João Sayad, "Dez Anos de Plano Real (Ten Years of the Real Plan)", *Folha de Sao Paulo*, 5 July 2004.
16. Luciano Martins refers to a change in the scale of internationalization of markets. Luciano Martins, "A Condição de País Emergente no Contexto das Transformações Globais (The Condition of an Emerging Country within the Context of Global Transformations)", *Revista de Política Externa* 7(2), September 1998.
17. In this sense, economists from CEPAL refer to a "financially volatile globalization". See Ricardo French-Davis and José Antonio Ocampo, "Globalización de la Volatilidad Financiera: Desafios para las Economías Emergentes (Globalization of Financial Volatility: Challenges for Emerging Economies)", in Ricardo French-Davis, ed., *Crisis Financieras en Países Exitosos (Financial Crises in Successful Countries)*, Santiago: McGraw/Interamericana, 2001.
18. G20 Secretariat, "Economic Reform in this Era of Globalisation".
19. Antônio Barros de Castro, "The Capacity to Grow within the Problem", *Revista de Economia Contemporânea* 1, 1997.
20. Maria Regina Soares Lima, "The Political Economy of Brazilian Foreign Policy: Nuclear Energy, Trade and Itaipu", PhD Dissertation, Vanderbilt University, Nashville, 1986.
21. Several analysts have been trying to define, with different criteria, the category of an intermediary country. Several denominations have been used: "middle powers", "middle-ranged states", "great regional powers", "secondary powers", "most developed developing countries", "recently industrialized countries", "big emergent markets". (See Ricardo U. Sennes, "Paths to Power: Foreign Policy Strategies of Interme-

diate States'', Latin American Papers no. 224, Woodrow Wilson International Center for Scholars, March 2000.) As has already been noted by many authors, this has contributed to the existence of a gap in the study of the role and relevance of intermediary countries in the international system, especially in the area of international regimens and institutions. See also Lima, ''The Political Economy of Brazilian Foreign Policy''; Andrew F. Cooper, Richard A. Higgott, and Kim Richard Nossal, *Relocating Middle Powers: Australia and Canada in a Changing World Order*, Vancouver: University of British Columbia Press/University of Melbourne Press, 1993.

22. The classic text remains Robert Keohane and Joseph S. Nye, Jr, *Power and Interdependence: World Politics in Transition*, 2nd edn, Boston: Little, Brown, 1989.
23. José Augusto Guilhon Albuquerque, ''Brasil como Potência Média: Possibilidades de Ação Internacional (Brazil as a Middle Power: Possibilities for International Action)'', in Ricardo U. Sennes, ed., *O Brasil e a Política Internacional: Coleccion Paz e Seguridad en las Americas (Brazil and International Politics: Peace and Security in the Americas Collection)*, Santiago: Flacso-Chile, 1999.
24. R. Ricupero, ''Privatization, the State and International Institutions'', *Journal of International Affairs* 50: 409–417.
25. The term used in Lafer Celso and Gelson Fonseca, Jr, ''Questões para a Diplomacia no Contexto Internacional das Polaridades Indefinidas: Notas Analíticas e Algumas Sugestões (Questions of Diplomacy in the International Context of Indefinite Polarities: Analytical Notes and Some Suggestions)'', in Gelson Fonseca, Jr and S. Nabuco deCastro, eds, *Temas da Política Externa Brasileira II (Themes in Brazilian Foreign Policy II)*, vol. 1 (2nd edn), Sao Paolo: Paz e Terra, 1997, pp. 50–77.
26. Celso Lafer, *Brazilian International Identity and Foreign Policy: Past, Present and Future*, Sao Paulo: Ed. Perspectiva, 2001, p. 129.
27. The expression used on many occasions by President Fernando Henrique Cardoso. F. H. Cardoso, ''Política Externa: Fatos e Perspectivas (Foreign Policy: Facts and Perspectives)'', *Revista de Política Externa* 2(1), 1993.
28. Roberto Abdenur, ''A Política Externa Brasileira e o 'Sentimento de Exclusão' (Brazilian Foreign Policy and the 'Feeling of Exclusion')'', in Fonseca, Jr and deCastro, *Temas de Política Externa Brasileira II*, p. 43.
29. T. Vigevani, *O Contencioso Brasil x EUA da Informática: Uma Análise Sobre a Formulação da Política Exterior*, Sao Paulo: Alfa-Ômega/EDUSP, 1995, p. 334.
30. The great emerging markets are countries of large dimensions that have, in the last few years, operated reforms in order to open and liberalize their economies. In the definition of the United States Trade Representative, there are 10 at present: India, Turkey, Brazil, Indonesia, Mexico, Argentina, Poland, South Korea, Russia and South Africa.
31. Cardoso, ''Política Externa'', p. 10.
32. Ambassador Ronaldo Mota Sardenberg, ''Brazil at the Presidency of the United Nations Security Council'', in Fonseca, Jr and deCastro, *Temas de Política Externa Brasileira II*.
33. Speech given at the Diplomatic School in Chile on ''Development and Integration: Answers to a New International Context'', 24 March 1993.
34. Part of this impossibility refers to the US Congress's resistance to approving the ''fast track'', authorizing the executive to proceed with trade negotiations.
35. The second meeting took place in Ecuador in 2002.
36. Peter H. Smith, *Talons of the Eagle: Dynamics of US-Latin American Relations*, New York: Oxford University Press, 1996 (second revised edition, 2000).
37. R. Roett, letter in response to a consultation from USTR on possible Brazilian strategies for South America, mimeo, August 1995.

38. George Fauriol and Sidney Weintraub, ''US Policy, Brazil and the Southern Cone'', *Washington Quarterly* 18(3), Summer 1995: 129.
39. Celso Amorim, ''Crescimento, Democracia e Paz (Growth, Democracy and Peace)'', *Folha de Sao Paulo*, 18 December 1994.
40. See de Almeida, ''Relação do Brasil com os EUA''.
41. Rubens Ricupero, ''Solidariedade ou 'Sacro Egoísmo' (Solidarity or 'Sacred Selfishness')'', *Folha de Sao Paulo*, 18 July 2004.
42. Meeting of Brazilian Entrepreneurs Coalition on 23 July 2004, Federation of Industry of the State of Sao Paulo (Fiesp), Sao Paulo.
43. Ministry of Foreign Affairs, ''Speech Given During the G20 Meeting on 12 June 2004'', Brazil: Ministry of Foreign Affairs, 2004.
44. The moratorium was declared in February of 1987 for short- and long-term private loans. Gross reserves had fallen from US$9 billion in 1985 to less than US$4 billion at the beginning of 1987.
45. Presidential official speech, transcripts from Agência Radiobrás, ''Discurso do Presidente da República, Fernando Henrique Cardoso, na Sessão de Abertura da Cerimônia Comemorativa dos 40 Anos do Banco Interamericano de Desenvolvimento (BID), Petrópolis, RJ (Speech by the President of the Republic, Fernando Henrique Cardoso, Opening Session of the Ceremony Commemorating 40 Years of the Inter-American Development Bank (IDB), Petrópolis, RJ)'', available from www.radiobras.gov.br/integras/99/integra_0412_1.htm.
46. The voting power of Brazil in the World Bank is 2.2 per cent of the total capital, but Brazil has a permanent seat in the management of this institution.
47. Pedro Veiga, ''O Brasil e as Negociações Comerciais (Brazil and Commercial Negotiations)'', in Giamibiagi et al., *Reformas no Brasil*.
48. Conversations were kept informal, with representatives from the Ministry of Foreign Affairs and Ministry of Planning, presidential advisers, and academics and analysts linked to the private sector.
49. Seminar on the book by Dani Rodrik, ''Challenges to the World Bank and the IMF: Developing Country Perspectives'', February 2004.
50. Such discussions followed the privatization process of the 1990s in Brazil.
51. Another case of active state policy was that of regional civil aviation, after the privatization of EMBRAER.
52. Paulo Sotero, ''Brasil Quer Companhia para Entrar na OCDE (Brazil Wants Company to Join OECD)'', *O Estado de Sao Paulo*, 8 August 2004.

11

South Africa: Beyond the impasse in global governance

Ian Taylor

Dealing with the challenges posed by globalization and the ongoing liberalization of global markets is perhaps the greatest task faced by state elites at the turn of the millennium. This problematique has been neatly summed up by Adams et al.[1] with the assertion that:

> Globalization is the defining characteristic of our time. The modern system of independent states and distinct national economies is being replaced by a single transnational political economy ... While globalization clearly affects all countries, the degree of change has not been uniform throughout the world. A distinction should be drawn between the industrialised nations of the North and the developing nations of the South ... The traditional model, where the nation state was perceived as the premier authority for maintaining security and promoting development, is now replaced by a neo-liberal model premised on the dictates of the market and the preferences of supranational organisations.

This neo-liberal model currently informs the global financial architecture and forms the foundation for the ongoing global trading system.[2] It is a system that is making states, while certainly not redundant, less salient to understandings of ''national'' economic activities. At the same time, however, it is a system whose more negative outcomes are increasingly being interrogated by key elites in the developing world, as the process of globalization seems to engender division and inequity across – and, crucially, *within* – national territories. Such questions are based on the partial nature of global liberalization, which is seen to benefit the devel-

oped world at the expense of the developing and is also perceived as a continuation of what South Africa's President, Thabo Mbeki, likes to refer to as "global apartheid".

Within this context, since the 1994 elections but particularly under the presidency of Mbeki, South African foreign policy has more and more adopted a reformist stance towards the global system. Activism has been particularly focused on multilateral initiatives and alliance-building amongst like-minded states in order to further an agenda that seeks to ameliorate the perceived negative outcomes of globalization, whilst also seeking to open up the markets of the developed world. Although Pretoria's diplomacy is, perhaps as expected, implicitly statist, such bargaining coalitions are of increasing interest and importance in pushing positions in the emerging global trade regime.[3] This chapter seeks to analyse how South Africa fits within this emerging network of coalitions and meeting points, as exemplified by the L20, G20, G20+ and IBSA.

However, it should be pointed out that within such fora, the structural limitations of what is taken to be "globalization" are rarely probed, as there is apparently "no alternative", and neo-liberal principles are largely accepted as inevitable, if not holding potential benefits. Radical ex-socialists such as Brazil's Lula da Silva and South Africa's Mbeki (ex-member of the South African Communist Party) accept these limitations: "Untrammelled international competition, the celebration of the market, of wealth and self, anti-communism and anti-unionism; all these are no longer propagated as 'revolutionary' in the sense of challenging a prevailing consensus of a different content, but they are now part of normal every day discourse; self-evident, near impossible to contradict or even doubt".[4]

Mbeki summed up this rather unquestioning attitude when he proclaimed that "the process of globalisation is an *objective* outcome of the development of the productive forces that create wealth, including their continuous improvement and expansion" (emphasis added).[5] This essential acceptance of the status quo translates itself in South Africa's diplomacy into roles that fit with the notion of middlepowermanship advanced by Cox:

> In the middle rank of material capabilities, but ... also stand[ing] in the middle of situations of conflict [the middle power] seeks to expand the area of common ground which will make it possible to curtail risk in the management of conflict. Possessing middle range capability (military and economic) is a necessary condition of the ability to play this role, but it is not an adequate predictor of a disposition to play it. An ability to stand a certain distance from direct involvement in major conflicts, a commitment to orderliness and security in interstate relations and to the facilitation of orderly change in the world system are the critical elements of the middle power role.[6]

In short, the middle power in general acts as a facilitating agent to manage the global order on behalf of a particular political and economic model. This model is buttressed and consolidated by particular behavioural norms and rules. The role of middle powers is ''to affirm the principle of adherence to acceptable rules of conduct by all powers, great or small''.[7] That objective is what Pretoria essentially pursues in its multilateral diplomacy in meeting points such as the G20, G20+ and even IBSA:

> The G20 provides us with an opportunity to make new allies among the middle powers to engage with the G7; to push for structural change in a world where the inequalities are often reinforced by what, in the post Cold War era, has been a completely lopsided balance of power.[8]

However, South Africa's membership and activism within the WTO G20+ arguably reflects an implicit dissatisfaction with the progress of the G20 Finance thus far and an experimental attempt to push forward an agenda that is not going to be compromised by the G7's tactics – as exemplified at Cancún – in delaying reciprocal liberalization in the developed world, particularly with regards to agriculture.

It would be correct to argue that the G20 Finance as it exists has proved something of a disappointment to Pretoria (and others) so far.[9] As a group of systemically important industrialized and developing countries (i.e. ''emerging markets'') whose finance ministers and central bank governors meet annually (since 1999), its achievements to date have been somewhat limited.[10] This is not to say, however, that from Pretoria's perspective the G20 is moribund or completely ineffectual, or that an L20 would be seen as unnecessary. One of the key rationales of the G20 is that it serves as a forum for ''developing a consensus on the underlying fundamentals of [global trade] issues and ... directly addressing a number of the most important 'stability and growth' questions facing the world economy at the present time''.[11] As a forum for a working dialogue between finance ministers between and across the North–South divide, albeit one limited to a select elite group of countries in the developing world, it does have its uses, as would an L20. For instance, the potential to act as a bridge between the developed and developing world, particularly vis-à-vis financial governance, is of note. Furthermore, increasing dissatisfaction with the uneven process of globalization, as symbolized by the development of the WTO G20+, means that the necessity of a meeting point whereby the ostensible management at the globally systemic level of the world economy and its processes increasingly needs raising to the top of the global agenda. This is certainly what motivates South Africa's current membership of the G20, and South Africa, if dissatisfied by its infrequent meetings, regards it as a useful site of debate:

"A problem [with the G20 is] that its meetings [are] too infrequent. But no forum is too unimportant. We've got to get our voice heard".[12] Of particular dissatisfaction in regard to the management of the global system is the unequal representation within the IFIs, which South Africa sees as particularly damaging to Africa. In two constituencies, 43 African countries share 4.38 per cent of the shareholding (and vote) in the fund, whereas the G7 countries between them have a 47.69 per cent shareholding and vote. As a result, according to Trevor Manuel, Minister of Finance for South Africa, "The biggest fault-line is in the decision-making process. The constitution requires that a number of decisions require 85% of the shareholders to back [them]. This gives the US and Europe an effective veto – no US, no decision. No Europe, no decision".[13] Trying to resolve this flaw within the context of a leadership forum such as the G20 is one motivation that spurs Pretoria's membership.

However, while most of the work of the G20 Finance so far has focused on making the emerging markets less vulnerable to financial crises, it has not touched on the key issue of market access – the failure by developed countries to reduce tariff and non-tariff barriers on exports from developed countries, especially on agriculture and textiles – to any great extent, something which has animated increasing concern in key countries of the developing world with relatively strong agricultural export sectors, South Africa included.

From a more critical perspective, although the G7 formed the G20 ostensibly to have broader participation, this move may have had much more to do with trying to legitimize the global order in the wake of the Asian financial crisis than it did with reconfiguring the international system to make it more amenable to the developing world and the challenges faced by globalization and market integration – in fact, it may well have been an attempt to mask global power configurations. This weakness is not specific to the G20 but is a broader problem with many multilateral bodies: "multilateralism in form is non-hierarchical" (hence the oft-repeated rhetoric from South African policy makers regarding the supposed equality of all within a multilateral setting); yet, "in reality [this] cloaks and obscures the reality of dominant-subordinate relationships".[14]

Certainly, and problematically, the G20 was a unilateral creation of the G7, which ignored (or sought to derail?) the ongoing efforts of a broad number of developing countries to speak collectively through various initiatives. It also has no mechanisms for reporting or for being accountable to the international community, specifically other developing countries, while the Scandinavians, who might be expected periodically to speak on behalf of the broader developing world, and carry with them some financial clout, are excluded.[15] Thus, though the G20 is without doubt more representative than the G7/8, its "representivity" is limited.

Although it can be seen as a useful forum for conversations between the G7 and anointed select elites from the developing world, the G20 clearly has limitations. And in the context of the impasse at the WTO negotiations, it has generated a degree of frustration for its developing world members, particularly as the G7 is seen by many as having an over-dominant position within the grouping and dialogue within the G20 does not seem to have moved the G7's positions very much. An L20 would have to seriously deal with such issues. The formation of the G20+ and IBSA may well signify discontent with such realities.

South Africa's reformist diplomacy

As part of the advance of reformist initiatives, a coordinated approach within the developing world is deemed vital by South Africa. This has been long-standing and the G20+ and the IBSA Forum are but the latest manifestations of this dynamic, acting in parallel to membership of the G20.[16] But this trajectory, of seeking to build coalitions of developing countries to try and influence global governance, is relatively mature within Pretoria's foreign policy. Over five years ago, for instance, Thabo Mbeki addressed the Non-Aligned Movement (NAM) ministerial meeting and asserted that:

> it is vital that the NAM and the Group of 77 plus China should have a common, co-ordinated and strategic approach in their interactions with organizations of the North such as the G8 and European Union. We must ensure that the benefits of the twin processes of globalization and liberalization accrue to all of our countries and peoples and that its potential threats and risks are accordingly mitigated. It is therefore incumbent upon the Movement to continue being in the forefront of efforts to ensure the full integration of the developing countries' economies into the global economy. It is to our mutual benefit that we continue advocating for a new, transparent and accountable financial architecture.[17]

In recent times South Africa has exerted a great deal of energy in seeking to construct such a united bloc from which an agenda can be launched. In Cairo in March 2000, South Africa met with Brazil, India, Nigeria and Egypt to launch a developing nations' trade bloc to challenge the G7 in the post-Seattle round of WTO negotiations. In Africa, such impulses have been crystallized by the launch in October 2001 of the New Partnership for Africa's Development, which seeks to craft a relationship between Africa and the G7 and promote a reformist developmental agenda, but one that accepts a liberalizing world as the starting point.[18] This is a fundamental point in evaluating Pretoria's stance towards global gover-

nance and its take on what globalization implies. Indeed, NEPAD sees liberal globalization as providing glowing opportunities, with a statement arguing that:

> The world has entered a new millennium in the midst of an economic revolution. This revolution could provide the context and means for Africa's rejuvenation. While globalization has increased the cost of Africa's ability to compete, we hold that the advantages of an effectively managed integration present the best prospects for future economic prosperity and poverty reduction.[19]

And indeed, NEPAD itself fits snugly with the policy aims of Mbeki's much-touted "African Renaissance", which has underpinned post-apartheid South Africa's foreign policy, particularly since Mandela stepped down.[20] Yet this Renaissance and this posture towards "globalization" has been criticized as being under undue influence from the dominant neo-liberal orthodoxy.[21] To answer such criticism, Mbeki has pursued a policy of embracing neo-liberalism on the one hand while striking a public pose (through high-profile multilateral diplomacy) of trying to alleviate the worst aspects of globalization on the other. Thus South Africa advocates a tactical and reform-minded agenda that promotes a rules-based trading regime, from which policy makers are perceived to provide Pretoria with tangible opportunities and benefits. This is, it is suggested, in part a result of the effect that neo-liberal restructuring has had or is having. While the African National Congress (ANC) elite shares the belief that one cannot "buck the market" and that there is currently "no alternative" for a state like South Africa but to pursue neo-liberal macroeconomic strictures, it can be argued that the ANC voices an agenda that strives to ultimately ease the most harmful effects of this ongoing order. Membership of the G20 and G20+ fits with this policy.

Such a stance serves the important function of exhibiting to the ANC's constituency on the left that the ANC is actively striving for the benefit of the less advantaged, both within and outside the country's borders (hence Mbeki's active posturing as an (the?) African leader and more broadly, a "man of the South"), while signalling that the government can be trusted to play by the common sense rules of the game. As one analysis framed it, "South African policy-makers cannot escape the demands for increasing economic liberalization emanating from transnational capitalist forces and international financial institutions in the world political economy. On the other hand, the feasibility of implementing such policies ... unilaterally [is] severely curtailed by the high expectations and demands with which a future democratic government will have to deal".[22]

In short, while as a government in power the ANC adheres to the essential tenets of neo-liberalism, as a party in alliance with more socialist-inclined factions (the Communist Party and the trade unions) and having a residual and fairly strong leftist element within its ranks, the government must perform a balancing act. Adopting a reformist element to its foreign policy regarding the global political economy is one way in which this can be achieved. Indeed, "such reformist commitments are a way of deflecting the perceived negative effects of globalization on the South African state, and of displaying a commitment to change for the sake of domestic coalition partners to the Left".[23] This approach is reflected in the government's involvement in initiatives such as the G20, but more specifically, the G20+ and IBSA.

This strategy is also symbolically typified by Pretoria's "independent" stance vis-à-vis Washington and the capitalist heartland over such issues as the Iraq war, relations with Fidel Castro, and the G20+. As Bond notes, Pretoria is "willing to snub New World Order opinion by embracing Castro, Gaddaffi, and Arafat while playing front-man for the United States where it really counts: control of African geopolitics [and] endorsement of neo-liberal economics".[24] Such autonomy is not only a useful tool by which the government can deflect criticism of its essentially capitalist post-apartheid foreign policy but also, as in the case of the G20+, actually makes material sense. Thus the government is able to at once send out a message to important constituencies that it has not "sold out", whilst (hopefully) advancing real benefits to the South African economy.

Yet it should also be pointed out that the questioning of particular positions held by Washington or the G7 (as exemplified by the G20+) does not mean that Pretoria rejects the ongoing liberal global order. The fundamentals remain central: normative principles based on liberal values shared and propagated by global elites, from whom the leadership of the South African government cannot be separated. Such an understanding suggests why Pretoria has to date restricted itself to policies that are within the ambit of the neo-liberal discourse, but which aim to smooth out difficulties – "problem-solving", in other words. This translates into stances that may at times de-legitimize the dominant (state) powers – in particular their behaviour on global trading matters and the hypocrisy that demands the "opening up" of markets while surreptitiously keeping out exports from the developing world – but which remain firmly reformist, not transformist. In fact, South Africa's multilateral diplomacy is largely restricted to pragmatically exposing occasions where the rhetoric of free trade is not actually implemented by the powerful (time and again demonstrated within WTO negotiations). The appeal to a rules-based regime under the WTO is thus a good example where Pretoria

seeks to fit rhetoric with practice, as is South Africa's membership of the Cairns Group and its stance at fora such as the NAM, UNCTAD, and the G20 and G20+. All are attempts to get the G7 to take its responsibilities seriously, act in "partnership" with the developing world to alleviate problems and be more sensitive towards the needs of the less developed, but none reject outright neo-liberal globalization.

In short, the policy options currently being pursued by South Africa through its multilateralism seek to press for increased access to the global market. Far from critically engaging with globalization, Pretoria is pragmatically pushing for greater integration into the global capitalist order, but on re-negotiated terms that favour externally oriented elites. This position, an essential acceptance of the basic tenets of the ongoing world order, reflects the broader actuality that most elites from the developing world are, more or less, just as interested in maintaining the global system as their counterparts in the developed world. Reflecting on the monumental sea change of the 1980s regarding macroeconomic common sense, one account has correctly remarked that:

> Third World elites were not the passive victims of the US liquidation of the development project. At least some fractions of such elites [i.e. the externally oriented] were among the strongest supporters of the new Washington Consensus through which the liquidation was accomplished. To the extent that this has been the case, Third World elites have been among the social forces that have promoted the liberalization of trade and capital movements.[25]

This is because state elites, particularly in countries more or less integrated into the global economy, believe that liberalization is the way to proceed: "core interests have supported neo-liberalism not only for material gain but also because there has been a genuine belief that it will lead to development. For peripheral interests (LDCs as well as the 'emerging market economies' of central and eastern Europe), consent has been given ... that participation in the global marketplace will benefit them".[26]

Returning to Pretoria's diplomacy, South Africa has used its membership and often chairing of a variety of organizations to consolidate its reformist agenda and seek to achieve tangible results. Though this approach has now existed for some time in South Africa's multilateral policies, the Seattle debacle made it quite clear that a disorganized developing world was at a distinct disadvantage when facing a recalcitrant G7 vis-à-vis global trading issues. This dilemma probably accounts for the renewed activism on the part of South Africa within the context of the G20+ and the IBSA initiative.

Certainly, Pretoria has been particularly keen to forge a common strategy and approach to global trade and development. Foreign Minister

Nkosazana Dlamini-Zuma has asserted that a select group of developing countries should "form a nucleus of countries in the South that can interact on behalf of developing countries". This form of coalition-building "is a serious priority for SA", she went on to say.[27] The G20+ and IBSA seem to be proof of this commitment and are the product of "Mbeki's [long-standing] efforts to forge [an] alliance [as] part of his attempt to play a leading role in pressing for the reform of international organizations, including the UN, to ensure they better serve the needs of poorer countries".[28]

This policy received a major boost at the G77 meeting in Havana in April 2000, when the body adopted a resolution that agreed with Mbeki's vision of a united developing world within global trading bodies such as the WTO. Indeed, the G77 Summit was cast as the starting point of a collective process that would come to affect the future of the global system. The G77 agreed to form a Directorate to drive this process of consolidation. This Directorate included Mbeki, along with Olusegun Obasanjo of Nigeria and Mahathir Mohamed of Malaysia.[29]

By constructing a reformist-inclined coalition with key strategic partners, Mbeki hopes to build an alliance that will be taken more seriously than the G15 and G77 groupings, which were hamstrung by disparate attitudes towards globalization and contained certain members that were less than credible in the eyes of the G7. With a form of credibility derived from Mbeki's image as a philosopher-king (the "African Renaissance" and now NEPAD are a vital part of this imagery), and his credentials as a neo-liberalist and the architect of the Growth, Employment and Redistribution programme gaining him points in G7 capitals, Mbeki seems ideally placed to pursue a reformist agenda at the various multilateral bodies that deal with global trade issues.[30] Playing a leading role in both the G20+ and the IBSA initiative fits within this analysis.

Pretoria's membership of the G20+

The G20+ is an informal body in which developing economies have come together in order to construct a united front of sorts in pushing for greater liberalization on agricultural trade and, in particular, the reduction of the massive subsidies on agriculture in the G7 economies.[31] It was Pretoria, along with Brazil and India, that played a key role in the establishment of the G20+ ahead of the WTO ministerial meeting in Cancún and after the breakdown in Seattle. The immediate impetus for the formation of the G20+ was the fact that certain deadlines relating to the construction of a framework for the reduction of agricultural subsidies, agreed to at Doha, were missed before the Cancún meeting. The

motive for the G20+'s formation was summed up by the Brazilian Permanent Representative to the WTO, Luiz Felipe de Seixas Corrêa, when he asserted that:

> What prompted the creation of this group in the WTO was a recurrent phenomenon that we think has to be changed in order to cope with the new realities of multilateral negotiations. There is the belief or understanding that everything can be solved when the two majors get together and carve out a deal that represents their convergence of interests. And that the rest of the world, being so disunited or being so fragmented or having so many different perspectives, ends up one by one being co-opted into an agreement – for lack of an organizational framework.

From Pretoria's perspective, and according to South Africa's Chief Director of Trade Negotiations, Xavier Carrim, the G20+ came together in response to "a particular problem" – that is, the US$300 billion agricultural subsidies paid to farmers in the United States and European Union. "The G20 was not mobilized around a political banner of developing versus developed countries, but around trying to address a fundamental problem in the global economy", said the official.[32] Corrêa further remarked that "the G20 was formed around agriculture [and] has no other object than to influence the course of the agricultural negotiations".[33] Although not stated, it is also apparent that the G20+ has emerged due to dissatisfaction with the G20's failure to bring to fruition global trade negotiations, particularly regarding agriculture. With the realization of the IBSA Forum, however, this narrow agenda seems to be broadening.

Essentially, the developing countries within the G20+ take the view that subsidies will not simply disappear through the goodwill of the G7 without strong lobbying and political pressure from interested countries. Implicit in the creation of the G20+ is an understanding that working within fora such as the G20 has not really been effective so far and has perhaps served to prolong, if not legitimize, the existing situation. In other words, the G20+ has emerged due to a fundamental distrust on the part of the developing, agriculturally inclined nations vis-à-vis the industrialized stance towards free trade in agricultural products. According to Brazil, this is a result of the G7's intransigence and dishonesty:

> Some people say we have introduced the North-South dichotomy into the WTO and we are blamed for that ... We did not introduce it. It was the North that introduced the North-South dichotomy in these negotiations. The United States and the European Union got together and drafted a proposal from which they said they cannot move. So, if it was anyone who introduced the North-South dichotomy in the WTO, it was the North, not the South. Let us make this point very clear.[34]

For its part, South Africa's activism in helping to set up the G20+ is based on an understanding that it stands to benefit both individually as a national economy immediately (if agricultural trade is liberalized, key sectors will benefit) and through an anticipated growth in African economies more generally if effective trade barriers (non-tariff barriers and subsidies) to G7 markets are reduced/removed. South Africa's agricultural sector stands at only around 5–6 per cent of the economy. However, sugar farmers in the country are currently shut out from markets in the industrialized world through high tariff barriers, and G7 producers are currently using huge subsidies to offset their high production costs and as a consequence are overproducing, dragging down prices and dumping huge amounts of sugar onto the international market. Equally, South Africa's fruit juice sector, currently kept out of the lucrative Japanese market by subsidized products from the European Union, would also benefit directly. But as mentioned above, the spin-off benefits through expanded African economies would make the major difference for Pretoria. The logic is that "as African countries grow they'll begin to industrialize, and South Africa would benefit from this process".[35] Furthermore, "in the long term, SA stands to gain considerable strategic and economic advantage from cultivating strong links with the far more populous Brazil and India, as both countries are expected to be among the world's largest six economies within the next 10–15 years", providing one rationale for IBSA.[36]

In essence, the G20+ countries were incensed by the moves made prior to Cancún by the United States and European Union, which, rather than maintaining the Doha Declaration, wanted to safeguard subsidy regimes in return for negligible reforms and also pushed for the "Singapore issues" to be discussed.[37] Prior to Cancún, Brazil, Argentina and India thus set up an alliance to push for negotiations in line with the commitments made at Doha, with South Africa, Nigeria, Egypt, China, Mexico and most of Latin America also joining up. It can be inferred from such a move that work within the structures of the G20 had not resolved matters to the satisfaction of key elites in the developing world. What this also meant was that this grouping accounted for over 20 per cent of the globe's agricultural GDP, 26 per cent of total agricultural exports, 51 per cent of the world's population and 63 per cent of all farmers – a not insignificant grouping, in other words. This formation can perhaps be seen as a watershed in global trade politics as developing countries were taking the lead in promoting free and fair trade within a liberalized framework. As Brazil's President remarked, "At Cancún, no one believed the G21 (developing nations) could create such an impact. But we did, which makes us believe 20 countries representing more than half the world's population, can change the rules of world trade".[38]

With the demise of the Cancún meeting it was agreed to instruct member states to carry on working at the technical level in Geneva in order for the December 2004 General Council to take place – although, as the US election was taking place at that time, little progress was made. But the plan *is* to keep global trade negotiations alive. For the G20+ countries, who are well placed to benefit from the reduction of trade barriers and the elimination of distortions such as massive agricultural subsidies, the failure at Cancún to move forward was cause for major dissatisfaction. Though the Cancún meeting clearly failed, the close consultation process established at the summit invigorated the formation of the G20+ as a central player in the construction of some form of meeting point between the developed and developing world over the issue of agricultural trade and other matters, as well as an alliance of supposed like-minded states in its own right.

However, as is well known, during and after Cancún the United States and the European Union (i.e. most of the industrialized countries within the G20) decided to target the G20+ countries and lost little time in seeking to undermine this nascent grouping. This has quite interesting implications for the notion that the G20 is a site of supposed friendly dialogue and negotiations. Indeed, at a briefing on 10 September 2003, a US official referred to the G20+ as the "Group of the Paralyzed",[39] while the proposals to put right the global agricultural trading system were characterized as "welfare measures" and illegitimate intrusions into the "serious" side of the negotiations, which presumably should only take place within fora such as the G20. Consequently, an intensive operation to divide the G20+ was conducted by Washington and the European Union, focusing on states perceived to be vulnerable to persuasion. Offering special deals to smaller members was the immediate strategy, with coordinated efforts by private capital:

> Alongside the US government trade team, the US corporate lobby also went to work to split the G21. Consumer Alert, a business group masking as a consumer's organization, said that "while ostensibly representing the views of developing countries", the G21 programme "better represents the positions of several powerful exporting countries, who want greater market access without opening up their own countries' markets to importers". But despite the intense pressures, the US was [initially] able to detach only one country from the group: El Salvador.[40]

Thus, when the Cancún negotiations ended, the United States rushed to blame the G20+ as the prime culprit, with the US Trade Representative at the Cancún talks, Robert Zoellick, asserting that "Whether developed or developing, there were 'can do' and 'won't do' countries here. The

rhetoric of 'won't do' overwhelmed the concerted efforts of the 'can do'".[41] The G20+ grouping was cast as very much the "won't do" group. And to emphasize Washington's contempt for the G20+, it was made clear that the United States would now pursue bilateral and/or regional trade deals in the absence of any agreement at Cancún. Thus, Colombia, along with Peru, came under powerful pressure and subsequently left the G20+.

Furthermore, negotiations related to the planned Central American Free Trade Area (CAFTA) were utilized as ways of trying to undermine the G20+. For instance, after Cancún, Zoellick asserted that "the emergence of the G20[+] might pose a big problem to this agreement since our Congress resents the fact that members of CAFTA are also in the G20[+]".[42] In addition to this, Zoellick attempted to raise the spectre of Brazilian hegemony as a reason why countries like Costa Rica and Guatemala should not be in the G20+, as Brazil's and their own interests diverge, considering that Brazil "is a big country that can defend its interests by itself".[43] At the same time, Washington expressed the very real threat that the world trade system would fragment into regional and bilateral agreements, which would hit the developing nations hardest. But, it still remains true that:

> The group of 21 developing countries (G21), led by Brazil, India and China, represented a critical grouping which empowered the developing world into being able to reject unfair conditions and pressures. From this point of view, Cancún has strengthened the international community. It has raised self-confidence among delegates from the South and encouraged more South-South cooperation. The challenge now remains to move from a common opposition against the unfair to the achievement of fairer agreements.[44]

In concrete terms, although it is perhaps too early to say, what this might mean is that the so-called "Buenos Aires Consensus" (in contrast to the "Washington Consensus") may become more prominent. Based on a declaration signed between Brazil and Argentina, the Buenos Aires Consensus emphasizes poverty reduction and tackling unemployment, plus a somewhat Keynesian approach to invigorating economies. It is a reformist platform that can sit quite happily alongside the type of messages of reform enunciated by people such as Mbeki. Its lack of radicalism (for instance, it does not deny central ideas within the original Washington Consensus such as low inflation, fiscal discipline, deregulation of the economy and the role of the private sector) means that it cannot be breezily waved away by the G7 as "unreasonable" or economically illiterate. It may thus provide a credible grounding for other initiatives such as the G20+ and IBSA.

The IBSA Forum

It was in this broad context that the IBSA Forum was established. This is in effect a targeted and economically driven approach that hopes to create strategic partnerships between three of the world's big emerging markets. The Forum builds on already existing and fairly strong bilateral ties between the IBSA members. For instance, there have for some time been negotiations for a fixed preference agreement between MERCOSUR and the Southern African Customs Union as a means towards establishing a future free trade agreement, as well as a preferential trading deal between India and MERCOSUR that will enable the two sides to select the products that will have reduced tariffs in bilateral trade. IBSA may, however, also be the first step toward a full free trade agreement among the G20 developing countries; time will tell on that score.

The Forum was set up in Brazil in June 2003 (i.e. *before* Cancún) and formally launched by Mbeki, Lula and Prime Minister Atal Bihari Vajpayee during the UN General Assembly in September 2003.[45] The leaders of the three states have consciously advanced themselves as campaigners for an emerging developing world (this will be problematized below). All three leaders, but particularly Mbeki and Lula, are "men of vision". Mbeki is at the forefront in promoting a so-called African Renaissance, while Lula da Silva has spoken of an influential free trade area to rival NAFTA or the European Union. Indeed, he recently commented that "A trilateral agreement between India, Brazil and South Africa will give us the political will at the WTO ... to get the flexibility we need for our goods that are often taxed by the developed nations".[46] Until his electoral defeat in May 2004, Prime Minister Vajpayee, at his core an Indian nationalist, oversaw a resurgent economy and sought to project New Delhi's reach in what looked like an attempt to resurrect India as a global player as it was back in the days of Nehru. And with a 5 per cent rate of annual economic growth, New Delhi's self-confidence grew in leaps and bounds.

The IBSA Forum is based on what is known as the Brasilia Declaration, released in June 2003. The Declaration is a wide-ranging document aimed at bringing about change within the global political economy. It has both political and economic ingredients. Politically, reform of the United Nations, in particular the Security Council, is of special note, with the Declaration stressing the necessity of expanding the Security Council in both permanent and non-permanent member categories, with the involvement of developing countries in both categories. India and Brazil are already supporting each other's membership bids and the IBSA Forum has committed itself to combining energies in order to obtain reform, as well as enhancing the effectiveness of the United Nations system.

Economically, the IBSA Forum might be seen as a concentrated effort by key states in the developing world to push the G20+ agenda. For instance, while IBSA recognizes the expansion of economic growth, employment, and social development, and the accompanying rise in standards of living, in several developing countries as a result of freer movements of trade, capital, and technology,

> The Foreign Ministers of Brazil, India and South Africa expressed their concern that large parts of the world have not benefited from globalization [and they] agreed that globalization must become a positive force for change for all peoples, and must benefit the largest number of countries. In this context, they affirmed their commitment to pursuing policies, programmes and initiatives in different international forums, to make the diverse processes of globalization inclusive, integrative, humane, and equitable.[47]

Following on from this, IBSA pushes a now familiar position, decrying protectionist policies in the G7 and stressing the need to advance the Doha Development Programme as well as working on the current round of trade negotiations as a means to reverse protectionist policies and trade-distorting practices. The Brasilia Declaration restated the three countries' anticipation that trade negotiations within the WTO would achieve increased political momentum so that deadlocks on issues of fundamental interest to developing countries, stalled at Doha, would be broken before the Cancún Summit (this objective obviously failed).

Furthermore, the Declaration restated the importance of a predictable, rule-based and transparent multilateral trading system as a means through which developing countries could maximize their development via trade and their competitive advantage. As Corrêa asserts:

> [The WTO] is an irreplaceable organization. We need it. We need it badly. We need a strong WTO and from the perspective of developing countries, this is really an irreplaceable forum – with all its shortcomings, with all its problems – this is where [the G20] can make a difference. We can get some predictability. We can get some rules and we can get some enforceable rules in an area where in the past we had none.[48]

As part of this, IBSA cooperation towards making the international financial architecture responsive to development and towards increasing its effectiveness in preventing and addressing national and regional financial crises was placed as a key objective, together with the idea that global governance was required and crucial if globalization was to be advanced with equity. Making neo-liberalism work for all is thus a central message.

The first meeting of the Trilateral Commission of the IBSA Dialogue Forum (to give IBSA its full name) met in New Delhi from 4 to 5 March 2004, after Cancún. Commenting on the group and the meeting, Brazilian Foreign Minister Celso Amorim said that IBSA was ‘‘a group to spread goodwill and the message of peace [and that] we are not against anyone’’, whilst India’s Foreign Minister, Yashwant Sinha, emphasized ‘‘the need to redefine the content of globalization, to make it more pertinent to the needs and aspirations of the developing world’’. The IBSA Forum was, according to the ministers, ‘‘not just historic but irreversible’’, and the initiative would henceforth work more closely at multilateral fora such as the United Nations and the WTO ‘‘with the aim of advancing an alternative perspective on world affairs’’.[49] The outcome of the meeting was the New Delhi Plan of Action.[50] The Plan of Action spans such areas as trade and transportation, infrastructure, science and technology, information society, health, energy and education. In other words, since Cancún IBSA has developed beyond the basic agenda of reform of the global trading system into a concrete alliance between three key states in the developing world.

The IBSA Forum perhaps reflects broader trends within the global political economy whereby nascent attempts to forge structures outside the immediate influence of the United States seem to be emerging. This has in part been stimulated by exasperation at US haughtiness. For instance, when the Bush Administration unilaterally imposed humiliating immigration rules on foreign visitors, only Brazil had the courage to react by applying the same measures to Americans visiting Brazil. Is the mood changing vis-à-vis American dominance and arrogance – and is IBSA part of such impulses? As part of this response, the European Union (or at least parts of it) has of late given the impression that it is more prepared to listen to concerns from outside the core than perhaps previously. Thus, at the G8 summit in Evian in June 2003, Jacques Chirac called the heads of state of 14 developing countries to the G8 Enlarged Dialogue. When asked at the evening press conference whether this format would continue, President Chirac said that he could not speak for President Bush, host of the 2004 G8. Certainly, ‘‘old Europe’’ (to coin a phrase) appears to be less and less willing to submit to US leadership and is becoming an apparent site for an alternative political and social model, one less rabidly neo-liberal and less aggressive than that promoted by Washington.

Aside from this broader context, other states are increasingly developing ties with the less-developed world, creating axes that bypass and may in the long run threaten US dominance. Thus China is clearly more and more keen to establish special relationships with regional powers in the developing world, Africa in particular.[51] This has the potential to bring

overlapping developments together and create a nascent bloc of the developing world to forge greater participation in the global trading system – particularly its regulation – as well as providing alternatives to simple North–South directions in trade. Indeed, IBSA might be seen as an attempt to create a ''new trade geography'' that does not ignore the primary importance of trade with the G8 but does at the same time create new and exciting options. Certainly, the growth of trade ties among developing countries has the possibility of democratizing global trade relations and may help rein in the current hegemonism in international politics – something that clearly worries Washington, as its aggressive reaction to the G20+ demonstrates. Increased trading ties within the IBSA bloc demonstrate this potential: South Africa's trade with India and Brazil has grown 1,334 per cent and 268 per cent respectively during the past decade; and between Brazil and India, trade has grown 450 per cent over the same period.[52]

That being said, it should be noted that India's GDP for 2004 has been estimated to be three times that of Brazil and six times that of South Africa. And South Africa's trade with its erstwhile IBSA partners needs to be put into perspective with regard to its trade with other economies. Although the trading relationship between India and South Africa has increased, in 2004 India ranked only nineteenth in terms of exports from South Africa, and fifteenth for imports. Similarly, Brazil ranked thirty-second in terms of South African exports, and twelfth in terms of imports.[53]

Be that as it may, IBSA does have very interesting implications for global politics. It could, if it holds together, create a market of 1.2 billion people and amount to a US$1.2 trillion domestic market and foreign trade of US$300 billion. IBSA's trade figures at present correspond to 15 per cent of that of the European Union and United States, but by 2015, its trade is forecast to be equal to 25 per cent of EU trade and 20 per cent of US trade. In terms of GDP in purchasing power parity, IBSA accounts for 10 per cent of the globe's GDP, and by 2015 its share is forecast to increase to 12 per cent. This amount should be compared to an 18 per cent and 20 per cent share on the part of the European Union and United States respectively.

Furthermore, the IBSA countries have major economic presences in their respective regions and in fact can be seen as growth poles within the developing world. And the future looks relatively bright for the IBSA states, given that by 2015 the IBSA countries will have 208 million college-educated people below 40 as compared to only 127 million in the G7. Comparatively cheaper skilled human resources have the potential of making the IBSA nations globally competitive in niche industries (India's call centres being a contemporary prime example) and technological

innovation may well grant the IBSA states the ability to leapfrog, making them more and more important in the global production process. Furthermore, IBSA is also based on the notion that its members could quickly expand their exports if they could gain better access to foreign markets (mainly in the G7). The prediction is for Brazil to increase its trade by 200–300 per cent,[54] while India could well attain huge growth numbers in the next decade or so if New Delhi is able to accomplish its reform programme and integrate into the global economy – a process that would be facilitated by easier access to developed markets.[55] These facts, when put within the context of the respective countries' membership of the G20, make the G7's current domination of the global agenda seem more and more incongruous, perhaps further justifying the upgrading of the G20 vis-à-vis the G7 and strengthening the G20 as an international decision-making structure.

Problems facing the IBSA Forum

Although the IBSA Forum is still very new, some problems exist that will not easily go away. These can be framed in part as political questions that will need answering as the Forum evolves. Firstly, does membership of IBSA compromise the non-aligned status of India? Secondly, where does IBSA fit in with Pretoria's role as principal promoter of NEPAD? Thirdly, Brazil and South Africa have positions widely divergent from India vis-à-vis nuclear weapons and have largely adopted a policy at variance with New Delhi. How will this play out within the Forum? Fourthly, there is the issue of UN Security Council seats. Is the IBSA Forum in fact an elaborate attempt to advance the three countries' claims to Security Council seats? Brazilian Foreign Minister Celso Amorim recently dubbed the IBSA states as "natural candidates" for permanent seats on the UN Security Council. Brazil and India support each other's candidature for permanent membership on the Security Council, but Africa has its own position. Where and how do Brazil and India relate to South Africa's ambitions regarding an African seat? It is currently inconceivable that Nigeria and Egypt will voluntarily cede their own aspirations to be global power-brokers. And can we really expect Pakistan to allow India to be South Asia's representative? What is good for IBSA is not necessarily seen as good for the rest of the developing world.

Related to these questions, the leadership roles of Brazil, India and South Africa within their respective regions are quite problematic and inhibit the potentiality of the three states to "speak" for the developing world. How can this be resolved? Each is the largest and most diversified developing country in its respective region, but already, concern is being

expressed that the IBSA three are throwing their weight around with no mandate. "The problem comes when South Africa wants to decide for all of the developing world", asserts Hagar Islambouly, Egyptian Ambassador to South Africa. "It cannot fly the flag of the whole group until those positions are endorsed by the whole group. We ask: Are three countries enough to represent the developing world? Do you want to tell me that Pakistan, Indonesia and Malaysia are not important Asian countries in the G77? Is it only India?"[56] This situation may be seen as a result of regionalizing tendencies whereby small areas of relative hegemony develop in which predominant countries enjoy more and more power.[57] Managing this will require some skill.

In addition, for how long will China be kept out of this Forum if it is to be an effective agent for bringing about change within the global economy and reforming the international system? And how does the fact that China aggressively pursues its own trade interests unilaterally fit in with such a multilateral initiative? Perhaps the greatest challenge for IBSA to evolve into a real axis of the developing world and really reconfigure the geography of global trade power would be to bring Beijing on board. Yet China's preoccupation with managing a smooth relationship with Washington, as well as the expressed desire not to expand IBSA as yet, precludes such a move at present.

Furthermore, in a splintered global trading milieu, bilateralism and agreements with the developed world seem paramount and trump so-called South–South cooperation strategies. After all, talks between the United States and the five-nation Southern African Customs Union (of which Pretoria is the dominant member) appear to be currently far more pressing than building up IBSA. Besides, the IBSA countries are actually competitors for export shares to the G7 markets rather than obvious partners for cooperation, certainly on the economic front. Are the IBSA states really ready to forgo advantages in trade between themselves for the greater good of the trilateral bloc? Indeed, India currently is reluctant to open its own agricultural markets, while Brazil and South Africa are ready to do so. How will the IBSA Forum overcome this and how will such divergences play out in WTO negotiations? Both IBSA and the G20+ may well be compelled to choose between ostensible unity and bargaining flexibility.

Finally, and perhaps most crucially, the IBSA Forum (and the G20 and G20+, for that matter) is an inherently state-centric attempt to face globalization. Yet globalization is characterized by the increasing importance of non-state actors and the transnationalization of capital, where markets are increasingly global and integrated, allowing an internationalized ownership of capital and the transit of capital in and out of any number of corporations and territories. This has been massively facilitated by

profound technological change that has not only driven change in the structure of global power but has also shifted the productive structure by consolidating power over trade and production from states to private companies. Such a scenario, a.k.a. "globalization", has led to states effectively losing much of their ability to plan and regulate their national social and economic policies. In a decentralized global system of finance and production, with US$1 trillion circulating at light speed every day on the foreign exchange markets, even short-term planning is extremely difficult. Yet IBSA and the G20 continue the illusion that state leaders are the most important actors regulating global governance, blithely ignoring the reality that "any plausible explanation of foreign and strategic ... policies [today] has to begin by recognizing and evaluating transformations in the global political economy, especially in the South".[58]

Putting the G20+ and IBSA in their global context

It seems that it is the G7's apparent insensitivity and intransigence to concerns from the developing world that has acted as the spring from which the reformist agenda has emerged. Certainly, concern over the negative effects of globalization and the arrogance of the G7 vis-à-vis such considerations have provoked a counter-reaction – a global backlash, as many assert. Mbeki and the other reformist elites in the developing world seem to perceive this as opening up some strategic space to push their own agenda. Consider Mbeki's speech at the World Economic Forum in 2001:

> In order to address the backlash there are a number of imperatives that we need to address ... The first key challenge is the reform of international financial and trading institutions to take on board the concerns of the countries of the South. For example in regards to the WTO there is a need to re-examine their rules (governing intellectual property rights, dumping and countervailing measures, subsidies, etc.); the agreements governing market access may need to be renegotiated so as to benefit both developing countries and developed (perhaps they need to favour developing countries!); and the structures of governance require reform to give greater weight to the concerns of the countries of the South. In a sense this would lay a basis to address the profound imbalances in the structure of the global economy. In this regard we think the delay in restarting the Millennium Round of the WTO after the Seattle debacle is unnecessary and unfortunate. Another challenge is that Governments of developed countries need to do more to expand access to their markets for developing countries' products by lowering tariff exemptions and also providing exemptions from the many non-tariff barriers. In this regard the developed countries need to provide support to developing countries to comply with their sanitary and phyto-sanitary measures

governing their imports. Another important challenge is how to ensure greater mobilization of resources for development in countries of the South.[59]

This engagement with the G7 is clearly based on an ethos of working within the ongoing financial architecture in a pragmatic fashion and reflects what seems to be quite an earnest interest in a substantial debate with the G7 over the global trading system. Confrontation with the developed world á la the New International Economic Order has given way to "dialogue", something that is by now quite long-standing. As Alfred Nzo, the first Foreign Minister in a democratic South Africa, put it: "The previously confrontational and sterile style of the world-wide debate on North-South issues has made way for a vigorous and healthy debate on core issues. This too mirrors our own change in which matters that previously caused division and dissension are now open to wide discussion".[60]

However, such an easy promotion of dialogue carries within it the dangers of curtailing any interrogatory position regarding the inequities of the global system: "Since the prevailing consensus is the free-market liberalisation model that is promoted by the Bretton Woods institutions and the WTO, [such a position] seems to be seeking a role to be relevant to this model and to be accepted, for instance, by the WTO and the International Chamber of Commerce, rather than to challenge or provide alternatives to the model".[61] In fact, the G20+'s position is built upon the premise that liberalization has not gone far enough, and that the G7 needs to accept the logic of its own rhetoric regarding free trade. This is one prong of a two-pronged strategy that members of the G20+ have adopted towards the organization. The second can be summed up by the view that a world without the WTO or other multilateral institutions would only strengthen the G7's ability to extract concessions from the weaker states in the developing world. It is the latent collective bargaining power of multilateral institutions – shown at Seattle and Cancún – that has seemingly inspired the G20+'s formation.

Realizing this "latent power" and attempting to harness it by forming a coalition of like-minded reformist partners in the developing world *in defence* of the WTO's ostensible agenda is the cornerstone of the G20+. This turns the tables on the dominant powers in the global economy and highlights their hypocrisy vis-à-vis "free trade" and "liberalization". Such a stance is expressed in the rhetoric of the rules-based system that the WTO puts forward. Indeed, the former Director-General of South Africa's Department of Foreign Affairs suggested a while back that the promotion of such a global regime is a major plank to South Africa's foreign policy and is integral to the government's pro-growth policies:

the creation of a rules-based international system of interaction between states contributes to our domestic agenda. The setting of international standards and

rules, the creation of transparent trading and other systems and ensuring that no single country or group of countries can dominate world affairs . . . creates an environment within which growth and development can take place.[62]

Within such an international system there are "obligations" by which member states must abide. At the same time, there are "rights" that member states can expect, and it is this flipside of the rules that the G20+ advances and that Pretoria attempts to push in its engagement with the WTO and also within its broader economic diplomacy.

This pattern is based on the understanding that the WTO manages a rules-based trade regime in which even relatively weak states are in principle entitled to confront and challenge the dominant developed powers. Pretoria's position regarding the WTO has been to support its broad prescriptions – essentially an endorsement of the liberal themes that underpin the body – while pressing for full adherence to the idea of a rules-based regime and a reform of the global system. Although South Africa was far more upbeat about the achievements at Seattle than a number of other developing states, it was realized by all that such an impasse and the marginalization of the developing world in supposedly global trade talks must never happen again (although, of course, it did). But springing from Seattle, South Africa has been among the most active in seeking to formulate a way to reconvene the talks and form a coalition of reformist powers, with an emphasis on developmental issues and other matters related to the developing world. Both the G20+ and the IBSA initiative are concrete manifestations of this diplomacy.

This analysis highlights the essential themes behind the G20+ and IBSA initiatives. For its part, a certain willingness by the G7 to listen to such messages (as indicated by the formation of the G20) probably springs from the realization that after Seattle and in the wake of the Asian financial crisis, an arrogant disdain for the rest of the world's concerns threatens to overturn the global trading regime. In this light it is better to engage with anointed elites within the G20, most of which are essentially fairly moderate in their positions, than to risk allowing a process to develop whereby all sorts of "unreasonable" demands might be put on the table. This thrust, after all, can be seen as one of the key rationales behind the formation of the original G20: bring in non-G7 members to legitimize the ongoing global order. But the approach also has within it seeds for an eventual process of delegitimization, particularly if and when no concrete results from such "dialogue" are able to be shown as proof of the wisdom or otherwise (for developing world elites) of joining such groupings. After all, within the G20 there was always an inherent danger that representatives from the developing world would effectively be preordained to cast influence merely at the margins. Non-G7

members are granted some appearance of participation, but the real impact this has on policy appears limited. The G20+ and IBSA, however, act on their initiatives and agendas. Whether these groupings can take advantage of the apparent current flux in order to advance a new order based on free *and* fair trade, and one sensitive to the concerns of the developing world, remains to be seen and is, at present at least, an open-ended question.

Conclusion

It is increasingly apparent that South Africa has emerged as a leading reformer on issues related to global trade. Although sensitive to the rest of Africa's concerns over South African ''bullying'', Mbeki has been keen to advance reform-oriented proposals on behalf of Africa. Foreign Minister Nkosazana Dlamini-Zuma openly asserts that ''the responsibility has devolved on South Africa to address more than bilateral issues (with the US) including a process of developing a new world agenda with sustained African development at the centre''.[63] Mbeki admits that ''there's clearly a big burden on South Africa – major countries are very keen to have a close interaction with South Africa on African and global issues''.[64] But it should be pointed out that it is a measure of the basic liberal underpinnings of Mbeki's diplomacy that newspapers such as the *Business Day* can endorse Pretoria's policies with some enthusiasm (while at the same time making it clear that the initiative is not a return to the days of the NIEO):

> In talking, as he did repeatedly on his US tour, of the need for a ''massive transfer of resources'' to Africa, Mbeki may, to some ears, have sounded like a chairman of the Non-Aligned Movement from the 60s demanding reparations for the evils of colonialism. But that was emphatically not what he was saying. He was talking about transfers *based on market principles*. To be sure, old-fashioned, but better channelled, assistance was still needed. But the really important thing was that Africa be unshackled to attract greatly expanded investment and technology flows, generate jobs and revenue from trade, and reap the benefits of globalization.[65]

However, while the reformist positions of Pretoria might well be the ideology of pragmatism in the present international context, this means in the final analysis advocating the intensification of international competition for markets in which states have relatively limited control over their own economies. Keeping together a broad-based coalition, particularly if it involves trying to maintain pan-African unity (historically and

symbolically important), may prove to be very difficult. Moving forward necessitates that Africa choose which subjects at the WTO it should negotiate on and also implies, given resource constraints and lack of capacity, that a key African state be selected to lead any African coalition. But this is much easier said than done and serves to flag caution. Consolidating incompatible interests within any such African bloc (or a broader, developing world grouping, such as the G20+) is highly problematic and while Pretoria may argue (or even think) that what is good for South Africa is good for the rest of the continent, the rest of Africa does not think so and is very suspicious of Pretoria's intentions. Perhaps this is why South Africa has chosen to direct its energies towards building the IBSA Forum, for at least there it does not have to expend energies marshalling an African consensus. Rather, joining IBSA and then presenting achievements as a fait accompli from which the rest of the continent may benefit seems to be the chosen strategy.

In overall terms, however, Pretoria's policies towards global trade-related bodies are predicated upon a pragmatic position of making economies in the developing world as attractive as possible to foreign investors, while calling attention to the inequities engendered by one-sided trade liberalization. While this orientation is cast within a broad position that partially questions some aspects of the globalization process, criticism of the way globalization is governed is offset by a wider acceptance of the orthodoxy of neo-liberalism. This position can but be partial and fragmentary, although it is an expedient position for South Africa to take at present. However, the G20+ and IBSA's limited scope, which is largely focused on agricultural trade liberalization, and the implicit reluctance to expand the group's concerns regarding globalization's effects beyond the push for further trade liberalization, restricts the transformative potentiality of developments so far. While there are clear limitations to the G20+ (and specifically IBSA) developing into a nascent opportunity through which an alternative power bloc might be developed, strategic space that has opened up in the last five years or so will remain underutilized as long as the initiatives remain so constricted in scope.

In fact, although the walkout by the G20+ nations was at first celebrated as a watershed event, the failure of the Group to build on this in any meaningful way has meant that such gestures have accomplished very little. And the subsequent move by Washington to push for bilateral trade agreements has further weakened the potency (and unity) of the G20+. This demonstrates that coalitions of developing countries can be particularly short-lived and can only really be long-term if they spring from a meeting of minds on fundamental issues. In that sense, the development of IBSA as an "axis of the developing South" *may* give some hope, although there are problems with this, as mentioned above. Diver-

gences within the much larger G20+, however, are quite apparent. In the main, the Latin American states and countries such as South Africa and Thailand are more or less pragmatic reformists interested in opening up markets for their agricultural exporters. They thus generally pursue realistic and flexible positions within the WTO's confines. However, other G20+ nations, such as Cuba, Pakistan and Venezuela, are less inclined to do so. India, although now pursuing liberalizing policies, is very much hostage to a relatively brittle consensus in favour of such moves and one that can be derailed at any moment by a variety of political circumstances ranging from Hindu nationalism and chauvinism to resistance by elements of the new Congress-dominated government. Such factors, and the reality that it is problematic to think of the developing world as some uniform bloc with shared interests, are a concern for both the G20+'s unity and IBSA's future coherence. The Brazilian and South African positions on this score are much more secure. This will be something to watch for in the future.

Yet the initiatives do, I believe, have some implications for the G20 or an L20 as a primary meeting point between the developed and developing world. After all, the rather technocratic and narrow agenda of the G20 clearly has not resolved major issues vis-à-vis global governance. If the G20 is to move forward and be transformed into a serious and sustainable L20, then concrete results, tangible to the developing world, need to be achieved, and fast. The fact that the United States has mooted the idea that the rotating chairmanship of the WTO General Council should go to a developing country, given that Washington now supposedly recognizes the importance of combining trade liberalization with development, suggests that however unilateralist and arrogant the current US Administration is, it does have *some* sensibilities. This space can possibly be built upon within the G20, particularly if the G7 leaders within the G20 wish to assuage the dissatisfaction held by key elites in the developing world.

Certainly, the emergence of the G20+, the Buenos Aires Consensus, and the IBSA Forum demonstrates that the retreat of the developing world, which marked the 1980s and 1990s, may be in abeyance as neoliberal globalization is being seen to be more and more one-sided. While it is true that much of the rhetoric is ahead of the actual actions being undertaken (there is still no clear alternative model to be adopted, for instance, and the rhetoric itself is largely reformist in tone), we may be witnessing interesting and significant developments in global politics. But this pregnant agenda needs broadening beyond its current narrow confines if such initiatives are really to come to anything, and this is perhaps something that the G20 can develop as the L20. Although agriculture has always been at the centre of global trade negotiations, and re-

ducing subsidies in the developed world would clearly benefit farmers in the developing world, it would be a mistake to believe that a reduction in trade distortion measures is the only thing required to level the global playing field, something which both the G20+ and IBSA should note. There is certainly a pressing need to manage both globalization and financial governance, particularly financial market volatility, international liquidity and commodity shocks – the G20's original remit. And the need to shift the global debate towards the perspectives of the indebted nations remains. If the G20 or an L20 is to be seen as a working and worthwhile forum, then from the South African perspective steps to rebuilding a multilateral financial architecture would need to include (among others):

- increasing the representation of important developing countries in key international fora;
- increasing the representation of developing countries in the governance of the IMF and World Bank by increasing the number and importance of basic votes; reforming the method of determining quotas to reflect sound policy, progress in policy reform and openness, not just GDP per capita;
- establishing a formalized debt restructuring framework;
- coordinating national macroeconomic policies better, through cross-regional annual meetings like the G8 and Latin America, and the G8 and Africa; and
- better regulation of global financial and capital markets, and improved regulation of domestic financial systems through new proposals by the G20, working with the IMF on appropriate capital account policy and supervising capital flows.[66]

It should, of course, be noted that only a small number of the WTO's members actually have the capacity and indeed bargaining power to push forward complex trade negotiations, particularly on the key issue of market access. The majority of African countries are actually quite weak on this score. That is why the G20+ is so important and potentially exciting. Cancún seemed to show that an effective counterbalance to the G7 can be found in a group of the large and dynamic developing countries coming together, and that an emerging bloc of powers within the global trading regime may be nascent. Whether the G20+ or IBSA and the blossoming call for a reformed global trading order can move forward and beyond the current global impasse, and in effect try to tip the global scales back into balance, will be one of South African foreign policy's greatest problems and will likely be a focus of Mbeki's second term.

Such an agenda will also possibly stake out future relations between the developed and developing world in the immediate future and will almost certainly stake out debate within the G20. This dynamic is unlikely

to go away, simply because it is clear that it is the emerging market economies, systemically important in their own right, that are feeling the burden of reform the hardest. Reformulating the current sharing of both costs and benefits within the global system is more and more important if the system is not to fall in on itself. In this light, if the L20 is to become a feasible and effective forum in resolving systemic crises, if it is to win Pretoria's support and if it is to maintain legitimacy, it will have to address some of the issues mentioned above. As the only purpose-built institution through which the developed and emerging market economies can meet in order to confer on financial issues, the usefulness of a prospective L20 cannot be denied. But it needs to show practical results. While we may not be witnessing a rebirth of the NIEO, interesting times seem to await us with regard to the debates over global governance and the management of the international system. Interactions within and outside of the G20 will probably be sites of this ongoing debate.

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the G33 in early 1999. The G33 organized seminars on the global financial architecture and was convened at the initiative of the finance ministers and central bank governors of the G7. The G33 consisted of the finance ministers and central bank governors of Argentina, Australia, Belgium, Brazil, Canada, Chile, China, Côte d'Ivoire, Egypt, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, Morocco, the Netherlands, Poland, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States. The G33 gave way to the G20 later on in 1999. Confusingly, the grouping formed in 1999 and the grouping that emerged at the time of Cancún are both referred to as the G20, although the latter group is also called the G22, G21, G17 or even the Gx. I use the term G20+ to differentiate it from the original G20.

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12

The L20 and the restructuring of the international economic order: An Egyptian perspective

Abdel Monem Said Aly

More than 50 years ago, the world community set about devising the institutional building blocks of an orderly social and economic world.[1] This was largely in response to the crises and problems of the first half of the twentieth century, which had witnessed two world wars, the great depression, widespread labour strife and the rise of fascist movements.

The establishment of the United Nations and the Bretton Woods institutions thus set markers for a model of multilateral governance for world order, with the triumphant oligarchy of the Second World War at the driving seat of the new world order and its institutional vehicles.

However, the pace of globalization in the past decade has had confounding effects on the world and its governing rules and institutions. The rampant restructuring of businesses, global networking, the rise of international terrorism, the global environment and problems of sustainable development are all pressing issues that surfaced to the world agenda with the advent of the new global civilization.

These phenomena, old and new, spell out the urgent need to develop new fora and frameworks to deal with the challenges and promises of globalization, which no single conventional formula seems apt to deal with effectively. Hence, the current wave of globalization entails changes to the strategies of individuals, nations, corporations, communities and global governance institutions in order to come to terms with the emerging global system.

In this context, the need for organizational reform on the systemic level cannot be over-stressed. In a crisis-laden world, in which interests

are networked and interdependent, there is a need for new and better governance frameworks and modes of institutional operation that are both representative and efficient in dealing with emergent global challenges.

The G20, which was unilaterally created by the G7 at their finance ministers' meeting in September 1999, was indeed intended as a step towards such reform. In addition to the G8 (G7 plus Russia), the membership of the G20 consists of Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Saudi Arabia, South Africa, Turkey and, oddly, two institutional representatives – one for the European Union and one for the Bretton Woods institutions (the IMF and WB).

The rationale was to involve developing countries with what came to be termed as "systemic significance" in discussions over future financial stability, especially in the aftermath of the Mexican, Asian, and Russian crises. In essence, the G20 is the successor of previous ad hoc fora established to this effect but on a temporary basis, such as the G22, which had been unilaterally created by the United States in November 1997 in the wake of the Asian financial crisis, and had similar membership (its membership had included Hong Kong, Malaysia, Poland, Singapore and Thailand, and excluded Saudi Arabia, Turkey, the European Union and the IMF/World Bank, but was otherwise the same as that of the G20). This development was followed by the creation of the G33, which convened in March and April 1999 to discuss issues pertaining to global economic and financial reform.

Against this backdrop, this chapter addresses the introduction of the G20 and its relevance to global governance as well as the potential role for Egypt in such a forum. The main argument is that changes in the world order have had a profound impact on global institutions, not only in terms of their agenda, but also in regard to their nature, institutional make-up, and even their procedures and modes of operation. This chapter is therefore divided into three sections: the first discusses the systemic impetus for global governance reform, the second focuses on a proposed framework for the L20, and the third analyses the potential role for Egypt within the L20.

The systemic impetus for global governance reform

A world transformed: The shift from geopolitics to geo-economics

Much contemplated since the end of the Cold War, the new world order has come in part as a result of the forces and processes that have begun since the Second World War and even before.[2] Theoretically, any world

order entails a mode of technology, a power structure and an agenda. Technologically, the ''new'' in the new world order has been the increasing dominance of the third industrial revolution over world affairs.

Structurally, the ''new'' in the new world order is not really the change from a bipolar world to the much ''older'' unipolar or multipolar worlds, but the fundamental change in the nature of polarity itself. Traditionally, polarity was defined in terms of power distribution among nation-states or blocs of nation-states that are engaged in the eternal pursuit of hegemony and dominance that involves the use or the threat of force. Now, it seems more and more that polarity can be defined in terms of the prevalence of a whole system of socio-economic-political interactions in world affairs. This system in the Western and capitalist order and to a lesser degree in the newly industrializing and emerging markets has dominated the world in the final years of the twentieth century. This order is highly integrated through a large network of institutions – multinational corporations, trade, and investments. Naturally, a change in the world structure has meant a new agenda, and this new agenda is basically an economic one. Unemployment, inflation, exchange rates, stock markets, trade barriers and population have been and still are issues governing the global agenda.

The effect of September 11 and the rise of global terrorism has not much altered this global transformation towards geo-economics, and despite the surge in political issues on the global agenda, money laundering, drug trafficking and terrorism financing continue to be among the foremost aspects of the fight against terrorism. These aspects of terrorism entail collaboration among the world's richest and poorest nations, and further confirm the need for a broader global governance that could guarantee efficiency and representation of the most central countries to the stability of the world order, financial and non-financial.

A crisis-laden new global order

Within the rapid changes of the new world order, the subject of ''global governance'' became topical in the 1990s with a rash of financial crises, which came about as a result of global financial market integration in the last two decades of the twentieth century. Hence, with the rapid growth of cross-border capital flows and the phenomenon of ''hot'' money, greater uncertainty and unpredictability was attached to surges in international capital flows.

In this context, currency crises and banking crises were a recurrent phenomenon, most notably with the European crisis in 1992–1993, the Mexican crisis in 1994–1995, and the most dramatic crisis, the Asian cri-

sis, in 1997–1998. The Asian crisis started in East Asia in mid-1997 in a sequence of events beginning with a sudden reversal of inflow with massive capital flight, along with rapid currency depreciation, including a stock market ''meltdown'', which then spread around the world during the course of 1999.

According to the IMF, there have been 158 currency crises in the period from 1975 to 1997, 54 banking crises, and 32 crises that had both currency and banking implications. The majority of the crises took place in the emerging markets, while their repercussions were far-reaching and resonated throughout the world economy; even the US dollar was caught in the currency turmoil of the 1990s.

The number of currency crises in emerging markets reached 116, compared to 42 crises in the industrialized countries. Similarly, there were 42 banking crises in emerging markets compared to 12 in the industrialized countries. And whereas crises in the industrialized countries were mainly a phenomenon of the 1980s, the emerging market crises were more recurrent in the 1990s.[3]

The global financial crises and especially the Asian crisis were subject to much speculation because of their unsettling effect on world finance and the world economy. The IMF approach to the crisis stressed domestic factors as the leading component in financial instability. However, the Bretton Woods institutions – particularly the WB – were subject to much criticism in the course of the Asian crisis, especially by Malaysia, whose governing regime rejected the IMF's recipe for reform. Prominent academics and economists have also refuted the Bretton Woods diagnosis, which focused on domestic aspects of the crisis and ignored the systemic influences – inequitable terms of trade, intense and volatile capital flows and short-term lending, international capital flows, gyrations in exchange rates, turmoil in financial markets, and new protectionism in the industrialized countries against exports of the developing countries, for example.[4]

The financial crises of the 1990s have therefore demonstrated that the emerging global capital market is vulnerable to systemic failure. Accordingly, in the depths of the Asian crisis (around September 1998) there were calls by the leaders of the G7 to ''reform the global financial architecture'', signalling recognition on the part of the world's most powerful countries rather than coalitions of developing countries of the need to reform global governance.[5]

Besides these financial crises, the more structural crises of underdevelopment have persisted throughout the past decades; only the newly industrializing countries of East Asia and some emerging markets in Asia, Latin America and, to a lesser degree, the Middle East have avoided them.

Thus, the developing countries, comprising the majority of the world's population, still suffer problems of poverty, overpopulation, lack of sustainable economic growth and other human development deficiencies. Besides these chronic problems, acute crises have surfaced in the developing world – e.g. the food crisis of the 1970s, the oil crises of 1973–1974 and 1979–1980, and the debt crisis of 1982 – thus further aggravating those countries' trade and balance deficits. And despite the domestic aspects of underdevelopment, systemic factors also contribute to the perpetuation of this state of affairs, or at least do not help to ameliorate it. These factors, which include the uneven flow of capital and investment, discriminate terms of trade, and the bias towards industrialized countries' economic and financial interests, further validate the need for global governance reform.

The need for a representative economic oligarchy

The challenges of the new global order have led to the revival of earlier universalist and utopian calls for a global government that would entail just representation and handling of world problems. However, lower on the pragmatic continuum, calls were raised for "better" representation for developing countries in world governing institutions and fora, especially those countries whose interests and well-being are central to the system's functioning.

The rationale for this view is that, as difficult as it might be to construct an equitable and just world order, perhaps a large reason for the failure of most attempts to reform the global order is that they have been dominated by the least developed and the powerless, while the rich and powerful have not been persuaded of the need for significant changes to the status quo.[6]

Therefore, the main hypothesis of this chapter is that a comparative-politics-like oligarchic system is the best – in terms of applicability and efficiency – form for global governance. This hypothesis derives from the shortcomings of the current global governance frameworks, which come in three forms: firstly, open fora such as the GATT and its successor the WTO; secondly, centralized and closed fora such as the Bretton Woods institutions and the various Groups, especially the G7; and thirdly, regional integration fora. The first, the open fora for economic and financial governance, suffer a structural difficulty, namely the large number of participants, and thus become couched in interest conflict. The second, however efficient they may be, and having operational mechanisms for decision and implementation, are fraught with hegemony of the Western industrialized countries and especially the United States, whose voting power at the WB, IMF and G7 altogether amounts to almost half of the total. Hence, the Bretton Woods institutions were deliberately designed

to give the economically more powerful members a greater voice and vote in those organizations. Moreover, the influence of the economically powerful countries was enhanced through a series of fora that were established outside the Bretton Woods institutions in which the world's leading industrial powers were the exclusive members for financial and economic decision-making, especially in the G7/8, which maintains a near monopoly in this area.

The core members of the closed/elitist groupings – the G7 and its predecessors – have always been the United States, Japan and Germany, the latter being replaced by the European Union; these powers came collectively to be known as the "G3".[7] This elitist nature of the Groups' composition and decision-making procedures casts doubt on their representativeness of global problems and crises, and their credibility to work on behalf of the whole world, developing and developed. This apprehension proved to be more than a moral issue with the eruption of the financial crises of the 1990s as previously stated, which showed the practical necessity for a relatively more inclusive forum for global governance.

In spite of the attempts of established frameworks, including the G7, to adjust to new international developments through the inclusion of social and political issues in their agendas (especially the issues of terrorism, poverty and health), they have not been successful at controlling the negative externalities of globalization or the structural crises that afflict the international economic and monetary systems.

Finally, the regional integration fora fail, in turn, to address most of the global economic and financial problems, the worst-scoring regional blocs being those formed of developing and least developed countries. In this context, the Latin American Integration Association, established in 1960, managed to raise intra-regional trade by merely 2.5 per cent to reach 10.6 per cent through 30 years of regional integration. Other regional blocs had failed totally to enhance intra-regional trade and cooperation; one example of this is the Customs and Economic Union of Central Africa, which witnessed regression in the trade volume among its members from 4.9 per cent in 1970, three years before it was established, to 2.4 per cent in 1990.[8]

These three types of frameworks reflect two kinds of contradictions. The first is the contradiction between representation, on the one hand, and efficiency, on the other. This was clearly reflected in the crises surrounding the questions of trade, investment and services liberalization within the multilateral framework of the GATT and WTO. The second conflict is between centralization, on the one hand, and the perception among developing countries that the developed countries are seeking to impose their hegemony, on the other. This conflict can clearly be perceived in the experiences of the WB, IMF and G7.

Many attempts have been made to reform international financial institutions in the years following the Asian monetary crisis. Some academics, like John Eatwell, suggested the creation of a global monetary authority, ''the World Financial Authority''. According to Eatwell, this authority should posses enough powers to enable it to set a regulatory framework for the functioning of international capital markets, and to intervene in their management in times of crisis. Other reform initiatives were also suggested by the IMF, which created a new administration within the Fund, the ''Capital Market Division'', to monitor and evaluate international capital markets and to issue a ''Global Financial Stability Report'' which focused attention on potential sources of international monetary crises and areas of vulnerability within markets and international financial institutions. The G7 also established two important institutions: the Financial Stability Forum and the Group of 20 Finance Ministers.

These various initiatives, though important, have been subject to a number of criticisms. In spite of the appeal of the idea of an international financial authority that has the power to intervene in the management of national capital markets, this idea runs counter to the concept of national sovereignty. Malaysia's position towards the prescriptions of the IMF is a good example of this problem.

Also problematic is the fact that the FSF is mainly consultative in nature and has limited representation. Membership of the FSF includes finance ministers, central banks and the main financial regulators from the G7 countries, in addition to representatives of the various ''trade unions'' of regulators such as the Basel Committee of Banking Supervisors, the International Organization of Securities Commissions and the International Association of Insurance Supervisors. Singapore, Hong Kong, Australia and the Netherlands are also included as representatives of other major financial centres.[9]

The creation of the G20 in this respect is the first real response to demands to reform the international financial system and economic and financial governance in general. Reform requires the development of this Group in a manner that helps it to fulfill objectives that other international economic and financial institutions have failed to achieve.

The G20 has many strengths that position it to play this role. Primarily, it includes, in addition to the ''big seven'' and Russia, emerging markets that have important experience in developing their economic capabilities and competitiveness and which offer models of development within the constraints created by the international economic and financial system against developing countries. Even though the state has played an important role in the process of economic development in most of these countries and the process of democratization has thereby been postponed, it is important to note two things. Firstly, the private sector played an impor-

tant role in the process of development in these countries. Their development strategies – especially in Asia – were outward orientated. The stability of their development strategies was thus dependent on the stability of their export sector and continued access to foreign markets. Secondly, a large number of these countries have undergone recent transformations that increase the prospects for democratization, which indicates the increased potential of these states not only to integrate with the world economic and financial system but also to assimilate the main principles and values of that system.

Therefore, given its structure and raison d'être, the G20 seems to constitute a step forward towards ameliorating the elitist nature of the most influential economic and financial institutions, and towards greater representation of emerging economies and developing countries. In creating the G20, the G7 was probably attempting to enhance the legitimacy of the decision-making process on international financial matters, a process that the G7 has dominated over the past decades.

However, the above-mentioned strengths of the G20 do not, per se, guarantee its success in meeting the challenges discussed earlier. The Group's representativeness/efficiency amalgam is still in an evolving phase and depends largely on the future of its mandate, membership and modus operandi. This takes us to the second part of this study, where I propose a number of ways to develop the structure of the G20, its objectives and its criteria for membership.

The L20: A proposed framework

A Leaders' 20 Summit, as a response to contextual global governance and crises, should be designed taking heed of such challenges and how best to address them. In other words, the new institution should mirror the intricacies and spirit of the current global order, especially pertaining to globalization, the new geo-economic agenda, and the necessity to integrate emerging markets and developing countries' agendas into the global governance order. The main proposed features of the L20 are listed below.

Objectives and scope of the L20

The G20 Finance has shown a narrow orientation with the central role of finance issues and finance ministers. This was evident even during its inaugural meeting in Berlin in December 1999, which laid the roadmap to the Group's priority objectives. These were: sound national economic and financial policies, strengthening national balance sheets to help cush-

ion against unexpected shocks, debt management and exchange rate regimes. The Group discussed a range of possible domestic policy responses to the challenges of globalization, and exchanged views on the role of the international community in promoting a less crisis-prone system.[10]

In other words, addressing domestic vulnerability to financial crises caused by capital flows appears to be at the heart of the G20 objectives. However, the focus of the Group seem less exclusive, taking into account the following meetings, especially following the September 11 attacks and the focus on draining terrorism finance.

Individual influences and member states' influences could also have a broadening effect on the group's core objectives. Indeed, Canadian Finance Minister Paul Martin, the G20's first Chairman, declared to the press after his appointment, ''There is virtually no major aspect of the global economy or international financial system that will be outside of the group's purview''.[11] Moreover, the scope for broadening the G20's agenda will depend, in part, on which country is nominated to chair the Group in particular, non-G7 member states.

An expanded agenda of the Group should include as a start:

- a more effective system for global macroeconomic management;
- a stable and equitable system of development finance for all developing countries and finance for development-related scientific research;[12] and
- a flexible framework for non-discriminatory trade and investment liberalization.

This proposed framework could be established following the APEC model of open regionalism. This model is based on unilateral trade liberalization (UTL), in which decisions for trade and investment liberalization are taken individually by member states that see their domestic conditions as ripe, and in a fashion that does not discriminate against non-G20 members. This is as opposed to the traditional collective trade liberalization, in which trade and investment are liberalized in accordance with mutual contractual agreements.

The rationale behind this approach is that the member countries have come a long way in the areas of trade liberalization, economic reform and openness to the outside world, which reduces trade diversion and the possible negative impact of trade liberalization through UTL. The main hypothesis here is that UTL and non-discriminatory liberalization policies are more likely to succeed in open economies because of the incentives that these policies create. The assumption here is that if one country takes the initiative to liberalize its foreign trade unilaterally, this might encourage other parties (members and non-members) to undertake similar initiatives when they observe the positive returns of trade liberalization.

Experiences of non-discriminatory liberalization have generally taken one of several forms.[13] Firstly, open membership, which refers to a flexible and broad approach towards membership. This approach is based on a theoretical assumption that broad membership leads to better adaptation to legal multilateral frameworks, as well as screening down the discriminatory effect against non-members. Despite the merits of such an approach, open membership in the broad sense seems less convenient in the G20 because of the previously discussed inefficiency problems associated with open fora.

The second form involves unconditional application of the "most favoured nation" condition. This approach denotes automatic and unconditional spillover of trade and investment liberalization privileges within the group to non-members. This approach agrees with the spirit of article 24 of the GATT and eliminates the prospects of trade disputes that are usually associated with perceived discrimination. However, this approach denies the group its bargaining power with non-members, creating a free-rider phenomenon where non-members automatically and unconditionally get the collective prerogatives of membership without the attached responsibilities.

The third form is conditional application of the most favoured nation condition, which seems best suited for the G20, and entails that non-members enjoy the privileges of membership in terms of free flow of trade and investment only if they agree to reciprocate and liberalize their markets for trade and investment.

Market integration

This model is based on the necessity and vitality of the role of market mechanisms and the private sector as the main engines for economic growth within the L20. In other words, an L20 should be based on "market integration" as the governing concept of global market integration, in contrast to the government-based integration experiences of the 1950s through to the 1980s, with their mechanism of governmental contractual agreements. The market-driven integration model in this context entails the continuity of the government role but restricts it to agenda-setting and devising public policies favourable for trade liberalization and investment.

The nature of the institutional build-up

It is the contention of this chapter that the flexible institutional model is the model best suited to a prospective L20. Institutional flexibility in this context refers to two aspects: firstly, a limited hierarchy based on a small

secretariat in the form of small bureaus in member states; secondly, a non-binding legal framework in contrast to the traditional contractual and binding legal frameworks of earlier multilateral frameworks for cooperation.

It is noteworthy that the flexible institutionalist philosophy evolved as a backlash against the shortcomings of the regional and multilateral integration experiences of the 1950s through the mid-1980s. These institutional fora have led to the establishment of large bureaucracies demanding vast resources, which proved to be among their main flaws. Moreover, the binding legal frameworks of these multilateral fora, coupled with their very wide scope of interests and ambitions, have led to a failure to attain their objectives, or at best to their stagnation. Within this rigid institutional framework, i.e. legal institutionalism, differences among member states were reflected in the resulting mandates through excessive exceptions and precautions, leading the institution to be void or idle.

The flexible institutional model, moreover, shows increased merits in the case of the L20 in particular because of its composition of countries of differential developmental capacities, in terms of their GDP, population, and so on. Institutional flexibility would be best suited to counter apprehensions on the part of the less developed countries that the group will be domineered by the most powerful.

It is noteworthy that expected future status and ''voice'' within global and regional integration institutions has been one of the key determinants of the success of integration experiences. According to Joseph M. Grieco, successful experiences of legal institutionalism have been recorded among countries where increased levels of legal institutionalism are not perceived as detracting from the relative status of member countries and their influence within the integration forum, whereas less successful experiences were seen in cases where more institutionalism meant less relative power or status to one or more of the member states. In these latter cases, institutionalism becomes synonymous with hegemony.[14]

In the L20 context, the issue of differential levels of development and/or the fear of hegemony could be moderated institutionally through flexible institutionalism and its various modus operandi – for example, the adoption of the variable speed approach, which entails the formulation of general objectives and guidelines for the economic and financial policies of member states, while allowing individual members to implement the general strategy in self-designed mechanisms and paces within an agreed-upon time limit.

Moreover, in this context, consensual decision-making would be the best operating mechanism for an L20, and the best safeguard against he-

gemony of the L20's industrialized seven, or against what could be termed as "G7-ization" of the L20, whether actual or perceived.[15] Consensual decision-making in this sense would reinforce representation and participation on the part of developing countries at the decision-making level of the institution, not merely their representation in discussions and deliberations. The decision-making procedures should also include credible processes for the selection of a chief executive and a more democratic allocation of voting power.[16]

Finally, "flexible institutionalism" is best suited to the L20 because many of its members belong to APEC, which is indeed to date the most successful manifestation of flexible institutionalism. Almost half of L20 participants, if based on G20 membership, are also members of APEC, namely Australia, China, Indonesia, Mexico, South Korea, and G7/8 members the United States, Russia, Canada and Japan. It is thus expected that the main emerging markets, specially the Asian ones, will refuse the binding legal institution model for the L20, since APEC's flexible institutionalism was in origin the practical response to the Asian emerging markets' refusal to engage in legally binding forums with Western industrialized countries for fear of Western hegemony.

Organizational structure: A three-legged model

As a result of the growing role of the private sector and of market forces, and the retreat of the role of the state, the L20 must be based on the interaction of three players – governments, the private sector and the academic sector – in a manner that ensures the representation of all three sectors.

To this effect, the creation of a businessmen's council that brings together representatives from the private sectors of the member countries and an academic council that brings together representatives from research institutes and think tanks in the fields of economics, political economy and strategic studies, in addition to official bodies which represent governments, is suggested. The organizational structure must ensure interaction among the three tracks based on well-defined mechanisms.

The emphasis on enhanced private and academic roles is the outcome of important changes in the realm of international cooperation. New issues and threats such as those related to the environment, drugs and illegal immigration have gained relative importance. These changes in the global agenda, in addition to the growing role of the private sector in processes of economic and social development and in the area of international trade and the parallel retreat of the economic role of the state, make it difficult to ignore these two players – private business and academia – in the field of international cooperation and financial stability.

In light of this, and given the negative externalities of the process of globalization discussed in the first section, it is important to keep the following considerations in mind while developing the organizational structure of an L20:

- Representation at the L20 should be at the summit level rather than at the ministerial level for the following reasons. The top leadership has wider decision-making powers that are better suited to the expanded agenda of the group. Popular legitimacy will make the L20 more legitimate and more representative of international public opinion, a condition that is absent from many existing international economic and financial institutions. Moreover, the experience of summit-level organizations such as APEC reveals a direct relationship between the success of an organization and representation at the summit level. Although the transformation of representation at APEC from the ministerial to the summit level was the result of the new orientation of the US presidency under Clinton, who insisted on attending the fifth ministerial meeting of APEC that was held in the United States, the experience of APEC highlights the ways in which the top political leadership can circumvent bureaucratic obstacles.
- Expanding governmental representation to include ministers of finance, economy, trade, industry, energy and the environment, since all of these areas are interconnected, is an important factor.
- It is necessary to create a council of senior officials from member countries who meet prior to ministerial meetings. This council is to be responsible for making recommendations to ministerial meetings and for implementing the decisions of the ministerial council. It should also be charged with overseeing the work of other councils and coordinating among them.
- Two new councils, an L20 Business Council and L20 Academic Network, which would act as advisory bodies to the ministerial and summit levels, should be created. Those two councils would give advice and recommendations about the working plans of the L20. They would prepare reports, periodicals and working papers about ways to develop the international financial order, improve the terms of international trade, liberalize trade and increase the role of the private sector and civil society in meeting these challenges. The Academic Network would focus, in the first phase, on developing a well-defined conception of the L20. At a later stage, the Academic Network should conduct research on ways to improve the international economic and financial system.

Membership

The decision to establish the G20 Finance indeed marked the G7's intent to broaden participation in discussions on international financial affairs

among countries whose size or strategic importance gives them a particularly crucial role in the global economy.

This is a significant step forward towards better representative global governance. However, the G20 contains no representation of the poorest and smallest developing countries, because the poorest and smallest are unlikely to constitute any systemic threat. But there is a major systemic impetus to incorporate developing countries' problems into the architecture of the L20, not necessarily through direct membership. This could be achieved through the group's accountability to the broader international community and other more inclusive fora, especially the United Nations Economic and Social Commission, as well as increasing the transparency of the group's activities to enhance its credibility through public disclosure of its discussion papers, documents and reports.

Moreover, membership of the group should be decided upon objective criteria, through deliberation of a special committee to be established to this effect within the L20. The committee would put forward the criteria and indicators that qualify a country as a candidate for group membership. Suggested criteria could include achieving considerable economic growth, a certain degree of global integration according to designated indicators, a minimum level of democratization and political openness, an autonomous private sector, and equitable geographical representation.

In line with broadening the membership and scope of the L20 as suggested above, several formulations or "levels" of membership could be applied to integrate candidate members or include non-members into the group deliberations. Among these are the "dialogue partner" or "guest country" concept, in addition to the broadening of the membership of the auxiliary councils (i.e. the Business Council and Academic Network).

It is the contention of this chapter that according to all these criteria, Egypt is a viable candidate for L20 membership in terms of fulfilling basic requirements as well as its representativeness of the Middle East and the Arab region, which will be discussed in the following and last section.

Egypt and the L20

Egypt: Its position and its mission

Geography as well as history has defined, to a large extent, Egypt's position in the Middle East and its regional and global reach. Situated at the south-east corner of the Mediterranean Sea lanes to Europe, at the crossroads of the three continents of the old world, at the end point of the River Nile, and at the maritime passage to the Indian Ocean and Asia

through the Suez Canal and the Red Sea, Egypt's geographic position has become the very centre of the region and the world, a position no other country in the Middle East could parallel.

On the other hand, one of the main features of Egyptian history is the unbroken unity of the country. As Charles Issawi stated: "From the time that Menas unified Upper and Lower Egypt and founded the first dynasty up to the present day the land has always – except for brief periods during the old and middle empires – had a single government". Egypt, thus, has known the phenomenon of statehood for over 5,000 years. Throughout this very long history, Egypt has interacted with the greatest of civilizations over the Mediterranean, with the Macedonians, Romans, French and British; and over the African–Asian land bridge, with the Assyrians, Babylonians, Persians, Byzantines, Arabs and Turks.

The statehood of Egypt and the unbroken unity of the country made Egypt a haven for great civilizations. The ancient Pharaonic civilization, the Greek and Roman civilizations, and the Arab-Islamic civilizations found their seat in Egypt. Thus, no other country in the Middle East matches the unique status of Egypt as the civilizational and social space that shares with every nation in the region elements of identity, culture and history.

In modern times, Egypt was the first country in the region to embark on the process of nation-state-building, an experience Egypt shared with the rest of the region. Of equal importance was the transmission of knowledge and technology from the beginning of the nineteenth century. This was facilitated by contacts between the Egyptians and the West. During Mohammed Ali's rule (1805–1848), 339 Egyptian students were sent to France, Britain and other European countries. Although this process slowed down when Egypt was under British occupation, it was resumed in significant numbers after Egypt gained formal independence in 1922. Since that time, the process has continued without abatement. These groups of students not only created modernization plans for Egypt, but have also carried them to the rest of the Middle East to this day.

The century that followed Mohammed Ali witnessed the development of institutions and practices that many Middle Eastern countries followed. In addition to the creation of the Egyptian press and secular education, Egypt was ready in 1866 for its parliamentary experience. The "Consultative Assembly of Deputies" marked the first step towards "liberal institutions" in the European mould. Under the influence of the National Party – the first Egyptian, and Arab, nationalist party in the modern sense – the Assembly of 1881 drafted a constitution, demanded ministerial responsibility and insisted upon its right to vote the budget. Civil and secular education intensified to reach an advanced level when Cairo university, the first national university in the Arab world, was es-

tablished in 1925. Art, literature and broadcasting, in addition to a more modern press, made Egypt the Mecca of the Arab intelligentsia. Major ideas of the time were always made and debated in Cairo and then spread to the rest of the Arab world.

Egypt's weight in regional affairs also derives from its historical tradition of prominence and leadership in the regional setting. Though this does not ensure future leadership, no other Arab state can rival Egypt's central regional role. Moreover, no non-Arab power could match Egypt's access to the multiple players of the region.[17]

The sheer size of the Egyptian population is a source of strength in the region. Representing more than a sixth of the whole Arab population, Egyptians constitute a powerful influence on Arab intellectual and public opinion. Egypt also has a huge media and filmmaking industry, much of which is Cairo-based. Traditionally, Egypt furnishes the Arab countries with teachers and texts, as well as being a cultural centre and a favourite holiday resort for most Arabs. In other words, "what happens in Egypt resonates well beyond the borders of the country".[18]

Egypt's foreign policy: From geopolitics to geo-economics

Since the beginning of the 1990s, Egypt has witnessed a continued process of transformation in its foreign and public policies to cope with changes in the global and regional orders. In order to achieve its national interests and preserve its regional role, Egypt had to redefine its policies and to focus on geo-economic factors that could enable it to adapt to the new world order and integrate into the global economy.

This transformation marked a major transition from a foreign policy focusing on geopolitical and strategic objectives and a public policy based on the centrally planned economy up until the 1970s to a foreign policy focusing on geo-economic objectives. The most notable departure from the "old" towards the "new" perspective on Egyptian public and foreign policies has manifested itself in the discourse of President Mubarak in different instances. Mubarak has summed up Egypt's national interest and foreign policy goals in four major areas. These are:

- integrating Egypt into the world system;
- transformation to a free market economy;
- political reform that would allow more participation and transparency; and
- achieving peace in the Middle East.

In achieving this new agenda, Egypt is qualified to play a central role as the Middle East hub of trade, communications and transportation, investment, and geo-economic interactions.

This role is greatly enhanced by the legacy of Egypt as one of the main agenda-setting countries in the region and the developing world. Playing a pioneering part in the history of the post-colonial world made Egypt specially experienced and specially situated to reflect the aspirations of the peoples of the region and the developing countries at large. Common endeavour and a sense of common responsibility bind Egypt with the community of nations in the third world at large and the Middle East in particular. Most importantly, the role derived from this unique status is welcomed by all regional parties, and goes unopposed by anyone.

As an agenda-setter, Egypt had been responding to the major global transformations even before they appeared as part of the new world order and before the term ‘‘globalization’’ was coined. It was in the 1970s that Egypt embarked on a liberalization of its politics and economics and took courageous moves for peace with Israel, an agenda that would be the order of the Middle East in the 1990s. The developments in the world and the region in the last decade of the twentieth century have served to validate the Egyptian vision.

Despite the shortcomings of Egyptian economic and political transformation, Egypt is considered by many analysts to be one of the ‘‘promising emerging markets’’. This is a long way from the image of the ‘‘sick man of the Middle East’’ that prevailed in the 1970s. The infrastructure that was devastated by wars and failed socialist experiments has been totally renewed and for the first time in its modern history, Egypt at the beginning of the twenty-first century enjoys a reliable infrastructure of ports, airports, electricity, oil and gas, water and sewage, and functioning telecommunications.

The most evident sector of technological infrastructure progress in Egypt is its communication infrastructure. In 1999, Egypt had 5.1 million fixed telephone lines. In 2001, Telecom Egypt was able to raise the number to 7.1, with a teledensity of 10 lines per 100 inhabitants, reaching a teledensity of 12 lines per 100 inhabitants in 2002.

In 2000, Egypt had 700,000 computers, 650,000 internet users, and 2.3 million cell phone users. In 2001, the number of PCs doubled to reach 1.4 million. By 2003, the number of internet users had increased almost fourfold to reach 2.4 million accounts with more than three users per account, while the number of cell phones increased almost threefold to reach 6 million by 2004.

Although these figures are small by global standards, Egypt has one of the fastest growth rates in these areas. And all the above are supported by an extraordinary progress in the development of Egypt’s infrastructure which, added to the diversity of the Egyptian productive apparatus, makes the Egyptian economy one of the most balanced and best qualified for take-off and sustained growth in the region.

The Egyptian financial market also boomed in the 1990s and major multinationals are attracted to the Egyptian market. Egypt currently manufactures quality textile fashion products on license for major European businesses such as Pierre Cardin, Wrangler, Van Hausen, Stefanel and Naf Naf, and exports them to France, Germany, England and the United States. Automobile assembly and spare-part manufacturing resulting from either licensing or joint-venture agreements have recently flourished in Egypt. Examples of assembly and licensed production in Egypt are Suzuki, General Motors, Citroen, Hyundai, Nissan and Peugeot. International brand-name consumer and electronic products are also assembled, and their components manufactured, in Egypt. Egypt has also developed industrial experience in furniture, pharmaceuticals and steel production.

Egypt's industrial and mining sectors account for 18.6 per cent of GDP and 13.4 per cent of employment. Over the last five years, Egypt has drawn multinationals into exploration for oil and gas. Moreover, with an increased private sector role, key industries such as metals, petrochemicals, cement, automobiles, textiles, consumer electronics and pharmaceuticals are starting to flourish. Egypt also enjoys a remarkable supply of skilled and inexpensive manpower. Its large pool of entrepreneurial, scientific and technical elements qualifies it for meeting the challenges of high-tech sectors and enterprises.

These changes were accompanied by a steady enhancement of the role of the private sector in the Egyptian economy. Since the mid-1970s, the role of businessmen and private business in the Egyptian economy has constantly expanded. Egyptian businessmen comprise residuals of the pre-1952 "capitalists", new entrepreneurs and former state managers. Businessmen hold assets in agriculture, real estate, tourism, car assembly, electronics and banking. Estimates conclude that by 2000, the private sector contributed 70 per cent of the Egyptian economy.[19]

Businessmen have, moreover, gained representation in a variety of associations and unions that indirectly bolstered their lobbying capacity on economic law-making, through chambers of commerce and industry, business associations, political parties (mainly the NDP and Wafd), research institutions (Economic Research Forum, Egyptian Centre for Economic Studies), and so on.

The presence of business MPs registered a record high in the parliamentary term 1995–2000, rising from 7 business MPs in 1979–1984 to 71 in 1995, and finally to 77 in the 2000 parliamentary elections. Furthermore, in the 2000–2005 parliament, Egypt's business profile has been promoted through five parliamentary committees of strategic importance, or almost one fifth of all parliamentary committees; these are the Committee for Budgeting and Planning, the Committee for Economic Affairs, the Com-

mittee for Workforce, the Committee for Housing and the Committee for Youth.[20]

Without wishing to understate the problems of Egypt's democratic transition, any comparison of the Egyptian state of affairs now to that of the 1960s and 1970s is illuminating. Egypt has now achieved important strides in the areas of freedom of expression, the press and the media (Minister Safwat Al Sharif stated on a TV show that there are 600 daily and weekly papers in Egypt, many of which are published in the peripheries outside the capital). More recently, the private sector has ventured into the media; three operating satellite channels in Egypt are now private, and many newspapers are under way.

After having a one-party political system, Egypt now has a multiparty system of 17 parties. The government's total monopoly over civil associations and organizations has been dismantled. Egypt now has a growing and flourishing civil society of 16,000 associations.[21] The judiciary has remained viable and independent, and the high constitutional court has become an arbiter of political life.[22]

In addition to the merits of Egypt for candidacy for the G20 detailed above, Egypt enjoys a number of unique regional assets. The geographical position of Egypt has made it a strategic as well as economic transportation point for three continents. The establishment of the Suez Canal in the nineteenth century has added considerably to these assets. The centrality of the Suez Canal in the global market makes it a candidate to be a hub for cargo exchanged between East and West. It could also act as a complex centre linking East and West by means of ports, banks and stockyards, in order to stimulate multinational companies' investments.

Since 1975, much effort has been undertaken to widen and deepen the Canal but also to develop its linkages to the Egyptian hinterland, North Africa, and the rest of the Middle East via Sinai, Palestine and Israel through an extensive network of roads and highways. The new Peace Canal for the irrigation of Sinai, which is currently under implementation, will spread life on both banks of the Suez Canal.

Finally, among Egypt's most influential regional assets is its cultural industry, ranking top in the region. This culture is a rare melting pot of world civilizations and cultural treasures. Currently Egypt is the largest producer of cultural products in the region. This includes the production of books, periodicals, popular magazines and newspapers, TV series and movies. Egypt's advantage in all these activities is cultural as well as financial. Egypt has the advantage of being the centre of media production in the Arab markets of 22 Arab countries and more than 360 million Arabic-speakers. Egypt's share of intra-Arab television programming is one-third. Egypt has a near monopoly on cinema and videos. The Egyptian dialect is the most known in the Arab world.

Therefore, no other country in the Middle East has the capability that Egypt has not only in cultural influence but also in the making and manufacturing of cultural products. In the areas of newspapers, books, films, video, television and broadcasting, Egypt has unmatched regional potential. The liberalization of Egypt politically and economically will give Egypt greatly expanded possibilities in this direction.

Egypt has also been active in the regional sphere in the field of telecommunications and information technology. Egypt's Orascom is playing a prominent role in providing a network of communications through Africa and some Asian Arab countries (e.g. Syria and Jordan), and most recently post-war Iraq.

Against this backdrop, Egypt has been involved in an extraordinary range of common endeavours with nations of the region and worldwide, preparing its economy to work as a regional hub and weaving a series of economic networks, the most important of which are the COMESA free trade zone agreement with African countries and the Egyptian–European Partnership Agreement, in addition to the attempts at revitalizing the Arab common market. Egypt has demonstrated, in the last few years, a capacity to benefit from important developments in the area of establishing regional and trans-regional liberalization projects that have looser membership criteria. These new experiments have raised economic interests above geo-strategic and cultural considerations and have promoted outward and export-oriented economic policies. In this context, Egypt was able to participate in a number of trans-regional trade liberalization initiatives. For example, Egypt is a "dialogue partner" in the Indian Ocean Rim Association for Regional Cooperation and a "sectoral partner" in ASEAN. Currently Egypt is seeking cooperation with the APEC process and a free trade area agreement with the United States.

To conclude, Egypt has been present and active in world fora and organizations and has participated in the creation of new ones more than any country of similar size and power. The potential of an active and influential Egyptian role in the evolution towards an L20, with the expected impact of such membership acting as a catalyst to Egyptian financial and economic reform, is both exciting and rewarding.

Notes

1. The author expresses profound thanks to Mr Mohamed Fayez Farahat, Researcher at the Al-Ahram Center for Political and Strategic Studies, who contributed his time and ideas to make the accomplishment of this paper possible.
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13

Government networks, world order, and the L20

Anne-Marie Slaughter

Terrorists, arms dealers, money launderers, drug dealers, traffickers in women and children, and the modern pirates of intellectual property all operate through global networks.[1] So, increasingly, do governments. Networks of government officials – police investigators, financial regulators, even judges and legislators – increasingly exchange information and coordinate activity to combat global crime and address common problems on a global scale. These government networks are a key feature of world order in the twenty-first century. But they are under-appreciated, under-supported, and under-used to address the central problems of global governance.

Consider the examples simply in the wake of September 11, 2001. The Bush Administration immediately set about assembling an ''ad hoc coalition'' of states to aid in the war on terrorism. Public attention focused on military cooperation, but the networks of financial regulators working to identify and freeze terrorist assets, of law enforcement officials sharing vital information on terrorist suspects, and of intelligence operatives working to pre-empt the next attack have been equally important. Indeed, the leading expert in the ''new security'' of borders and container bombs insists that the domestic agencies responsible for customs, food safety and regulation of all kinds must extend their reach abroad, through reorganization and much closer cooperation with their foreign counterparts.[2] And after the United States concluded that it did not have authority under international law to interdict a shipment of missiles from North Korea to Yemen, it turned to the national law enforcement authorities of those

countries to coordinate the extraterritorial enforcement of their national criminal laws.[3] Networked threats require a networked response.

Turning to the global economy, networks of finance ministers and central bankers have been critical players in responding to national and regional financial crises. The G8 is as much a network of finance ministers as of heads of state; it is the finance ministers who take key decisions on how to respond to calls for debt relief for the most highly indebted countries. The finance ministers and central bankers hold separate news conferences to announce policy responses to crises such as the East Asian financial crisis in 1997 and the Russian crisis in 1998.[4] The G20 Finance, a network specifically created to help prevent future crises, is led by the Indian Finance Minister and is composed of the finance ministers of 20 developed and developing countries. More broadly, the International Organization of Securities Commissioners emerged in 1984. It was followed in the 1990s by the creation of the International Association of Insurance Supervisors and a network of all three of these organizations and other national and international officials responsible for financial stability around the world called the Financial Stability Forum.[5]

Beyond national security and the global economy, networks of national officials are working to improve environmental policy across borders. Within NAFTA, US, Mexican, and Canadian environmental agencies have created an environmental enforcement network that has enhanced the effectiveness of environmental regulation in all three states, particularly in Mexico. Globally, the US Environmental Protection Agency and its Dutch equivalent have founded the International Network for Environmental Compliance and Enforcement, which offers technical assistance to environmental agencies around the world, holds global conferences for environmental regulators to learn and exchange information, and sponsors a website with training videos and other information.

Nor are regulators the only ones networking. National judges are exchanging decisions with one another through conferences, judicial organizations and the internet. Constitutional judges increasingly cite one another's decisions on issues from free speech to privacy rights. Bankruptcy judges in different countries negotiate mini-treaties to resolve complicated international cases; judges in transnational commercial disputes have begun to see themselves as part of a global judicial system. National judges are also interacting directly with their supranational counterparts on trade and human rights issues.

Finally, even legislators, the most naturally parochial government officials due to their direct ties to territorially rooted constituents, are reaching across borders. International parliamentary organizations have been traditionally well-meaning but ineffective. But today, national parliamentarians are meeting to adopt and publicize common positions on the

death penalty, human rights and environmental issues. They support one another in legislative initiatives and offer training programmes and technical assistance.[6]

Each of these networks has specific aims and activities, depending on its subject area, membership and history. But taken together, they also perform certain common functions. They expand regulatory reach, allowing national government officials to keep up with corporations, civic organizations and criminals. They build trust and establish relationships among their participants that then create incentives to establish a good reputation and avoid a bad one. These are the conditions essential for long-term cooperation. They exchange regular information about their own activities and develop databases of best practices, or, in the judicial case, different approaches to common legal issues. They offer technical assistance and professional socialization to members from less developed nations – whether regulators, judges or legislators.

In a world of global markets, global travel and global information networks, of weapons of mass destruction and looming environmental disasters of global magnitude, governments must have global reach. In a world in which their ability to use their hard power is often limited, governments must be able to exploit the uses of soft power – the power of persuasion and information.[7] Similarly, in a world in which a major set of obstacles to effective global regulation is a simple inability on the part of many developing countries to translate paper rules into changes in actual behaviour, governments must be able not only to negotiate treaties but also to create the capacity to comply with them.

Understood as a form of global governance, government networks meet these needs. As commercial and civic organizations have already discovered, their networked form is ideal for providing the speed and flexibility necessary to function effectively in an information age. But unlike amorphous "global policy networks", in which it is never clear who is exercising power on behalf of whom, these are networks comprised of national government officials, appointed by elected officials or directly elected themselves. Best of all, they can perform many of the functions of a world government – legislation, administration and adjudication – without the form.

A networked world order

To see these networks as they exist, much less to imagine what they could become, requires a deeper conceptual shift. Stop imagining the international system as a system of states – unitary entities like billiard balls or black boxes – subject to rules created by international institutions that

are "apart from" and "above" these states. Start thinking about a world of governments, with all the different institutions that perform the basic functions of governments – legislation, adjudication, implementation – interacting both with each other domestically and also with their foreign and supranational counterparts. States still exist in this world; indeed, they are crucial actors. But they are "disaggregated". They relate to each other not only through the Foreign Office, but also through regulatory, judicial and legislative channels.

Seeing the world through the lenses of disaggregated rather than unitary states allows leaders, policy makers, analysts or simply concerned citizens to see features of the global political system that were previously hidden. Government networks suddenly pop up everywhere, from the Financial Action Task Force (a network of finance ministers and other financial regulators) taking charge of pursuing money launderers and financers of terrorism to the Free Trade Commission, a network of trade ministers charged with interpreting NAFTA, to a network of ministers in charge of border controls working to create a new regime of safe borders in the wake of September 11. At the same time, it is possible to disaggregate international organizations as well, to see "vertical networks" between national regulators and judges and their supranational counterparts. Examples include relations between national European courts and the European Court of Justice or between national US, Mexican and Canadian courts and NAFTA arbitral tribunals.

Equally important, these different lenses make it possible to imagine a genuinely new set of possibilities for a future world order. The building blocks of this order would not be states but parts of states: courts, regulatory agencies, ministries, legislatures. The government officials within these various institutions would participate in many different types of networks, creating links across national borders and between national and supranational institutions. The result could be a world crisscrossed by an increasingly dense web of networks.

This world would still include traditional international organizations such as the United Nations and the WTO, although many of these organizations would be likely to become hosts for and sources of government networks. It would still feature states interacting as unitary states on important issues, particularly in security matters. And it would certainly still be a world in which military and economic power mattered; government networks are not likely to substitute for either armies or treasuries.

At the same time, however, a world of government networks would be a more effective and potentially more just world order than either what we have today or a world government in which a set of global institutions perched "above" nation-states-enforced global rules. In a networked world order, primary political authority would remain at the national

level except in those cases in which national governments had explicitly delegated their authority to supranational institutions. National government officials would be increasingly enmeshed in networks of personal and institutional relations. They would each be operating both in the domestic and the international arenas, exercising their national authority to implement their transgovernmental and international obligations and representing the interests of their country while working with their foreign and supranational counterparts to disseminate and distil information, cooperating in the enforcement of national and international laws, harmonizing national laws and regulations, and addressing common problems.

Global impact of government networks

Government networks can provide the structure of a new world order, but how do we know that they actually have or will have any impact on addressing the problems that the world needs to solve? How do they or will they contribute to increasing peace and prosperity, protecting the planet and the individuals who inhabit it?

Three ways in which government networks currently contribute to world order are: (1) by creating convergence and informed divergence; (2) by improving compliance with international rules; and (3) by increasing the scope, nature and quality of international cooperation. Kal Raustiala, a young legal scholar and political scientist, has demonstrated ways in which government networks lead to ''regulatory export'' of rules and practices from one country to another. The result can be sufficient policy convergence to make it possible over the longer term to conclude a more formal international agreement setting forth a common regulatory regime.[8] Soft law codes of conduct issued by transgovernmental regulatory organizations, as well as the simple dissemination of credible and authoritative information, also promotes convergence. Promoting convergence, on the other hand, can also give rise to informed divergence, where a national governmental institution or the government as a whole acknowledges a prevailing standard or trend and deliberately chooses to diverge from it for reasons of national history, culture or politics.

Government networks also improve compliance with international treaties and customary law. Vertical enforcement networks do this explicitly and directly by providing a supranational court or regulatory authority with a direct link to a national government institution that can exercise actual coercive authority on its behalf. Equally important, however, are the ways in which technical assistance flowing through horizontal networks can build regulatory or judicial capacity in states where the spirit is

willing to enforce international legal obligations but the infrastructure is weak.

Finally, government networks enhance existing international cooperation by providing the mechanisms for transferring regulatory approaches that are proving increasingly successful domestically to the international arena. Most important is regulation by information, which allows regulators to move away from traditional command and control methods and instead provide individuals and corporations with the information and ideas they need to figure out how to improve their own performance against benchmarked standards. This approach is gaining popularity in the United States, is increasingly prevalent in the European Union, and is being tried at the United Nations. Government networks create regional and even global transmission belts for information that can readily expand to include as many nations as can usefully participate. In addition, government networks are the ideal mechanism of international cooperation on international problems that have domestic roots, as they directly engage the participation and the credibility of the individuals who must ultimately be responsible for addressing those problems.

Given what already exists, imagine what policy makers and opinion leaders around the world could create if they began looking through the lens of the disaggregated state and decided to recognize government networks as prime mechanisms of global governance, using existing networks and creating new ones to address specific problems. First, they could harness the capacity of government networks for self-regulation, drawing on the examples of private commercial networks that succeed in enforcing ''network norms'' against cheating or other undesirable behaviour. If government networks existed not only to address specific regulatory, judicial and legislative problems but also as self-consciously constituted professional associations of regulators, judges and legislators, they should be able to develop and enforce global standards of honesty, integrity, competence and independence in performing the various functions that constitute a government.

They could socialize their members in a variety of ways that would create a perceived cost in deviating from these standards. But they could also bolster their members by enhancing the prestige of membership in a particular government network enough to give government officials who want to adhere to high professional standards ammunition against countervailing domestic forces. Just as international organizations from the European Union to the Community of Democracies have done, government networks could condition admission on meeting specified criteria designed to reinforce network norms.[9] A particular advantage of selective strengthening of individual government institutions in this way is that it avoids the pernicious problem of labelling an entire state as bad

or good, liberal or illiberal, tyrannical or democratic. It focuses instead on performance much more at the micro level, recognizing that in any country and in any government different forces will be contending for power and privilege. It is critical to support those who are willing to practice what they preach both in their own laws and in their obligations under international law.

At the same time, these networks could be empowered to provide much more technical assistance of the kind needed to build governance capacity in many countries around the world. They could be tasked with everything from developing codes of conduct to tackling specific policy problems. They could be designated interlocutors for the multitudes of non-governmental actors who must be engaged in global governance as they are in domestic governance. Vertical government networks could similarly be designed to implement international rules and strengthen domestic institutions in any number of ways. How well will they do? We cannot know until we try.

To take a concrete example, consider how government networks could help in the rebuilding of Iraq. A global or regional network of judges could be charged with helping to rebuild the Iraqi legal system, both through training and technical assistance and through ongoing monitoring of new Iraqi judges' compliance with the network's norms, which would incorporate standards from the UN Principles on the Independence of Judges. A global or regional network of legislators could be similarly charged with helping to establish and assist a genuinely representative legislature in Iraq. And regulators and other executive officials of every stripe could help to rebuild basic government services, from policing to banking regulation. In all these cases the experts and targeted technical assistance would be readily available, the rebuilding efforts would be multilateral and sustainable, and the new Iraqi officials would have a continuing source of technical, political and moral support.

Self-consciously constituted government networks could also acknowledge the power of discussion and argument in helping generate high-quality solutions to complex problems. For certain types of problems, vigorous discussion and debate is likely to produce the most creative and legitimate alternatives. In addition, government networks constituted this way could harness the positive power of conflict as the foundation of lasting political and social relationships. This understanding of conflict is familiar within democratic societies; it is only within the world of diplomacy, where conflict can escalate to fatal dimensions, that conflict per se is a danger if not an evil. Among disaggregated government institutions, national and supranational, conflict should be resolved, but not necessarily avoided. Conflict is likely to be the long-term engine of trust.

Note that government networks, both as they exist now and as they could exist, exercise different types of power to accomplish results. They have access to traditional ‘‘hard power’’, or coercive power. The central role of national government officials in government networks means that when the participants take a decision that requires implementation, the power to implement already exists at the national level. The power to induce behaviour through selective admission requirements is also a form of hard power. At the same time, much of the work of many horizontal government networks depends on soft power – the power of information, socialization, persuasion and discussion. An effective world order needs to harness every kind of power available.

The transformation of the G20 Finance to an L20

Against this backdrop, I have three basic proposals concerning the future of the G20 Finance. The first is to make it a much more robust institution with deeper roots in the member countries by replicating the existing network of finance ministers with networks of other regulators, legislators and judges. The second is to give a transformed forum a presence in other larger international institutions, such as the United Nations, the IMF, and the WB. And the third is to take advantage of the many other networks of which its members are simultaneously part to promote collective ideas and practices.

A global think tank

The distinctive characteristic and strength of such a forum is that it is small enough to be effective but large enough to be genuinely representative of the diversity of the world's nations and cultures. At a time when global inequality continues to grow and the fundamental policy agendas of North and South are diverging (with the North focusing primarily on the security of states, and hence the threats of terrorism and WMD, and the South on basic human security, and hence the threats of AIDS and other diseases, grinding poverty, lack of basic educational and economic infrastructure, and environmental destruction), the need for a forum in which a genuine global dialogue can take place, much less collective brainstorming and problem-solving, is paramount. The L20 offers just that, but to capitalize on that asset it should extend its reach far beyond financial crises.

Using the EU Council of Ministers as a model, or APEC, G20 finance ministers and lower-level regulators of all types should meet to exchange best practices and air divisive issues in their particular area of expertise.

So too should judges and legislators. The point would be to create a dense web of contacts among government officials from different branches of government in this particular group of countries – a group that can serve as a key bellwether on a wide range of global policy issues. Thus, for instance, if the trade ministers of the G20 Finance were able to work out potential solutions to the Doha stalemate, or the environmental ministers were able to think through an improvement on Kyoto that the United States could sign, together with the legislators from the same countries, an L20 would gain real traction within larger institutions and on the global stage more generally.

In this capacity, the L20 would effectively serve as a global think tank. Its distinctive characteristics, again, would be the diversity and representativeness of its membership and its ability to engage directly the national government officials responsible for making and implementing policy on the ground. L20 officials in these different areas could also pioneer pilot implementation projects, trying out initiatives like the current proliferation security initiative being pushed by the US Administration, to work out the kinks and to help create the conditions necessary for wider adoption. Another possibility would be for these officials, now including judges, to take the lead in offering training and capacity-building assistance to new government officials in countries like Iraq, Afghanistan, the former Yugoslavia – wherever nations need to be built or bolstered to avoid collapse. A network of 20 judges or regulators or ministers or legislators is small enough to create a genuine collective solidarity to support and assist select foreign counterparts.

A starting project could be to address the thorny issue of genetically modified organisms (GMOs). According to experts on this issue, the European Union and United States are locked in a fierce fight fuelled by domestic politics on both sides. Developing countries are caught in the middle. On the one hand, they could benefit considerably from some GMO crops. On the other hand, the EU export market is sufficiently large, and the labelling requirements sufficiently stringent, that at the moment the safest strategy to ensure continued exports to the European Union is to shun all GMOs. Compromises can be found, but they require a smaller and less public forum than the WTO or US–EU relations. If the L20 were able to find such a compromise, it would almost surely be adopted, and its value on the global stage even more firmly established.

Developing a presence within larger global institutions

With all the calls for UN reform, and similar pressures on the WTO and the Bretton Woods institutions, the time is ripe for an L20 caucus within these larger institutions. Within the United Nations, for instance, Security

Council reform is actually very unlikely. But in many ways an L20 is an excellent substitute. None of its members have vetoes, and together they represent a far greater slice of global public opinion. Imagine, for instance, if L20 members at the United Nations (UN ambassadors from L20 countries, perhaps supplemented by the foreign ministers meeting at the United Nations as part of a regular L20 meeting) had debated the proposed use of force in Iraq. A vote in the L20, or even a "sense of the group" resolution, would have broadened the context of the Security Council debates, allowing different countries a genuine voice and putting pressure on individual Security Council members to put collective interests ahead of national interests. Further, the fact that the P5 members would all be L20 members would require them to genuinely convince other countries rather than simply threaten the veto.

Within the IMF, an L20 caucus could tackle specific questions like an alternative sovereign debt mechanism, or generally be a cohesive voice for the Montreal Consensus. Within the WTO, as noted above, an L20 could bridge the G7 and the G24 – a vitally needed service. The developing country members of the L20 could take comfort that they were not breaking ranks with the G24 alone, the developed country members would be likely to find a more flexible negotiating environment, and the world would be better off.

An L20 caucus in different international institutions would have no formal status, but that would be part of its strength. At the same time, it would have much more durability than an ad hoc coalition of countries on a specific issue or set of issues. Nor would members of the caucus always have to be able to reach a common position to be effective. Just the existence of a credible alternative forum in which a subset of members of the larger institution can hash things out can create a different dynamic within the plenary. It would also reinforce both the reality and the distinctiveness of the L20 itself – a more formalized informal network.

Pioneering networked governance

The individual finance ministers who are members of the current G20 Finance are simultaneously members of many other networks – the G7/G8, the EU networks, APEC networks, OECD networks, Commonwealth networks, Organization of African Unity and Organization of American States networks, and so on. Each of these networks engages a different subset of members. In this sense, the G20 Finance, and particularly a transformed L20 broadened to include networks of many other ministers and officials, can be seen as sitting at the intersection of an entire web of global and regional government networks. If they so chose, the L20 members in any other network could form a mini-caucus both to promote

ideas and practices developed in the L20 through other networks and to harvest the ideas and practices developed in these other networks and bring them back to the L20.

These existing networks are conduits – for information, ideas, cooperative strategies, communication and even conflict. They could be much more effectively exploited as a fundamental part of the infrastructure of global governance – the capacity of actual government at the global level, but without the form, as noted above. But to even begin to exploit their potential, they must be made more visible and useful. An L20, itself a government network, but a relatively small, flexible and diverse one, could be a catalyst for developing and implementing governance initiatives through these networks. Indeed, an L20 could even convene networks of networks – in different issue areas, as the Basle Committee did with the Year 2000 network, which combined existing networks of central bankers, securities commissioners and insurance supervisors, or in the same issue area but stretching across different regions and groups of countries. For instance, an L20 might combine one of its meetings with the finance ministers of the Organization of American States, or of the OECD, or APEC, to try out a particular set of ideas, or tackle a particular problem, or propose a set of measures for broader adoption.

Networked governance operates differently to hierarchical governance or governance in formal international institutions with fixed voting rules. It operates primarily through the transmission of information in an environment where the appetite for credible information to help address policy problems of all kinds is great; where fast-changing technology and circumstance creates a need for continually updated codes of best practices; and where shared information allows government officials to solve coordination and cooperation problems together with their foreign counterparts. Government networks can also help build capacity in countries where the will to comply with both domestic and international obligations exists but the means does not. They can lay the foundation for policy convergence sufficient to make more formal international agreements possible where they were not before. And they can reinvigorate and push reform in existing international institutions.

In many ways, an L20 could well be what the founders of the United Nations would come up with today, in a world of 191 nations instead of 50-odd – too many for a genuinely global institution operating on a "one state, one vote" principle to be effective except through its specialized agencies – and in a world in which international problems require national-level solutions. It could be a global think tank, a caucus in many existing institutions, a catalyst for networked global governance operating through national government officials. It would be a genuinely representative global institution that would be small enough and flexible

enough to be effective. It could become the steering committee of many of the world's networks.

Conclusion

Peoples and their governments around the world need global institutions to solve collective problems that can only be addressed on a global scale. They must be able to make and enforce global rules on a variety of subjects and through a variety of means. Further, it has become commonplace to claim that the international institutions created in the late 1940s, after a very different war and facing a host of different threats from those we face today, are outdated and inadequate to meet contemporary challenges. They must be reformed or even reinvented; new ones must be created.

Yet world government is both infeasible and undesirable. The size and scope of such a government presents an unavoidable and dangerous threat to individual liberty. Further, the diversity of the peoples to be governed makes it almost impossible to conceive of a global demos. No form of democracy within the current global repertoire seems capable of overcoming these obstacles.

This is the globalization paradox. We need more government on a global and a regional scale, but we do not want the centralization of decision-making power and coercive authority so far from the people actually to be governed. It is the paradox identified in the European Union by Renaud Dehousse, and by Robert Keohane in his millennial presidential address to the American Political Science Association. The European Union has pioneered "regulation by networks", which Dehousse describes as the response to a basic dilemma in EU governance: "On the one hand, increased uniformity is certainly needed; on the other hand, greater centralization is politically inconceivable, and probably undesirable".[10] The EU alternative is the "transnational option" – the use of an organized network of national officials to ensure "that the actors in charge of the implementation of Community policies behave in a similar manner".[11]

Worldwide, Keohane argues that globalization "creates potential gains from cooperation" if institutions can be created to harness those gains.[12] However, "institutions themselves are potentially oppressive".[13] The result is "the Governance Dilemma: although institutions are essential for human life, they are also potentially tyrannical".[14] The challenge facing political scientists and policy makers at the dawn of the twenty-first century is "discovering how well-structured institutions could enable the world to have 'a new birth of freedom'".[15]

Addressing the paradox at the global level is further complicated by the additional concern of accountability. The conventional reaction in the 1990s to the problem of ''world government'' was instead to champion ''global governance'', a much looser and less threatening concept of collective organization and regulation without coercion. A major element of global governance, in turn, has been the rise of ''global policy networks'', celebrated by UN Secretary-General Kofi Annan as bringing together all public and private actors on issues critical to the global public interest.[16]

Global policy networks, in turn, grow out of various ''reinventing government'' projects, both academic and practical. These projects focus on the many ways in which private actors now can and do perform government functions, from providing expertise to monitoring compliance with regulations to negotiating the substance of those regulations, both domestically and internationally. The problem, however, is ensuring that these private actors uphold the public trust. Martin Shapiro, for instance, argues that the shift from government to governance marks ''a significant erosion of the boundaries separating what lies inside a government and its administration and what lies outside them''.[17] The result is to advantage ''experts and enthusiasts'', the two groups outside government that have the greatest incentive and desire to participate in governance processes.[18] However, ''while the ticket to participation in governance is knowledge and/or passion, both knowledge and passion generate perspectives that are not those of the rest of us. Few of us would actually enjoy living in a Frank Lloyd Wright house''.[19]

The network form, with its loose, informal and non-hierarchical structure, only exacerbates this problem. The governance dilemma thus becomes a tri-lemma: we need global rules without centralized power, but with government actors who can be held to account through a variety of political mechanisms. These government actors can and should interact with a wide range of non-governmental groups and organizations, but their role in governance bears distinct and different responsibilities. They must represent all their different constituencies, at least in a democracy; corporate and civic actors may be driven by profits and passions respectively. ''Governance'' must not become a cover for the blurring of these lines, even if it is both possible and necessary for these various actors to work together on common problems.

In this context, a world order based on government networks, working alongside and even in place of more traditional international institutions, holds great potential. Critics of these networks, however, see them as a conspiracy by the most developed nations to avoid the one state, one vote procedures and elaborate formal negotiations of many existing international institutions. They see them as secretive and suspicious, using

the network form to avoid transparency and accountability. And they worry that once again for the great majority of nations in the world, who you know will matter more than what you know or what you need.

An L20 has the potential to counter these critics by demonstrating how a government network can in fact be more inclusive than existing international institutions such as the UN Security Council and even the WTO, in terms of balance of power. It can demonstrate how such a network can be transparent with regard to its aims and its results, if not its actual deliberations. And it can develop ways for the maximum possible number of domestic officials to engage their counterparts as well, ensuring that legislators as well as regulators and judges have input into networked cooperation. Finally, it can be a catalyst for change and creative problem-solving within existing international institutions, as well as being at the centre of its own network of networks. But to achieve all this, its deliberations must produce genuine results.

Notes

1. Moisés Naím, "Five Wars of Globalization", *Foreign Policy*, January/February 2003: 29–36.
2. Stephen E. Flynn, "America the Vulnerable", *Foreign Affairs* 81, 2002: 60–74.
3. David E. Sanger, "The World: When Laws Don't Apply; Cracking Down on the Terror-Arms Trade", *New York Times*, 15 June 2003, section 4: 4.
4. Robert Chote, "A World in the Woods", *Financial Times*, 2 November 1998.
5. The Financial Stability Forum was initiated by the finance ministers and central bank governors of the G7 countries in February 1999, following a report on international cooperation and coordination in the area of financial market supervision and surveillance by the President of the Deutsche Bundesbank. In addition to representatives from the Basle Committee, International Organization of Securities Commissioners, and International Association of Insurance Supervisors, its members include senior representatives from national authorities responsible for financial stability in significant international financial centres; international financial institutions such as the BIS, IMF, OECD, and WB; and committees of central bank experts.
6. US readers may be sceptical of these reports due to the widespread and completely false statistic about how few members of Congress have a passport. In fact, 93 per cent of all members hold passports and average two trips abroad a year. Indeed, 20 per cent claim to speak a foreign language. See Eric Schmitt and Elizabeth Becker, "Insular Congress Appears to be Myth", *New York Times*, 4 November 2000. What is true is that some members fear that their constituents will identify trips to meet their counterparts abroad with "junkets", but that is a matter of public education.
7. Joseph S. Nye, Jr, *The Paradox of American Power: Why the World's Only Superpower Can't Go It Alone*, New York: Oxford University Press, 2002, p. 9.
8. Kal Raustiala, "The Architecture of International Cooperation: Transgovernmental Networks and The Future of International Law", *Virginia Journal of International Law* 43, 2002: 1.
9. See Council for a Community of Democracies homepage (cited July 7, 2003), available from www.ccd21.org.

10. Renaud Dehousse, ''Regulation by Networks in the European Community: The Role of European agencies'', *Journal of European Public Policy* 4, June 1997: 259.
11. Dehousse, ''Regulation by Networks in the European Community'', p. 254.
12. Robert O. Keohane, ''Governance in a Partially Globalized World – Presidential Address, American Political Science Association, 2000'', *American Political Science Review* 95, March 2001: 1.
13. Keohane, ''Governance in a Partially Globalized World'', p. 1.
14. Keohane, ''Governance in a Partially Globalized World'', p. 1.
15. Keohane, ''Governance in a Partially Globalized World'', p. 12, quoting Abraham Lincoln, ''The Gettysburg Address'', 19 November 1863.
16. Kofi A. Annan, *We the Peoples: The Role of the United Nations in the 21st Century*, New York: United Nations, Department of Public Information, 2000, p. 70; see also Wolfgang H. Reinicke and Francis Deng, *Critical Choices: The United Nations, Networks, and the Future of Global Governance*, Ottawa: International Development Research Centre, 2000; Wolfgang H. Reinicke, ''The Other World Wide Web: Global Public Policy Networks'', *Foreign Policy*, Winter 1999/2000.
17. Martin Shapiro, ''Administrative Law Unbounded: Reflections on Government and Governance'', *Indiana Journal of Global Legal Studies* 8(2), Spring 2001: 369.
18. Shapiro, ''Administrative Law Unbounded'', p. 376.
19. Shapiro, ''Administrative Law Unbounded'', p. 374.

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The L20 in the twenty-first century

Ramesh Thakur and Andrew S. Thompson

Speaking to the General Assembly on 23 September 2003, UN Secretary-General Kofi Annan noted that "we have come to a fork in the road ... a moment no less decisive than 1945 itself, when the United Nations was founded".[1] In a number of key meetings during and after the Second World War, world leaders drew up rules to govern international behaviour and established a network of institutions, centred on the United Nations, to work together for the common good.

Both the rules and institutions – the system of global governance with the United Nations as the core – are under serious challenge. The Iraq war roiled the UN-centred world of international diplomacy as few other issues have since the creation of the organization in 1945. By their bitter separation over Iraq, the United States and United Nations provoked a legitimacy crisis in each other – a crisis of US power and UN authority. The certainty of its moral clarity put the Bush Administration on a course that seriously eroded its moral authority in the exercise of world power. The lack of a sense of moral clarity – values that it espouses and principles in defence of which it is prepared to stand up and be counted – diminished the United Nations' moral authority.

In order to try to re-establish or forge a new consensus on the norms and laws governing the use of force in world affairs in relation to contemporary threats, Kofi Annan brought together a group of 16 distinguished experts to probe the nature and gravity of today's threats and recommend collective solutions to them through a reformed United Nations. The panel's report, published in December 2004, is both comprehensive

and coherent, presenting a total of 101 recommendations in furtherance of the conviction that ‘‘The maintenance of world peace and security depends importantly on there being a common global understanding, and acceptance, of when the application of force is both legal and legitimate’’.[2] The overarching themes are our shared vulnerability and the primacy of the rule of law embedded in universal institutions and procedures that are efficient, effective and equitable. The central thesis, and hence the title of the report, is that no country can afford to deal with today's threats alone, and no threat can be dealt with effectively unless other threats are addressed at the same time. For example, the worldwide economic consequences of the terrorist attacks of 11 September 2001 included an additional 10 million people being pushed below the poverty line;[3] or, the failure of a poor or fragile state to contain an emerging mass infectious disease can have a devastating impact on the life and security of the citizens of the most affluent and powerful state. And terrorism feeds on grievances rooted in poverty, foreign occupation, lack of democracy and human rights, and weak and corruptible state structures.

The report identifies the major threats as war and violence among and within states; the use and proliferation of weapons of mass destruction; terrorism; transnational organized crime; and poverty, infectious disease and environmental degradation. The threats can come from state and non-state actors and can endanger human as well as national security. Collective security is necessary because today's threats cannot be contained within national boundaries, because they are interconnected, and because they have to be addressed simultaneously at all levels. The primary challenge to the international community is to ensure that imminent threats do not materialize, and distant threats do not become imminent. This requires early, decisive and collective action against all threats before they can cause the worst devastation. Such a prophylactic modus operandi must emphasize development as a structural prevention approach while including the possibility of preventive military action.

The report has some useful comments on how to streamline, strengthen and revitalize the roles and functions of the General Assembly, the Economic and Social Council, and the Secretary-General. Noting that a decision on Security Council enlargement ‘‘is now a necessity,’’ it outlines two models.[4] Both would see an expansion of the Council from 15 to 24 members, 6 each from Africa, Asia and the Pacific, Europe, and the Americas. There are four further institutional recommendations. First, to enhance coordination of the United Nations' primary mandate, the report recommends the creation of a second deputy secretary-general post for peace and security.[5] Second, the report recommends the establishment of a new Peacebuilding Commission in order to identify coun-

tries sliding towards state collapse and institute measures to halt the slide, and to plan for and assist in the transition from war and conflict to peace and post-conflict peacebuilding.[6] Third, in order to reverse growing cynicism about the hypocrisy of existing institutions and practices, and noting that states have begun to seek membership of the Human Rights Commission not to strengthen human rights but to shield their own actions from Commission scrutiny, the panel recommends that it become universal in membership.[7] And fourth, potentially most importantly yet to date least noted, the panel foreshadows the transformation of the Group of 20 Finance Ministers into a Leaders' 20 Summit (heads of government) group that would embrace 80 per cent of the world's population and 90 per cent of its economic activity.[8]

Legitimacy deficit

In order to understand the last point, we have to recognize the reality of a serious legitimacy deficit in contemporary global governance. The central challenge of global governance is a double disconnect: (1) between the distribution of hard and soft power in the real world and the distribution of decision-making authority within intergovernmental institutions; and (2) between the numbers and types of actors playing expanding roles in civil, political and economic affairs within and among nations, and the concentration of decision-making authority within intergovernmental institutions. In turn, this has provoked a double crisis of legitimacy. With regard to the first disconnect, legitimacy is the conceptual rod that connects power to authority. The circuit is broken when power and authority diverge. As for the second disconnect, legitimacy is the conceptual rod that grounds the exercise of power by public authorities in the consent of the people. The circuit is broken with the growing gulf between the will of the people and the actions of governments.[9]

Western countries are more concerned with performance woes; developing countries focus more on lack of representation, transparency and accountability below and above. The G7/8 fails the tests of legitimacy on representativeness, consistency, transparency and accountability. As the collapsed trade talks at Cancún showed, Brazil, China and India acting in concert in world negotiations form a powerful bloc that cannot be ignored anymore. Drawing them into a new summit grouping that bridges the North–South divide would serve also to make them more responsible and responsive. One of the under-remarked phenomena of our times is the globalization of the process of policy-making, a phenomenon not reflected in the formal fora for making international policy. The result is that developing countries have been reduced, by and large, to be-

ing norm takers, while an inner circle of powerful Western states are the primary norm setters and norm enforcers.[10]

Conversely, the domestic and foreign policies of the United States since 9/11 confirm how actual experience of an event shapes responses in ways that are fundamentally different from a world view grounded solely on theoretical arguments. Prior to 9/11, countries grappling with the difficult policy dilemmas of protecting their people from terrorist attacks were often subjected to harsh US judgments on the extent to which they had curtailed civil liberties, political freedoms and human rights. After 9/11, Americans seriously began to debate the circumstances in which, and the extent to which, torture is justified in tackling the threat of terrorism.

This recalls the old joke about a liberal being a conservative who has not yet been mugged. By the same token, though, the leaders of industrial countries like those of the G7 cannot possibly begin to appreciate the real-world policy framework in which the leaders of developing countries have to make political, economic and social decisions. Yet it is the G7 countries that are the chief architects of the world's financial and security orders. To narrow the gaps between theoretical knowledge and practical experience, the major developing countries must be brought in as joint architects to help design the system, set the rules and promulgate the norms. Such jointly constructed economic and security systems will result in a shared ownership of the global order, and the enhanced legitimacy will translate into a more efficient international machinery.

Thus, the question is: can the G7/8 enlarged into a new L20 provide a solution as a new, important pillar of institutionalized multilateralism? If so, should it be situated within the existing architecture of global governance that comprises the UN system, the Bretton Woods institutions (the WB and IMF), the G7 group, the World Economic Forum and the World Social Forum? The legitimacy of the United Nations as the universal global institution is qualified by a drag in performance and efficiency, while the G7's performance efficiency, to the extent that it exists, is qualified by its legitimacy drag with regard to a serious lack of representation. The United Nations is too large, cumbersome and unwieldy, with the powerful centrifugal pressures within it overwhelming collective decision-making prospects. The G7 is far too widely perceived as a self-anointed exclusive club of the rich and powerful. Both have promised much yet accomplished little. If the United Nations is essentially an artifice of the liberal imagination, the G7 suffers from a lack of imaginative liberalism.

Thus there is a deficit in good governance at the global level. Indeed, few scholars and practitioners of international relations, including the contributors to this collection, would suggest that the current interna-

tional system is working well, or at least as well as it could and should. Simply speaking, there are too many issues of a global magnitude that remain unresolved – the nexus between international terrorism and weapons of mass destruction, the growing inequities of an increasingly globalized world, HIV/AIDS, or the management of water – the list goes on. Existing international institutions, for whatever reasons, are not making the grade. In many cases, their shortcomings are a product of the limited resources that are available to them; sadly, in others, the problem is a lack of political will. Either way, the current international architecture seems ill suited for timely, innovative and effective answers to the problems facing the world today.

One solution is to reform existing institutions from within. This is not only a prudent course of action but a necessary one. Despite their shortcomings, the institutions that make up the current international architecture are not about to suddenly disappear; most if not all will be around for the foreseeable future. Critical self-reflections are crucial to their long-term health and relevance. Still, it is worth noting that calls for reform are often met with a high degree of scepticism if not cynicism, justifiably so in some cases.[11] One of the reasons for this reaction is that change can often be slow in coming. Even seemingly modest efforts to modernize can falter in the face of cumbersome and indifferent bureaucracies, unrealistic expectations and, in some cases, outright political resistance. As noted above, the latest example of this may be the 2004 report of the High-level Panel on Threats, Challenges and Change (HLP). Many of the panel's recommendations are innovative, yet not radical departures from existing norms and practices.[12] But it is too early to tell whether the panel's recommendations will breathe new life into the UN system. If truth be told, the report's real impact may not be known for years to come.

A second option that is available to the international community is to establish new multilateral institutions that more accurately reflect contemporary geopolitical and economic realities. This is part of the appeal of the idea behind the Leaders' 20 Summit. Drawing its inspiration from both the current G7/8 leaders' meetings and the G20 Finance meetings, its purpose would be to bring together the leaders of key states in the hope that an informal meeting of peers might lead to resolutions on issues in which deadlock has thus far been the norm. Of course, as others have noted in this collection, a certain amount of caution is warranted. Starting afresh requires, in many respects, a far greater leap of faith than does modifying the system that is already in place. The immediate appeal of an L20 is that it would represent, at least in certain respects, a decisive break from past practices. Yet there are pressing issues that must be resolved if the L20 is to have any chance of making the leap from an inter-

esting idea to a relevant multilateral body – namely, who is at the table and what is to be discussed. This book offers suggestions for both, but in neither case is the answer obvious.

Stemming from these two concerns are smaller, but no less important, questions. What ''carrots'' might be dangled in front of reluctant participants, specifically, although not exclusively, the United States? How would an L20 operate within the existing international institutions? From where would it derive its sense of legitimacy? How will the majority of nations that are left outside react to its decisions? Would the many be bound by the decisions of the select few? And what about non-state actors? Would they be asked to participate, and if so, in what capacity? These are just some of the issues that must be addressed.

Fortunately, the attractiveness of the L20 as an idea is that none of these obstacles is insurmountable. Granted, careful planning and a degree of faith are needed if the initiative is to become a reality and eventually succeed where other international bodies have failed. But given the current state of the international system, the efforts are worth it, and the leap of faith is worth taking. If all goes well, the L20 has the potential one day to become a – if not the – defining global institution of the twenty-first century.

The L20 in 2004

At the time that this chapter was written, the L20 was still an idea – but an idea with momentum, especially in Canada. To no one's surprise, given both the L20's origins and its champion in Prime Minister Paul Martin, the concept had begun to take hold in Canada, having piqued the interest of the country's media and foreign affairs community – although, truth be told, neither had a clear idea of what it would look like or how it might operate.[13] This general interest was, to some extent, a product of a couple of factors. One was timing. As alluded to above, 2003 and 2004 were difficult years for the United Nations. Its credibility, and in some circles – most notably the neo-conservatives in Washington, D.C. – even its relevancy were being called into question. These criticisms were products not simply of Iraq, but also of the organization's inability to respond in a timely manner to humanitarian crises in a world system designed around traditional notions concerning the inviolability of state sovereignty.[14] While Canadians were not prepared to give up on their commitment to the United Nations, there was a growing sense that the body was caught in a period of stagnation.[15] Nor was this scepticism restricted to the United Nations. The international financial institutions – the G7/8, G20 Finance, IMF, WB, WTO, OECD and APEC – had also

been the target of considerable criticism for quite some time, as anti-globalization activists blamed them for creating and perpetuating a global economic system with rules that run counter to the aims and ambitions of human development.

A second reason for the L20's appeal in Canada has stemmed from the intellectual weight that has been and still is being thrown behind it. The research into the viability of an L20 has been coordinated in large part by two Canadian think tanks, the Centre for Global Studies (CFGS) in Victoria, British Columbia, and the Centre for International Governance Innovation (CIGI) in Waterloo, Ontario. This book is a product of their collaboration, and is based on two discussions that the think tanks co-hosted in Bellagio, Italy and Ottawa, Canada in late 2003 and early 2004 respectively, as well as on a subsequent conference on reforming international financial institutions that occurred in the spring of 2004 in Buenos Aires, Argentina and was co-sponsored by the United Nations University and the Facultad Latinoamericana de Ciencias Sociales.[16] Hence, the focus of this book is largely on the problems in governance with the international financial architecture; however, this collection is only one aspect of a much larger enterprise. Together, the two centres headed up a venture known as "The L20 Architecture in 2020 – Securing a Legitimate Role for the L20", the scope of which reaches far beyond an examination of the potential influences that an L20 might have on the institutions that are responsible for regulating the global economy. Also falling under the ambit of the project were studies on agricultural subsidies and the WTO, the post-Kyoto Protocol regime, infectious diseases, access to water, the intersection of terrorism and weapons of mass destruction, financial crises, and an assessment of the "responsibility to protect".[17] To assist them, the CFGS and CIGI drew on the expertise of other research centres around the world, including among others the Council on Foreign Relations in New York, the Brookings Institution in Washington, D.C., Oxford University, the Instituto Tecnológico Autónomo de México, the Al Ahram Center for Political and Strategic Affairs and the Alexandria Library in Alexandria, Egypt, the Asia-Pacific College of Diplomacy in Canberra, and the United Nations University, based in Tokyo, Japan. The combined outcome of these studies, including this volume, was a joint report recommending possibilities for the scope and structure of the L20 should it ever become a reality.

In 2004, much of the prospective L20's fortunes rested with Canada's Prime Minister Paul Martin. More than any other leader, he was the acknowledged champion of the idea. Martin was there from the very beginning, having attended the initial meetings in Waterloo and Bellagio. As Prime Minister, he spent much of 2004 promoting the idea to his peers around the world, testing the waters to see how amenable they were to

such an organization.[18] But Martin was also the Prime Minister of a minority government back home in Canada, his Liberal Party having won only 135 of a possible 308 seats in the Canadian House of Commons in the June 2004 federal election. Although at the beginning of 2005 there was no evidence that Canadians would be going back to the polls in the foreseeable future, the fact remained that the Martin government could be defeated at any moment in the House of Commons. Should this occur, and should Martin and the Liberals be elected out of office, it was not clear what would happen to the L20 idea, or whether another Canadian prime minister would pick up the mantle.

Fortunately for the L20's proponents in Canada, others around the world began to warm to the idea over the course of 2004, although enthusiasm varied from state to state. On one level, there was considerable talk of expanding the G7/8 to a G9 or G10 by bringing China and/or India into the fold.[19] What this might mean for an L20 was not entirely clear. Whether the G7/8 membership expanded incrementally or in one fell swoop was yet to be determined; nonetheless, expansion in the not-too-distant future seemed to be a distinct possibility. Much still depended on the mood of existing members, and whether they preferred a cautious plan of expansion that retained the exclusiveness of the G7/8 over one that was bolder and more inclusive yet less predictable. Germany was among the reported sceptics. While it supported the idea of a broader membership, it maintained that a Leaders' 20 Summit was premature given that the G20 Finance had yet to "prove its worth".[20]

There were, however, several proponents of the fully expanded club. In July, Allan Gyngell, Executive Director of the newly established Lowy Institute for International Policy in Sydney, Australia, endorsed the idea of leaping right to 20 members. Much of his support centred on arguments of Australian self-interest – Australia is already a member of the G20 Finance and it is always better not to be on the outside looking in, especially when other regional actors such as China and Japan are involved. But Gyngell also liked the idea for what it might be able to do for global governance more generally. A broad membership of Northern and Southern states, he suggested, would have far more legitimacy in the eyes of the world than the G8 could ever hope to gain on its own. It would also be far more functional. "It would," he wrote, "have a breadth that regional organizations can't match and a functionality the larger, more cumbersome, UN lacks".[21] Johannes Linn, the former Vice-President for Europe and Central Asia at the World Bank, agreed. Co-authoring a report with Colin I. Bradford, Jr for the Brookings Institution, he dismissed concerns that an L20 would erode the tight, small-knit nature of the G7/8, writing: "For the G7/G8 countries, the apparent loss in exclusivity should be more than offset by the increased relevance

and effectiveness of their efforts to address issues of great global and national significance''.[22]

Martin received a number of other notable endorsements throughout 2004 as well. In October, Presidents Jacques Chirac of France and Hu Jintao of China issued a joint press statement expressing their initial support for the idea of high-level, annual meetings between leaders from both developed and developing nations, especially, although not exclusively, on matters related to globalization and economic governance.[23] Another endorsement came from Brazil. As Sennes and de Freitas Barbosa explain in their chapter, Brazilian foreign policy since the 1990s has often been cautious and pragmatic, geared towards raising its profile in international institutions both political and financial, regional and global. The appeal of the L20, they suggest, is that it caters to Brazil's sense of itself as a major yet underrepresented player on the world scene. Sure enough, in November 2004, President Lula Da Silva backed the L20 initiative, arguing that Brazil favours ''a multilateral system that is solid, effective and representative''.[24] A third show of support came from the Francophonie, while a fourth came from the United Nations HLP, based on the argument that much could be gained from a forum that brought the developed and developing worlds closer together.[25]

The wild card in all of this is the United States. As Higgott warns, the prospect of Washington's support for an L20 cannot be taken for granted. As of the end of 2004, Washington's response to the idea had been ''lukewarm'' at best, with the Bush Administration offering no clear commitment on whether it would participate in such a forum.[26] Part of this response, according to Lawrence Martin, was a reflection of the tepid relations between Canada and the United States during 2004, the major (although not only) cause of the friction being Canada's refusal to support the 2003 war on Iraq.[27] But, as Higgott again points out, Washington's reservations were also an expression of the state of US foreign policy at the time, which was simultaneously preoccupied with issues of global terrorism and suspicious of multilateral initiatives.

Another question that was still to be answered was how civil society – the source of the second disconnect and crisis of legitimacy identified earlier in this chapter – might react to an L20 should it ever be established. As societies evolve, expand and multiply, their governing framework of rules and institutions becomes correspondingly more complex and functionally specific. A necessary consequence of increasingly differentiated structures of governance is the increased space between citizens as self-contained individuals, and the state as a collective abstraction. In contemporary societies, governments can satisfy only a small and diminishing proportion of the needs of human beings as social animals. Consequently, citizens look more and more to civic associations to channel a

growing range and variety of social interactions, which in turn need a framework of governance outside the jurisdiction of the state. "Civil society" refers, broadly speaking, to the social and political space in which voluntary associations (as distinct from the automatic, binding and compulsory membership of a state) attempt to shape norms and policies for regulating public life in social, political, economic and environmental dimensions.

There has been an exponential growth in the number of civil society actors, and in the volume of transnational networks in which they are embedded. They play an important and growing role as an information channel, a font of legitimacy and a catalyst to accountability and transparency. The net result of expanding global citizen action has been to extend the theory and deepen the practice of grassroots democracy without borders. International society too is becoming more plural and diverse. Civil society activism across borders, issue-specific coalitions among complementary groups from around the world, and engagement with like-minded governments and intergovernmental organizations have been distinguishing features of the work of non-governmental organizations and important explanations for their success. They exert pressure in cabinet offices and boardrooms alike in the rich countries to respond to the special needs of developing countries.

If reaction to the G7/8 is any indication of what an L20 might come to expect, the prospects of gaining a sense of legitimacy amongst the global public may not be good. Simply, civil society has not been kind to the G7/8 or its policies in recent years. As Jan Aart Scholte argues, there is at present very little about the global economy that is democratic, a condition that stems from the triple problem of "[public] ignorance, institutional failings, and structural inequalities" in all societies, and has led to a global economic system based on "rule by *some* people" rather than by *the* people.[28] Many in the anti-globalization movement have come to blame the G7/8 (along with the IMF, WB and WTO) for perpetuating and even accelerating the inequities in the global system, deeming it ill suited for making decisions that affect the entire globe. Not surprisingly, G7/8 meetings since the late 1990s have been marred by hostile and even violent demonstrations, perhaps the most tragic being the July 2001 meeting in Genoa, Italy, in which police clashed with protestors, leaving many injured and one dead.[29] The expanded membership of an L20 (assuming, of course, that growth is not incremental) may go a long way towards quelling some of the criticisms about the representativeness of the G7/8.

Nor was it clear how an L20 might interact with civil society. Several of the authors in this collection suggest that a network of L20 think tanks might act as the intermediary between the two. Another, perhaps prefer-

able, option would be for national governments to engage directly with NGOs through a series of consultations prior to any scheduled meeting. This would give NGOs a voice in international policy discourse without giving them either a vote or a veto – both of which would be bitterly resisted by many countries.[30] None of the authors in this volume suggest that civil society participate in the meetings themselves. As Smith and Carin argue, the purpose of an L20 would be to create a forum that is informal, conducive to "real debate, discussion, understanding and consensus". The presence of NGOs would compromise this too much. Nonetheless, certain segments of civil society will want to be engaged in some capacity; the L20 would be wise not to ignore them altogether.

Moving forward with the L20

Several of the authors in this collection have prescribed a number of paths that the architects of an L20 might choose to take as they attempt to bolster support for the organization around the world. By and large, there is general consensus on a number of issues related to the scope, structure and composition of an L20. On matters of scope, all agree that the forces of globalization need to be managed more effectively, and that this is an area where an L20 could make a positive difference. Simply put, the need for reform is very great. The current global economic system, with its flaws and susceptibility to crises, is too unsustainable and too unjust, perpetuating the already cavernous gulf in hard and soft power between the North and South. Perhaps Gurria says it best at the beginning of his chapter: "Why a Leaders' 20 Summit? Because the different fora that deal with globalization are not working." In terms of structural advantages, all see great potential in the expanded membership consisting of nations from both North and South that is neither too small to have representational legitimacy nor too big to hamper efficiency, as well as the informal and intimate character of the meetings themselves. As for composition, all share the opinion that the United States must be brought on board, and that civil society should have a role, but from a distance. Perhaps more importantly, all support the notion that leaders matter a great deal to the overall well-being and efficacy of the international system. From their vantage point, leaders are able to approach problems in ways that ministers cannot, to see the big picture and transcend political posturing. To paraphrase Alagh, certain issues are so pressing that they require "attention at the highest political levels," the cost of inaction being simply too high for them not to become involved.

Despite these areas of consensus, there are still a number of pressing issues concerning the L20 idea that need to be addressed. First and fore-

most, the membership of the group needs to be determined. China, India and Brazil are obvious and largely uncontroversial additions. Yet after these three, the choices are not as cut and dried. As Abdel Monem Said Aly demonstrates in his chapter, the case for Egypt is quite strong. But depending on the agenda and the criteria for membership, an equally compelling case could be made for Saudi Arabia. What about Malaysia in preference to Indonesia, or Nigeria to South Africa? Again, in neither case is the answer clear. Then again, does Canada even warrant being a member? It is a member of the G7/8 and, as mentioned above, the principal actor behind the L20 initiative, but are these factors enough to justify a seat at the table? Might a Scandinavian nation or a middle power from another region be more appropriate, depending on the issue that is being discussed? Granted, omitting Canada would likely hurt the L20, at least in the short run. However, the point is that the value that each member adds will fluctuate, and the L20 would be wise to develop mechanisms for identifying and jettisoning countries that have passed their use-by dates in terms of the core criteria for membership.

A second issue that is still open to debate is the agenda. Several commentators have pointed out that the L20 needs to produce tangible results quickly if it is to be considered a credible decision-making body. In essence, an L20 would need an "early win". There are any number of items that an L20 could adopt for its initial meeting. The key may be to choose an issue or issues that appeal directly to the needs and ambitions of its members from the developing world. At the very least, the L20's founders must be sensitive to the reservations of its various members. This will not be easy; each will arrive with its own set of priorities. As Sennes and de Freitas Barbosa point out, Brazilians are understandably cynical about international markets given the country's recent economic troubles, and would likely favour efforts to buffer the global economy against the recurrence of financial crises. Similarly, Taylor suggests that South Africa's foreign policy goals are to secure greater representation for developing economies in the governing structures of the IMF and WB more generally, and to formalize the framework for international debt restructuring more specifically. Alagh believes that India might press for resolutions on such issues as agricultural subsidies, the protection of water and global health, while Katada contends that Japan's ambitions are for a greater Asian presence in any efforts to reform the international financial institutions. Moreover, like that of the United States, Chinese support is not automatic. As Yongding warns, China is acutely protective of its national sovereignty; odds are that any forum that did not take this into account would likely not receive China's support.

But perhaps the biggest question pertaining to the L20 is how it might operate in relation to existing international institutions. Without a doubt,

the creation of an L20 will have implications for other multilateral bodies; as the ''new kid on the block'', it will unavoidably alter the dynamics of the ''global neighbourhood''. The dilemma for those who are designing and building the L20 is whether such a body will complement or threaten existing international institutions, and if so, which ones will be most affected, and how?

An L20 could have a highly beneficial and speedy effect on the international financial institutions. One possibility is that the L20 would become the forum to which the Bretton Woods institutions and the WTO would have to answer. As Higgott notes, such a role would go a long way towards allaying many of the concerns of its members from the South.

The prospective L20's relationship to the United Nations is a more complicated issue, however. The United Nations is our collective instrument for organizing a volatile and dangerous world on a more predictable and orderly basis than would be possible without the existence of the international organization. Most people still look to it as humanity's best hope for a shared future, especially if it could somehow be reformed to reflect today's needs and realities. Too often has the United Nations shown itself to be proof against events of the larger kind, demonstrating a failure to tackle urgent collective action problems due to institutionalized inability, incapacity or unwillingness. The United Nations is the arena for collective action, not a forum where nations who are unable to do anything individually should get together to decide that nothing can be done collectively.

Instead of the United Nations being the centre for harmonizing national action in pursuit of the international interest, could an L20 become the nerve centre for coordinating UN action? Cooper and English argue that an L20 would enhance the United Nations rather than weaken it, but this is not a universally held view. The two suggest that, as an informal meeting of world leaders, an L20 would be well positioned to set the international agenda, resolve disputes, pledge commitments and monitor progress on issues of common concern, but would do so without undermining the United Nations' place as the one international institution with the authority ''to make decisions for the rest of the world''. Perhaps this is the case. But there is also a danger that an L20 may eventually erode the legitimacy of the United Nations, particularly if it comes to be seen as a vehicle for making an end-run around the quarrelsome aspects of the General Assembly and Security Council. Only time will tell.

Opinion about an L20's relationship to the G7/8 is also varied. As noted above, Smith and Carin prefer incremental growth, meaning the G7/8 would eventually become the L20 over time. But Gurria is not convinced that this is the appropriate course of action. He favours an L20, but not at the expense of the G7/8. Despite its reputation as the ''self-

anointed exclusive club of the rich'', he suggests that the G7/8 still performs a unique function in the global architecture, as do the G24, G77 and G110+. He sees little to be gained by the G7/8's dissolution, particularly should its members determine that it is worthwhile to meet prior to a summit of the L20. Predictably, there is room to be critical of this two-track arrangement. As Sennes and de Freitas Barbosa point out, the L20's legitimacy with the developing world will be slow in coming if it is perceived as being nothing more than the ''second site of negotiation'' for the G7/8. In any event, the relationship between the G7/8 and the L20 is something that still needs to be settled.

Conclusion

Whether the L20 idea ever gets off the ground is ultimately up to the world's leaders. As outlined above, there are a number of hurdles yet to be cleared. Questions pertaining to the membership and scope of the agenda still need to be answered, as do those about its potential relationships to the current international architecture. Again, these are not insurmountable obstacles. Indeed, the arguments in favour of an L20 are equally compelling, if for no other reason than that maintaining the status quo simply is no longer a viable option.

Still, speculation about the potential impact of an L20 is premature. After all, the L20 remains just an idea. There are no guarantees that it will ever become more than this: its time may or may not come. But should it become a reality, and should it meet the expectations that will undoubtedly be placed upon it, future historians and scholars of international affairs may look back at its inception as a new beginning for the international community, one that was in tune with the needs of the twenty-first century. Equally, however, should the idea fail to take institutional root, they may look back and lament the opportunity that was lost.

Notes

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5. HLP, *A More Secure World*, pp. 37, 75.
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17. For more information on these aspects of the L20 project, see www.cigionline.ca and/or www.globalcentres.org. For more on the "responsibility to protect", see International Commission on Intervention and State Sovereignty, *The Responsibility to Protect*, Ottawa: IDRC, 2001.
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22. Colin I. Bradford, Jr and Johannes F. Linn, "Global Economic Governance at a Crossroads: Replacing the G7 with the G-20", Brookings Institute Policy Brief no. #131, Washington, D.C., April 2004.
23. Jacques Chirac and Hu Jintao, "Communiqué de Presse Conjoint Jacques Chirac, Président de la République Française, et Hu Jintao, Président de la République Populaire de Chine", Beijing, 10 October 2004.
24. Anonymous, "Brazil backs Martin's L20 Plan", *CBC News*, 23 November 2004, available from www.cbc.ca/story/world/national/2004/11/23/martin-brazil-041123.html.
25. "While the annual meetings of the G8 at the head of State or Government level fulfil some of the characteristics required to give greater coherence and impetus to the neces-

sary policies, it would be helpful to have a larger forum bringing together the heads of the major developed and developing countries. One way of moving forward may be to transform into a leader's group the G20 group of finance ministers, which currently brings together States collectively encompassing 80 percent of the world's population and 90 percent of its economic activity, with regular attendance by the International Monetary Fund, World Bank, WTO and European Union. In such meetings, we recommend the inclusion in the group of the Secretary-General of the United Nations and the President of the Economic and Social Council to ensure strong support for United Nations programmes and initiatives''. HLP, *A More Secure World*, p. 73.

26. Anonymous, ''Martin Seeks Support for L20 Summit'', *CBC News*, 22 November, 2004, available from www.cbc.ca/story/canada/national/2004/11/21/martin-apec041121.html. Drew Fagan, ''Expectations are Limited for PM's Visit to US'', *Globe and Mail*, 20 April 2004.
27. Lawrence Martin, ''Bush's Soulmates? No, but we can be Useful'', *Globe and Mail*, 25 November 2004.
28. Jan Aart Scholte, *Democratizing the Global Economy*, Centre for the Study of Globalization and Regionalization, University of Warwick, June 2004.
29. G8, ''Statement by the G8 Leaders (Death in Genoa)'', Genoa, 21 July 2001, available from www.g7.utoronto.ca/summit/2001genoa/g8statement1.html.
30. Recipient countries are beginning to resent the NGO community as competitors for siphoning off aid from governments. In Afghanistan, for example, about one third each of development assistance funds has gone to the government, the United Nations and international NGOs. Some members of the Hamid Karzai government believe that most international NGOs spend most of the money they get on themselves, and only a fraction on the people of the supposed recipient countries; because they pay higher salaries, they drain skilled employees from the public sector, creating a de facto brain drain by ''outsourcing'' their brainpower while residing in their home country; and, because they are tax-exempt, they are given an unfair advantage over the more competitive private sector. In effect, many NGOs have become opportunistic aid money chasers ''who steal resources from the Afghan people''. Don D'Cruz, ''Tracking Aid Dollars'', *Canberra Times*, 31 December 2004.

Index

Other titles of interest

International Commissions and the Power of Ideas
Edited by Ramesh Thakur, Andrew F. Cooper and John English

How are good ideas for enhancing global governance converted into policy initiatives and international institutions? One major route has been via international commissions. The names of many are well known: Brandt, Palme, Brundtland, Kosovo, the Commission on Global Governance, and the International Commission on Intervention and State Sovereignty. Yet, as an expression of the power of ideas, in the search for a better world, they remain under-analyzed.

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