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Towards a Framework of Principles for the G20: Assessing the Konrad Adenauer Stiftung 'Guidelines'

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ABSTRACT

A rapidly changing world needs a navigational system if it is not to founder on the rocks of high finance. The G20 'ship' currently lacks such direction and risks becoming irrelevant at the time of greatest need for it. One option, albeit one that would take time, is the establishment of a common set of principles against which G20 members could orientate their discussions concerning global economic regulation. The Konrad Adenauer Foundation (KAS) has developed such a framework. This paper critically assesses the KAS framework from the standpoint of the emerging powers, with a view to establishing how it could be adapted to provide the sense of direction so sorely needed. Its standpoint is that such frameworks should be flexible, focused on economic principles, and pragmatically developed in line with G20 member states' shifting perceptions of their national interest. For this exercise to be useful, the developed countries – the 'guardians' of global economic governance – must be prepared to concede real power; while for their part emerging market aspirants have to be ready to accept the responsibilities that come with leadership. If these conditions are not met, an attempt to develop guidelines based on common values will probably fail.

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ABBREVIATIONS AND ACRONYMS

BRIC	Brazil, Russia, India, China
Bricsam	Brazil, Russia, India, China, South Africa, Mexico
Civets	Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa
G20	Group of 20 developed nations (19 countries + EU)
IMF	International Monetary Fund
KAS	Konrad Adenauer Stiftung
SWF	Sovereign Wealth Funds

INTRODUCTION

At the core of the economic crisis now besetting the world there is, understandably, a quest for effective ways to manage the problem at the global level. In this, much hope is vested in G20 leaders' summits. In the early stages of the crisis, particularly at the London G20 Summit in April 2009, the group delivered on those expectations. Since then, and particularly at the Toronto summit in 2010, sharp differences have emerged within the group, particularly over macroeconomic co-ordination and exchange rates. This has given rise to mutual finger-pointing and growing concerns over the G20's crisis-management capacity and its longer-term stewardship of the global economy.

In the absence of any other game in town, and if we are to take global economic co-operation seriously, ways must be found to enable G20 member states to work together effectively, notwithstanding their evident differences. One line of thought is that as an anchor for its deliberations, the G20 needs a coherent set of values or principles rooted in 'the global economic good'. Accordingly, the Konrad Adenauer Stiftung (KAS) has formulated a set of principles[1] arising from Germany's experience in implementing its 'social market' economy' model. At a high level of abstraction that model is founded on the notions of 'order', pertaining especially to economic governance; liberalism rooted in the economic efficiencies that competition promotes; and ethics – the underlying concern with social outcomes. The KAS principles reflect this broad thinking.

Given the excellent economic performance enjoyed by the former West Germany after the Second World War, and Germany's relative success in riding out the current economic crisis, this is a framework that should be taken seriously.

This paper critically evaluates the KAS principles from an emerging market standpoint. Its primary purpose is not to establish their utility in the G20 context, although that is one concern. Rather, the main aim is to promote further thought regarding the manner in which the principles could be adapted to suit emerging market contexts and values, in order to provide a more sustainable basis for co-operation in global economic governance among the G20 and elsewhere.

The first part of the paper focuses on the utility of a general set of principles, or values, for the G20. Key to this discussion is an appreciation of national economic differences, because groups such as the G20 operate in the hard-nosed realm of economic diplomacy or bargaining. The third section focuses on the nature of the G20. It examines the group in relation to the Western international economic order, currently dominated by the G7 nations (Canada, France, Germany, Italy, Japan, UK and US), with a view to assessing the cohesiveness of the G20 in the light of its emerging fault lines. The fourth part addresses the KAS guidelines directly, in the context of the discussion in the preceding two sections before the paper arrives at some conclusions.

DOES THE G20 NEED A COMMON VALUE SET?

In essence the KAS guidelines are an attempt to establish a common set of values to guide discussions over international economic co-operation. Hence it is important to establish immediately whether or not such a values set has any place in forums such as the G20. The perspective developed below takes a generally favourable view of such an approach. Nevertheless critics – specifically scholars operating in the realist frame of international relations theory – argue that the attempt is doomed to failure because governments inevitably will pursue their own national interest and jettison values when expedient. Furthermore, as recent heated debate over the so-called Washington Consensus on economic policy prescriptions attests, 'one size fits all' approaches to economic development are of limited use. It is therefore important to ground the discussion over principles or values on a nuanced understanding of the underlying shifts in the global economy that underpin G20 deliberations. Ultimately this points to a pragmatic interpretation of values or principles rather than their doctrinaire application.

Values and global economic governance

Values are abstract ideas about what a given group regards as good, right, and desirable, and which when taken together constitute a 'design for living'.[2] Examples of such values include 'freedom', 'tradition', and 'order'. Norms are the social rules and guidelines that prescribe appropriate behaviour in particular situations, and comprise two components: mores, which are norms considered central to the functioning of a society and to its social life; and 'folkways', the routine conventions of everyday life.[3]

Principles correspond most closely to mores. They are rooted in values, and are intended to guide behaviour in society. To understand properly the place of principles in global economic discussion, it is necessary first to understand the place of values. In the context of the present discussion, the primary issue is whether or not G20 members share common values. This is difficult to answer in the abstract, but taking 'freedom' and 'order' – two values cited earlier – it immediately becomes apparent that they probably do not. An obvious case in point is the contrast between American regard for 'freedom' and the Chinese preference for 'order'. Furthermore, political leaders pursue national interests, which probably trump values in most instances. James argues that in the absence of shared values communicated across cultural and geographic lines, losers from globalisation will interpret such sentiments as an imposition by imperialist forces.[4] Mercantilist thinking and action follow logically from these perceptions: as James says, inhabitants of such a world 'think of Mars, not Mercury'.[5] Thoughts of this kind manifest themselves through protectionist policies such as deliberate currency undervaluation and trade protection, which undermine economic globalisation. In a worst-case scenario established powers do not accommodate rising powers, which in turn results in conflict, potentially on a global scale. Therefore, James advocates a cross-cultural conversation, designed to elicit common values, as the bedrock of an evolving system of common rules.

Aggregating a minimum set of cross-cultural values is a daunting task beyond the scope of this paper. Some observers, perhaps most notoriously Samuel Huntington, would argue that difference between cultures and civilisations will propel the wars of the future.[6] This view leads logically to containment strategies. Huntington's concern was with maintaining Western hegemony and containing the rise of 'Islamic–Confucian' civilisations.[7]

Identifying clear-cut, black and white categories of cultures or civilisations is, however, problematic. For example, it is by no means clear that a single set of 'Chinese' values exists. It is more probable that as China gradually shakes off the structures of the Chinese Communist Party, different, perhaps older, value systems and ideologies will emerge within Chinese society.[8] Mahbubani and Chesterman argue that it probably makes more sense to talk about the contribution of 'Asians' to global economic governance, rather than 'Asia's' contribution, because of a lack of shared identity in the Asian region.[9] Much the same could probably be said of other parts of the world, given the wide variations in ideas and cultures.

Yet at a general level, East Asian societies think differently from those in the West about the relationships between individuals, society and the state. They often place the interests of the latter two above individual rights. Modern Western civilisation, on the other hand, tends to accord primacy to individual rights over social conformity. This dichotomy goes far to explain continuing tensions over China's human rights record and is a major fault line in the terrain of international relations. These tensions are to some extent rooted in enduring differences over national sovereignty. In many post-colonial societies – not only those in Asia – domestic and national interests have taken precedence over the sacrifices of sovereignty required for effective global governance.

Nonetheless, Hammerstad[10] notes that in recent years there has been a global revival of interest in the role regional economic communities can play in building security. This has been marked by a shift from traditional realist conceptions, in which security of and between states is the key issue, to one centred on people, in which domestic governance is the pivotal concern. The change came after the end of the Cold War with its myriad proxy conflicts, in a shift to a world where internal fragmentation and state failures have taken centre stage. The logical regional corollary is that states are increasingly concerned with security risks generated by their neighbours and arising from poor governance, which may lead to cross-border instability. In such circumstances, sovereignty is of less utility.

Similarly, Mahbubani and Chesterman[11] note that East Asian countries have become much more open to solutions achieved through regional collective action. In East Asia, solving collective problems is seen as a product of bargaining, compromise and consensus-building across cultures and polities, while stressing the primacy of economic development.[12] This approach mirrors East Asian preferences for functional, pragmatic approaches over lofty principles.[13] Hammerstad[14] argues that there is evidence of a similar development in sub-Saharan Africa, where regional security communities increasingly are willing to replace 'hard' sovereignty, in terms of which interference in the affairs of other member states is expressly forbidden, with regimes that allow for foreign intervention under defined circumstances.[15]

Against this background James is wary of rigid codification of rules based on a single vision, which in his view would lead to continual contestation and clashes. While he acknowledges that institutions have a part to play in arresting the slide into destructive modes of behaviour, he does not believe institutional 'fixes', such as the International Monetary Fund or World Bank's granting more votes to emerging market countries, can solve the underlying political problem. Hence the main aim of the 'cross-cultural conversation' that he advocates is to develop 'some common agreement on basic principles [as] a prerequisite for setting successful agendas in international meetings'.[16]

Lehmann concurs. He argues that the G20 should negotiate a new Atlantic Charter, setting out the principles on which national decision-makers will 'base their hopes for a better world'.[17] He is under no illusions regarding the difficulty of doing so, given that major differences among the G20 membership range from stages of economic development through cultural and philosophical approaches to life and *la condition humaine*. Noting that the G20 is not ideal for this task, and there being no alternatives, he would like G20 leaders to agree on a 'broadly accepted definition of common global public goods and global public goals'. Such an approach resonates with East Asian pragmatism.

There is, therefore, a case for developing a high-level set of principles to guide 'cross-cultural' discussions concerning global economic governance. The G20 is the forum most suited to this conversation. The problem, however, is that the interests of participants diverge substantially and sometimes sharply, rendering detailed agreements difficult if not impossible. Moreover, as the prominent German neoliberal thinker Wilhelm Röpke points out, care needs to be taken that such a discussion does not result in 'false internationalism'. In analysing the causes of the two global conflagrations in the 20th century, Röpke argues that the real problem arose with nation-states that internationalised their difficulties through aggressive external policies, even though the logical solution lay either in fixing the problems at national level, or in unilateral policy action. Hence he is very critical of the notion of world government, which in his view amounts to false internationalism.[18] Although Röpke recognises the crucial role that informal constraints can play in limiting domestic actions, he regards them as the source of international illiberalism, the solution to which lies in 'rolling back the frontiers of the mixed economy within nation-states'.[19]

Röpke's caution is wise, and suggests that the attempt to formulate global value systems may be futile. Nonetheless, if the G20 is unable to formulate an agreed set of principles concerning first, the conduct of economic policy at a national level and secondly, the role of multilateral institutions in managing the global economy, in today's world it is far more likely that mercantilist thinking and practice will be the default option. Therefore, at a minimum, commonly agreed principles should be designed to minimise the harm that national economic policies can impose on trading partners. This is particularly relevant in present circumstances when global economic geography and the associated constellations of national interests are undergoing fundamental changes.

Geo-economic shifts and changing national interests

A key trend increasingly shaping global economic governance is the rise of the so-called 'BRIC'[20] economies, which in some formulations extends further, to 'Bricsam.'[21] The formal grouping together of these countries, first identified by Goldman Sachs,[22] has prompted some observers to assert that a 'new economic geography' is emerging in the world, extending *inter alia* to the 'Next 11' (N-11)[23] and 'Civets'.'[24] Some projections indicate that the global market share of emerging economies will rise from less than one-third today to nearly 70% by 2050.[25]

The relocation of economic activity is characterised by a shift in traditional 'smokestack' and labour-intensive manufacturing industry from the developed North to a changing set of – primarily – East Asian states; first the 'tiger' economies such as Singapore and South Korea,[26] followed by South-East Asia, then China, and after China an emerging set of countries including among others Vietnam and Bangladesh. Within the North, economies are adjusting to the new situation by shifting from manufacturing to services production. This is an uneven and contested process. For example, the two countries at the epicentre of the global financial crisis, the US and UK, have both professed as a matter of policy an intention to re-establish manufacturing at home.

African countries in general and South Africa in particular have not been active participants in these developments, although in East Asia and China they now have new markets for their traditional range of commodity exports, that complement existing Northern markets. The rise of industrial East Asia, followed potentially by South Asia, creates opportunities yet also poses serious challenges to African economies, particularly those such as South Africa that are keen to build their own manufacturing sector. These economic changes create a more complex South-South dynamic, through the need to develop common strategies to reform the institutions, and indeed the substance, of global economic governance.

The contours of this phenomenon are not yet well understood but it is clear that all countries, not just those of the North, will have to re-evaluate their relationships with emerging and established powers along three broad tracks. The first is adjusting to the new competition; the second, securing access to markets and resources; and the third, re-evaluating existing alliances while forging new ones in the course of reforming current institutional arrangements for managing the global economy and geopolitics.

The growing scramble for the world's resources is an issue that increasingly worries policy makers. On the one hand, it offers some nations and regions new opportunities for leverage. Countries such as Russia, Venezuela, and China are resorting to 'resource nationalism' to enhance their global economic influence, thereby creating new tensions between them and the West. A key policy issue is that of export restrictions, particularly of strategic raw materials such as rare earth minerals[27] used in various critical manufacturing processes, but also of food and food-related products. No country is immune from the potential impact of such policies.[28]

The continuing fallout from the current global financial crisis reinforces pressures on policy makers to reach into the protectionist toolbox. For the foreseeable future these pressures are likely to rise most sharply in the developed world, given the very uncertain economic prospects in the US and the EU. Emerging Asia, by contrast, although reasonably buoyant and keen to increase its exports, is likely to be on the receiving end of protectionist policies from the developed world. Against this background, emergent nations in Asia should do more to boost their domestic consumption and absorb exports from advanced countries.

This situation unquestionably leaves the G20 in a difficult spot. Whereas the immediacy of the financial crisis provided the glue that bonded its members in common action, it remains the case that countries have divergent interests that militate against such cohesion. Were the global economic environment to experience a sustainable improvement, the 'crisis glue' would come unstuck. It is not obvious that there is another to replace it: US leadership, which formerly acted to foster a common interest, is now on the wane; and multilateral institutions cannot by themselves ensure compliance with common rules, let alone formulate them.

A worse scenario is foreseeable: that a second, more serious phase of the present difficulties might erupt, possibly starting in Europe with a succession of sovereign debt crises, with consequent bank failures and the potential unravelling of the Eurozone. Such contagion would affect the entire planet. Not least affected would be the US, which has major debt problems of its own, and emerging markets which still rely on consumers in developed countries for their external growth. In such a scenario it is not obvious what purchase the G20 might have. Countries might feel an overriding impulsion to look to their own interests,[29] in which case centripetal forces could become overwhelming and disintegration could ensue.

Ultimately it is this nightmare prospect that should concentrate minds. The G20, indeed the whole world, has a strong interest in averting it. Whereas G20 members' interests diverge in important respects, it is nonetheless very likely that managing global common problems such as climate change, protectionism, and international financial reform will require agreement among a core group of advanced and developing countries, rather than attempts at consensus through more universal and inclusive assemblies.[30] In this light it is probably worth attempting to forge a common understanding on values or principles for global economic management and co-operation, with a view to constructing binding rules. The effort would be worthwhile, given the available alternatives.

In short, the old order is dying but the new one is not yet born. Hence this is a time of universal opportunity and risk. Ultimately, all states involved in the current global realignment have an incentive to test whether inherited multilateral structures can be suitably adapted to a new geopolitical era. They are in a business of seeking advantage in which the role of values or principles is not entirely clear. Nonetheless, in such times it is important to look for signposts to guide discussions on global economic co-operation.

IS THE G20 EQUIPPED TO MEET GLOBAL ECONOMIC GOVERNANCE CHALLENGES?

The first question to be addressed is whether as an institutional construct the G20 is a suitable anchor for global economic co-operation. The answer may be that although it is by no means perfect, it nevertheless adequately reflects the shifting global economy dynamics discussed above. The next question is whether or not the G20 group could replace the G7 as the steward of the global economy and if so, in what direction it would move. The key issue in that regard is the trajectory of the Western liberal international economic order.

What is the G20?

The G20 has as its key constituents finance ministers and central bank governors. It was established in the wake of the Asian and broader emerging market crises of the late 1990s. After several iterations it came to comprise the G8,[31] its five erstwhile 'outreach partners',[32]' six other 'systemically significant' countries,[33] the EU and the heads of the IMF and World Bank. Since then its unofficial membership has expanded, with additional countries and international organisations invited to join its deliberations depending on which country hosts the annual G20 summit meeting.

Regarding its mandate, it is worth quoting from the G20 website[34]:

> The G-20 is the premier forum for our international economic development that promotes open and constructive discussion between industrial and emerging-market countries on key issues related to global economic stability. By contributing to the strengthening of the international financial architecture and providing opportunities for dialogue on national policies, international co-operation, and international financial institutions, the G-20 helps to support growth and development across the globe.

Not surprisingly it stresses financial co-operation over other forms of economic co-operation. This has proved to be a substantial limitation on the group's effectiveness in respect of global economic governance, particularly in matters of trade and climate change. Finance ministers and central bank governors are still the central drivers of the G20 process but they lack sufficient authority to deal decisively with such crucial issues. There is therefore a case for including them in structuring a putative set of principles to guide the G20's economic deliberations.

The core group's composition is the subject of continual debate. Its membership is diverse in economic and political terms, consisting as it does of developed and developing country democracies; one monarchy (Saudi Arabia); a one-party state (China); oil exporters and importers; various other countries at very different levels of development and one regional organisation (the EU).

Before the G20 leaders' summits came into being its *modus operandi* was similar to that of the G8 ministerial meetings, in particular in its informality. One major difference, however, was that unlike the G8 and its previous incarnations, which were subject to the glare of global media and civil society scrutiny, the G20 operated in relative obscurity. Comparatively little information leaked into the public domain beyond official communiqués and whatever else the chair chose to release. This situation changed with the introduction of annual G20 summits, which have attracted much closer media inspection; not surprisingly, perhaps, given that the G20 purports to be the premier forum for engaging on matters of international economic development.

There is no doubt that the group is highly influential, particularly in multilateral agencies. In its own words:[35]

> Together, member countries represent around 90 per cent of global gross national product, 80 per cent of world trade (including EU intra-trade) as well as two-thirds of the world's population. The G-20's economic weight and broad membership gives it a high degree of legitimacy and influence over the management of the global economy and financial system.

In such a forum, bargaining and compromise are the fuel and oil that keep the motor running. In other words economic diplomacy matters a great deal.

Economic diplomacy is concerned with setting the rules of the game for the conduct of national economic policy.[36] In keeping with Putnam's[37] concept of the 'two-level game', effective economic diplomacy requires simultaneously an understanding of the domestic political economy and concomitant constraints on government negotiators, and of the international negotiating environment and its own set of political and economic constraints. Furthermore, as Bayne and Woolcock[38] argue, economic diplomacy is actually multi-level, consisting of at least four elements: bilateral; regional; plurilateral;[39] and multilateral. Furthermore, Odell notes that pursuing economic diplomacy requires attention to both process and structure: process being the way in which positions are arrived at and prosecuted and structure, the political economy constraints within which they are determined.[40]

Economic diplomacy matters because the rules of the game help determine the space available at the national level for economic policy making. If the only effective participants in the formulation of the rules are the existing, dominant entities – principally developed countries, and powerful emerging markets and their domestic constituencies – those leading lights will establish the rules without reference to other countries' interests. In an increasingly multipolar world, international economic negotiations offer one way through which to influence the rules of the game and thereby maximise domestic economic policy options. This in itself matters because, as continuing argument over the Washington Consensus demonstrates, there is more than one path to economic development.

This negotiations process is fundamentally about national interests and their interface with broader, global concerns. In the particular area of macroeconomic co-operation, for example, available evidence suggests that there are substantial, and on occasion critical, differences in domestic policy perspectives within the developed economies; quite apart from those between them and emerging markets. Such conflicting views are likely to become increasingly significant once the current economic crisis recedes.[41]

Yet the conduct of economic diplomacy assumes that successful compromises can be forged. The questions then arise as to what makes for successful compromises, what are the relative roles of values and interests in a rapidly changing global environment, and what happens if these issues cannot be reconciled.

Values, interests, and reform of the Western liberal international economic order

The Western liberal international economic order was based on an assumption that progressively deeper economic integration was an essential element, the central objectives being to manage resource competition among constituent states and to promote mutual wealth creation.[42] This required the curtailment (although not necessarily the abandonment) of mercantilist thinking regarding management of international economic relations.[43] In this, the establishment of democratic governance in Germany was a prerequisite. Hence the Western liberal international economic regime arose out of three ideological foundations, designed to promote pacification. They were democracy or 'republican liberalism'; commerce and trade or 'commercial liberalism'; and institutions or 'regulatory liberalism'.[44]

In this way the G7 operates within a broadly shared liberal–democratic, market-based value system. All the same there are important institutional and philosophical differences between its member states, particularly regarding the relative emphasis accorded to state direction of the economy as against market forces. 'Varieties of capitalism'[45] were, and remain, prevalent. This situation highlights the nature of the 'embedded liberalism' compromise[46] that underpins the Western economic order, which came to be known colloquially as '[John Maynard] Keynes at home and [Adam] Smith abroad'. The main protagonists in the design of the Western multilateral system intervened in their domestic economies to varying degrees in order to promote social inclusion, while participating in building international regimes along broadly liberal lines that constrained their national freedom of action in exchange rate, trade, and industrial policies.

Regardless of one's views concerning their desirability, it is possible for domestic interventions to undermine international obligations if the process is not carefully managed. The system therefore required an anchor, or enforcer. The US undertook this role through ensuring access to its enormous domestic market for its Western allies, sometimes turning a blind eye to their more egregious domestic interventions. This in turn gave rise to the 'theory of hegemonic stability'; associated with the work of, *inter alia*, Robert Gilpin.[47] The US was prepared to continue as leader so long as the Cold War between the USSR and the West persisted. Now, however, as its power declines relative to its competitors, the question arises of whether or not the US will abandon its leadership of the institutions it was so instrumental in bringing about and, more importantly, whether those multilateral regimes would be able to adapt to a loss of US leadership.

Therein lies the rub. The Cold War provided the cement for holding together the Western alliance structure in order to uphold these broadly defined and variously interpreted liberal values. The concrete started to crack in the 1970s and 1980s as first Japan, and then a new core of industrialising powers in East Asia, began to compete fiercely with Western industry. That new thrust could be accommodated because the countries concerned[48] were in the Western camp and to varying degrees adopted democratic forms of government. Their rise, however, generated a wave of mercantilist responses in the US and its European allies. The collapse of the Berlin wall in 1989 and the incorporation of swathes of Eastern Europe into the ambit of the West's market economies masked these developments while prompting the formulation of the Washington Consensus in a manifestation of triumph for the US hegemon.

The subsequent rise of China, with India following closely in its footsteps; the recent resurgence of Russia, and the backlash against the Washington Consensus caused by first (in the 1990s) the Asian and now the Western economic crises, have left the West sensing its vulnerability along twin economic and political axes. The economic stagnation and relative decline of the West is accompanied by the rise of China and Russia, both of them significant authoritarian powers. Hence an ardent debate is under way in the West concerning the manner in which emerging markets might be 'accommodated' in still Western-dominated multilateral institutions. Crucial to this debate is the appropriate balance between principles and players:[49] in short, values versus interests.

Those favouring principles face the difficult challenge of deciding how to treat authoritarian nations (in the G20 context mainly China, Russia, and Saudi Arabia). Not surprisingly they favour making common cause with emerging democracies, notwithstanding that they struggle to discern the most favourable points of engagement given that cultural, political, and economic traditions and interests diverge, and sovereignties are still sometimes jealously guarded.[50] A fundamental problem, however, is that in the light of their growing economic and geopolitical weight the authoritarian powers (in particular China) are difficult, if not impossible, to ignore or sideline. Consequently, in the absence of shared values a principled approach to effective global economic governance has its limitations. Of greater concern for advocates of this policy is that should the balance shift back to according more weight to players rather than principles, the latter will be shown the back door whenever expedient. This may not, of course, be very different in its implications for economic policy than the old 'embedded liberalism' compromise.

Two main questions that arise are whether or not emerging powers necessarily share the liberal values at the core of Ruggie's embedded liberalism compromise; and whether they would accept Western leadership in redesigning the multilateral system along Western lines.

As argued in the previous section, there is some scope for optimism regarding value divergences and convergences, provided it is confined to a practical perspective on economic co-operation. Once the discussion drifts into politics, such as individual versus group rights in their various incarnations, the question becomes much more problematic.

As Mahbubani and Chesterman note, East Asian perspectives on international economic integration are largely aligned with liberal economics, even though their perspectives on the role of the state in promoting domestic development vary somewhat. China's recent transformation provides ample evidence of this, as does the pursuit of trade liberalisation in the 1980s and 1990s by a succession of East Asian states. Even India, with its famously convoluted domestic politics and protectionist past, has been pursuing economic liberalisation with substantial success since the early 1990s. Moreover, Western investment and supply chains both account for a substantial proportion of Asian growth and tie the Western economies ever more tightly into that process. To the extent that Asia is at the centre of current structural shifts in the global economy these trends are encouraging.

Will emerging powers, particularly in Asia, accept Western leadership in redesigning the liberal international economic order? Hulsman *et al* take a realist perspective that is worth quoting:[51]

> …many in these [BRICs] elites see the present multilateral system, and multilateral co-operation in general, as a western confidence trick designed to keep them from assuming their proper and rising place in the international order. Multilateralism is not a self-evident truth, nor can we in the west merely whistle past the graveyard, pretending that common values exist that do not, and that common solutions naturally arise from merely sitting in the same room.

The recent establishment of the BRICS leaders' forum,[52] potentially a Southern (some would argue China-dominated) counterweight to the G7, indicates that they may be preparing to put up a fight. While this forum still has to find its feet its establishment is potentially a significant geopolitical development, even though emerging countries still have a long way to go to demonstrate the kind of leadership required to manage the global economy.[53]

This development is arguably a response to another important question: that of whether the West is prepared to relinquish its global leadership to emerging countries. Through the G7 and its previous incarnations, the West has built up major structural power and authority in managing the global economy and will be hard to dislodge. Furthermore, notwithstanding their policy differences European and US values coincide to a great extent, which should be a great advantage in any new geopolitical era.[54] For some commentators, therefore, Western economic diplomacy should consist of a revitalised transatlantic alliance pushing for new institutions into which emerging powers should be 'socialised' rather like errant schoolchildren.[55] In this context Kirton[56] stresses the G20's origins in the desire of the G7 to manage the global financial system and the broader global economy more effectively, by binding key emerging powers into the Western multilateral economic construct through the G7's normative embedded liberalism project. From this perspective it is axiomatic that the West does not share values with China, Russia, and other authoritarian states. It follows that a realist perspective should be adopted, based on hard-nosed economic diplomacy, in order to delineate shared or divergent interests.[57]

Clearly the nation-state and its pursuit of national interests are alive, well, and at the centre of global economic governance. The recent selection of Christine Lagarde to replace her French compatriot at the helm of the IMF indicates that the national interest still holds sway in Europe and the US as no doubt it also resonates in the major emerging markets.

Nonetheless, both the G7 countries and those being accorded positions in the new order through the G20 are in the process of learning how to adjust to the new arrangements. The G7 incumbents have to learn to cede certain privileges,[58] which will be a difficult process in itself. The newly 'privileged' developing countries have to learn how to take full advantage of their novel status and demonstrate leadership (including accepting the sacrifices it involves). They will have to balance their new positions with their existing relationships with regional partners and allies in the South and, on specific issues of mutual interest, with like-minded Northern partners as well. Such alliances could make for strange bedfellows, but this is the stuff of economic diplomacy, which is centred on economic interests.

Yet there is still a case for developing a principled approach designed to stabilise the horse-trading that characterises the G20 and other global economic governance forums. Provided these principles are firmly rooted in economic co-operation, and do not stray into more sensitive matters concerning political governance, there is perhaps sufficient mutual interest, particularly between East and West, to sustain the open, liberal international economic order. The KAS principles must be considered in this light.

CAN THE KAS GUIDELINES GAIN TRACTION IN THE G20?

The KAS principles draw on the well-established 'Ordoliberal' tradition in German economic thought that draws on the work of, *inter alia,* Walter Eucken, Franz Böhm and the Freiburg school. It 'criticises laissez-faire economics for not constructing the rules of the game to govern the economic process, thus leaving the generation of order to uncontrolled and spontaneous development'.[59]

Eucken was equally suspicious of central economic planning, which would lead to the concentration of power in the state and consequent subversion of individual rights. He advocated a competitive 'Ordo' for the economy (Wettbewerbsordnung) that would be constituted and regulated by a 'policy of order' (Ordnungspolitik) compatible with the rule of law. Overall, he promoted a third way between laissez-faire and totalitarianism, in which the state establishes the institutional framework for the free economic order but does not interfere in the price-signalling and resource allocation mechanisms of the competitive economic process.[60] From this, he deduced eight constitutive and four regulative principles of Ordnungspolitik.

Essentially these scholars 'try to combine the liberal principle of freedom with the conservative requirement of order'.[61] The Ordoliberal tradition is also concerned with 'the sociological preconditions for economic reform, the ethical environment required for a sustainable market order and the non-economic foundations of society'.[62] To Ordoliberals working within the Freiburg tradition, social cohesion emerges spontaneously from below.

By contrast, Muller-Armack sought to balance market freedom with social protection. He advocated coexistence of comprehensive social security with market-based competition.[63] His thinking was somewhat at odds with the Ordoliberal tradition, in which 'just' distribution of income is whatever the market allocates, providing equality of opportunity obtains.[64] Nonetheless, both trace their roots to Christian, especially Catholic, thinking on the role of ethics in society.[65]

These intellectual antecedents combined into the 'Freiburg imperative', which emphasised both economic efficiency and its 'human acceptability'.[66] This is the essence of the idea of a 'social market economy', formulated by Muller-Armack. While there is clearly some disagreement on the scope to be afforded the state in pursuing 'just' social outcomes, it is equally clear that values or principles are central to the intellectual endeavour.

The KAS 'guidelines' are premised on the notion that overcoming the present global financial and economic crisis calls for international rules.[67] In their preamble it is asserted that 'the only way to overcome the current financial and economic crisis is to have international rules for the financial markets'.[68] It explicitly advocates extending to the international level the principles and rules that have 'proved themselves' in Europe, through expanding 'the legitimacy, functioning and co-operation of international institutions'.[69]

The core programme is laid out in 10 guiding principles, which broadly follow Eucken's conception. This is in keeping with the 'Ordoliberal' tradition, particularly its regulative aspects.

The first principle concerns regulation, or the legal framework. This essentially emphasises the rule of law. It is not clear how it would apply to international engagements and the passage does not offer any clues, although at a general level this principle is not problematic. Given the issues raised in earlier sections of this discussion, however, caution should be exercised if the intention is to formulate rules to be applied globally. If it is, an economic diplomacy perspective clearly would be necessary. Economic interests would then determine the nature of the regulatory framework, and those interests may diverge substantially. The obvious question to be raised is how far down the road of negotiating international regulations KAS wishes to go. Clearly, the more intrusive such negotiations become, the harder they will be.

The second principle concerns the primacy of private property ownership. This is one of the foundations of liberal economics and of Western society, and the principle is accordingly strongly worded. The Chinese authorities are likely to have some problems with that, however, given their current adherence to communism, however notional. Other countries such as Russia and Saudi Arabia, both of which pursue state-centric approaches to development of their oil resources, may also have some questions. Perhaps for this reason, the principle is qualified through noting that 'making use of [private property] must serve the common good'.[70]

The third principle, competition, offers further qualification. Thus 'fully functional competition is the engine that drives sustained economy activity', but 'control of market power as well as concentration by the state and the international community' is required. The obvious question here is who is to regulate competition, particularly at the international level. This issue was introduced on to the World Trade Organisation's agenda in the Doha round, and soundly rejected by developing countries at the Cancun ministerial conference in 2003. Furthermore, some consider that firms from developed countries enjoy an unfair advantage in international markets owing to the head start they enjoy; and therefore advocate domestic support for 'national champions' in order to reduce the gap.

This is one of the motivations behind China's 'national champions' policy which has resulted in consolidation of state-owned companies in the Chinese market. In some cases this has had disruptive effects for Western multinationals. The establishment of sovereign wealth funds by a number of petro-states, particularly in the Middle East, and by China, sharpens this debate. Western governments remain reluctant to allow these funds too much influence over their own national corporations.

Principle four, concerns liability for losses incurred in pursuit of profit. Essentially it advocates personal responsibility for 'irresponsible and excessively risky behaviour'.[71] This is fine in theory, given the role played by excessive risk-takers in provoking the current financial crisis. In practice, though, Anglo-Saxon shareholder- based capitalist societies such as the US and UK, which regard limited liability as one of their key organising principles, are likely to object.

In addition, the recent crisis has shown that some financial institutions are considered too big to fail, which raises the question of moral hazard. It is all very well to rail against this, but finding practical solutions is another matter entirely. To their credit, the various international bodies that set financial standards are making efforts to deal with the issue by putting in place resolution plans for companies (also known as 'living wills') to cover the event of commercial failure, through cross-border resolution of financial failure, and by efforts to limit the scope of financial institutions' activities. The recent Cannes G20 summit identified 29 'global systemically important financial institutions', and agreed measures designed to oversee the risks these firms pose to the global economy.[72] In some Asian societies such as Japan and China, however, profitability considerations seem to play a less critical role than does market share. Hence the relevance of this principle is questionable.

Principle five, concerning the stability of the economic environment, is mostly good. It states that economic policy stability is essential to maintaining confidence in the investment environment, particularly concerning financial markets, and argues for the rejection of protectionist measures. So far so good; but it then rejects monetary policy 'geared only to short-term national economic and growth targets'.[73] Clearly this principle reflects the early 20th century German experience with hyperinflation, and by and large conforms to modern, pre-crisis notions of sound monetary policy. It might also, however, be construed as a swipe at 'quantitative easing' policies currently pursued by the US and UK particularly, and also for the past two decades by Japan. Perhaps the phrase needs to be restated to cater for potential deflation.

The next principle concerns provision of public goods by the state. At root this concerns market failure, and accordingly allows for state provision, particularly where social disadvantage exists. It is not particularly controversial and is sufficiently flexible to be widely interpreted. As such it lends itself to the notion of embedded liberalism.

Building on this, principle seven is entitled 'solidarity and social security'. This essentially concerns 'just distribution' in society, and comes down on the side of Muller-Armack's formulation. It specifically advocates redistributive social security systems 'functioning in line with market conditions', and 'mechanisms for regional redistribution'. This is again in keeping with embedded liberalism ideas, albeit that Freiburg Ordoliberals would not approve: where the principle strays into the realm of subsidisation of regional economic activity they may have a point, since such policies can and do spill over into international competition and as such may be open to abuse.

Principle eight is 'incentive compatibility' and advocates a neutral tax system that does not distort market incentives and allocation mechanisms. Some might qualify this, for example in the case of carbon taxes, but by and large the principle seems sound.

The next principle is anchored on sustainability, central to which is the notion of 'inter-generational justice'. Climate change is explicitly invoked, and reference made to the need for an active 'climate protection policy'. Again, this principle seems uncontroversial; although it is clearly open to practical interpretation rooted in very different economic interests (as current climate change negotiations attest).

The final principle is 'open markets'. This applies to the international economy, and requires 'a co-ordinated policy of open markets and respect for the rules of fair play'.[74] It advocates strengthening international institutions to counter protectionism and economic nationalism. This principle is one likely to enjoy widespread support within the G20, but as the failure to conclude the Doha round of WTO negotiations demonstrates, it is very difficult to realise in the current global environment. The G20's record in this regard is quite poor, not least owing to a lack of political will within the US to conclude the round.

Overall, the principles offer a useful framework for conceptualising international economic co-operation. There are some obvious limitations rooted in differing normative conceptions regarding how market economies should be regulated. Some of these differences are likely to generate sharp divergences regarding their practical implications, reinforcing the point that in some cases national economic interests may differ sharply, making it difficult to reach multilateral accords. Nonetheless, the principles provide a useful basis for a conversation regarding the philosophical underpinnings of G20 deliberations.

A cause for concern, however, is the political differences likely to be highlighted by the statements in the KAS guidelines' last paragraph. This asserts the primacy of 'a democratic order … political competition and political participation'. It is difficult to imagine China, Saudi Arabia, and Russia signing up to this statement. That being so it may be wise to drop those references if the objective is to encourage practical discussion concerning international economic co-operation. If the intention behind the KAS principles is to shepherd emerging countries into a pre-prepared Western institutional architecture with democratic governance as a precondition, then of course the phrase should be retained. But in the author's view such an attempt would be doomed to failure.

CONCLUSIONS

Broadly formulated principles, guidelines or values have a role to play as a basis for G20 discussions. The challenge will always be to reconcile them with divergent national interests, but this should not detract from what should be a worthwhile effort. In this sense the KAS guidelines constitute a useful framework for such a discussion. They will not cater for all member state's interests within the G20, but if a pragmatic approach were adopted they could presumably be modified or moulded. This raises the danger of so diluting them to suit all parties as to render them effectively meaningless. Nonetheless, the standpoint adopted in this paper justifies reasonable optimism on that score.

Such a conclusion is contingent on pragmatism in application, especially concerning the overtly political principles on display at the end of the guidelines. These reflect legitimate Western traditions of democratic governance and individual rights, but they may not be palatable to authoritarian countries or to some Asian G20 members. Unfortunately, this issue goes to the heart of a dichotomy fundamental to the G20: that of continuity set against disjuncture in the Western liberal orientation of the international economic order. Ultimately if Western powers (ie the G7), regard the G20 as an opportunity to socialise emerging markets into 'their' institutions and norms, the G20 enterprise is probably doomed.

If, on the other hand, a more pragmatic perspective holds sway, it is likely that common ground can be found. The most fertile terrain lies in sustaining the open international economy and regulating its rougher edges. Whether that can be done remains to be seen.

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