The G-20 and International Economic Governance: Hegemony, Collectivism, or Both?

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Following the East Asian crisis of 1997–1998, much attention was paid to financial sector reform. While little of substance has changed in the intervening years, a number of potentially important new forums were established to facilitate international cooperation. By drawing on and modifying theories of hegemony, this article provides a theoretical context within which to explore one of these institutions: the Group of 20 (G-20). The key question examined is whether institutions like the G-20 are likely to provide genuine mechanisms for cooperation and inclusion or simply become instruments of “hegemonic incorporation.” The argument here is that despite the continuing “structural” dominance of the international system by the United States and the Group of 7 (G7) nations, the G-20 provides some scope for other nations to influence outcomes. Keywords: G-20, hegemony, governance, institutions, international financial system.

The contemporary international financial system in recent decades has expanded greatly in size, reach, and liquidity. At the same time, however, it has become much more susceptible to crisis and instability, not only in emerging markets but more recently in the developed economies as well.1 The financial crisis that engulfed East Asia in the late 1990s was especially important in highlighting the potentially devastating effects of exposing immature domestic financial systems to highly volatile international capital flows. Debates about a “new financial architecture” and new coordinating institutions followed in the wake of these events.2 A report by the Bundesbank’s president, Hans Tietmeyer, was endorsed by the Group of 7 (G7) in 1999 and led to the creation of the Group of 20 (G-20) and the Financial Stability Forum (FSF). The focus of this article is the G-20, a forum designed to promote dialogue on financial and global economic governance issues in which nations of both the North and the South come together to discuss and attempt to manage common systemic problems. Its key participants are finance ministers and central bankers from the traditional G7/8 countries as well as from Australia, Argentina, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union (EU). These are countries
that together represent over 85 percent of world gross domestic product (GDP), 80 percent of world trade, and two-thirds of the world’s population. The G-20 also has representatives from the EU, the International Monetary Fund (IMF), and the World Bank.

To help frame our analysis of the political dynamics of the G-20, we utilize two conceptualizations of the politics of international coordination and inclusion: hegemonic incorporation and collectivist cooperation. Both are potential vehicles for coordination but on different terms and via different logics of interaction. Hegemonic incorporation implies US and G7 dominance, which Alison Bailin refers to as “group hegemony,” involving an “incorporationist” logic applied to the non-G7 members within the G-20.3 This logic encourages the adoption of a broadly neoliberal consensus and policy model by emerging market economies, not only in the interests of overall coordination and a safer world for the lead economies and their economic and financial interests, but also in terms of the conditions under which emerging market economies gain access to key trade and financial flows. However, collectivist cooperation involves an institutionalized voice and new role, especially for the non-G7 members of the G-20. The creation of the G-20 ostensibly suggests a collectivist and inclusive logic in international politics aimed at functional and normative goals: a more diverse and inclusive membership increases the prospects for consensus and effective policy coordination, while simultaneously enhancing credibility and legitimacy through a wider representation of interests.4 The collectivist logic also implies some degree of mutuality and shared influence in developing new understandings or policy frameworks. In this sense, the politics of collectivist cooperation may not simply be a fig leaf for continuing US or G7 dominance, but a genuine—if still incremental—shift toward wider participation in the governance of the international economic and financial system. Certainly, this was the way the G-20 was presented to the world by its sponsors back in 1999.

The central questions we address are whether the emergence of institutions like the G-20 mark a fundamental departure from US or group hegemony, or whether this apparent embrace of such a multilateral approach is simply hegemony by other means. Our broad answer to both questions is no or, perhaps better still, not quite. The G-20 does not mark a fundamental departure from US or group hegemony, but nor should it be understood as simple hegemony by other means. This is largely because the incremental shift toward wider participation apparent within the G-20 marks an interesting multilateral departure in international politics born of specific institutional dynamics within the G-20, underpinned by wider structural shifts in the international system. The specific institutional dynamics we refer to involve a form of relational hegemony involving trade-offs and resource exchanges between the members of the G-20. We thus locate the G-20 within
the shifting modalities of authority and the promulgation of new norms in international politics and argue that the G-20 network is helping to produce modified variants of hegemony and collectivism within the system. These institutional and structural dynamics caution against writing off the G-20 as part of what some scholars see as a wider current crisis of multilateralism. It may be true that institutions such as the IMF, World Bank, and World Trade Organization (WTO) are being marginalized, but we argue that the institutional dynamics emerging within the G-20 nevertheless deserve wider analysis and discussion. In this article we explore new perspectives on the G-20 gained in part by interviewing key Australian insiders.

In other words, we suggest that neither of the two models presented wholly captures the evolving politics of the G-20. Their either/or nature obscures the fact that the dynamics of both hegemony and collectivism are at work within the G-20, each being partly shaped by different structural logics in international political economy. Hence, the operation of the G-20 and, especially, its broadly neoliberal policy commitments reflect important elements of structural influence over the international economy by the major powers, notably the United States. Nevertheless, nested within this broader framework, the G-20 should also be seen as a case of dynamic institutional development in which new institutional effects and at least some collective capacities appear to be developing. The key to our analysis is to show how structural elements of hegemony (properly understood) relate to institutional and agent-centered relational dynamics within the G-20 itself. We also argue that the dynamics and exchanges within the G-20 relate to two different structural dynamics in the international system: the structural dominance of neoliberalism and the lead states, and structural shifts in the system whereby power balances as well as levels of economic integration are being altered by the rise of significant emerging market economies, such as, among others, India, Brazil, and China. The G-20 itself refers to this latter change as a "tectonic shift in the global economy."

In the next section we unpack the models of hegemonic incorporation and collectivist cooperation before briefly outlining the origins of the G-20. Following an exploration of the internal dynamics of the G-20, we argue then that the evolving amalgam of hegemony and collectivism within the G-20 reflects deeper structural and institutional logics.

### Modeling International Economic Governance

Both of the models outlined in the following discussion offer accounts of possible patterns of international coordination in the contemporary international system. To understand their development, significance, and possible attractions, however, we need to place them in context and say something about the evolution of US hegemony.
Hegemony in Historical Perspective

There is now a large literature that deals with the nature of hegemony from a variety of theoretical perspectives. What is significant about such debates in the present context is the way they help us to understand familiar, if not entirely resolved, problems of structure and agency. For our purposes, it is useful to make a general distinction between the structural and relational aspects of hegemonic power. Susan Strange famously argued that the structural aspects of hegemony are derived from a state’s dominant position in production, finance, knowledge, and security. Most analyses from a political economy perspective understandably focus on the first three of these factors. However, we argue that if we are to understand how US hegemony has evolved, and why it may not have as much leverage over other states as it once did, then we need to take the overarching security context seriously too. One of the arguments we develop is that the United States has been forced to assume a more accommodating position vis-à-vis other states partly because other states are no longer as constrained by geopolitical or structural considerations as they once were.

While it is clear that the United States remains the most powerful country in the international system, it is also apparent that US hegemony currently operates in very different circumstances from those in the immediate aftermath of World War II. The geopolitical constraints that made the creation of the Bretton Woods institutions and the reconstruction of successful capitalist economies in Europe and East Asia such a critical ideological imperative, as well as a formidable “technical” challenge, have weakened. The principal consequence of this reconfigured strategic environment is that there is currently not a contest about the type of economic system that should prevail, but only about its management and precise form. One of the ironies of the postwar period from the narrowly conceived perspective of America’s “national interest” is that the very success of the postwar international order has seen the emergence of formidable competitors in Europe and Asia—rivals that are not only gaining on the United States’ relative economic position but also pushing for greater political and institutional representation as a consequence. In such circumstances, the relational aspects of hegemony, in which the application and distribution of power assume more contingent and negotiated forms, become increasingly important.

The contradictions that emerge from the interaction of structure and agency are thrown into sharp relief in a long-term historical context. At the level of what Michael Barnett and Raymond Duvall describe as “productive” (as opposed to structural) power, the United States has clearly been able to promote and institutionalize practices and relationships that are broadly congruent with neoliberal ideas and interests. But there has always been a tension between the role of the United States as hegemonic
stabilizer and systemic leader and its own interests as a country like any other. The potentially unsustainable nature of these competing imperatives was highlighted by the collapse of the postwar system of regulated international finance in the 1970s, which the United States abandoned because of domestic economic and political imperatives—leading directly to the much more liberalized financial order we see today.

Two further contradictions are worth briefly noting. First, it has been belatedly recognized that a "deregulated" financial system requires a good deal of regulation if it is to avoid periodic crises. This is why, absent the United States' former leadership/stabilizing role, institutions like the G-20 are potentially significant, especially if they can help shape national and international financial regulation. Second, despite a clear decline in the United States' relative economic position, it has been able to access—indeed, it has become increasingly dependent on—the sorts of large-scale capital flows that are so characteristic of the new order. Without continuing inflows of capital from Japan and, more recently, China, the United States would not be able to underwrite its debt-driven economic development and consumption patterns. Furthermore, even those aspects of US hegemony that are taken to be so unequivocal and unchallenged—especially its unrivaled military dominance—would be less assured and require greater domestic sacrifices without assured access to the savings of foreigners. Consequently, the United States in particular has powerful incentives to try to maintain the international system as it currently operates.

**Hegemonic Incorporation Versus Collectivist Cooperation**

There are, we suggest, two broad possible responses to this reconfigured environment. The hegemonic incorporation model suggests that the G-20 should be seen as an institutional development crafted by the core economies under US leadership, primarily as a discursive and deliberative forum designed to help inculcate the virtues of globalization and stabilize the international economy. In this view, the G-20 is an institution of international coordination via the incorporation of previously peripheral players that are now considered to be of "systemic importance" as the reach and potential vulnerabilities of the international financial and economic systems increase. The basic thrust of such coordination is a commitment to a broadly neoliberal consensus and the adoption of domestic liberalization and other reforms designed to make emerging markets more stable and easier to access for footloose investors. Consequently, we might expect that debates within this model would reject the notion that financial markets suffer from systemic instability or that they themselves should be the target of reform. According to this model, the G-20 thus helps the United States and the G7 dominate a wider order and legitimize a G7-generated view of the world.
Much of the scholarly writing on the G-20 from international political economy (IPE) scholars has been strongly influenced by this kind of hegemonic and incorporationist view. Tony Porter, for example, argues that the G-20 should be seen as a forum for selling and "legitimating G-7 policies." Other scholars reach similar conclusions. The problem with this type of account, however, is that it reflects a kind of totalizing structuralist form of hegemony. An important critique of what might be called "crude" hegemonic concepts in IPE is provided by Randall Germain and Michael Kenny, who argue that such approaches fail to appreciate the subtlety of Gramsci's original formulation of hegemony, one that stressed that the power equations at work are both structured and relational. As David Levy and Peter Newell suggest, hegemony is not primarily about direct coercive control but about "coalitions and compromises that provide a measure of political and material accommodation with other groups and on ideologies that convey a mutuality of interests." 

In the postwar era, the implicit hegemonic bargain was predicated on a highly institutionalized order in which US power was constrained, with significant payoffs for other cooperating countries as a consequence. Crucially, "secondary states" were given access—albeit somewhat limited—to decisionmaking processes through multilateral institutions. Transposed to today's international arena, this form of rule or incorporation still generates significant payoffs for cooperating countries. In other words, the international system (including the G-20) might have originally been crafted by the dominant players, but to effectively incorporate wider interests it must also inculcate support and offer benefits and compromises to other noncore actors. Hence, hegemonic incorporation is a subtle process. It is structured by the dominant patterns of economic and political power that make up the international system, but it involves a degree of cooperation and compliance based on a series of ideological and material exchanges between the stronger and weaker parties. It is on this basis that the G-20 is best understood as the institutionalization of both (relational) hegemony and a new form of emergent collectivism—essentially a form of relational hegemony played out inside the G-20. In this sense, the G-20 is not a neutral institutional venue but one that, because of its format and procedures, facilitates the kinds of collective engagements and exchanges we analyze in this article.

Two structural changes in the international economy have provided an impetus for this style of collectivist cooperation. First, there is the heightened perception of systemic vulnerabilities, which have increased the perceived need to work more closely with emerging market economies. Second, the structure of the world economy is changing. Not only are emerging markets now systemically important, but the older G7 club is increasingly expected to be less central in the world economy as players such as Brazil and (especially) India and China continue to expand in size, potentially altering the
balance of economic power. Extant policy coordination problems and the rapid rise of powerful new economies have led some to argue that there is little choice but to include such new actors and to seek genuinely collective solutions to international problems.24 As one senior financial official argued in 2003, the G-20 represents the “recognition by the international community that the solutions to global financial pressures had to reach well beyond the G7.”25 These views place an emphasis on the institutional and normative requirements for collectivism and inclusion within the international economic system and the G-20, with a focus on technical collaboration, consensus formation, information flows, regulatory cooperation, mutual influence, and perhaps a broader shared vision of how the system should be managed. All this involves, according to Germain,26 a “strong functional argument” for the politics of coordination. Mobilizing effective collective action across countries to provide the basis for joint action in a system that is more difficult to govern by a hegemon acting unilaterally or in alliance with a small group such as the G7 consequently necessitates the development of a politics of inclusion, in which a range of key stakeholder countries are brought into an institutionalized process of consensus forming, if not decisionmaking and power sharing.

But the authentic pursuit of a politics of inclusion creates a related normative argument: new collectivist forms of coordination are likely to be supported and seen as legitimate only if they incorporate genuine forms of engagement and inclusion. The key issue, especially for non-G7 countries, is the perceived legitimacy of coordinating institutions in the international economy. In this context, legitimacy refers to issues such as transparent procedures, fair and equitable treatment and rules, and, above all, a sense of inclusiveness and meaningful participation.27 This is especially germane because critics in the developing world and “global civil society” have drawn attention to the exclusive, inequitable nature and impact of decision-making within the established institutions and the “democratic deficit” within them.28

Paul Martin, a former Canadian prime minister and a major advocate of the G-20, has argued that new institutions and policies “will work only if the developing countries and emerging markets help shape them, because inclusiveness lies at the heart of legitimacy and effectiveness.”29 The G-20 was inaugurated partly as a result of the view that the most badly affected crisis countries were not represented in the existing intergovernmental bodies like the G7, which, despite the inclusion of Russia (to form the G8), remains dominated by the established industrial powers of Western Europe and North America. This unrepresentativeness, combined with the fact that the most crisis-prone countries had little capacity to influence the development and operation of the international financial system, has been one driver of ongoing support for the G-20 process. Moreover, a policy consensus that
emerges from this forum can be expected to enjoy substantial legitimacy—something that ought to facilitate ongoing policy implementation by other agencies.

We argue that this collectivist logic and the revised hegemonic model described are not alternatives but are linked in complementary ways. In this view, the G-20 is a specific institutionalization of certain elements of collectivism nested within and dialectically interacting with the form of relational hegemony as outlined. This is why neither of the models we have presented provides a comprehensive account of the politics of the G-20—largely because both hegemony and new forms of institutional collectivism are at work at different levels, each in turn reflecting differing logics in the international political economy.

**The Evolution of the G-20**

Significantly, the G-20 was originally promoted by the United States and Canada and by the G7. US efforts in establishing the G-20 reflected its role in promoting the earlier G-22 and subsequently the G-33 in early 1999, both moves demonstrating its unique capacity to bypass or create new organizations and operate unilaterally or multilaterally as it chooses. Efforts to morph the G-33 into the G-20 were pursued from early 1999 because of views that the G-33 was too ad hoc and unwieldy (with European views that it was too skewed toward Asian representation). This restructuring implied, as the G-20 puts it, that “some participants of the G-22 and G-33 would be disappointed.”

The G-20’s modus operandi is to hold a series of preliminary meetings and an annual ministerial conference that discuss policy issues with the aim of establishing a consensus among the attending finance ministers and central bankers on the key issues and policy agendas pertaining to the management of the global economy and related problems. In the wake of the Asian crisis, issues such as market volatility, emerging market crises, domestic financial reform and operation of the international financial institutions, and exchange rate issues were the main focus of the initial G-20 meetings. Indeed, the creation of the G-20 was an explicit acknowledgment that such issues could not be tackled without including key emerging market economies. Over time, the G-20’s agenda has widened, and in recent years discussions have ranged more broadly across aid effectiveness, debt relief, energy security, demographic shifts, and the like. Thus far annual conferences have been held in Canada (2000, 2001), India (2002), Mexico (2003), Germany (2004), China (2005), Australia (2006), South Africa (2007), and Brazil (2008).

Our central argument, then, outlined more fully later, is that the G-20 constitutes an instantiation of relational hegemony, sustained by a series of evolving exchanges between stronger and currently weaker parties within
the G-20. In such a setting it is useful to ask how non-G7 countries have operated within the G-20 to forge exchanges with the dominant powers. First, however, we need to underline the fact that the ideas and positions endorsed within the G-20 are broadly neoliberal in character. The G-20 meeting in Berlin in 2004, for example, reflecting strong impetus from Germany, generated a key document, the *G-20 Accord for Sustained Growth*, which spells out its consensus position on central issues of economic management. This was accompanied by a *Reform Agenda* which lists (in a rather perfunctory fashion) the *Accord* initiatives that each G-20 member has undertaken to prioritize. The most striking feature of the two-and-a-half-page *Accord* document is its range of orthodox neoliberal formulations: price stability, fiscal discipline, labor market flexibility, competition, transparency and accountability, good governance, and trade and capital liberalization. In the financial arena, the reform agenda aims to promote the vision of relatively free and lightly regulated capital flows and deal with potential problems by strongly encouraging target countries to improve and modernize their economic and financial governance arrangements. The adoption of best-practice regulatory and prudential systems, capital opening, flexible exchange rates, monetary stability, and greater transparency are all part of the recommended toolkit. Despite being broadly neoliberal, however, such commitments also reflect a degree of disenchantment with any lockstep adoption of the so-called Washington Consensus. This emerged clearly in the G-20’s Montreal meeting in 2000, embodied in the so-called Montreal Consensus, which dealt with issues such as income distribution and social protection.

The G-20 does not promulgate rules, it does not make or implement policies or allocate resources, and—at least from the perspective of those involved from Australia—it does not browbeat members. According to the Australian Treasury’s Gordon de Brouwer, there is “no split between industrialised and emerging market countries within the G-20 . . . it’s not a matter of the industrialised countries coming in and laying out a set of propositions for the emerging market countries.” It could be that the G-20’s neoliberalism is a product of groupthink. Perhaps even more plausible is the argument that it stems in large part from the way the international economy is structured. Crucially, policies of neoliberal openness are more or less the prerequisite for participation in the trade and especially the financial flows of the international economy, and such participation is something all G-20 members desire. Even former communist countries such as China are now bent on economic opening and neoliberal engagement and—in China’s case, at least—have made substantial alterations to their domestic constitutions to comply with the dominant international order as a consequence. In part, at least, neoliberal commitments reflect instrumental responses to the structural characteristics and requirements for greater participation in the international economy.
Yet as critics of neoliberal "convergence" point out,^9 such structuralist arguments do not tell the whole story, and at the national and institutional level there are degrees of freedom for divergence and policy innovation. Hence, broad policies of openness can be seen as a structural requirement for engagement in the international economy, although even at this level, protectionist and closed trading arrangements are not uncommon (especially in the major powers). But despite structural or market confidence pressures on countries to comply with sound fiscal and monetary policy settings, there is still some room for maneuver, even in areas such as monetary policy. It is not clear then that the pressures of "disciplinary neoliberalism,^41 as experienced within institutional settings such as the G-20, are necessarily overwhelming.42

**Institutionalized Collectivism**

It is here that certain institutional and even perhaps collectivist elements of the G-20 are worthy of attention because they are potentially reinforced by the structural developments already noted—namely, increased intervulnerability in the international economy as well as the slowly changing structure of international economic power. It is certainly true that the G-20 brings to the table a number of large emerging market economies and offers the opportunity to widen the debate beyond a narrow neoliberal agenda. As the Australian observers Gordon de Brouwer and L. Yeaman argue, the G-20 is potentially important because "the active engagement of the key mid-sized economies ensures the forum's decisions are not just the big countries deciding things for the rest of the world ... it also provides an opportunity to broker consensus between, and consensus by, the big countries that they are not able to make between themselves." As South Africa's finance minister noted in 2000, "The G-20 provides us with the opportunity to make allies among the middle powers to engage with the G7; to push for structural change in a world where the inequalities are often reinforced." Similarly, Vanessa Rubio Marques, formerly of the Mexican finance ministry, argues that the G-20 provides a "space" in international politics for the interaction between the advanced and emerging economies and that the strength of the G-20 lies in its "representativeness, its legitimacy and the systemic influence of its members." A recent G-20 survey of the attitudes of participant members also found support for the notion that the G-20 served non-G7 members' interests: "All members expressed a high degree of satisfaction with how the Group operates and the procedures in place; those representing emerging countries particularly so."47

However, despite the expectations that surround the evolving institutional dynamics of the G-20 as a research, consensus-building, and discursive forum, its institutional capacities have potential limitations. The G-20's lack of operational or implementation capabilities and the limited number
of ministerial meetings—only one a year—would seem to place constraints on the G-20’s effectiveness. The lack of a permanent secretariat similarly raises concerns. The modest character of the G-20 as an informal discussion forum for finance ministers and central bankers (not government leaders) highlights its lower profile compared to the G7/8 groupings. Even admirers of the G-20 have questioned its significance because there seems to be little current prospect of converting it into a more robust Leaders group, or L-20.48

And yet, the lack of a secretariat and the fact that the G-20 is not currently evolving into an L-20 or some similar configuration may actually be potential strengths, not weaknesses. To understand why, it is necessary to explain the G-20’s distinctive style of operation.

Porter’s work on some of the institutional dynamics of international financial governance points in the direction of such nuanced institutional accounts. Porter compares his “technical systems approach” with a “power politics” approach and argues that the legacy of cooperative technical collaboration, whereby problems are addressed through what he sees as research and reasoned debate, has influenced practices within the FSF and even the G-20. Porter’s argument regarding the G-20 experience is that its broad discussion agenda—including social issues related to globalization—has been a function of previous technical collaboration experiences.49 Such views are reinforced by insiders like Martin Parkinson from the Australian Treasury, who argues that the G-20 has institutional attributes that help foster debates through informality, consensus formation, and experience sharing. Indeed, according to Parkinson, the lack of a formal bureaucracy, the limited number of participants, and the open nature of discussion are key strengths: “In most other international meetings you will be sitting there with a script. And as a result you find it hard to get a dialogue going. The thing that’s really striking about the G20 is that it’s very frank and very open. This capacity to foster low key open discussion is actually one of the G20’s great strengths.”50 Moreover, continuity and coordination of the policy agenda has occurred through the development of a troika, composed of the most recent, current, and future annual conference chairs, which draw on expertise, ideas, and input from member countries in ongoing work and in the lead-up to the annual ministerial meetings.51

Equally counterintuitive, and at odds with other more established bodies like the G7, the G-20 has a multiyear time horizon. According to Australian participants, the fact that the G-20 does not have to satisfy short-term politicized aspirations at the leaders level or produce the sort of deliverables that have plagued the Asia-Pacific Economic Cooperation (APEC) forum52 means that the G-20 can deal with more contentious issues than can the G7. Accordingly, the governor of the Reserve Bank of Australia, Glenn Stevens, believes that converting the G-20 into an L20 would be a “mistake,” as this
could undermine or transform the underlying dynamics that revolve around longer-term consensus building: “If you’ve got a heads of state meeting . . . they’ve got to go home with some great triumph in their bag, and so the focus becomes on what is deliverable. . . . It is less likely that you can actually work hard over a number of years on quite important fundamental things.”53 Indeed, the G-20 highlights the importance of policy learning and transfer, the role of epistemic communities, and the discursive and policy activism of increasingly autonomous organizations.54 According to insiders like Parkinson and de Brouwer, the G-20 offers a forum for widening existing mind-sets and policy paradigms. An intellectual soil-tilling exercise in this regard occurs in the run-up to annual ministerial meetings by way of several prior deputies meetings as well as workshops, study groups, commissioned research, and background discussions, which help set the agenda and frame issues.

Notwithstanding the underlying commitment to a broadly neoliberal agenda, Parkinson argues that the G-20 debates are relatively fluid and wide ranging. In the immediate wake of the Asian crisis, G-20 attention was mainly focused on orthodox positions such as maintaining openness and improving transparency in target countries. But the G-20’s ideational framework has subtly shifted over time, toward what Parkinson sees “as a sort of post-Washington or collective view of all of the membership.” This shift has been partly spurred by a widespread perception that the IMF mishandled the Asian crisis.55 The emerging “post-Washington consensus” recognizes the potential dangers that badly managed integration into the international system can entail, with the concomitant recognition that capital account opening contains potential dangers as well as benefits. The East Asian crisis drew widespread attention to the question of sequencing,56 and the need to develop sound financial institutions and mechanisms of regulatory oversight before wholesale capital liberalization occurred. As former Reserve Bank governor Ian Macfarlane commented,

I think there has now been an acceptance that it takes a long time to build good institutions and that you just can’t let markets free before the institutions have been built. I think everyone now accepts that. That was the big lesson out of the Asian crisis. . . . I think the IMF will never admit that it was wrong but it has stopped doing a lot of the things that it used to do under American pressure.57

Discussions within the G-20 have also generated a broad, though not universal, consensus that soft currency pegs and other fixed-rate regimes, combined with an adverse policy mix, are likely to contribute to a financial crisis.58 There is also support for floating rates as a viable longer-term option. The G-20 discussions have also registered the view that globalization involves potential social costs, that different countries might need to
respond flexibly to crises, and that capital account liberalization should be gradual and supervised. G-20 discussions have also focused on energy security, ways to combat terrorist financing, the introduction of collective action clauses in international bond contracts, and codes of conduct between major sovereign borrowers and lenders. Issues of trade access and liberalization have also been raised at the G-20, but as with the failed Doha Round within the WTO, there has been little progress thus far. Other examples of policy discussion that are perhaps more aligned with non-G7 members' concerns have also included development and aid programs, employment and demographic issues, migration and remittances, fiscal policy and social safety nets, and reform of the Bretton Woods institutions.

These latter elements go beyond the original G-20 focus on financial stability and demonstrate the G-20's increasingly broad-ranging discussions. "This shift in emphasis," according to the G-20, reflects the "fact that discussions on crisis prevention and resolution, the key issue when the G-20 was established, had run their course ... most merging economies have increasingly pursued prudent domestic economic policies." Some member participants in a recent review of the history of the G-20, however, noted that the emphasis on longer-term issues of growth and development perhaps reflected more the interests of finance ministers than of central bankers.

G-20 participants also stress the G-20's capacity to overcome policy logjams that exist in higher-profile bodies like the G7. Parkinson argues that "a lot of the flow in recent times has been from the G-20 to the G7." He also commented that "the G7 has been fairly high handed at times ... causing significant resentment that can restrict their ability to be influential." Work on tax havens and transparency, for example, "came through the G-20 after a combined German/Australian initiative because the G7 and OECD were fundamentally incapable of breaking deadlocks." De Brouwer and Yeaman argue that "for a number of years, the growing role of the G-20 as a circuit breaker has become apparent." The G-20 itself argues that "the role of the G-20 has become increasingly independent from that of the G7." Influential former participants in the G-20 like Ian MacFarlane argue that its institutional dynamics and membership make it a potentially vital component of any regime of future crisis management. Similarly, the G-20 itself comments that "while difficult to measure, there is also considerable value in the personal contacts and trust that has developed among G-20 ministers, governors and senior officials, which can be drawn upon in the event of a crisis."

The G-20 as an Instrument of Wider Institutional Reform?
A big test, therefore, is whether the G-20 can help reconfigure the international institutional order that has previously attracted such criticism. An important measure of the G-20's influence and operational style has been its
push for reform of the IMF governance system, a move that gathered momentum at the G-20 ministerial meeting in China in 2005. A key issue of contention has been the dominant role of the United States and Europeans in the IMF, with the convention being that the executive director would be a European national. By contrast, other non-G7 countries have wanted more say in the IMF. In this context, Ian Macfarlane argues that the G-20 should actually have the authority "to sit in judgment of the IMF." Macfarlane contends that the G-20's broader constituency gives it the legitimacy to push for IMF reform. Indeed, progress on such institutionally fundamental issues of inclusiveness and legitimacy were seen by McFarlane as a measure of the G-20's future relevance and viability.

Australia's former treasurer Peter Costello made it clear in a speech at the 2005 China conference that Asia's low representation at the IMF was a problem. Parkinson argues that a coalition including Australia, the UK, Canada, and Japan had been pushing for reform partly because the IMF/World Bank annual meetings scheduled for 2006 in Singapore were the first time these meetings had been held in Asia since the late 1990s crisis and were keen to exploit this "big symbolic moment." According to Australian officials, G-20 pressure "helped break a long-standing deadlock within the IMF." The G-20 also comments that G-20 measures "aimed at increasing the representation and voice of developing countries within the IMF contributed to the IMF's Singapore resolution of 2006." The 2006 Singapore meeting saw, in principle, agreement from the governors for a two-stage governance reform package. First, there are ad hoc quota increases for the most significantly underrepresented countries: China, Korea, Mexico, and Turkey. But the real reform, according to Parkinson during an interview, is a second stage where "we get a new formula that reflects the economic weight of the globe at the moment. And that will be updated on a regular basis. So you won't get a situation where the quota structure ossifies." This momentum for progress on IMF governance reforms coming out of the G-20 is probably its main concrete achievement thus far. The key linkage has operated through the finance ministers and senior financial officials in the G-20 who have then worked within the IMF to push the agenda.

Despite progress regarding IMF governance and on other issues such as promoting collective action clauses, the current limits of the G-20 (not to mention the G7) are also clearly apparent. For example, the G-20 has noted "disappointment" that the appointment of the World Bank president was not more open and transparent, as urged by the G-20 since 2005. It also comments that one of its limits has been in driving through some of its consensus views and converting "policy objectives into operation." This has been especially so in relation to current "tough issues," such as dealing with the US budget deficit as well as wider issues of exchange rate
management and global imbalances.\textsuperscript{70} The G-20 \textit{Reform Agenda} includes a commitment to address the US public budget deficit, however, given that this continued to increase under the George W. Bush administration, especially as a consequence of its strategic commitments and reluctance to raise taxes; it will remain a major test of the G-20's willingness and capacity to tackle politically sensitive issues. Beyond this, the United States' increased dependence on China for continuing inflows of capital to fund its budget deficit, and growing tensions about China's exchange rate, mean that some mechanism must be found to manage US-China relations.\textsuperscript{71} And yet, despite the fact that influential commentators such as Fred Bergsten consider the G-20 as possibly uniquely qualified to address such issues,\textsuperscript{72} it is noteworthy that at the 2005 G-20 meeting in China there was limited discussion of the exchange rate issue, with no suggestions about how it might be managed. Even if the G-20 attempts to address such problems, it will need to confront a number of issues that are so central to perceived US interests that it is doubtful whether, absent a major systemic crisis, it could have much of an impact. As the G-20 itself admits, following a survey of member views, "G-20 support for global initiatives has had only a modest effect on members' behavior, and even less impact on the behavior of non-member countries."\textsuperscript{73}

\textbf{Conclusion}

The combination of hegemony and collectivism analyzed in this article at first appears contradictory, but it is not. The embryonic institutional collectivism operating within the G-20 is nested within a wider hegemonic system, in a relational mode. Large inequalities in power between countries, the manifest dominance of the lead states, and the impact of wider institutional and structural processes all strongly influence the dynamics of the G-20. This hegemonic perspective is reinforced by the general reluctance of sovereign states to share power or to confer significant authority on international organizations. Nevertheless, institutionally embedded in this wider structure are potentially important processes and exchanges between parties that help legitimize this wider system but that may also slowly alter it. This view of the G-20 highlights issues of legitimacy and cooperation, in part reflecting growing opposition to what is widely seen as unrepresentative groupings like the G7/8. This suggests that there may be an opportunity for other organizations to provide a venue for the management of international problems and relations. What is clearly needed is a more detailed understanding of the internal dynamics of organizations like the G-20 from a wider variety of national perspectives.

Despite the importance of broader power structures, then, the G-20 has become—at a more meso or institutional level—the site of interesting and
potentially useful institutional dynamics that have in recent years made some progress in broader consensus formation and fostered a modicum of collective action, especially around issues such as IMF reform. Most important in the longer term, the inclusion of systemically important emerging market economies into a new multilateral forum reflects important structural changes in the world economy. Such institutional and structural developments need to be taken seriously. As emerging market economies such as China, India, and Brazil increase in size and influence, they will inevitably play a greater role in international forums—something that potentially makes the G-20 a key institution. In this context, the G-20 may also be favored by the fact that two of its most significant members—India and China—may not prefer to run with alternatives like an expanded G8.74 In the medium term, the G-20 could reflect—and possibly even help manage—a major reorientation in the relative standing of the world’s major powers. If it can, it may yet reflect the hopes of some of its admirers and the underlying belief that it is an idea whose time has come. ©

Notes
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3. Alison Bailin, From Traditional to Group Hegemony: The G7, the Liberal Economic Order and the Core-periphery Gap (London: Ashgate, 2005).
6. Much of this article is based on extensive interviews with a number of Australian participants, including senior Treasury officials Martin Parkinson and Gordon de Brouwer, both of whom have worked closely with Australia’s treasurer in G-20 meetings; the recently retired governor of the Reserve Bank of Australia (RBA), Ian Macfarlane; and the current governor of the RBA, Glenn Stevens. We note the potential for bias in such a sample and suggest further, more extensive, in-
terviews with a wider range of interviewees from a wider set of countries, especially developing countries; this would be an important next step to expand research on the G-20.

7. Leslie E. Armijo, “The BRICs Countries (Brazil, Russia, India, and China) as Analytical Category: Mirage or Insight?” Asian Perspective 31, no. 4 (2007): 7–42.


10. Susan Strange, States and Market (London: Pinter, 1994).


22. Another good example of such processes is the OECD “talk-fests,” which provide venues for the discussion and development of new regulatory norms. See J. Braithwaite and P. Drahos, Global Business Regulation (Cambridge: Cambridge University Press, 2000).


25. Howard Davies, "Is the Global Regulatory System Fit for the 21st Century?" address to the Monetary Authority of Singapore, 20 May 2003, p. 2.


30. G-20, The G-20: A History. Australia’s former Reserve Bank governor, Ian Macfarlane, recalls: “The Americans pushed the G-20 [but] the Europeans were extremely unenthusiastic because they have much more representation in the G7. The Europeans didn’t like the G-22 very much because they were under-represented . . . and they lobbied heavily to make sure it didn’t continue in that form. And eventually a compromise was reached and it evolved into the G-20.”

31. Rosemary Foot, S. Neil MacFarlane, and Michael Mastanduno, “Introduction,” in Foot, MacFarlane, and Mastanduno, eds., US Hegemony and International Organization (Oxford: Oxford University Press, 2003), pp. 265–272. Glenn Stevens argues that the “Americans would use the G-20 where it suits them to do so, and they won’t be in the slightest bit averse to using any other forum or just unilateral action where they think that suits them. And most big countries will always be that way.”

32. It should be noted that there have also been a number of regionally-based responses to the crisis, such as the Chiang Mai Initiative, but they have yet to realize their potential. See C. R. Henning, East Asian Financial Cooperation (Washington, DC: Institute for International Economics, 2002).


34. This document, along with other G-20 statements, is available at www.g7.utoronto.ca/g20/g20-041121growth.html.


36. Interview with Gordon de Brouwer.

37. On the Montreal Consensus, see www.fin.gc.ca/news01/01.


42. On the other hand, the G-20’s neoliberalism should not be downplayed. Robert Wade reports that at a G-20 officials meeting he attended in Sydney in 2002, there was limited input from developing country representatives and the neoliberal agenda was Australian-Canadian led. Personal correspondence, 17 July 2008.
50. Author interview with Martin Parkinson.
51. Glenn Stevens, the current governor of the Reserve Bank of Australia, also highlighted the importance of this preparatory work.
52. For an explanation of this point, see John Ravenhill, *APEC and the Construction of Pacific Rim Regionalism* (Cambridge: Cambridge University Press, 2001).
53. Author interview with Glenn Stevens.
57. Author interview with Ian MacFarlane.
60. Ibid., p. 41.
61. Author interview with Martin Parkinson.
62. de Brouwer and Yeaman, “Australia’s G-20 Host Year.”
64. Author interview. Much of the following discussion draws on this interview and those with Martin Parkinson in particular.
66. See the *G-20 Statement on Reforming the Bretton Woods Institutions*, released in November 2005 following the G-20 China ministerial meeting.
69. Ibid., pp. 50–51.
71. The urgency of this issue can be seen in China’s explicit criticism of the IMF and its apparent reluctance to deal evenhandedly with the United States and China. See *Financial Times*, 20 June 2007.

74. Parkinson argues that “the Indians do not have an appetite for going anywhere near the G7.” China similarly prefers to be part of larger groups in which it is a potentially powerful player and in which it is less likely to come under pressure on issues such as exchange rate policy. See Thomas G. Moore, “Racing to Integrate or Cooperating to Compete? China, Globalisation, and East Asian Regionalism,” paper presented to the conference “Regionalization and the Taming of Globalisation?” University of Warwick, 16–28 October 2005.
From *Pax Americana* to *Pax Mosaica*? Bargaining over a New Economic Order

AMRITA NARLIKAR AND RAJIV KUMAR

The economic rise of new powers, frequently identified as the ‘BRICs’ (Brazil, Russia, India and China), has been dramatic, and most analysts agree that the ‘unipolar moment’ is over. The implications of this emerging multipolarity for global economic governance are not clear. In this article, we address the question: can the diffusion of power among a greater diversity of countries result in the creation of a new global economic order—a *Pax Mosaica*—to succeed the *Pax Americana* of the previous century? And if so, what are the multilateral bargains that would have to be struck to facilitate the benefits of such a system while reducing its costs? A major concern here is whether *Pax Mosaica* will be successful in evolving a set of universally accepted norms through a process of consultation and consensus-building, or if we will have to go through a period of significant confusion and multiple conflicting norms until a new hegemon emerges and stipulates its own rules of the game. We argue that given the changes in global economic and strategic balances, it is both desirable and feasible that the global community strives to put in place a rules-based system of global governance that is in sync with the multipolar reality.

Our argument proceeds in four steps. First, we provide a brief overview of the achievements and limitations of the system that was established at the end of the Second World War, and lasted for over half a century in the form of *Pax Americana*. In the second section, we investigate the emergence of multipolarity, and highlight the opportunities that this generates and also the costs. In the third section, we explore the routes whereby the changing balance of power might be harnessed towards the creation of a *Pax Mosaica*—that is, a global economic order that retains and deepens the benefits of increasing inclusiveness by establishing a rules-based multilateral global governance system, but also overcomes current and potential problems. The fourth section concludes with ideas for reform with reference to the World Trade Organisation (WTO), the Bretton Woods institutions and the G20.

**Pax Americana: achievements and limitations**

As the Second World War drew to a close, the links between economic prosperity and international peace were clear for international negotiators seeking to rebuild the foundations of global economic governance. While the goal of free trade was broadly agreed upon, there were other trade-offs to be made in the negotiations to establish institutional structures. The importance of these bargains was twofold. First, they illustrated that even at the peak of its absolute power, the United States did not and could not impose its blueprint for global economic governance on the international community. But in serving as the power that could and would ultimately act as the guarantor of public goods, American hegemony was vital. Second, under the constraints of what has been described as the ‘Unholy Trinity’, ‘Trilemma’ and the...
‘Inconsistent Quartet’, negotiators had to recognise that not all their policy goals were consistent with each other. Hence, for example, the postwar bargain was one that sacrificed the goal of capital mobility in favour of free trade, fixed (but variable) exchange rates and domestic monetary autonomy.5

The multilateral trading regime, as governed first by the General Agreement on Tariffs and Trade (GATT) and subsequently the WTO, provides us with more of a success story than the international financial and monetary regimes as governed by the Bretton Woods institutions. But as this section illustrates, both regimes suffered from limitations, especially for those concerned with questions of fairness and distributive justice, and these limitations derived at least partly from the balance of power that underlay them.

The multilateral trade regime

Despite some ups and downs, the story of free trade in the postwar system was largely one of success. The blame for the failed attempt to create the International Trade Organisation falls on the United States, but ironically, to the United States must also go a good measure of the credit for the negotiation of the GATT in 1948. First on the strength of the American leadership, and subsequently through American cooperation with other developed economies, the GATT provided the de facto basis of the multilateral trading system until 1995.

Starting out with tariff reductions, the GATT came to regulate behind-the-border measures and further expanded its mandate to cover the ‘new issues’ of services, Trade-Related Intellectual Property Rights (TRIPS), and Trade-Related Investment Measures (TRIMS) in the Uruguay Round. Proof of the system’s success lay in the significant and reliable market opening that it secured, plus the number of countries clamouring to sign on to it. The original signatories to the GATT numbered 23; 123 countries had signed the Marrakech Agreement in 1994 that concluded the Uruguay Round and created the WTO.

However, the multilateral trading system established under Pax Americana was not without its problems. While the contribution of freer trade to promoting economic growth remains largely undisputed, the regime came under criticism for several reasons particularly from the developing world. First, especially in the first few rounds, decisions were taken on the basis of the Principal Supplier Principle. This meant that the onus of tariff reduction was placed on the largest economies, and deals arrived at were extended to all contracting parties. But the flip side of this free ride for the majority of GATT players was that only principal suppliers enjoyed agenda-setting power.

Second, even after the Principal Supplier negotiating method was replaced by a formula approach, developing countries frequently found themselves marginalised. This was because though the GATT theoretically operated on a one-member-one-vote principle, in practice all decisions were arrived at through consensus. Consensus was built among the major players—the Quad (the European Union, the United States, Japan and Canada)—and in consultation with a few other countries that would get invited to Green Room meetings at the initiative of the Director General. The process of consensus-building was thus seen as lacking in transparency, and one where the developing country majority lacked voice.

Finally, developing countries took issue with the coverage of the GATT. They pointed out that the mandate of the GATT facilitated liberalisation on issues of direct interest to the developed countries, while issues where the comparative advantage of developing countries lay (for example, agriculture, textiles) were governed by exceptions. The GATT was branded as the ‘Rich
Man’s Club’ and developing countries preferred to invest their energies elsewhere (for instance, the creation of the United Nations Conference on Trade and Development [UNCTAD] in 1964).

Thus even though the GATT provided a foundation stone for global economic growth and stability, it could not easily counter the charge of unfair process that contributed to the marginalisation of the developing world. Several of these problems persisted after the creation of the WTO. Not long after the conclusion of the Uruguay Round, the WTO attracted vehement criticism from developing countries for failing to deliver the promises of the round on agriculture and textiles and for further burdening them with the costs of implementation of other agreements. On procedural issues of fairness, and particularly the lack of transparency and inclusiveness in decision making, criticism of the WTO persisted and reached a crescendo at the Seattle Ministerial in 1999. Importantly, this criticism came from not just disgruntled non-state actors, but its own members from the developing world.

The critiques of the trade regime derived fundamentally from the balance of power that underlay it. Even though the institution had attempted to overcome power asymmetries by allocating one vote to each member, in practice consensus-based decision making took place through small group meetings that were dominated by the United States and its allies. The minimal voice of developing countries in this skewed negotiation process further skewed the substance of trade governance. And hence, even though Pax Americana delivered the goods of freer trade and aggregate economic prosperity, it lacked legitimacy.

**International monetary and financial system**

Even more than trade, the international monetary and exchange rate system, negotiated at the Bretton Woods conference of 1944, relied on American hegemony due to the role that the dollar played as the reserve ‘nth’ currency. But herein lay the Achilles heel of the postwar settlement on exchange rates, best captured in the Triffin Dilemma: while the world economy needed dollars to grow, it had to be financed progressively by a growing American deficit which undermined the credibility of the dollar. Further, the bargain that had been struck over the inconsistent trinity began to unravel with difficulties encountered in maintaining capital controls. President Nixon’s decision to abandon the convertibility of the dollar in August 1971 marked the collapse of the Bretton Woods exchange rate system. Attempts to salvage the bargain via the Smithsonian Agreement’s fixed but variable exchange rates were largely unsuccessful. By the 1990s, capital movements had reached an unprecedented high since the period before the First World War, producing considerable financial instability. A new bargain within the trilemma emerged: ‘[C]apital was highly mobile; exchange rates were free to vary in most countries; and monetary policy could be used for domestic reasons.’ Amidst these upheavals, the persistence of the dollar as the world’s reserve currency illustrated just how deeply rooted the system was in American hegemony.

The unmistakable influence of the United States was felt not only in the bargains of the trilemma, but also in the operation of the Bretton Woods institutions. In striking contrast to the GATT and the WTO, both the International Monetary Fund (IMF) and the World Bank use systems of weighted voting. Votes are allocated according to the quotas that countries hold, which in principle depend on their shares in the global economy; in practice, the system has been slow to adapt to changing economic balances. The United States enjoys de facto veto power as key decisions require 85
per cent majority, and the United States is the sole power to control over 15 per cent of the votes to this day. The imprint of the United States and its allies is further reflected in the Bretton Woods system if one examines its leadership: the chiefs of the World Bank and the IMF have historically been American and European, respectively.

Conditionality emerged as another contentious feature of the system, which was introduced in the 1950s when the United States became concerned that it was going to effectively have to act as guarantor for IMF loans as the holder of the nth currency. But the scope of conditionality increased dramatically in the 1980s. With the onset of the debt crisis, both the IMF and the World Bank became more involved in policy-based lending and conditionality. At first these conditions focused on macroeconomic indicators in the case of the Fund, and specific sectoral reforms in the case of the Bank. In the ensuing two decades, however, the conditionality coverage of both institutions had broadened and deepened, delving into areas such as good governance, the rule of law, judicial reform, corruption and corporate governance. And even after this expansion, the effectiveness of conditionality-based lending remained questionable. The application of conditionality was often undertaken within the policy paradigm of the ‘Washington Consensus’. The paradigm emphasised minimizing the role of the state, strictly balanced budgets, greater openness and liberalisation and a belief that self-regulating private enterprise operating in a competitive environment usually maximises growth and welfare. The doctrinaire application of this policy paradigm for addressing the Asian Crisis of the late 1990s resulted in grievous welfare loss and human misery across a range of Asian economies.

Even though *Pax Americana* persisted after the collapse of the fixed exchange rate system, this was more because of the *de facto* persistence of the dollar as the reserve currency and the special place that the United States occupied in the governance structures of the relevant institutions. The ‘non-system’ that emerged with the end of the original Bretton Woods bargain was a product of changes at the ground level and flaws within the original concept, rather than a product of altered epistemic consensus or carefully negotiated strategy. The role of both institutions came under challenge because of the arguable effectiveness of conditionality, and also their questionable role in crisis prevention and alleviation (for example, in the East Asian financial crisis of 1998). The limitations of the Bretton Woods institutions were revealed even more graphically with the occurrence of the global economic crisis in 2008 and the sovereign debt crisis of 2011, raising serious questions on the ability of the IMF to perform even its most basic function of surveillance and monitoring directed towards crisis prevention.

**Power transition: opportunities and challenges**

The global economic crisis represented the final straw that may have broken the back of a system that had encountered several challenges for some time. The effective challenge to these governance structures today derives principally from the changes in the balance of power on the ground. The changes at the ground level can be explained in terms of both economic weight and norms. The former takes the shape of the rise of the BRICs. In 2010, the *Economist* reported that the BRICs had already come to constitute the biggest economies outside of the Organisation for Economic Cooperation and Development (OECD), and they were the only developing economies to have annual gross domestic products (GDPs) over US$1 trillion. Together,
they constitute over 40 per cent of the world’s foreign exchange reserves. With this rising power comes a greater willingness and ability of the BRICs to flex their muscle. This is evident in their use of the Dispute Settlement Mechanism in the WTO. And all three—Brazil, China and India (Russia became a member of the WTO only in December 2011, and its influence in the organisation remains to be seen)—have also proven themselves to be skilled users of the power of collective action via the coalitions they have led in the Doha negotiations. It is important to bear in mind, however, that the balance of power is shifting not just towards the BRICs but also towards other members of the Global South.

The power of the Global South derives partly from the large emerging economies with which the smaller developing economies are allied. Additionally, this power stems from normative considerations. The concerns of the smallest and weakest in the international economy are harder to sideline today due to a change in international context that attaches more attention to alternative norms as those embodied in the Millennium Development Goals or the Doha Development Agenda (DDA). These structural and normative changes mean that different stakeholders that constitute the Global South have greater voice in global economic governance. Admittedly, this is not always a united voice. In certain areas, we do see a genuine alignment of interests and strategy. For instance, in the Doha negotiations, Brazil and India in particular frequently logroll the agenda of the less developed countries (LDCs) in the collective agenda of the coalitions that they lead. On other occasions, we see a clash of interests: rumblings of discontent, for example, from many of the developing countries that are not included in the core group decision-making processes of the WTO.

The evolving balance of power has generated different responses from different international institutions. The WTO has made the most far-reaching attempts to incorporate these new voices into the heart of its functioning. The old Quad has been replaced by several new permutations, ranging from the New Quad to the G7—all of which have consistently included Brazil and India (and more recently, China), along with the EU and the United States. These changes, moreover, are not restricted to the realm of process, but also translate into substance: hence, for example, the development focus of the current round.

Despite the WTO’s adaptability to the changing balance of power, we do not see greater buy-in from the BICs, while the disengagement of the United States and the EU is high. The result is the recurrence of deadlock in the organisation, which delays the benefits of concluding the DDA and also undermines the credibility of the WTO. Another symptom of the malaise that grips multilateral trade is the turn to regional and bilateral alternatives. It appears that advanced economies and their major domestic stakeholders, having lost the dominant position in the WTO, are unwilling or unprepared to use the institution to reach consensus that is not as structured in their favour as in the past and has a greater development component. On the other hand, the BICs do not yet have the negotiating experience—and arguably, the economic wherewithal—to strike a compromise that will yield some advantage to advanced economies while at the same time pushing forward the development agenda.

There are three reasons why the multilateral trading system is in such difficulty despite the WTO’s successful incorporation of a mosaic of major powers at its core. First, the inclusion of the BICs—countries at very different levels of development from the EU and the United States—introduces much more diversity even in small group meetings. Power in the WTO is more evenly distributed than...
it was under American hegemony in the GATT. And the more equal the power distribution, the harder it is to reach agreement. Second, multipolarity and cultural diversity could perhaps be dealt with if there were suitable institutional mechanisms in place, but the WTO, even after incorporating the new balance of power, still retains many of the institutional features of the GATT, and consensus-based decision making makes it harder to reach decisions even within the diverse group at the high table of negotiations today. Third, the focus on development has led interest groups, particularly in the developed world, to see the current round as one for charity rather than based on reciprocal gain. This in fact translates into a fundamental divergence of views on the purposes of the trading system: for some, its goals are and should be limited to freeing up of trade, while others see the WTO’s mandate as extending to issues such as development, labour standards and even climate change. The WTO presents us with a particularly interesting example of relatively unsuccessful reform in response to the changing balance of power.

In contrast, the Bretton Woods institutions showcase a different type of problem. Bar some revision of the quotas and voting shares in favour of the rising powers, change in the IMF and the World Bank has been slow despite the considerable and urgent need for it in light of their poor records on lending, crisis prevention and crisis alleviation, and also persistent problems such as currency imbalances and the emergence of alternative conditionality-free aid flows from bilateral donors. The global financial crisis in 2008 and the sovereign debt crises in Europe and problems within the United States in 2011 have reinforced the challenge to the Washington Consensus, especially when the decline in the OECD economies is compared against the relative success and stability of the rising powers (and towards whom the Old World now turns for rescue). Against this background, the success and legitimacy of Pax Americana stands severely dented.

Some attempt has been made towards a more integrated reform effort of both the financial and trade system via the leaders’ level G20. The G20 represents an example of the attempt to broaden global governance away from American hegemony, or indeed a European–American duopoly, towards a more inclusive mosaic of powers. Insofar the G20 is not restricted to any one of the major international organisations, it holds the promise of facilitating greater coherence in the system across institutions (and hence, for example, more effective regulation of issues that fall between the current institutional mandates such as the undervalued yuan). It played a useful role in preventing the escalation of the 2008 financial crisis into a global economic depression. Some progress has also been made in strengthening global financial regulation under the aegis of the expanded Global Financial Stability Forum. But the collective action required to accelerate recovery and bring global economic growth has so far eluded the G20, with several observers dismissing the forum as little more than a talkshop. This is unsurprising for the following reasons.

Despite its members constituting over 80 per cent of the global economic output, the G20 enjoys even lesser legitimacy than the main international organisations. Its legitimacy deficit is especially high among the some 160 countries not included in its ranks. The G20 also does not enjoy high favour with some developing countries that are included in this elite group, but which have only recently learnt to use mainstream international organisations to their advantage and resent the attempted forum-shifting. The group also lacks the efficiency that derives from small group consultations on
account of its diversity and relatively large membership. Thus the G20 suffers on both counts of efficiency and legitimacy.

These different developments—major and unsuccessful reform in the WTO, limited and inadequate reform in the Bretton Woods institutions and the allocation of responsibilities to alternative forums like the G20—indicate the recognition, to varying degrees, of the emergence of new powers in global economic governance. In no instance thus far, however, has this resulted in the creation of a *Pax Mosaica*.

**A new global order: routes to *Pax Mosaica***

The inclusion of rising powers in positions of responsibility in international organisations and parallel forums has contributed to greater inclusiveness, diversity and pluralism in the evolving architecture of global economic governance. These improvements, in turn, contribute towards fairer process in global economic governance. These are all valuable achievements. And yet, in no variation yet has this improved inclusiveness resulted in improved efficiencies or the emergence of a *Pax Mosaica*. In the WTO, where this inclusion has been the most systematic and far-reaching, we see an increase in deadlock; more limited reform attempts in the Bretton Woods institutions have generated even poorer results; parallel developments in the G20 have also proven inadequate. In this section, we explore ways in which the changing balance of power may be harnessed more effectively to deepen the newfound gains of inclusiveness and fairness, but also address the new problems that have emerged. We do so by posing four sets of questions, which must be answered if the mosaic distribution of power is to lead to greater economic stability, growth and peace.

The first question is the *what* question: What is meant by *Pax Mosaica*? In our understanding the two necessary features of *Pax Mosaica* are: greater inclusiveness that represents a predominant share of global population and economic output; and the rules are multilaterally negotiated and implemented. Under *Pax Mosaica*, multipolarity rules, rather than hegemony, duopoly or oligopoly.

The second is the *who* question: Who gets included in the ‘*Mosaica*’ at the heart of global economic governance, and thereby bears the responsibility for the provision of global public goods? A system that lacks a hegemon also runs the risk of lacking the leadership to supply public goods such as free trade or currency stability. We have had instances of collective action in the past through other means, such as the Concert of Europe in the nineteenth century, but standards of international democracy today differ from those that were applied to the historic concerts of power, and the majority of developing countries are unlikely to follow the rules advanced by an exclusive group of Great Powers. A *Pax Mosaica* would thus need to be more inclusive and diverse than the historic concerts of Great Powers. The WTO and G20 tend towards this, in that both forums bring together old and new powers into the driving seat; note, however, that both need to secure more systematic buy-in from the smaller and multiple members of the international system not included in the core. Further, a global order founded on a *Pax Mosaica* would simultaneously need to be sufficiently small to facilitate efficient decision making and thereby also avoid some of the problems outlined earlier with reference to the WTO and G20. Clearer mechanisms to facilitate representativeness, effectiveness and accountability could hold the key to this problem.

The issues of representativeness and accountability automatically take us to the third question—the *how* question:
How is global governance to be conducted, even after a small group of major powers is identified, such that these powers represent the interests of different stakeholders and can be held to account? Take the example of the WTO where the inclusion of the BICs has improved representativeness, but high levels of dissatisfaction still persist among the majority of smaller players who do not regard the coalescent affiliations between the BICs and themselves as adequate grounds for representation. A peace sustained by a mosaic of established and rising powers, even if it could be negotiated within the core group, would need to be accountable to other stakeholders (at the very least, other states, which benefit from but do not lead the Pax Mosaica).

One reason why states are seldom satisfied with indirect representation in international forums is a divergence of interests. The issue of divergent interests takes us to the scope question under Pax Mosaica: What gets included and excluded from the mandates of particular institutions? We know from historical experience that mandate evolution is seldom uncontested. In trade, the conflict over including TRIPS, TRIMS and services versus agriculture and textiles in the Uruguay Round, or indeed the Singapore Issues and environment versus development considerations in the Doha negotiations, was deep-rooted and divisive. In the Bretton Woods institutions, ‘mission creep’ and conditionality expansion have proven controversial. At a minimal level, all the existing international organisations need to specify the criteria to be used for determining their mandates.

The scope question also translates into a fundamental question of which public goods are to be provided. This can sometimes be an issue of framing and integrative bargaining: for example, the battle lines between proponents of free versus fair trade could be overcome by illustrating that free trade—under equitable rules—is fair trade. In other instances, however, the negotiation over which public goods can be highly divisive. This is especially the case if the major powers are at differing levels of development, and attach conflicting values to different public goods. One of the reasons for the recurrence of deadlocks in the WTO today is the differing priorities that the developed versus developing countries attach to free trade and development (even though both constituencies recognise the positive correlation between the two).

Even in the 1940s, when American power enjoyed overwhelming supremacy, states found it difficult to agree upon the goals that emerging international institutions should pursue. Such a negotiation is rendered even more difficult under multipolarity. Particularly important is the danger of the undersupply of public goods due to the temptation of each major power to free-ride, in contrast to the relatively higher willingness of the hegemon to bear these costs due to the higher stakes that it has in the system by virtue of its size. Pax Mosaica has been elusive so far despite the emergence of a mosaic of major powers in global economic governance. Bearing in mind the four questions just discussed, what concrete steps could be taken to facilitate the creation of greater multilateral stability, growth and peace amidst growing multipolarity?

**Directions for institutional reform**

As we have argued, the record of existing international institutions differs considerably, both in terms of their achievements in the second half of the twentieth century as well as responsiveness to the changing balance of power. Rather than rewrite the existing global economic order completely through a new Bretton Woods, what is needed is a careful assessment of the institutions and norms that
have served us well thus far and should be retained and others that need to be renegotiated.

Among the existing regimes, the WTO fares better than most. A broad level of consensus exists on the merits of free trade, and the resilience of the multilateral trading system stood the test of the financial crisis of 2008 when a global upsurge of protectionism was avoided. The organisation has done well in including the rising powers in key decision-making processes and adapting their concerns into the substance of the negotiations. Where the WTO falters, however, is in ensuring that these changes actually improve rather than decrease its workability. At least some of these challenges could be resolved by addressing the how question, and reforming decision-making processes (such as consensus) to bring them in line with the altered power realities. Thinking along such lines has already begun in the policy and academic worlds.¹¹

The IMF and the World Bank have a further way to go in terms of broadening representation for the rising powers. Not only do the Bretton Woods institutions represent a defunct distribution of power, but their ability to provide relevant public goods is also under question. Their limitations were revealed with the outbreak of regional financial crises in the 1990s and their mishandling of the attempted recovery. But their inadequacies became even more evident in the prelude and aftermath of the global economic crisis of 2008/9. On all four of the what, who, how and scope questions, the Bretton Woods institutions fare poorly. The old bargain over the trilemma has unravelled, but a new one is yet to be negotiated; their management is not inclusive and they under-represent the rising powers; their outmoded systems of weighted-voting continue; and the exchange rate system has so far been unable to adapt to the rise of possible alternatives to the dollar despite the de facto strength of the Chinese Renminbi.

The successes and problems encountered by the WTO and the international financial institutions also offer useful lessons for other institutional initiatives, including the G20. The G20 enjoys the advantage of broad coverage, and thereby opportunity to address the problem of coherence across institutions. More controversial is whether it can or should be a substitute for the more formal organisations. There are two diverging views on the role of the G20, which also presented a useful point of difference for the authors of this article. Kumar accords greater potential legitimacy to the G20 as a forum in its own right; Narlikar sees the G20’s role as more limited, providing no more and no less than a focal point for addressing some of the challenges we have outlined and a complementary forum to reinforce existing international organisations.

A prominent role for the G20

The emergence of G20, the relative decline of the G7 and the continued ineffectiveness in large parts of global governance of the formal United Nations system perhaps point towards the need for a new architecture of global governance. It is true that the larger number of players and the diversity in their worldviews and growth models would make convergence within the G20 unlikely (in contrast to what was achievable in the G7). A smaller but representative informal group would be necessary to deliver global public goods.

The diverse G20 membership could formalise a set of multilateral rules or norms that would be binding on all members of the smaller informal group. This would be achieved through negotiation that is premised on the understanding that multipolarity requires that all variety of views are taken on board and a convergence achieved. In the absence of such a core group similar to the G20 adhering
to a commonly agreed set of rules, there will be a tendency for regional and sub-regional formations to emerge. This could create a confused and unmanageable global disorder as memberships would overlap and in some cases regional norms conflict with each other. This is best avoided. The alternative therefore is to identify a core group of existing and emerging players that could evolve a set of rules, which would, quite like the written constitutions in nation-states, embody and represent *Pax Mosaica*.

**The G20 as a focal point**

While the G20 could potentially serve as a vital signaling device and focal point for political leadership, it cannot and should not become a substitute for the existing international organisations. Attempts to build even a preliminary consensus through a G20 ministerial process are unlikely to enjoy ownership from the rest of the stakeholders. Drawing on the example of the WTO, one of the problems that the organisation faces today is that the mosaic of powers at its helm is diverse and numerous, which renders consensus-building difficult; the G20 multiplies this problem by having an even bigger number and diversity of members. Smaller countries have greater opportunity to exercise their voice via trade coalitions and also improved internal transparency mechanisms in the WTO, in comparison to their non-existent voice in the G20. A smaller core group within the G20 is unlikely to provide a satisfactory answer to their concerns. Forum-shifting towards the G20 would not only exacerbate the efficiency problem, but would also worsen the legitimacy problem.

**A convergence?**

Formal and informal mechanisms that work in parallel with dedicated international organisations do have an important role to play, especially in conditions of systemic power transition. While we have focused here on some of the technical deterrents to the emergence of a full *Pax Mosaica* in specific institutions, a major reason for why even more representation to the BRICs (for example, in the WTO) has generated poor results is the leadership vacuum in global economic governance. Technocratic solutions can only work if major stakeholders are willing to bear the political and economic costs of the provision of public goods. Here, forums like the G20 can play a major role in galvanising leadership. For example, were the G20 leaders to go beyond cheap talk and actually bind themselves into completing a Doha deal by a specified deadline, this would be just the boost that the multilateral trading system needs. Smaller meetings may not be able to formalise solutions, but they may be able to provide just the focal points necessary to catalyse our mosaic of established and new powers into building a *Pax Mosaica*.

**Acknowledgements**

The authors are grateful to the Sasakawa Peace Foundation for sponsoring this research. A longer and more detailed version of this article was presented at a workshop of the Sasakawa Peace Foundation in Tokyo in May 2011, and we thank the participants for useful feedback. The authors take full responsibility for any errors or misjudgements.

**Notes**


6 Daunton, ‘The inconsistent quartet’.


8 Daunton, ‘The inconsistent quartet’.


The Global Economic Crisis and the Future of Neoliberal Globalization: Rupture Versus Continuity

Ziya Öniş and Ali Burak Güven

This article outlines the main elements of rupture and continuity in the global political economy since the global economic crisis of 2008-2009. While the current calamity poses a more systemic challenge to neoliberal globalization than genetically similar turbulences in the semi-periphery during the 1990s, we find that evidence for its transformative significance remains mixed. Efforts to reform the distressed capitalist models in the North encounter severe resistance, and the broadened multilateralism of the Group of 20 is yet to provide effective global economic governance. Overall, neoliberal globalization looks set to survive, but in a more heterodox and multipolar fashion. Without tighter coordination between old and emerging powers, this new synthesis is unlikely to inspire lasting solutions to pressing global problems such as an unsustainable international financial architecture and the pending environmental catastrophe and may even fail to preserve some modest democratic and developmental gains of the recent past. Keywords: global economic crisis, neoliberal globalization, G-20, models of capitalism, emerging markets.

Economic and political tectonic plates are shifting. We can shift with them, or we can continue to see a new world through the prism of the old. We must recognize new realities. And act on them.

—Robert Zoellick, president, World Bank Group

The nihilistic voices raised against the disgraced masters of the universe will eventually cease. It is possible to imagine that one day investment bankers may again be welcome at dinner parties. It might take a little rebranding, though.

—Sir Martin Sorrell, CEO, WPP Group

The global economic crisis of 2008–2009 has inspired contending visions about the future of world order. Among pundits as well as policymakers, prognoses continue to range widely from radical systemic reorganization on one end to the eventual reinstatement of the status quo ante on the other. By contrast, scholars have long pointed to a narrower scope of likely outcomes. Proponents of “a new global economics and a new global politics” were careful not to dismiss the dragging force of the “conservative technocratic elitist” policy response that took hold early on. Those who suspected the “neoliberal
norms [would] prevail once the cognitive fog lifts” also noted the powerful pressures for “intellectual, organisational and normative change.” Three years into the crisis, it is this measured stance that emerges above others. It is becoming abundantly clear that we are set neither for a radical reconstruction of the world as we knew it, nor its senseless endurance. Some defining characteristics of the old order appear to be fading while others remain in force. Ours is a juncture of bounded transformation.

In this article, we highlight the major elements of rupture and continuity in the global political economy since the onset of the crisis. Our starting point is that the crisis poses a fundamental challenge to the project of neoliberal globalization—the worldwide process of reorganizing economic activity on the principle of intensified interaction and interdependence between increasingly open and liberalized national markets, which has received ample endorsement from business and policy elites in both the Global North and most countries of the Global South for the past three decades. It is noteworthy that the present crisis is not the first material challenge to this project. Neoliberal globalism was already put to a tough test during the string of financial melt-downs that engulfed the semi-periphery in the 1990s. These episodes accelerated the paradigm reorientation toward a more social and regulatory system among some supporters of this project and were met with corresponding efforts to redesign emerging market economies, but their lessons were by and large ignored in the Global North and had little impact on the workings of the international economy.

The contemporary crisis is different from that earlier volley of warning shots in its systemwide character and consequences. It represents the biggest disruption to the postwar international economic order, and brings into relief a large constellation of factors that shape current efforts to put things back together both within national economies and for the system itself. As numerous as they may be, we believe most of these factors connect to two interrelated themes: the problems within and relationships between rival models of capitalism, and the evolving structure of and challenges to global governance. From the perspective of these two themes, many of the ruptures frequently associated with the crisis appear as accelerations and aggravations of existing trends rather than brand new phenomena, such as the rise of Brazil, Russia, India, and China (the BRIC countries); chronic problems besetting both the Anglo-American free market and the European social market models; and the quest for stronger and more representative global governance mechanisms. Likewise, continuities prove more dynamic than static as in the new variations of conflicts of interest between leading and emerging powers complicating global policy coordination, the evolving channels of elite and popular resistance to policy change in various regions, and the lack of alternatives to existing multilateral financing bodies amid changes in lending framework and priorities.
The general point is that the crisis is accelerating the drive toward a multipolar globalization riding on a more heterodox liberalism. Even then, the neoliberal globalist project will survive in the medium term, but probably in modified form and in a less propitious environment that will accentuate its contradictions. The fundamental challenge here is the difficulty of attaining effective global policy coordination on key matters, particularly in the absence of sufficiently powerful multilateral institutions with a meaningful degree of autonomy from nation-states. Our conclusion is therefore somewhat bleak. Without deep coordination on a broad range of interconnected issues, there is little hope not only for resolving the pressing global problems of the day, such as a self-destructive international financial architecture and the unfolding environmental catastrophe, but even for defending some modest democratic and developmental gains of the past two decades.

From the Periphery to the Core: Crises of Neoliberal Globalization

Especially in media reports, but also in scholarly debates, there is a popular tendency to treat the contemporary crisis as the first major challenge to neoliberal globalization. This provides a hardly convincing storyline because it fails to acknowledge the long list of financial tragedies in the semi-periphery between the mid-1990s and early 2000s. These crises bore a striking genetic resemblance to the current emergency as they too originated from a faulty belief in the self-regulating properties of integrated markets, caused much human suffering, and in turn had important normative and international policy repercussions, some broadly similar to those that are in ascendance today. There are of course significant differences between these prior turbulences and the present one, particularly in terms of the specific mix of the national and the global in their causes as well as consequences. Still, revisiting that past experience, the crucial lessons of which were obviously unheeded by policymakers in advanced economies, allows for a more accurate historical outlook.

The crises of neoliberal globalization in the semi-periphery started with the Turkish and Mexican financial shocks in 1994, continued with the devastating Asian financial crisis of 1997, reached full steam during the Russian and Brazilian meltdowns of 1998 and 1999 respectively, and came to an end with the collapse of Turkish and Argentine economies in 2001. When these episodes are treated as a specific marker in the evolution of neoliberal globalization, the preceding one and one-half decades also emerge as a unique phase in itself. The period from the early 1980s to the mid-1990s witnessed the emergence, diffusion, and consolidation of the neoliberal globalist project. Never in history had so many countries from such varied starting points simultaneously attempted to reorganize their economies along similar principles. The "mixed economies" of the third world, the coordinated and interventionist sys-
tems of Western Europe, and the postsocialist countries of the former Soviet bloc were all encouraged to follow the Anglo-American example in embracing free-market internationalism as the surest path to national prosperity and, coincidentally, global peace. But while liberalization and market integration did seem to help the recovery from the stagnation of the 1970s and the early 1980s for most countries in the North, the euphoria waned rapidly in the Global South. A key problem was the lackluster record of market reforms in much of the developing world, particularly in Latin America and sub-Saharan Africa where restructuring inspired by the International Monetary Fund (IMF) and the World Bank often resulted in deteriorating growth rates. The financial crises in the semi-periphery in the 1990s intensified the already growing skepticism about orthodox policies of domestic liberalization and international integration by exposing some of their less predictable perils.

The basic mechanism behind these crises was similar to the present one. Invariably, they followed from an unruly integration with global financial markets made possible by radical domestic financial liberalization and hasty capital account liberalization. In the absence of strong precautionary mechanisms, exposure to highly volatile and speculative capital flows resulted in the accumulation of deep macroeconomic imbalances in each instance, eventually triggering devastating financial crises followed by economy-wide recessions. Another similarity was in the social outcome of the crisis. As in the present context, the benefits of neoliberal globalization had accrued disproportionately in many of these economies, often leading to deteriorations in income equality that placed popular classes under significant stress. In the end, these crises forced policymakers in the semi-periphery to tackle much the same challenges their counterparts in the Global North are facing today: reining in an under-regulated financial sector through institutional improvements in financial governance while taking protective measures to minimize the social fallout of the crisis.

The financial turmoil of this period was a key factor in the normative shift away from orthodox neoliberalism in the mainstream development community. Starting from the mid-1990s, but especially after the Asian financial crisis, international financial institutions (IFIs) such as the IMF and the World Bank began advocating a more social, regulatory, and pragmatic neoliberalism, often labeled the post-Washington Consensus (PWC). Rather than extolling the virtues of self-regulating markets, they now emphasized the need for cultivating good governance, building strong regulatory arrangements, and adopting pro-poor growth strategies through sweeping domestic institutional reforms. This agenda has been implemented unevenly across the developing world, partly as a result of declining IFI presence especially in middle-income countries (MICs) in the 2000s. However, its message for caution was taken seriously on the regulatory front as numerous emerging market countries moved to reduce their vulnerability to the vagaries of global financial markets by...
tightening their banking regimes and quite often by accumulating large international reserves.

The growing awareness in the semi-periphery about the perils of neoliberal globalization was not shared as strongly in advanced economies. Surely there did emerge multilateral initiatives to guard against future financial trouble in the system, such as the establishment in 1999 of the Financial Stability Forum, a platform that brought together Group of 7 (G7) countries and key international financial and regulatory organizations for promoting basic universal “financial codes and standards” in various areas including banking and insurance supervision, fiscal transparency, auditing, data dissemination, and corporate governance. One problem with this effort was the slow and piecemeal adoption of these standards in the developing world, including instances of “mock compliance.” A greater problem was that they were designed to preempt risks in shallow and relatively simple financial markets in emerging countries by advocating the emulation of “best practices” in major states, especially in the United States. Yet those practices were themselves growing incapable of comprehending and insuring against new hazards generated by massive, increasingly complex and highly innovative financial markets in the North. In fact, the regulatory threshold in the United States was lowered substantially with the repeal of the Glass-Steagall Act in 1999, which, by blurring the distinction between commercial and investment banks, opened the gates to the rapid growth in the market share of highly risky financial instruments in subsequent years. Meanwhile the Basel II Accord of the Basel Committee on Banking Supervision, the standard-setting body for the industry, introduced in 2004 new capital requirements that relied heavily on banks’ own internal risk assessments at the expense of universal criteria imposed by public authorities, echoing an ever-increased confidence in the self-regulatory capabilities of market players.

Why did not the crises of neoliberal globalization in the semi-periphery trigger greater regulatory vigilance across the system? One reason, of course, was continued “regulatory capture” by financial interests in the North through political lobbying, normative influence, and the chronic flow of executives between public office and the private sector. A more important factor could be found in the nature and aftermath of these crises. These were primarily national and regional failures with secondary systemic repercussions. While producing strong contagion effects (such as the quick spread of the Thai currency meltdown to other Asian economies in 1997, and the Brazilian and Russian crises aggravating subsequent episodes in Argentina and Turkey), they still fell short of destabilizing the system as a whole. Furthermore, the quick recovery from these turbulences ushered in an era of prosperity for the world economy characterized by a record expansion in trade volume, abundant liquidity and foreign direct investment, and respectable growth rates in every region. With the global economy in high gear between 2002 and 2007, calls for regulatory
upgrading in major states and stronger cross-border financial governance did not carry much weight.

The current catastrophe, the crisis of neoliberal globalization at the core, concludes this brief age of optimism. In its causes and reach, and as different from the antecedent troubles in the semi-periphery, it is primarily a systemic crisis with national dimensions (see Table 1). In the background of the US asset price bubble were not only grave failures of domestic regulation, but perhaps more crucially the "global imbalances" between surplus economies such as Germany and China and deficit countries such as the United States and the United Kingdom, locking in finance-led and debt-driven growth patterns in the latter. Meanwhile, the depth and the reach of the crisis owes much to an international financial architecture that rewards rent seeking and speculative behavior without offering effective fail-safes against the transmission of risk.

Fixing these structural problems is an incomparably more difficult task than putting derailed market transitions in the semi-periphery back on track at a forgiving international economic conjuncture. It requires, first, a fundamental rethinking of economic models in advanced countries, and, second, much tighter and enduring coordination between major economies, some now outside the Northern core. On both counts there have been ambitious efforts over the past three years, yet with modest achievements so far.

A Brave New World?
The crisis has instigated two important shifts in the global economy. First, it has greatly undermined Northern models of capitalism, specifically the Anglo-American liberal market model and the continental European social (and co-

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Table 1 Crises of Neoliberal Globalization: From the Periphery to the Center

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<tr>
<td>• Primarily national crises with secondary systemic repercussions</td>
<td>• Primarily global crisis with strong national dimensions</td>
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<tr>
<td>• Short-term policy response predominantly stabilization oriented</td>
<td>• Short-term policy response predominantly Keynesian spending (now discontinued)</td>
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<tr>
<td>• Medium- and long-term response based on promotion of social and regulatory neoliberalism in emerging market countries via deep institutional reforms (post–Washington Consensus)</td>
<td>• Medium- and long-term response based on global policy coordination and international institutional restructuring, along with targeted policy shifts in advanced economies</td>
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<tr>
<td>• Followed by a period of strong growth in the global economy</td>
<td>• Likely to be followed by a period of weak growth in the global economy</td>
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ordinated) market economies, provoking substantive attempts by policymakers on both sides of the Atlantic to repair their broken systems. Second, it has produced an unprecedented drive for policy coordination and collective response among major states, with important changes in existing platforms of global governance.

Originating in the United States, the crisis has posed the greatest challenge to the Anglo-American liberal market system. The proximate cause of the catastrophe, the collapse of the US subprime mortgage market by mid-2007, provides the interesting story of how a concerted project of profitably reintegrating marginalized masses into a free-market society through elaborate financial trickery failed spectacularly. Aggravated by other factors such as faulty monetary policy decisions, the unraveling of this project with tragic human costs has brought to the surface the fallacy of two fundamental assumptions underlying the liberal market model. First, the presumed efficiency of self-regulating markets proved to be a illusion. Without proper public supervision and coordination, markets do not behave prudently but harbor systemwide destructive tendencies. Second, the virtue of state minimalism in social and industrial policy has been called into question. It seems increasingly impossible for the United States to retain its global competitiveness and level of human development without a renewed public commitment to industrial transformation and upgrading, and redoubling of state intervention in social sectors such as health care and education. Markets, in short, have failed to compensate for the multiple coordinative and social vacuums created by the Reagan-Thatcher revolution. After nearly thirty years of experimentation, policymakers in the United States and to some extent the UK are being forced back to the drawing board.

One would expect that the afflictions of the Anglo-American model would boost confidence in its prime competitor in the developed North; that is, the coordinated, social market capitalisms of Western Europe. Yet that is hardly the case. The European compromise between state and market, the historic quest of the European Union (EU) for the best of both worlds with institutional mechanisms aimed at a fine balance between market innovation and social welfare, could not withstand the global tempest either. The perceived regulatory superiority of European financial governance, exemplified in the EU’s early implementation of the Basel II framework, proved insufficient in the face of a turmoil as severe as this one. The crisis not only brought down weaker banking systems in the margins of Europe, as in Iceland and Hungary, but also forced government bailouts of some major banks at the European core such as the German Commerzbank, French Société Général, Dutch-Belgian Fortis, and the Dutch ING, due mainly to their exposure to securities issued by US banks. Far more dramatically, costly rescue and stimulus packages amid declining revenues in 2008–2009 led to a rapid deterioration of the already precarious fiscal positions of European governments and triggered fears of
sovereign debt default in several countries. Of vital importance here is Greece, which narrowly escaped default in the spring of 2010 thanks to a €110 billion joint EU-IMF rescue package, only to find itself in a deeper trap a year later, threatening the future of the eurozone. With Portugal, Spain, and lately even Italy displaying signs of trouble down the path, it will take extraordinary political commitment and joint economic sacrifice on the part of core European economies to avert a disastrous disintegration of the monetary union.

At the root of Europe’s fiscal woes are not everyday policy miscalculations, but deep structural problems that are hard to fix: a social contract beset by high welfare expenditures, including large agricultural subsidies, troubled social security systems across the continent due to an aging citizenry and high unemployment rates, and nonoverlapping monetary and fiscal jurisdictions rendering threats to common currency by rogue members nearly unpunishable. While Europe was not as destabilizing a force in the global economy as the United States had been in the run up to the crisis, as of mid-2011 it appears to be more than rivaling this US role. Its persistent troubles make the European social model anything but a feasible alternative to the Anglo-American one.

Paradoxically, the most significant change for economic models on either side of the Atlantic since the onset of the crisis are signs of partial convergence over the past year between the failed Anglo-American system and the fragile European model. The Barack Obama administration has been keen to strengthen the regulatory and protective arms of the US state. Health care reform has brought the US system closer to European-inspired universal models whereas financial reform legislation has introduced a new oversight agency, stronger consumer protection, stringent regulations concerning financial derivatives, and limits on banks’ proprietary trading. Efforts in the UK have been more modest, but here too there have been plans to reassert public authority over the City (the UK financial system, with London as a global financial center), with former prime minister Gordon Brown leading the (so far failed) international chorus for a global tax on financial transactions to discourage speculative behavior (the Tobin tax). If Anglo-American capitalism is having its PWC moment, the EU is increasingly compelled to come to terms with its predecessor, the Washington Consensus sensibilities of fiscal austerity and limited social redistribution. Pension reform is on the agenda of most EU countries, and those facing serious sovereign debt issues, mainly in southern Europe, have already introduced drastic fiscal stabilization measures. There are of course severe political and institutional constraints to a genuine convergence between the Anglo-American and European models, but these efforts still represent the most notable shifts in policy thinking in the largest economies in the North over the past three decades.

Policymakers have been well aware though that, given the intense interdependence of national economies today, domestic or even regional reorganizations alone would have limited effectiveness in countering the current
emergency and avoiding future ones. Compared to past disruptions to world economic order, such as during the Great Depression and the oil shocks of the 1970s, national authorities this time around have sought to develop a more coordinated response based on renewed ideals of better institutionalized and more representative instruments of global governance. What makes this initiative even more remarkable is that it comes after a series of disappointments in multilateralism, exemplified by the impasse in the Doha Round of trade talks, the limitations of the Kyoto Protocol, and the controversy surrounding the Iraq War.

The linchpin of this increased international coordination is the transformation of the Group of 20 (G-20), which has replaced the G7 as the primary forum for global economic governance. Established as a platform for policy dialogue among finance ministers and central bank governors in the aftermath of the Asian financial crisis, the G-20’s stature was upgraded to meetings at the leaders level at its Washington, DC, summit in November 2008. Its promise is one of inclusion given that over one-half of its members are emerging market countries, and of representativeness since the group accounts for two-thirds of the world population and nearly 90 percent of the world’s GDP. From Washington, DC, onward, the G-20 summits have focused on the dual agenda of: first, aligning recovery strategies of major states, with an initial consensus on the need for sizeable fiscal stimulus packages; and, second, coordinating the international financial reform drive to avoid future emergencies, with banking regulation, accounting standards, and global nuisances such as hedge funds and derivatives at the center. The London summit of April 2009 saw a shake-up of related multilateral bodies. The Financial Stability Forum, another invention of the post-Asian financial crisis environment, was remorphed into the Financial Stability Board (FSB) with an enhanced membership and mandate, and the IMF and the World Bank’s resources were greatly increased to aid the recovery in low- and middle-income countries. Summits in Pittsburgh in September 2009, Toronto in June 2010, and Seoul in November 2010 engaged an even broader set of themes, including national growth and exchange rate strategies for addressing global trade imbalances along with global developmental challenges, although consensus on these themes remains elusive.

The principal novelty of the G-20 process is its formal recognition of the largest developing nations as important players in the reshaping of the post-crisis global economic order, which is often hailed as a step toward the democratization of global governance mechanisms. Still, both the G-20 and the FSB are consultative networks that bring together national authorities and international technocrats, and are not international organizations mandated with executive tasks to be carried out with their own resources. That function remains the prerogative of Bretton Woods Institutions such as the IMF and the World Bank, yet here too have been significant changes coincident with the G-20 spirit. One is the acceleration of the voice and quota reforms in the Fund
and the Bank already in progress since the mid-2000s; though modest, these changes promise to improve representation of, and access to resources by, middle- and low-income countries. Another is the overhaul of the IMF's lending framework, which included the phasing out of hard conditionalities from its standby arrangements and the introduction of new loan types such as the Flexible Credit Line (FCL) and the Extended Credit Facility (ECF). In an uncharacteristic move for an organization that preached fiscal austerity for most of its existence, the IMF has also identified limited fiscal expansion, in particular toward social protection, as a legitimate anticrisis instrument in some of its programs.17 Most important, the crisis has allowed both the Fund and the Bank to reenter the lucrative middle-income segment through a surge in lending. Since September 2008, the IMF has extended loans to more than two dozen MICs, which accounted for the bulk of the phenomenal increase in its approved commitments in developing and emerging areas from a measly SDR600 million in 2007 to a record SDR66.9 billion in 2009 and SDR79.8 billion in 2010.18 During the same period, World Bank lending also doubled, from about $25 billion to $58.5 billion.19 In short, the crisis of neoliberal globalization not only accelerates the shift in the governance structures and lending practices of the core international organizations that promoted this project in the South for three decades, but it seems to also empower them through an expansion of their financial presence in, and thereby policy influence over, developing and emerging market countries.

**Dynamic Continuities**

The structural challenges facing economic models in advanced capitalisms, the apparent move toward a stronger and more representative multilateralism in global economic governance, and the transformation and increased significance of key international institutions may collectively be viewed as portents of substantive reorganization in the global political economy. Yet there are severe obstacles for sustaining change in each of these dimensions. Furthermore, some important trends of the precrisis order seem to persist and even be reinforced (see Table 2).

One such trend is the rise of large emerging market countries as new poles of growth and dynamism. The shift in the center of gravity of the world economy toward the East and South continues apace, though perhaps a bit faster than before.20 Of the BRIC quartet, only Russia recorded a significant loss in output in 2009, due mainly to collapsing energy prices and demand. Brazil faced an equally explicable yet less severe deceleration in growth given its reliance on commodity exports, whereas India and China reported a mild slowdown as a testament to the resilience of their large domestic markets and dynamism of the regional economy. Some other large MICs such as Indonesia
and Poland also fared well within their regions, and many that were initially hit hard have witnessed a more robust recovery in 2010 than most high-income countries, as exemplified by Thailand and Turkey.

The main upshot of this relative resilience is that, for the overwhelming majority of the world’s emerging powers, the crisis has created little incentive for policy tinkering. Asian strategic capitalisms are alive and well, and so are the hybrid models that other countries have settled on over the years. This also means a general lack of incentives to alter their international economic policy preferences. Behind the buzz surrounding the G-20 process, major emerging powers should be expected to continue playing hardball in global trade and environmental talks. In this they may also recruit new allies across the developing world, not only because of ever-stronger South-South economic interaction spearheaded by persistent incursion of the BRIC countries into some African, Latin American, and Asian markets, but also because many countries certainly took note of the fact that outside the Northern core the brunt of the crisis fell on those economies lying in the immediate vicinity of, and playing by the rules set by, the United States and Europe (i.e., Mexico, most of Central America, and Central and Eastern Europe). Finally, with greater prosperity comes political confidence leading to increasingly ambitious agendas in international relations; even middle powers today tend to adopt a more vocal and assertive stance in regional and global matters, at times

Table 2 Global Economic Crisis: Rupture Versus Continuity

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<thead>
<tr>
<th>Elements of Rupture</th>
<th>Elements of Continuity</th>
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<tr>
<td><strong>Models of capitalism</strong></td>
<td><strong>Global governance</strong></td>
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<tr>
<td>• Deep challenge to both</td>
<td>• The G-20 as the principal</td>
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<td>Anglo-American and</td>
<td>global decisionmaking forum</td>
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<td>European models, with</td>
<td>with enhanced representation</td>
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<td>signs of limited convergence</td>
<td>of emerging powers</td>
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<td>between the two</td>
<td>• Strong impulse for global</td>
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<td>• Strong impulse for state</td>
<td>policy coordination</td>
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<td>and economic restructuring</td>
<td>• Accelerated governance</td>
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<td>in the North</td>
<td>reforms in the International</td>
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<td>Monetary Fund and the</td>
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<td></td>
<td>World Bank</td>
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<tr>
<td>• Continued (accelerated)</td>
<td>• Global governance still</td>
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<tr>
<td>rise of Asian strategic</td>
<td>driven by powerful nation-</td>
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<tr>
<td>capitalism and Brazil,</td>
<td>states; the G7 core leading</td>
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<td>Russia, India, and China</td>
<td>the G-20</td>
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<tr>
<td>• Widespread resistance to</td>
<td>• Conflicts of interest</td>
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<td>reform in the North;</td>
<td>among major powers</td>
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<td>weaker impulse for</td>
<td>prevent effective</td>
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<td>restructuring in the South</td>
<td>coordination (e.g., Doha,</td>
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<td>Copenhagen, Toronto,</td>
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<td>Seoul)</td>
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<td>• Prescriptive continuity in</td>
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openly taking on Western hegemonic interests as in the Brazilian-Turkish initiative to resolve the Iran nuclear crisis.

While the crisis has failed to rattle economic regimes in the Global South, the potential for systemic change that it unleashes in the North should not be overrated either. The divergent historical paths and reinforcing dynamics of Anglo-American and European capitalisms have been the central research question in the field of comparative political economy for the past two decades, and it is yet early to brand the current crisis as a transformative juncture in their evolution. Whether reformist leaders in the North could mobilize the necessary support from organized popular and elite interests to implement more radical changes in their politically and institutionally well-entrenched regimes is doubtful. Implicit efforts toward fiscal burden sharing in Europe spawned much public anger in large members such as Germany, whereas labor unions’ fierce resistance to proposed pension and labor market reforms jeopardizes the commitment to fiscal retrenchment in problem countries such as Greece and Spain. In the United States as well, the domestic reform drive has approached its natural limit. Ambitious by US standards, the original agenda of the Obama administration was already far from revolutionary. Intense political polarization amid the declining popularity of the administration complicates further reform. And while financial interests had to bow to more stringent domestic regulation, they also managed to successfully lobby the government to shelve plans on bank bonuses and help thwart the threat of a global bank levy during the Toronto summit.

Could the renewed multilateralism of the G-20 and the enhanced role of international organizations offer a remedy to these challenges to reform in the North and insure a more orderly rise of the South? Unlikely. Although the G-20 arguably provides the most genuine forum for economic policy dialogue among major powers since Bretton Woods, it faces two important limitations to serve as a vehicle for change. First, its representativeness is in question. Not only does the process exclude the “marginal majority” of some 150 countries (among them important middle powers such as Spain and several large African nations), but the non-G7 members have so far wielded little influence over the G-20 agenda. The multipolar spirit of the arrangement is yet to outgrow its Western genes, with the process currently involving an “amalgam of hegemony and collective leadership.”

Linked to the issue of representation is the second, and perhaps more important, matter of effectiveness. Predominantly a network of national leaders, the G-20 is incapable of identifying and promoting global public goods independent of specific national (and bloc) interests. The problem of conflicting interests gained an acute character at the Toronto summit; the US position against an early exit from fiscal stimulus was vehemently rejected by European leaders, while China, in fear of creating a binding precedence for the future, refused to be commended in the final statement for its recent move toward limited ex-
change rate flexibility. Even in a matter such as financial regulation, on which there exists agreement over broad principles, discord easily broke out over specifics, leading to the postponement of the implementation of new capital rules for banks. Rapidly differentiated paths to recovery, not just between the United States and the EU but more generally between advanced and emerging economies, have further undermined the already precarious commitment to global policy coordination. As a result, the Seoul summit had the least to show in the way of a consensus, with no concrete progress made in the dominating agenda item of global trade imbalances and currency wars.

But these may indeed be the better days of the G-20. With policy attention focused mainly on economic recovery and the contours of international regulatory reform thus far, many emerging market members have yet had a peripheral stake in the talks. This picture will no doubt change when more vexing matters of trade and environmental policy come to the table in full force, as illustrated, for instance, in the US proposal at Seoul to revitalize the Doha Round. Because progress in these areas will require sacrifices from the same national citizenries that have been promised better economic fortunes as a result of enhanced multilateralism, the potential for conflict will grow exponentially, in particular over the distribution of the burden of adjustment.

The preponderance of national interests in the G-20 leads to a wide agenda, but not a deep one. The absence of an issue-specific mandate and of organizational resources prevents it from producing original policy frameworks based on new expert knowledge, let alone enforcing them. For this, the G-20 relies on its member international organizations that are now put more firmly under the thumb of national leaders. Given the highly demanding requisites of the agenda, on the one hand, and the lack of deep agreement on crucial matters among states, on the other, it is uncertain what these international bodies can achieve.

This is a problem especially for the IMF and the World Bank, which have received a boost in resources and visibility but modest changes in other areas. As the principal international monetary authority, the problem of global imbalances has been a core concern for the IMF over the past couple of years, and yet it has no effective means at its disposal to convince surplus countries to shift their domestic demand policies or resist the temptation of self-insurance by reserve accumulation. By default, the Fund relies on loan conditionalities for steering member policies; at the same time, it is becoming increasingly difficult for the organization to engage larger emerging powers, with not only surplus countries like Russia but deficit economies like Turkey (the Fund’s biggest client by the mid-2000s) also staying clear from it during the crisis. And the limited scope of the governance reform in the IMF continues to hurt its legitimacy in the eye of potential borrowers, jeopardizing its ability to find clients once the emergency is over. Given this structural constraint, any initiative that the Fund might undertake to fix the international monetary system will ulti-
mately have to be endorsed by the very national authorities which, thus far, have not even agreed on the direction of change.\textsuperscript{29}

Finally, conspicuously missing from the current international policy debate is the acknowledgment of the need for new ways of addressing the developmental gap tormenting the poorest nations. Although a routine theme in G-20 summits, this other and certainly more tragic imbalance between citizens of rich and poor nations is not pursued with comparable conviction.\textsuperscript{30} As the stimulus money poured into the global economy far exceeds $2 trillion, the debate on the least fortunate remains tied to fiddling with new target dates for achieving the UN’s Millennium Development Goals (MDGs), a remnant of the 1990s. This was precisely the understanding expressed in the Seoul Development Consensus for Shared Growth during the latest G-20 summit, where proposals for "duty-free, quota-free" access to developed country markets by least developed countries were fiercely rejected in favor of a domestic growth-oriented and physical/human infrastructure-based strategy. In turn, with no new development ideas or initiatives in sight, most IMF and World Bank programs continue to rely on the heterodox PWC agenda of domestic institutional reform and non-market-distortive forms of social protection. Meanwhile, especially in the crisis-hit countries of the European periphery, the Fund and the Bank did not hesitate to roll out the usual austerity plans. The current lending boom takes place largely in a context of prescriptive continuity.

\textbf{Paradoxes of the New Variant}

What does the future hold for global political economy? The scale of change will largely depend on the pace and strength of recovery, around the world as well as in particular regions. A return to robust growth in the North—which at the time of this writing remains an unlikely scenario given the deepening European debt crisis, lackluster US economic performance, and the destruction in Japan—will possibly tilt the public response toward piecemeal, temporary fixes to structural problems of existing economic models and dampen the fledgling drive toward international collectivism held together by a sense of emergency. By contrast, a second dip in key economies or the absence of solid global recovery beyond 2012 may offer a new lease of life to the reform drive in the United States and Europe and rekindle the quest for policy coordination among major states through more thickly institutionalized modes of governance.

While predictions on these counts are difficult, the direction of change is clearer. Neoliberal globalization will prevail, but in modified form. Even under more pessimistic recovery scenarios, the notion and practice of a world economy organized around predominantly liberal market jurisdictions ever tightly interconnected by means of trade and capital flows are here to stay. The defeat of proposals for a global financial transactions tax, the delay in the im-
plementation of new bank capital rules, and the G-20's sustained opposition to protectionism from its first leaders' summit onward indicate that not even at the nadir of recession was there any realistic probability of wholesale retreat from this project. The crisis simply did not turn out to be cataclysmic enough to bring about a radical shift away from it.

Yet even under a highly optimistic scenario of universally robust recovery, modifications to the project are inevitable. The crisis painfully proved once and for all the fallacy of the simplistic late-twentieth-century variant of neoliberal globalization; namely, the ideal of a world profitably united behind the reign of self-regulating markets led by corporations headquartered in a handful of rich economies. That early variant, already a myth but one with major policy extensions, is now officially defunct. It is being replaced with a modified version that involves a heterodox liberalism and a multipolar globalism, putting states more firmly at the center in the process.

Thus, on the one side, there will be more extensive government intervention in normal times. While globalization has always been state driven, the coming decade should be expected to see new forms of public regulation and a heightened awareness of the social perils of integrated markets. National authorities, both domestically and through multilateral initiatives, will seek more sustainable forms of integration and stronger measures to protect their citizens. Yet this expanded role for the state is highly unlikely to translate into a radical extrication from neoliberalism. It remains difficult to imagine a global resurrection of historic instruments of Keynesian intervention with a return to open price controls, credit rationing, and extensive public ownership in manufacturing and service industries. The retreat from orthodoxy is more likely to stop at the point of "pragmatic neoliberalism" oriented toward market and social sustainability as advocated by the IFIs for well over a decade now.

On the other side, a larger number of states will be actively involved in deciding the rules for global markets. Not only the BRIC economies, but other emerging powers that are inching toward smaller G7 nations in economic size will also strive to preserve their newfound seats around the global bargaining table, with the possibility of significant reshuffling of existing alliance structures over specific issues. But just as the drive toward heterodoxy does not denote the wholesale repudiation of neoliberalism, the drive toward multipolarity should not be confused with a fallback from globalism. While open and implicit public interventions in currency markets and widespread imposition of capital controls by emerging market countries might at first appear as neomercantilist reactions, there are no real signs of a systemwide, calculated retreat from economic integration comparable to the new protectionism that had followed the recession of the 1970s. If anything, the crisis has triggered an explosion of bilateral and multilateral trade and investment agreements within the Global South as countries strive to diversify their export and import markets. Complex interdependence is now going truly global.
If this trend toward heterodoxy and multipolarity seems to be preferable to what existed before the crisis, consider also the potential paradoxes. One is about the development gap between nations. The crisis seems to expand the "policy space" available to developing country governments, which had shrunk considerably under the first incarnation of neoliberal globalism. Today, the scope for state intervention is extending considerably, and developing country representation in platforms of global governance is improving, which, in theory, should make future global rules more sensitive to their demands. However, the crisis also ends a period of growth optimism in the developing world. In the half-decade preceding the crisis, between 2003 and 2007, low- and middle-income countries grew at an astonishing average annual rate of 7.2 percent. And while emerging Asia led the pack, the surge in growth did not exclude regions traditionally marked by poor performance under globalization, with average annual rates approaching 5 percent in sub-Saharan Africa and 6 percent in Latin America and the Caribbean for the period—record figures for both regions since the 1970s. This was made possible by a buoyant world economy and resulted in respectable gains in human development, especially in poverty reduction.

The postcrisis context is unlikely to offer such a propitious environment for development. Already, there are signs of a prolonged period of "jobless recovery" in developing areas, putting further pressure on the vulnerable populations. Besides, addressing global trade imbalances bears significant potential costs for poorer nations; it might undermine their export capacity to key markets in the North while making Asian imports more expensive than before. Other risks involve a decline in aid flows due to fiscal bottlenecks in developed nations and, most crucially, the returning food price crisis attaining a chronic character to undermine decades of poverty alleviation efforts in some of the poorest nations. The question, then, is whether a modestly enhanced development policy space will be able to compensate for a less development-friendly world economic conjuncture. Ingenuity on the part of developing country leaders and citizens can help only so far. Few, if any, countries have the means to emulate the Chinese or Indian strategy. Preserving the developmental gains and recapturing the growth momentum of the 2000s will therefore require concerted international efforts to meet the different challenges of a new era. We need new strategies, and perhaps new modes of North-South and South-South cooperation. Unfortunately, development ranks far down the task list of the G-20, and the current international debate tends to revolve around variations of preexisting initiatives as illustrated in Seoul.

Another potential paradox concerns democracy. Attempts to reassert public authority over international financial markets, the voice and quota reforms under way in the World Bank and the IMF, and stronger representation of emerging powers through the G-20 process do promise improvements in accountability in global governance. But this is only half of the story. In the Global North, not only the crisis itself, but the subsequent policy measures
such as generous bank bailouts in the United States and UK and fiscal tightening in the EU also caused widespread discontent, eroding confidence in the ability of Western democratic institutions to protect the basic interests of their constituencies. An important outcome has been a growing disenchantment with globalization and the strengthening of nationalist and isolationist tendencies, most frequently expressed in anti-immigration sentiments in both the United States and the EU, at times with xenophobic undertones.

The consequences of the crisis for democracy in the Global South are more complex, and possibly more damaging. Certainly, the historic upheavals across the Middle East give hope to democrats everywhere, even though some countries in the region do risk unfavorable outcomes. But at a global scale, the fundamental question is whether leaders and citizens in developing countries will continue to perceive Western liberal democracy as the natural political counterpart of neoliberal globalization. The possibility of sluggish growth in the coming years is already an element of risk for democratic consolidations in developing regions. Yet the main challenge comes from geopolitical shifts. After three fruitful decades, the project of spreading Western democracy around the world is entering a subdued phase. The weakening of the democratizing ambitions of US foreign policy might be construed as a welcome change by many, but could the same be said for that of Europe? With the expansion of the EU largely in recess, and given the severity of the ailments afflicting the European model itself, the incentives for adopting European democratic norms and practices are at a low ebb in countries lying in the immediate vicinity of the Union, among them important experiments such as Turkey and Ukraine. A perhaps greater concern is the challenge posed by Russia, an illiberal democracy, and especially China, an outright autocracy. The continued rise of these powers, along with a few others with serious democratic imperfections scattered in Asia, Latin America, and the Middle East, creates knotty questions for democrats in other developing countries. It defies an almost 200-year-old belief in “market democracy,” in the organic interdependence between liberal state and capitalist enrichment. It provides niches of international recognition for countries with gross human rights violations such as Sudan and Iran. In time, it may also accelerate the ongoing shift away from broad institutions in IFI programs, with far less consideration in IMF and World Bank lending for issues such as the quality of governance, taking one more incentive off the table for borrowing countries to consolidate their democracies.

Although the emergent variant of neoliberal globalization so far offers little in the way of bridging the long-standing development and democracy gaps between nations, it is not altogether a bad place to start in dealing with some pressing global problems that emerged in more recent memory such as an international financial system capable of destabilizing even the strongest economies and, most crucially, mass production and consumption patterns that threaten the biosphere. Solutions to these problems are difficult, but more straightforward than eradicating poverty and oppression around the world. What is needed is tighter coopera-
tion among major nations, a promise currently embodied in the G-20. But such cooperation will prove improbable as long as it remains the sole prerogative of states driven by strategic interest, as evidenced in Copenhagen, Toronto, and Seoul. The move from hollow political compromises to truly transformative agendas requires stronger participation of other actors; namely, intergovernmental organizations, with greater autonomy and larger mandates, and international civil society groups, with expanded resources and coordination.

Notes
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6. Studies on the global rise of neoliberal policy norms variously emphasize the shifting preferences of economic and policy elites, the role of international financial institutions such as the International Monetary Fund and the World Bank, and the mechanisms of policy diffusion within the international system. See, for example, David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005); Ngaire Woods, *The Globalizers: The IMF, the World Bank, and Their Borrowers*
Ziya Öniş and Ali Burak Güven


