Global politics are domestic politics: How societal interests and ideas shape ad hoc groupings in the G20 which supersede international alliances

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Abstract
Since 2008, the leaders of industrialized and emerging economies engage in steering the global economy the G20. Divergent national positions were to be expected along the different stages of economic development and according to previously existing international groups. However, the actual controversies in the G20 did not reflect these patterns, but rather showed alignments of industrialized and emerging economies against other equally heterogeneous alignments. I argue that the driving forces for global economic governance have ceased to be Western coordination or US preponderance or developing countries’ alliances. Rather, the causes for the positions of G20 members can be found in economic interests and ideas dominant in the domestic politics of countries. These societal influences shape governmental preference formation in old as well as in newly industrializing countries and lead them to perform accordingly in global governance. The result are new ad hoc groupings which supersede previously existing groups such as the G7, the ‘developing countries G20’, and the BRICs as a new pattern in world politics. This argument will be tested with regard to the issues debated in the G20. The performance of this new steering committee for the world economy has largely been characterized by spontaneous groupings of countries which aligned according to whether financial market regulation, global imbalances, stimulus and public debt, exchange rates, and the reform of the IMF were the issue at stake.

1. Introduction
For the first time in history, industrialized and emerging economies are negotiating the governance of global finance in a common forum, the G20.¹ Prior to the first convening of the G20 leaders in 2008, subgroups of participating states were involved in standing groups as long-term alliances with a broad agenda, the industrialized states in the G7 and the emerging powers

¹ Members of the G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States, and the European Union.
in the ‘developing countries G20’ founded in Cancun 2003, the BRICs meetings (Brazil, Russia, Indian, China) and the IBSA forum (India, Brazil, South Africa) (Nel 2010). The G7 of old industrialized countries has tried to steer the world economy since 1975 with regard to trade, finance, exchange rate and currency issues as well as macroeconomic policies of its members. The ‘developing countries G20’ (Schirm 2010, 208-212) was founded as an alliance of developing and newly industrializing countries to counteract the dominance of industrialized countries (especially the US and Europe) in the WTO. The BRICs countries (Armijo 2007; Barbosa/Mendes 2010; Brawley 2007) were coined as a term by Goldman Sachs, but quickly assembled in joint meetings as a group articulating emerging powers’ desire to change the world order and to oppose the leading role of the industrialized powers. While the ‘developing countries G20’ has seen its coherence weaken since 2008, the BRICs leaders continue calling for reforms of the global economic system, for example for a more diversified currency system (Drezner 2009, 40). All of these groups of industrialized and developing countries have been vocal regarding their preferences on most global economic governance topics - ranging from economic stimulus over trade to finance - since their creation.

Thus, opposing alignments were to be expected in the G20 along the lines of previously existing groups as well as based on different levels of economic development, that is in the form of industrialized versus emerging countries. However, the G20 summits since 2008 were in fact shaped by a different pattern. Groupings formed in an ad hoc way according to the issue at stake. Industrialized countries aligned with emerging powers in changing constellations. For example, Brazil, Canada, and China opposed the French, German and US proposal for a banking levy which aimed at making banks contribute to a rescue fund for bail-outs in future crises. In another instance, Germany, the EU Commission and Brazil aligned in their criticism of US and Chinese exchange rate and monetary policy. Further, China, Japan and Germany saw themselves put in the same camp by US criticism of ‘global imbalances’ and forcefully opposed US demands for political intervention against trade surpluses. These examples demonstrate that convergence and divergence in the G20 did not follow the traditional alliances. Instead, they were superseded by the new groupings. This paper addresses the question of the driving forces of these new ad hoc groupings and attempts to explain the new convergences and divergences of national positions on global governance. I argue here that the heterogeneity of domestic economic interests and ideas as well as enhanced global economic multipolarity weakened the path-dependent cohesion of previous international groups, strengthened the impact of domestic
politics on international economic positions of governments, and led to issue-specific ad hoc groupings in the G20 process.

2. State of research: G20, emerging powers, and IR theory

This paper addresses three different sets of research. First, it focuses on the negotiations within the G20 since 2008, as the „new steering committee for the world economy“ (Hillman 2010), and of its most important members. Second, it refers to the literature on the integration of emerging powers into global economic governance, a system which was largely shaped by industrialized countries, especially the US, in the post-war decades. Third, the paper is theoretically embedded in the IR debate about the sources of governmental positions in international economic negotiations.

First, research on the G20 has largely focused on the legitimacy and efficiency of the new body (Drezner 2011, Woods 2010). With regard to legitimacy, the literature has emphasized the enhanced participation of countries and representation of world population in the G20, as compared to that in the previous steering committee for the world economy, the G7. Indeed, the countries of the G20 represent over 60% of world population and over 80% of world economic output (Nicolas/Lim 2010, 9). However, over 170 countries represented in the UN general assembly are not members of the G20 and several G20 member states (such as Saudi Arabia and China) are ruled by authoritarian regimes. Consequently, criticism has been voiced regarding the representativeness of the G20 as well as the democratic credentials of several of its members (ref). With regard to efficiency, the G20 were praised for having prevented more protectionism in reaction to the global economic crisis after 2008 (Fidler/Nicoll 2010, 92; ODI 2010), for improving mutual understanding on fundamental economic policy issues, and for having enabled a strengthening of international organizations as well as their rule making (Kirton/ Larionova/Savona 2010). The latter refers to G20 reaching understanding to substantially increase the resources of the IMF and to the reform of its voting shares and quotas to the benefit of emerging powers. The rapid agreement in the Basel Committee on enhanced banking standards, especially on capital requirements in the Basel III Accord, has also been prepared by the discussions of the G20 leaders. In addition, increased understanding has been reached in the G20 on issues such as on the need for fiscal stimulus to counteract the crisis on a national basis, on the necessity for expanded financial market regulation, and on the dangers of economic imbalances resulting from huge debt-driven importers (such as the US) and exporters controlling
their exchange rates (such as China). Since no binding decisions came out of these increased understandings on the G20 level, critics of the G20 have called it a „talking shop“ (The Economist, March 12, 2009), which has failed to fulfil its steering function due to divergent positions and groupings on most issues.

Second, research on the rise of emerging powers and on strategies of „the West“ towards this rise can be grouped in two camps. On the one hand, authors inspired by realism portray the rise of emerging powers, especially China, in terms of rivalry and consequently advocate a balancing or even containment strategy for „the West“. In addition to pointing at rising economic resources and the political assertiveness of emerging powers, these authors often make the argument, that emerging powers would not share fundamental „Western“ values and therefore ought to be kept outside of core global governance until they subscribe to these values (Patrick 2010, Castaneda 2010, Friedberg 2010, Hart/Jones 2010, Twining 2010). This argument has several flaws. It ignores the substantial differences in interests and values (as societal ideas/attitudes) within „the West“, that is, between the US and continental European countries, with the latter attributing the global financial crisis 2008 to the „Anglo-American“ economic model and to the culture of deficit-driven consumption in the US as articulated by French president Nicolas Sarkozy and the German finance minister Peer Steinbrück in 2008. In addition, the rivalry-argument also ignores that emerging powers like Brazil and India are stable democracies with a strong multilateralist record, which can hardly be characterized as dominated by fundamentally differing values. Also, the US itself has often proven less rather than more multilateralist (Irak 2002, ICC, Kyoto), and has often supported authoritarian regimes (e.g. Saudi Arabia, Egypt) on supposed national security grounds.

Counteracting the rivalry-argument, the other line of thought on rising powers stresses the virtues of engaging and embedding these states in global governance in order to make them even stronger stakeholders in a common set of rules governing the world economy (Barma/Ratner/Weber 2007; Drezner 2007; Ikenberry 2008; Hachigian/Sutphen 2008). According to these arguments, emerging powers are already performing as stakeholders since they are big trading nations within the WTO and shareholders in the IMF. In addition, emerging powers are closely connected to industrialized countries through foreign direct investment and the division of labour in production. For these reasons it is argued that emerging powers do have a huge stake in a stable and open world economy. Increasing their political participation in international fora, only acknowledges this role in an effort to further institutionalize common governance.
Third, with regard to IR theory, one line of research focuses on realist arguments of a zero-sum view of the distribution of power and of the need for balance of power strategies to counteract the rise of new powers. As mentioned earlier, this argument perceives the rise of China and other emerging powers as a threat and rivalry to be countered by US assertiveness e.g. on currency issues, values and trade policy. In this view, Europe should be brought to follow the US and share the burden of balancing emerging powers with a „Western“ position. Another argument inspired by realism focuses explicitly on the G20 as a tool used by industrialized countries to balance and control the emergence of new powers. Ngaire Woods has expressed this thought in an exemplary way: „I argue here that we may not be witnessing the dawn of a new era of multilateralism. It may well simply be the last gasp of an old-fashioned concert of great powers, embodied in the Group of Seven major industrialized countries and what some might see as their new consultation forum - the G20“ (Woods 2010a, 51). A second line of research has focused on institutionalist regime theory, emphasizing the dynamics of international organizations and the G20, on previously existing rules, path-dependent behaviour, institutional supply of regulation, and questions of legitimacy and efficiency as mentioned above (Beeson/Bell 2005; Eichengreen/Baldwin 2008; Kirton/Larionova/Savona 2010; Mattli/Woods 2009). Both the realist and the regime variant will not be followed in this paper since they do not seem promising as explanatory approaches for the questions at stake. Both realism and institutionalist regime theory cannot explain the different governmental positions which plausibly may lead to changing ad hoc groupings between different countries in the G20. While realist arguments cannot explain why industrialized countries sometimes align with emerging powers and sometimes not, regime theory cannot explain sufficiently the sources of diverging governmental positions due to its focus on the international level of analysis. In addition, realist balance of power arguments cannot explain G20 outcomes, because no clear balancing alliance of either industrialized or emerging countries was observed, and regime theory seems weak with regard to G20 outcomes because possible common rules which potentially may have shaped positions in a path-dependent way are still in the making.

3. Societal approach to preference formation on global governance
In addressing the question on the reasons for the changing ad hoc groupings in the G20 and the weakening of pre-existing alliances, I will follow a societal approach to governmental preference formation. The societal approach focuses on economic interests and ideas dominant
in domestic politics in order to explain the positions of governments in international relations, in this case in the G20. Following the societal approach, I argue in this paper that diverging societal interests and ideas dominant in domestic economic development crucially shaped the positions of governments in the G20, weakened the path-dependent cohesion of previous international groups in the G20 process (such as the G7, the trade-G20 and the BRICs meetings), and led to the formation of new ad hoc groupings in the G20. These ad hoc groupings in some instances took the form of intentional coalitions, and in others of involuntary camps which reflected issue-specific cohesion, neither conforming to previous groups nor to an antagonism between old industrialized versus newly industrializing countries.

The societal approach to be applied here was developed in previous research (Schirm 2002, 33-56; Schirm 2009) and resorts to the liberal theory of international relations (Frieden/Rogowski 1996; Katzenstein 1978; Moravcsik 1997; Putnam 1988). Its core claim is that the positions of governments towards global economic governance and their ability to compromise on multilateral agreements are strongly influenced by domestic ideas and interests. The argument is based on the assumption that governments in democratic political systems are responsive to societal demands, which can range from specific lobby group pressure to the attitudes of voters. Thus, governmental positions strongly express preferences originating from societal influences prior to international strategies and interstate negotiations. This implies, “that states do not automatically maximize fixed, homogeneous conceptions of security, sovereignty, or wealth per se, as realists and institutionalists tend to assume. Instead (…) they pursue particular interpretations and combinations of security, welfare, and sovereignty preferred by powerful domestic groups” (Moravcsik 1997, 519).

In order to understand the international behaviour of states it is thus necessary to first analyse the domestic sources of governmental preferences. For this purpose, I suggest two explanatory variables: domestic material interests and value-based ideas. The inclusion of both variables is based on the assumption that individual as well as governmental preferences can be influenced either by short-term material considerations or long-term ideas individually, or by a combination of both. Ideas and interests can compete with each other in influencing preferences, but different interests and different ideas can also compete amongst themselves.

Societal interests are defined here as material economic considerations of domestic groups which can change rapidly according to changing circumstances, that is, according to new benefits and costs induced by the global economy and (new) global governance. This definition
is based on analyses concerning the interaction of economic internationalization with domestic sectors and politics, for example, by Jeffry Frieden and Ronald Rogowski (1996) and Andrew Moravcsik (“commercial liberalism”, 1997). Frieden and Rogowski (1996, 35) argue that globalization, as “the exogenous easing of international exchange”, leads interest groups to pressure the government into establishing competitive conditions. Therefore, in this paper the suspected connection between interests and governmental preferences in the G20 focuses on the material impact of globalization and/or (new) global governance in form of (expected) changes in economic conditions.

Societal ideas relevant for preferences on global economic governance are defined here as path-dependent and value-based collective expectations on how politics should govern the market. Ideas can express themselves in societal attitudes and, in a codified form, in the political culture and institutions of a country. Like interests, ideas can change, but changes take longer than changes in interests due to the path-dependent character of ideas. The conception of the variable ideas is based on previous research (Schirm 2009) as well as on Moravcsik’s “ideational liberalism” (1997). In complementing Moravcsik’s approach, I differentiate between process ideas and content ideas. Ideas relating to political process are defined as expectations about the way decision making should be conducted, while ideas relating to the content of politics express what a society sees as a core task of the state in a given policy area. In the global economic governance realm, competing content ideas can be, for example, ‘trust in market forces’ versus ‘trust in governmental regulation’, ‘fiscal prudence/savings’ versus ‘debt driven consumption’.

Summing up, the following two hypotheses form the analytical approach and will guide the empirical research in the case studies: (1) If endogenous ideas and/or interests differ between states, then diverging governmental positions on global governance are to be expected despite a similar perception of the need for a better management of the world economy. It has to be analyzed empirically how far the preferences correspond to endogenously dominant, and in cross-country comparison, possibly diverging ideas and/or interests. (2) When interests are affected directly and distributive questions dominate, then interests will prevail over ideas in shaping governmental preferences, because lobbying will be strong. When interests are affected in a diffuse way and fundamental questions about the role of politics in governing the economy dominate the debate, then ideas will prevail over interests, because societal attitudes will be more relevant while interest groups do not have the motivation for intense lobbying.
The societal approach implies an empirical examination of the independent variable, this is, (1) the positions of domestic interests groups expressed for example in statements by business associations, and (2) societal ideas expressed for example in opinion polls, in order to explain the government’s position as dependent variable (see Schirm 2002 and 2009). However, since this paper addresses the question on the driving forces of G20 groupings, it has to cover several countries and focus on their international positions as well as their interaction in the G20. Therefore, this paper will resort to the literature and to previous research with regard to the evidence for the independent variable, this is, societal interests and ideas. The societal approach is seen as a complement to other approaches and the explanatory variables ideas and interests should neither be seen as deterministic, nor as exclusive. Other factors might, of course, also influence governmental preferences. The argument here is that the focus on international institutions, regimes, and power has to be complemented by examining ideas and interests within national societies as foundations for governmental preferences and thus as possible driving forces for the new ad hoc groupings in the G20.

4. Case studies of ad hoc groupings in the G20
The following cases were selected in order to represent the major issues debated within the G20 and to include proposals which impact different levels of policy making, thus affecting different domestic interest groups and/or ideas. While a banking levy concerns a specific interest group, regulating global imbalances would have macroeconomic implications on a broad scale, the IMF reform relates to national influence on international governance, and the proposals to regulate stimulus packages and public debt affect fiscal policies, domestic institutional settings and path-dependent policy patterns. With regard to the evidence, the case studies will be based (1) on quotes from responsible politicians (finance ministers and heads of government), (2) on analyses and reports from specialized media (e.g. Financial Times), and (3) on studies by researchers from think tanks and universities. Quotes from political decision-makers will be focused on those commentaries made by elected politicians because they are accountable to voters in elections and are therefore presumably responsive to interest groups and voters’ ideas, which would not necessarily be true for expert bureaucrats.

Since this paper cannot analyze all countries involved in the G20 process, two leading industrialized countries, the US and Germany, and two emerging powers, China and Brazil, were selected for systematic scrutiny in all case studies. These countries were among the key
players in the G20, are located in different continents, and possess different economic structures as well as different legacies with regard to their economic policies. As an authoritarian state, China is of course a difficult case for the societal approach. China is included in the analysis because it is a crucial actor in global economic governance and because China experts agree on the high responsiveness of its government to societal demands for economic growth and ever increasing inclusion of all segments of the population into economic development and wealth. In addition to the four countries under systematic scrutiny here, other countries will also be included in the analysis, if they were part of an ad hoc coalition and/or took leading roles in bringing forward or opposing proposals in the area of the case studies.

4.1. Financial market regulation: banking levy, Basel III, and financial transaction tax

A levy on banking was proposed by Germany, France and the US in 2010. With this levy, banks were supposed to pay into a rescue-fund, which would help bail-out banks in future financial crises. The intention was to precautionary bail-in banks in order to relieve taxpayers, who had to bear all the costs of rescuing banks in the crisis 2008/2009. This proposal was raised in the discussions leading up to the G20 summit in Toronto in 2010, but no agreement was reached. The proposition was opposed by an ad hoc grouping including the emerging powers Brazil, India and China (fearing inhibitions to their development) as well as the industrialized countries Australia, Japan, and Canada (whose banks did not suffer much under the crisis). These countries’ banking systems were already more regulated prior to the crisis and their banks had consequently not been as exposed to risky business models in the way that US banks were (Gnath/Schmucker 2010, 3). Therefore, the second grouping argued that a banking levy would constitute an unnecessary measure which would distort competitiveness. The opposing ad hoc groupings differed according to the domestic interests, and the regulation of their banking systems. Thus, the willingness of the pro-levy grouping to follow public demands to bail-in banks and override their banking lobbies was opposed by differed from the willingness of the governments of the less affected and more regulated countries to accept a levy on their banks. The ad hoc groupings on this issue superseded previous alliances such as the G7 and followed domestic economic interests and institutional governance settings.

A further element of financial market regulation was the agreement of the G20 members to commission the Financial Stability Board (now enlarged by emerging powers) with elaborating proposals for an early warning system. More important was the agreement of the
G20 members to mandate the Basel Committee on banking standards to elaborate an enhanced version of the Basel II Accord. The Basel Committee includes representatives of central banks (now also those of emerging economies) and national financial market supervisory authorities. These experts quickly agreed on the Basel III Accord in 2010 focussing on higher capital requirements for banks in order to make them less vulnerable in financial crises. As was to be expected, delegating tasks to expert institutions with narrowly focussed technical goals produced quicker and more consensual results, than was evident in tackling fundamental questions of macroeconomic policy making. The intense lobbying of the banking community succeeded in watering down the strength and the time schedule for the implementation of Basel III, but failed to prevent higher capital requirements (Woods 2010b, 11; Drezner 2011, 4).

A more contested element of financial market regulation was the proposal by France and Germany (and the IMF) to create a financial transactions/activities tax aimed at stabilizing global finance though a reduction of volatile short-term capital flows. This issue was debated in the context of the G20 since its inception in 2008, but encountered severe opposition from the US and the UK. Commercial banks in all industrialized countries strongly lobbied their governments - in the US as well as in Germany and France - against a tax which would reduce profits in one of their most profitable fields of business. The variation in governmental positions on this issue can be explained by the higher ideational acceptance of regulation and taxation in continental European societies as opposed to Anglo-American ideas (societal attitudes). In addition, the relevance of the financial service sector for the respective economies differed, since Wall Street and the City of London contribute more to their countries’ GNP and possess more political influence than do the financial services sectors in France and Germany (ref., Schirm 2011). In this case, the principal opponents in the two ad hoc groupings were old industrialized countries. The US continued to block a financial transactions tax at the G20 finance minister meeting in Paris in 2011, while France and Germany maintained their proposal. No G7 cohesion existed.

4.2. Stimulus and public debt
The first G20 leaders’ summit in November 2008 in Washington, DC agreed that countries should counteract the crisis with deficit spending through stimulus packages intended to boost domestic demand in order to cushion the post-crisis recession. This stimulus took different forms in the countries involved and ranged from increased government expenditures on
infrastructure over measures for tax relief (such as the reduction of VAT in the UK) to subsidies for the purchase of cars. While some countries, notably the liberal market economies of the USA and the UK, focussed on new spending or tax cuts that heavily and directly increased public debt, other countries, such as the coordinated market economy Germany, also boosted demand via automatic stabilizers through their welfare state and schemes to avoid layoffs by subsidizing wages. The US stimulus included a sharp increase in the amount of US Dollars on the market by the Federal Reserve, the so-called quantitative easing, QE. China and Brazil were not affected by the crisis to the same degree as the industrialized countries. However, both countries increased public spending, especially on infrastructure. On the balance for 2008-2010, the US had the largest stimulus package amounting to 4.8% of GDP, followed by Germany with 3.4%, Canada with 2.7%, Japan with 2.2 and the UK with 1.5% (IMF estimates taken from The Economist, March 12, 2009: 67). The number for the German stimulus includes the automatic stabilizers - an element not acknowledged by the US when criticizing Germany for not doing enough in stimulating their economy.

In the context of the G20, two ad hoc groupings emerged on the issue of stimulus packages and public debt. On the one hand, the US and the UK (during the Brown government) pursued a strategy of heavy deficit spending and demanded from other countries that they engage in stimulus to the same degree. White House economic advisor Larry Summers and the US treasury secretary Timothy Geithner argued that large economic stimulus packages should be continued globally until the effects of the crisis were overcome and requested „everyone in the G20 to focus on boosting global demand“ (The G20: Talking-shop-on Thames, The Economist, March 12, 2009). This US claim was upheld throughout 2010 at G20 meetings and was especially targeted at China, Germany and Japan (Gnath/Schmucker 2010, 3). US banks quickly regained their extraordinary profitability and part of the manufacturing industry (e.g. GM) also rebounded. However, since the US labor market in 2011 still has not recovered from the crisis until today (2011), the US government remains committed to the strategy of debt-fuelled stimulation, meanwhile focussing on quantitative easing (QE2). On the other hand, Germany as well as the Scandinavian countries, Poland, and increasingly Brazil and China strongly opposed US deficit spending and QE on two grounds. The sustainability of economic stimulation via deficit spending and printing money was disputed and the danger of inflationary pressures on prices was emphasized by this grouping. Already at the G20 finance minister meeting in summer 2009, the German minister Peer Steinbrück urged the US and the UK to
pursue an "exit strategy" with regard to loose monetary and fiscal policy (Handelsblatt, 16 June 2009) - a proposal strongly rejected by the US and by the UK chancellor of the exchequer Alisdair Darling (Hopkins 2009; Gnath/Schmucker 2010: 3; Schirm 2011). In the context of the G20, China expressed opposition towards the US deficit and QE, since China was especially worried about the stimulus through QE, since this policy reduces the value of the dollar and therefore also of Chinese holdings of US treasury bonds (valued around 900 billion USD) and of Chinese currency reserves in Dollars.

In sum, the two groupings encompassed old industrialized countries on both sides and emerging powers on one of the sides. Both groupings articulated their demands for further stimulus (US, UK) and for monetary and fiscal prudence (Germany, China etc.) in the context of G20 meetings of finance ministers and leader summits, thereby asking for other member countries to join their respective positions. (This endeavour failed, but the UK changed its course with the new Tory government and started saving in 2010 and the Obama administration began budget cuts in 2011, while continuing QE.)

This case study clearly shows that previous alliances, in this case the G7, did not play any role in shaping policies since industrialized countries found themselves in different ad hoc groupings. Explaining governmental positions in the case of stimulus and debt with the societal approach focuses on variation with regard to ideas because no specific interest groups were involved and because the interest of the general public in governmental spending can be held as a variable constant for all countries due to the diffuse benefits springing from loose fiscal and monetary policies. Societal ideas do explain the variation with regard to the old industrialized countries under scrutiny here, since fiscal prudence, high savings, and anti-inflationary policies are deeply rooted in societal attitudes in Germany, while debt-fuelled spending encounters a much higher acceptance in US and British societal attitudes (ref., Schirm 2011). This ideational difference can be substantiated with public opinion polls, as well as by path-dependent behavioural patterns, such as a much higher savings rate in Germany compared with the US and in the traditional focus on monetary stability by the Bundesbank (now enshrined in the EZB statute) as compared to the Fed Reserve.

This explanation of course does not hold for Brazil and China to the same path-dependent degree since Brazil only converted to anti-inflationary policies in the 1990s and the Chinese government, as an authoritarian regime, does not respond to societal demands in the same way democratically elected government do. However, Brazilian politicians have been
arguing in the G20 debates against loose monetary and fiscal policies for domestic reasons. While Brazilians do fear a return of inflation, the federal budget has followed a moderately loose fiscal pattern. But the domestic dimension most plausibly explaining the government’s position in the G20 is the economic interest of the recently very successful export sector, which fears decreasing competitiveness due to an appreciation of the Real as a consequence of the US dollar’s depreciation following from QE and governmental spending policies in the US. This fear has been clearly articulated by the export sector and by the Brazilian politicians present in the G20 meetings (see next section). The same arguments have been made by Chinese politicians at the G20, fearing for their largely export-driven growth rates which are considered as necessary for rising domestic consumption and thus for the regimes’ domestic support (Chin/Thakur 2010; Yang 2010). Given the emphasis Chinese politicians put on their need to satisfy domestic economic demands for growth and employment, and the widely shared view among China experts on the regime being dependent on high growth rates for its political survival, one can argue, that the Chinese government did act responsively to societal interests – although not in a democratic way. In sum, societal interests and ideas do contribute to the explanation of governmental positions and of the formation of ad hoc groupings in the G20, which superseded previous economic alliances.

4.3. Exchange rate policy
Exchange rates became a focal issue for the US in 2009/2010 in the context of the G20 and influenced its propositions and discourse. Basically, the Obama administration blamed China’s undervaluation of the renminbi for decisively contributing to the large trade deficit the US had with China and demanded an appreciation of the renminbi vis-a-vis the US Dollar (Geithner 2010). In the words of treasury secretary Geithner: „We believe it is very important to see more progress by the major emerging economies to more flexible, more market-oriented exchange rate systems“ (Geithner speech on global recovery, Financial Times October 6, 2010). Since direct pressure on China did not lead to the desired result, the US increasingly integrated the trade related „currency issue“ into the G20 debates (US shifts G20 currency focus to trade deficits, FT Nov 1, 2010). However, with the issuance of huge amounts of Dollars through quantitative easing (QE2 encompassed 600 Billion dollars), the US equally started to devalue its currency, although officials stressed that QE would primarily aim at stimulating the domestic economy. This devaluation of the Dollar and the persistent (and only slightly corrected)
The undervaluation of the renminbi led other G20 countries to worry about competitive devaluations between the two countries to the detriment of the exports of other countries, whose goods would be less competitive due to rising prices in US Dollar. The Brazilian finance minister Guido Mantega warned, that a „currency war“ was taking place which would impose costs on third countries by reducing their competitiveness and would destabilize the world economy (quoted from Fidler/Nicoll 2010, 95). He was joined by the German chancellor Angela Merkel who complained about „increasing distortions of exchange rates“ and warned that „in the end, everybody loses from competitive devaluations“ (Merkel 2010). The German finance minister Wolfgang Schäuble was quoted as saying „It’s inconsistent for Americans to accuse the Chinese of manipulating exchange rates and then to artificially depress the dollar exchange rate by printing money“ (The Economist, The ghost at the feast, Nov 12, 2010). The Wall Street Journal (Nov 13, 2010) quoted China’s Hu Jintao telling the G20 leaders at the Seoul summit in November 2010 that „nations that issue the world’s key reserve currencies should adopt responsible policies and keep exchange rates relatively stable“, with the WSJ commenting: „Mr. Hu didn’t name any countries, but comments are likely aimed at the US, which recently launched a second round of quantitative easing to boost the domestic economy“ (http://online.wsj.com). Yao Yang from Peking University comments in the Financial Times (Nov 9, 2010): „Taking advantage of the Dollar’s status as an international reserve currency, the US has decided to send its domestic problems to other countries, through aggressive devaluation“.

Summing up, the exchange rate and currency issue produced two ad hoc groupings. On the one side, the US found itself in the same camp with China as a country which devalues its currency through political means. On the other side, emerging economies such as Brazil were joined by old industrialized countries like Germany in demanding a halt to competitive devaluations in order to secure the stability of the world economy as well as to stop the distortion of competition through exchange rate manipulation. Domestic interests played a crucial role in defining these ad hoc groupings since China and the US both argued that their exchange rate/quantitative easing was aimed at securing domestic jobs and at pleasing the export lobby - in China’s case through boosting exports (Yang 2010) and in the US case in addition by increasing the price of imports: „The undervalued renminbi (...) makes it more difficult for goods and services produced by American workers to compete“ (Geithner 2010). In contrast, the warnings of successful exporters such as Brazil and Germany were grounded on the fear that undervalued Chinese and US currencies would harm the competitiveness of their
products on world markets and lead to worldwide inflationary pressure. Again, previous alliances such as the G7, the BRICs and the ‘developing countries G20’ were superseded, as domestic politics determined the shape of global economic governance disputes.

4.4. Global imbalances

The issue of „global imbalances“ was raised by the United States as a topic for the G20 in 2010 and played a dominant role at the summit in Seoul in November. Treasury secretary Geithner proposed at cap of 4 percent for a country’s current account surplus/deficit aiming at the large Chinese, German and Japanese export surpluses. He called for these to be reduced and domestic demand increased (Geithner 2010). The US proposal was opposed by these three countries, by Brazil, and by the oil and gas exporting countries, including Saudi Arabia and Russia. While China maintained that it needed the export surplus in order to continue its successful development strategy (specifically for reducing poverty and preventing unemployment), the German government made clear that its export surplus was the result of the competitiveness of its products since it was not manipulating its currency, the euro, nor subsidizing exports (finance minister Schäuble quoted in http://www.wallstreet-online.de/nachricht/3103933-vor-g20-treffen-schaeuble-gegen-export-vorgaben). At the same time, both countries’ governments pointed to the huge capital flows to the US - primarily from China, but also from Europe - which would help debt-driven consumption as well as public deficit spending in the US.

In the end, the Seoul summit did not follow the US proposition, but instead agreed on developing a range of indicators, which were formulated later at the G20 finance minister meeting in Paris in February 2011. They now encompass domestic private savings and borrowing, public debt and fiscal deficits, trade balance, and components of balance of payments such as net investment flows. China prevented exchange rates and currency reserves from entering into the list of indicators, but could be brought to agree with the inclusion of elements of the balance of payments through mediation of the French and German finance ministers Christine Lagarde and Wolfgang Schäuble (Atkins/Peel 2011). No specific numeric goals were set as indicators for imbalances. Thus, the US proposal was largely rejected, China compromised a little with regard to the balance of payment, and the US agreed to include indicators for its own imbalances, such as low savings, high borrowing and large public debt.

The discussion on global imbalances led to a split between the US on one hand and a heterogeneous grouping encompassing prominently China, Germany, Japan and to a lesser
degree others, such as Brazil and Australia, which opposed the proposal of having their exports restricted on the US government’s demand. Clearly, the sources for the respective governmental positions were to be found in domestic political interests. While the US concern was triggered by the US recovery lagging behind the economic development in other countries, China, Germany and Japan were - beyond all differences in economic policy making - defending their export sectors against outside intervention.

4.5. Reform of the IMF: Resources and Quotas

The reform of the governance and the programs of the International Monetary Fund has been debated since the 1990s. First, the economic rise of emerging economies led these countries to request an increase of their seats in the executive board, and of their voting and quota shares in the IMF, which was dominated by old industrialized countries. In addition, dissatisfaction with IMF conditions for its loans during the Asian financial crisis in 1997/98 and the Argentina crisis in 2001 led many emerging economies to build up huge currency reserves in order to obtain the ability to absorb shocks independently from the safety net of the IMF (The Economist, Beyond Bretton Woods 2, Nov 6, 2020: 85). Furthermore, the rapid increase of global financial flows in the last decade and the huge currency reserves (especially in China, but also in Brazil, India, and Russia) dwarfed the resources of the IMF and therefore reduced its relevance in global finance.

The financial crisis in 2008 brought the IMF back to the centre stage as a provider of emergency funds and highlighted the necessity for reform which has been negotiated in the G20 since the first leaders’ summit in Washington, DC. G20 members quickly came to the agreement to increase the Funds’ resources by 750 Billion USD, to ease conditionality for some of its lending programmes, and to shift quotas in favour of emerging economies. The latter remained a contentious issue since emerging economies were dissatisfied with the relatively small shift agreed upon at the G20 summit in 2009. While the US and European member countries in principle agreed that emerging powers were to obtain a higher share of votes and quotas, the European side could not agree on a shift towards emerging powers with regard to the seats in executive board of the IMF. In 2010, the United States used a procedural tool to force European IMF members to give up two seats in the executive board in favour of emerging powers. The executive board’s original 20 seats had been temporarily increased to 24 in previous decisions and this temporary agreement had to be renewed in November 2010, if the number of seats was to be continued at 24. If the number of seats would have been automatically reduced to the
original 20, European members would have lost several of their 8 seats. Since structural decisions in the IMF – such as the extension of the number of seats - need 85% of all votes and the US possess 17%, European member states ceded to the US threat. At the same time, European members were not able to realize their reform proposal to reduce the threshold for structural decisions to 75%, „so that in future we can do without a blocking minority for a single country“ (German finance minister Schäuble quoted in Beattie 2020). Thus, the US kept its veto, several European member states gave up a percentage of their voting share, and two smaller European member states will give up their seats in the executive board (which ones still has to be decided upon by European states). Emerging economies gained 6% of voting shares, China obtained the third largest quota (6%), Brazil and Russia now belong to the 10 member states with the highest shares and quotas. Despite these changes, emerging economies remain unsatisfied with the IMF reform and view the quota and voting shift as not large enough, many programmes as not revised enough, and the IMF overall still as an instrument of the US (Woods 2010).

In addition to the reform of the governance of the IMF, the easing of some of its programmes, and the enlargement of its resources, the reserve currency issue was debated in the context of the G20. Before the London G20 summit in 2009, China’s Central Bank governor had proposed creating a new currency based on a transformation of the IMF’s Special Drawing Rights (SDR), gaining immediate support by Russia and the United Nations (Xinbo 2010, 157; Chin/Thakur 2010, 127). The idea of transforming SDR into a full blown reserve currency was later endorsed in principle by France and Germany, with the aim of making currency reserves and world trade more independent from the Dollar and thus from US economic and monetary policy in order to increase the stability of the global economy (Carmichael 2011). The US rejected this proposal fearing for the supremacy of the Dollar to be weakened by a transformed SDR (ref.).

The case study on the IMF reform resembles the other cases in that it was also shaped by ad hoc groupings, this time with the US acting in accord with emerging powers’ demands against its long-standing European G7 allies. However, the IMF case also differs somewhat from explanations in the other cases. While the ad hoc grouping supporting the SDR proposal can be traced back to domestic interests (of exporters and the general public fearing inflationary pressures from Dollar devaluation) in its goal to reach greater independence from US policy making, the IMF governance reform diverges from other cases in important respects since no
clear connection between governmental positions and societal interests or ideas could be identified. European member states and the US both advocated a reform of IMF programmes, an increase of its resources, and a shift in voting shares and quotas in favour of emerging powers. But they differed on the number of seats in the board and on the US veto. It is difficult to explain this pattern with the societal approach, though elements of neo-realist power politics could plausibly explain the US and emerging powers’ behaviour. However, since European members were willing to cede shares and quotas, power politics also falls short of explaining this case. The most plausible explanation for European positions lies in the logic of the IMF as an international institution, since a strengthening of IMF efficiency (more resources) and acceptability (power shift to emerging economies) strengthens its functions and therefore promotes the institutional goals underwritten by member states, while a prolongation of the US veto endangers both. Thus, as a very preliminary finding, the path-dependent logic of international institutions plausibly comes to bear on governmental positions, when domestic interests and ideas are not involved or articulated.

5. Conclusions
The case studies on the most important issues discussed in the G20 since 2008 support the argument set out in the hypothesis: societal interests and ideas dominant in domestic economic development crucially shaped the positions of governments in the G20, weakened the path-dependent cohesion of previous international groups (G7, developing countries G20, and BRICs), and led to new ad hoc groupings. These ad hoc groupings sometimes took the form of intentional coalitions, sometimes of involuntary camps which reflected issue-specific cohesion and did neither conform to previous groups nor to an antagonism between old industrialized countries versus emerging economies.

The opposing ad hoc groupings on financial regulation had their positions shaped by domestic interest groups and national institutional settings (bank levy) as well as societal ideas which prevailed over interest group lobbying in France and Germany (financial transaction tax). The groupings on stimulus and public debt were divided along societal ideas and their respective institutionalisation on fiscal restraint versus loose monetary policies and debt fuelled consumption. The opposing camps on exchange rates and global imbalances reflected societal interest groups (largely export sector versus import sector). The antagonism on the
transformation of SDRs can be traced back to economic interests against and in favour of the global predominance of the greenback.

While the case studies underline the explanatory power of the societal approach in analysing the reasons for governmental positions in the G20, several cases point to the relevance of national institutions as important influences. In addition, the Basel III case and especially the IMF governance reform indicated that the path-dependent logic of international institutional efficiency and legitimacy plays a role, when domestic interest and/or ideas are weak or absent on the issue at stake. With regard to the relationship between societal ideas and societal interests, the cases support the hypotheses brought forward by the societal approach: material interests prevailed in shaping governmental positions, when specific and large interest groups were affected directly by the issue at stake (banking levy, exchange rate, imbalances), while ideas dominated, when the domestic implications of the policy involved were general and diffuse (stimulus and debt).

The case studies clearly evidence the observation made at the beginning of the paper that the former international groups – the G7, the developing countries’ G20, and the BRICs - were superseded by ad hoc groupings which generally combined old industrialized countries with emerging economies on both sides. Since the causes for issue-specific cohesion in the antagonistic groupings can be traced back to domestic politics, the cases also show that often neither industrialized countries nor emerging economies shared the same or compatible interests and/or ideas. As a consequence, neither emerging powers nor industrialized countries could build a community of interests and/or ideas in international relations. The industrialized countries show a clear split between the US on the one side, and continental European countries on the other in most cases, while emerging economies, in contrast, often did share positions on many of the issues analyzed here. This finding bodes well for truly multipolar international relations, which are shaped by issue-specific cohesion, multiple potential coalition-partners, and the absence of a hegemon. The United States was not successful in any of its leadership attempts except the IMF governance reform.

The findings in the case studies also confirm the argument that the debate on how and whether to embed emerging powers in global governance largely misses the point, since emerging powers already have integrated substantially in global governance and are pursuing their interests and ideas with the same clout as old industrialized countries. Given this integration of emerging powers in global governance and the divergences between old
industrialized countries on many issues, a ‘balancing’ of emerging powers is neither necessary nor viable. The G20 ad hoc groupings may well constitute a new pattern of multipolarity, whose flexibility is not a sign of instability of the international system, but rather of matching interests and/or ideas of different countries which are open to issue-specific, ad hoc coordination. For this purpose, an institutionalization of the G20 in form of a global economic council, functioning as a facilitator for shared understanding and mediation for governmental positions shaped by diverging domestic interests and ideas seems plausible.

6. References

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