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Introduction to *Guiding Global Order: G8 Governance in the Twenty First Century*

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1 Introduction

By John J. Kirton, Joseph P. Daniels, and Andreas Freytag

The June 1999 G7 and G8 Summit in Cologne, Germany, marked the end of the first quarter century of the operation of this unique international institution. Far more importantly, it set the stage for the much more ambitious and effective form of global governance that the G7/8 system is called upon to provide to meet the heightened challenges that the twenty-first century brings. The Cologne Summit's outline of a blueprint for reforming the international financial system pointed to a much more transparent, domestically intrusive, internationally inclusive, and effective regime for governing global finance in an era of intense globalisation. The Summit's landmark achievement -the Cologne Debt Initiative -marked a significant step forward in an II-year effort to relieve the debts of the world's poorest countries. In doing so, it highlighted the additional obstacles these countries face if they are to integrate into the global economy in a way that secures sustainable and widely shared growth. The Cologne Summit's decisive role in successfully ending the war to liberate Kosovo and in mobilising the reconstruction effort to secure a genuine, multiethnic democracy foreshadowed the new demands faced by G8 members and others for major military and humanitarian intervention efforts on a global scale and for rebuilding domestic societies and polities to accord with evolving global norms. And in several other fields, from multilateral trade to education and the environment, the Cologne Summit set the direction for the major international regime-building exercises that shape global order today.

Beneath these individual achievements there lies a more profound change in the intellectual core and legitimate processes for shaping and managing global order in the coming era. What might be called the new 'Cologne consensus' marked the end of an unchallenged two-decade-long agreement on neoliberal principles as a guide to global and international governance and a shift toward a more socially sensitive and inclusive approach to globalisation. Whether this is a real and enduring change -and, if so, whether it is one for good or for bad -is the subject of analysis and debate in the policy world, among scholars, and in this book. Moreover, as affirmed by the presence of many thousands of citizens who came to Cologne to call for the relief of the debt of the poorest, the 1999 Cologne Summit marked a major escalation of the demand for the more effective influence and direct inclusion of civil society in the emerging centres of global governance. Furthermore, the creation of the new G20, and subsequent calls by the 1999 G8 chair Gerhard Schroeder and the 2000 chair, Japanese prime minister Keizo Obuchi, for China to participate in the G8 Summit demonstrated a broadening effort to expand the G7/8's inclusiveness and representativeness, and thus the legitimacy of the global order it guided.

These historic achievements at Cologne, as carried forward to and through the July 2000 Okinawa G7/8 Summit, point to a future that will by no means unfold inevitably or easily. Indeed, the task of constructing a stronger, more modem, more socially sensitive international financial system remains a slow, complex, cumbersome and still highly contested project. The post-Cologne difficulties in constructing a tolerant civil society in Kosovo, in maintaining respect for human rights in Russia amidst the ongoing conflict in Chechnya, in including China in the network of G7/8 governance, and in launching a new Millennium Round of multilateral trade negotiations clearly demonstrate how much of a struggle it will be to insert new principles and processes into well-entrenched patterns of governance. The depth and difficulty of the challenge have been dramatically highlighted by the disruptions from civil society actors to the long-established procedures of global governance at the November/December 1999 ministerial meeting of the World Trade Organization (WTO) in Seattle and subsequent gatherings in 2000 of the United Nations Conference on Trade and Development (UNCTAD) in Bangkok, the World Economic Forum in Davos, and the International Monetary Fund (IMF), World Bank, and G7 finance ministers in Washington and Prague. The accomplishments of Cologne must thus be evaluated and built upon in response to this formidable set of voices, and their challenge to the longstanding essentials of neoliberal orthodoxy and state sovereignty. The challenge is to create a more inclusive, legitimate, and socially safeguarded consensus at the core of the emerging global order.

The Approach

Guiding Global Order addresses this ongoing struggle to define a new socially safeguarded and more legitimate and inclusive global order for the twenty-first century. It can be taken for granted that this goal is shared by most citizens, politicians, and analysts, whether they are economists or political scientists and regardless of what epistemic, professional, or national community they come from. There are, however, very different opinions about the best or even possible way to achieve this goal. This book adds to the existing literature and debate over this 'best way', since two general opposing views of the Cologne consensus have flourished, and are represented at the core of this work.

Political scientists generally welcome this change because they see the large and beneficial potential of both nation-states and global governance to improve the social situation of the people via co-operative political action. Moreover, they are sceptical about whether the market will solve the distribution problem properly. In other words, they see a contradiction between neoliberal economic policy and social cohesion. The empirical evidence thus far cannot allow one to reject this view entirely.

In contrast, economists are generally more optimistic. They tend to argue that the open markets and nondiscrimination brought by globalisation will add to social cohesion. To start with, they would question the view that there have been two decades of unchallenged agreement on neoliberal principles. As for liberal policy, much of it seems to be lip service from politicians, rather than the practical realisation of liberalism in economic policy. In addition, economists, in particular those trained in political economy, have less trust of governments than political scientists.

These two opposing views, collected in one book examining the current challenges of G8 and global governance, can be very useful for both groups. Although they deal with the same topic and agree on the same eventual goal, political and economic scholars often do not understand each other. This makes it awkward for satisfactory discourse and thus difficult for an analytic consensus to emerge that is relevant to policy. The debate on global governance can greatly improve if people better understand each other's analyses and priorities. There is much to be learned. It is to be hoped that *Guiding Global Order* will contribute to this learning process, and thus in a small way fulfil the commitment contained in the Cologne Summit's charter on life-long learning. This dialectical approach does have its shortcomings, however. The most obvious is that many pure political scientists or economists might be offended by the other discipline's contributions. Nevertheless, costs remain the exception rather than the rule.

Beginning with the Cologne Summit of June 1999, the book explores the extent to which the emerging global order at the beginning of the twenty-first century is, should be, and can be marked by a major shift toward a new consensus that gives widely shared prosperity, social and environmental safeguards, and greater inclusiveness and representation an equal place with raw growth, market liberalisation, and managerial efficiency. To do so, it considers the changes taking place across a broad spectrum of the major issues dealt with by the G7/8 at the Cologne Summit and on the road to and through the Kyushu-Okinawa Summit of July 2000. This spectrum ranges from the high politics of winning the war in Kosovo to the low politics of international macroeconomic policy co-ordination and debt relief. Moreover, *Guiding Global Order* looks outward at the expansion of the G7/8 system through the advent of new international institutions such as the G20, through a closer association with the emerging major power of China, and with the centre of supranational governance in the European Union (EU).

In each case, this work conducts several tasks. First, it examines the steps forward made at Cologne and the extent to which they represent major changes in new and innovative directions, as opposed to marginal advances or reversions to an older *status quo.* Second, it explores the underlying causes of the new directions set by Cologne and on this basis offers judgements as to their future course and cadence. Third, it critically assesses the quality of those major decisions and subsequent directions to determine if the Cologne consensus will be effective in accomplishing its ambitious targets or if more radical reform is required. Fourth, it judges how adequate these evolving new principles and processes in global governance will be in addressing the challenges brought by the rapidly changing world of the twenty-first century and what new paths and policies are still required in response.

The point of departure for these explorations is an analysis of the work of the G7/8 system itself and its activity at Cologne and beyond. But its central concern is the much larger and more fundamental issue of global order itself. The book thus deals with the work of the G7/8 at the 1999 Cologne Summit, the group's subsequent activity, and the broader challenges of guiding global order that have become clear as the twenty-first century opens. It examines the major economic, transnational relations, and political-security issues that were fundamental not only to the Cologne Summit of 1999 but also to the Kyushu-Okinawa ministerial and leaders meeting in July 2000. But the examination extends to the other international institutions and processes that have grown out of the G7/8 and expands further to consider the role of the G7/8 in the wider context of global order at this historic moment.

To conduct this examination, *Guiding Global Order* combines the talents of authors from several disciplines: economics, political science, and management studies. It brings together the work of professional scholars and those who serve as practitioners in central policy-making institutions. It embraces the perspective of those located in several of the G8 members' countries and regions. Yet, this book has a particular emphasis. Many of its authors come from Europe and Germany, and include some of the leading authorities in their fields. Many are writing, often in critical fashion, on the G7/8 and its issues for the first time. This work thus offers the contribution of a new generation of European scholarship on the G7/8, and one that will be particularly timely, given the G8's return to Europe in the year 2001.

This work uses three major analytic tools from the disciplines of economics and political science. First, it draws on the insights of game theoretic and rational expectations and public space approaches in economics to assess the sustainability, effectiveness, and wisdom of the approaches pursued at Cologne to pressing policy problems. Second, it employs the various strands of international regime theory to consider whether changes in formal principles extend into norms, rules, decision-making procedures, and the actors' conceptions of their interests and identities. Here the work focuses substantively on whether the departures from the prevailing neoliberal orthodoxy evident at Cologne mark a return to an earlier 1945-like consensus of embedded liberalism or a move into a new, durable, and effective normative system more appropriate to the needs of a rapidly globalising world. Third, the work enters and extends the ongoing scholarly debate on the causes and consequences of G7/8 governance, by exploring the relevance of the existing causal models in the new conditions of the twenty-first century, and the way the G7/8 system relates to other, competing forms of global governance (Kirton and Daniels 1999).

The Analyses

'Part I: The Core Economic Issues' deals with the economic questions that have been central to the *GTs* operation during its first quarter century and that remain vital in the globalised economy of the twenty-first century. These issues of macroeconomic policy co-ordination, monetary policy, and finance, and the systems that govern them, and of multilateral trade and its international institutional galaxy, have acquired a new prominence and complexity in this much more tightly integrated world. They have also drawn the G7/8 and other international institutions ever more deeply into the task of domestic governance.

This examination of the core economic issues begins, in Chapter 2, with Andreas Freytag's 'Internal Macroeconomic Policies and International Governance'. This chapter builds on the work of those who explore the politics of macroeconomic co-ordination (Dixit 1996, Iverson 1999). It takes up the question of where and when international policy co-ordination is appropriate and what the proper role of the G7/8 is in this process. Noting the difference between those scholars who express great faith in the effectiveness of the G7/8 as an instrument of comprehensive policy co-ordination and those who prefer a stable rules-based alternative to discretionary crisis response management, Freytag considers in turn the concept of state sovereignty, international policy co-ordination in commercial policy, and the resulting lessons for macroeconomic policy, and takes the specific domain of monetary policy as a critical example. He concludes with suggestions about how to incorporate the G8 process more effectively into the resulting model of improved policy co-ordination.

Freytag's central conclusion is that international co-operation can be very useful in disciplining governments that might be tempted to pursue destabilising macroeconomic policies or that have actually done so. While governments are naturally reluctant to surrender sovereignty to international institutions, in practice they have limited sovereignty in the face of rent-seeking behaviour by domestic actors and can thus usefully look abroad for ways to install a longer term perspective and recapture their domestically lost sovereignty. In the field of international commercial or trade policy, international co-operation can protect citizens against their own governments by offering a set of internationally agreed rules that should be entrenched in the domestic constitution. Similarly, in the field of macroeconomic policy, domestic political pressures tend to produce bad policies, such as inflation, that can only be broken with a credible commitment grounded in an international agreement, especially if it is again entrenched domestically. In the field of monetary policy, an application of both adaptive expectations and rational expectations theory suggests that inflation is a domestic problem caused by government failure where a credible commitment made internationally and constitutionally enshrined domestically would be useful, even in the absence of significant international inflationary spillovers in the real economy. The G7/8 can play the useful role of lowering inflation among outside countries by offering a monetary policy framework that is binding among them and open for voluntary adoption by those countries, and that is again domestically established within the constitutions of all.

In Chapter 3, 'Challenges for the Global Financial System', Juergen B. Donges and Peter Tillmann begin with what they see as the major outstanding challenge to the world economy and the G7/8 -securing financial stability amidst the continuing lack of knowledge about the causes and consequences of the crises that imperil it. They ask: With such crises spreading globally and threatening so much and so many, where should economic policy intervene to contain and counter them, and what role should national governments and international organisations play? In answering these questions, they offer an overview of the major tasks, including inflation control and central bank independence, that summiteers will face at future G8 meetings (Laubach and Posen 1997). They provide some guidelines for dealing with these central issues on the agenda of international finance.

In offering these guidelines, Donges and Tillmann counter the emerging conventional wisdom among politicians that globalisation weakens national governments and thus demands stronger, more interventionist forms of global governance. They argue, rather, that globalisation puts pressure on national governments to shape an efficient and sustainable policy mix that brings credibility in international capital markets. This task begins by adopting a concept of 'good governance' that has at its core a monetary policy aimed at price stability, prudent fiscal, debt and wage policy, an exchange-rate regime that does not eliminate risk for investors or require high interest rates to maintain, and transparency in the banking sector, with precautions to prevent moral hazard. These precepts remain relevant for combating financial crises like those of the 1990s, which will happen from time to time, but which now feature much greater global contagion and short-term thinking. The proper response is for the G7/8 to craft a strengthened international financial system that features much greater transparency and accountability, more efficient banking regulation, and a limited role for the IMF. This role should focus on catalysing private-sector restructuring packages in the face of financial crises and refusing to serve as a lender of last resort. The perennial proposals that financial crises raise as solutions—a Tobin tax on international capital flows and a target-zone regime for exchange rates -should be firmly rejected. Especially because globalisation is such a profound and irreversible process, it is national, and not international authorities, with a consistent, stability-oriented economic policy at home, who are central to securing a stronger international financial system. G8 Summits should certainly discuss such subjects, but decide to instruct national governments, within and without, to get on with this job.

In Chapter 4, George M. von Furstenberg discusses 'U.S. Dollarization: A Second-Best Form of Regional Currency Consolidation'. This analysis is important to the international community and the future role of the G7/8 for two reasons. Most broadly, it may be that the future international order will be shaped more by regionalisation and regional governance arrangements rather than globalisation and direct global governance (for background see Cohen 1998, Strange 1998, and Kirshner 1995). How North America and the Western Hemisphere react to the lead set by the EU will determine whether such a process is marked by conflict or the compatibility and co-operation that will make global convergence ultimately possible. More specifically, as Chapter 10 explores further, especially if the Western Hemisphere, following the lead of Euroland, should adopt a single currency, the G7 may give way in the monetary and even macroeconomic field to a G3 that could affect the prospects for successful G7 co-ordination, and the relevance of Britain, Canada, and Russia in the club.

To provide background to this looming challenge, von Furstenberg traces the history of dollarization, first inside the United States to the 1973 completion of full national dollarization, and then externally, where many countries during the 1990s in Europe, in transition economies, and in Latin America moved to adopt or use the Deutschmark, Euro, and then U.S. dollar as their own. Identifying the reasons behind the disappearing small brands of money, von Furstenberg examines the alternatives small countries face, focussing on unilateral monetary union and a multilateral alternative. He then considers the case for rnultilateralism, and the recent moves of the U.S. government to make dollarization more attractive to outside countries.

The bold conclusion is that the free international movement of capital, free trade, and e-trade in financial services make regional currency consolidation inevitable. The trend is already in evidence, with consequential groups in many countries of the Americas voicing support for some form of formal dollarization. Yet, von Furstenberg concludes that while complete dollarization may be useful for the immediate future, it is second best in the short run and unsustainable in the long run in the Western Hemisphere. Unilateral dollarization requires paying a very high financial tribute to the United States, a price that many will find onerous once they have reaped the short-term advantages of securing monetary stability and low inflation through unilateral dollarization. They will then reclaim co-ownership and collective management of their monetary assets by forming a multilateral union with like-minded countries, as many states in Europe have done with the creation of the Euro.

In Chapter 5, 'Looking Askance at Global Governance,' Razeen Sally addresses the growing view that global problems require global solutions and that it is thus global governance replete with sustainable development and social democracy, rather than national governance grounded in neoliberal fundamentals that is now required. He first examines the wisdom from the classic economic theorists of the past three centuries, followed by a review of the quite different forms of global governance embedded in and offered by the IMF and World Bank, the United Nations socioeconomic agencies and UNCTAD, the Organisation for Economic Co-operation and Development (OECD), the WTO, and the G8. He then considers the future of global governance, indeed, whether it will have, and should have, a future at all.

Sally argues that the current conventional wisdom about global governance in general and the concrete form of international economic policy co-ordination in most international fora, including the G7/8 Summits, must be subjected to scrutiny. Such close criticism reveals that most arguments for global governance are based on bad economics and even worse political economy. He asserts that most post-1945 international policy co-ordination has increased the discretionary political power and discretionary spending of governments, and thus government failure in the international system. Soft policy co-ordination focused on deliberation, policy surveillance, and hard research, and strict and simple international rules that limit the power of national governments playa useful role. On the whole, however, national governance rather than global governance has diminished in neither importance nor effectiveness since 1945. It should remain the first and last foundation for international economic policy action in the future.

'Part II: The Broad Agenda' addresses the transnational and high, hardsecurity issues that have become ever more central to the G8. These are subjects on which the G8 has made some of its most path-setting advances since meeting at Cologne. These include debt relief for the world's poorest countries, a process pioneered by the G7 during the previous 11 years, and the protection of the global ecosystem, where countries of Europe have often been in the lead within the G8. It also includes the defining issue of the Cologne Summit -the process of bringing peace and reconstruction to the Balkans and Kosovo, and the role played by the G8, other forms of concert governance, regional institutions such as the EU, and multilateral institutions in this task.

The exploration of the broad agenda begins in Chapter 6 with Barbara Dluhosch's examination of 'The G7 and the Debt of the Poorest'. Noting the vast debt accumulated by the world's Least of the Less Developed Countries (LLDCs), she starts by examining the Highly Indebted Poor Countries (RIPC) initiative launched in 1996, its record in actually relieving debt through to 1996, and the effort of the G8 at the Cologne Summit to put a much-enhanced debt relief package into place. She then explores how much of a real burden the debt actually represents for Less Developed Countries (LDCs) and takes a searching look at whether debt relief is the right remedy for the problem. She concludes by considering the G8's contribution to debt relief and sustainable development and the alternative instruments of trade and aid that it has available to accomplish its objectives.

Dluhosch notes that there are considerable doubts about whether the strategy of debt relief affirmed and enhanced at the Cologne Summit constitutes an effective remedy. She suggests that trade, rather than this form of aid, might be a better cure, for trade does not contain the principal-agent problem embedded in the debt-relief approach. The 1996 HIPC initiative, launched in response to the growing debt burden of the LDCs, had by 1999 lessened the debt of only seven of the identified 41 countries, leading the G8 at Cologne to authorise a much deeper and broader HIPC program. Yet, while at first glance this debt burden looms large, it must be considered against factors such as the long time frame for its repayment, its heavy concentration in principal rather than interest, the growth and inflation in the recipient economies, the way the initial loans have been allocated, the willingness of recipient governments to reform, and the stable and low share of short-term debt to total debt. In such a situation, neither the efficiency-enhancing argument, in its four dominant variants, nor the distributive rationales for debt relief are compelling. Rather, the key interest of the G8 lies in catalysing rapid and sustained growth in the LDCs. Here the key instruments are a greater opening to international trade on the part of the LDCs themselves and a co-ordinated effort in trade liberalisation, particularly in such sensitive areas as agriculture, on the part of the G8.

Christoph Schwegmann's Chapter 7 is titled 'Modem Concert Diplomacy: The Contact Group and the G7/8 in Crisis Management'. Schwegmann examines the concept of modem concert diplomacy and the impact of such diplomacy in recent regional crisis management. He contrasts the concept of modem concert diplomacy with other concepts of multilateral co-operation, especially international regimes and international organisations. He then assesses the role played by modem concert diplomacy in contemporary international relations by conducting a critical case study of great power diplomacy in Bosnia-Herzegovina and Kosovo within the framework of the Contact Group and the G7/8. On this basis, the chapter enriches the current understanding of the Contact Group's and the G8's role in ending the hostilities among the ethnic parties and in shaping the post-war order in Bosnia and Kosovo. It concludes by providing an outlook on future tasks and roles of concert diplomacy in general and in particular of the G7/8 in the management of violent international crises.

Schwegmann argues that concerts are institutions that rely on few informal rules and that serve mainly to co-ordinate policy. In this sense, concerts differ from international regimes and organisations explicitly established for a rule-guided management of international relations. His two critical cases confirm that the G7/8 and the Contact Group are both based on the same underlying logic, and demonstrate the use and effectiveness of modem concert diplomacy for high-security crisis management. Both were lightly institutionalised arenas for policy co-ordination among an exclusive group of powerful states that aimed to act as lead nations in the international community of states. Their reference to international principles, rules, and norms gave their efforts legitimacy in the eyes of outside states, while within the concert, the participation of the EU gave lesser states a substantive role. While both concerts were born of crisis, the willingness of their great-power founders to transfer subsequent activities to established international organisations shows how concerts reinforce the existing institutionalised order rather than replace it. In future crises, great-power management under a GS flag rather than Contact Group flag would offer greater apparent legitimacy and place a regional crisis into a broader global context. But it would also give the unwanted impression that the GS feels responsible for crisis management all over the world in ways that meet neither the GS's capacities nor its intentions.

In Chapter 8, Klemens Fischer takes up the question of globalism and regionalism from a European perspective by examining 'The G7/8 and the European Union'. For the purpose of analysing the complex relationship between the two institutions, he first compares international organisations such as the GS to supranational organisations such as the ED. After a short overview of the structure of the EU, which is of particular interest for American and other non-European readers, Fischer investigates its relations with the GS. His focus is on those countries that are members of both organisations. For this purpose, he first analyses the role Germany played during its EU presidency and as host of both the European and the GS summits. He concludes that Germany was a perfect host and honest broker. He then proceeds by comparing the outcome of both summits. His focus is on two policy fields treated by both the EU and by the GS: environmental policy and trade policy.

Fischer finds that whereas the EU goes further in the field of environmental policy than does the GS, it is the opposite for trade policy. The GS tries to foster multilateral integration in particular by considering the least developed countries; the EU is careful in this respect. This result is not unexpected, given that the EU must struggle with structural change once the negotiation results of the Uruguay Round are translated into action. These differences, however, do not indicate that members of both the EU and the GS are contradicting themselves, because the EU is much more responsible for economic policy than the GS. Thus within the GS politicians are able to formulate long-term objectives without being immediately bound to them. This is not the case within the ED. Fischer concludes that membership in both international institutions poses no problem for European countries.

'Part III: New Directions in Global Governance' examines the evolution of global governance at the dawn of the twenty-first century, by looking at several central developments that are being generated by, or are affecting, the work of the G7/8. The first is the expansion of the *GTs* work on reforming the international financial system to a greater level of inclusiveness. This will be achieved through the creation, at Cologne, of a new G20 that embraces many of the world's consequential middle powers and emerging economies, and more broadly through the potential expansion of the G8 itself, with the recent call for and movement toward a closer, institutionalised association with China. The second is the advent of supranational governance on a regional basis, with the advent of the Euro in the EU and its impact on the process of G7 monetary and macroeconomic policy co-ordination. The third is the impact on actors, notably the way the G7 and bodies such as the OECD in the area of corporate governance, are affecting the work of international business with ever more directness and detail. The fourth is the much larger issue of whether the current course and cadence of globalisation and the global governance that guides it is sustainable.

These analyses commence with John J. Kirton's Chapter 9, 'The G20: Representativeness, Effectiveness, and Leadership in Global Governance'. Here Kirton examines the sudden and widespread moves at the end of the 1990s to expand the G 7 through the creation of new forums for the governance of international finance. His focus is on the G20, the most important of these new fora and the one that some see as having the potential to supersede the G7 itself. He begins with a review of existing analyses of the fledgling G20 and explores the logical international institutional 'trilemma' of representativeness, effectiveness, and leadership that the G20 faces. He then examines the emergence of the New Arrangements to Borrow (NAB), the G22, the Financial Stability Forum (FSF), the Cologne Summit 'GX,' and the

G20 itself. He proceeds to analyse the G20 during its initial year in operation, from the G20 deputies meeting in November 1999 through the December 1999 Berlin ministerial, the March 2000 deputies review session, the Washington IMF World Bank, G7, and the IMP's International Monetary and Financial Committee (IMFC) meetings in April 2000, and planning for the October 2000 G20 Montreal ministerial. Kirton finally looks ahead to the future of the G20 and draws conclusions about its importance and role.

Kirton argues that the G20 is likely to become an effective and legitimate source of leadership, but only if its founding custodians give it the authority of leaders themselves and the full breadth, novelty, and ambition of the agenda that leaders demand. In any event, the G20 will remain important as a way of reinforcing the leadership and legitimacy of the G7/8 by ensuring that the latter's initiatives are understood and accepted by a broader group of consequential countries, and by ensuring that the G7/8 operates with richer sensitivity to the perspectives of the wider international community. The G20, more than its leading new institutional competitor—the IMFC—has the characteristics that will enable it to emerge as the key centre of legitimisation, sensitisation, and timely, well-targeted action and leadership in the emerging international system. Moreover, its current custodians show signs of forwarding the vision required to endow the G20 with the political authority and the broad, innovative, and ambitious agenda required to render it effective as a leading centre of global governance.

In Chapter 10, Martin J. G. Theuringer deals with 'International Macroeconomic Policy Co-operation in the Era of the Euro'. This chapter analyses how the introduction of the Euro and the third stage of the European Monetary Union (EMU) will affect the G7 process of macroeconomic policy co-operation, as seen through a German lens. Some argue that the EMU will make it even more difficult to reach explicit agreements within the G7 framework than before and that the European Central Bank (ECB) will have fewer incentives to participate in policy co-ordination than the Bundesbank did. Theuringer dismisses the arguments given by the European Commission in favour of more policy co-ordination. Following his analysis, G7 policy co-operation in the future will remain focused on exchange-rate targeting.

However, in contrast to widespread fears in Germany, Theuringer concludes that the European Commission's Ecofin Council will not be able to misuse the G7 to undermine the independence of the ECB via exchange-rate policy through Article 109(2) of the Maastricht Treaty. His argument is based on political economy considerations: the Ecofin Council has to act unanimously; its exchange-rate policy must consider the objective of price stability; and it is generally assumed that potential exchange-rate co-ordination will be rather loose, as with the Louvre accord.

In Chapter 11, 'The G7/8 and China: Toward a Closer Association', John J. Kirton begins with the call by Germany and Japan, the 1999 and 2000 G8 hosts, to include China in the annual G8 Summit. He examines in turn the scholarly and analytic debate over how far, by what formula, and on what logical foundation China should be associated with the G7/8, the changing attitude of G7/8leaders to China from 1975 to the 1999, China's assistance in combating the 1997-99 global financial crisis and constructing a new international financial system, and China's role as an associate of the G7 in the new G22, G20, and FSF. He concludes by specifying how the G7IS should best move to associate with China in the near term.

Kirton argues that the existing debate among those who see China as an object, associate, or actual member of the G7/8 is tilting in favour of China's position as an associate, given the change in attitude of the G7 IS toward China from 1975 to 1999. China's responsible position in the 1997-99 financial crisis, its approach to international financial system reform in ways that co-incide with the position of some G7 members on some core issues, and its contribution to the G22, G20, and FSF warrant a move toward association with the G7/8 itself at the leaders level. The proper move, Kirton concludes, is to invite China's leader to join G8 leaders for a pre-Summit dinner dialogue.

In Chapter 12, Donald J. S. Brean examines 'Corporate Governance: International Perspectives'. He discusses the important question, just coming on to the agenda of the OECD and the G7, of whether globalisation has consequences for corporate governance, particularly as the growing number of mergers leads to an increase in multinational enterprises. This issue of corporate governance is one of increasingly direct and growing importance for the G7/8. For the past 15 years, the G7/8 has examined microeconomic matters with ever more attention and ever more detail, to the point where it has come to address the behaviour of large multinational firms themselves. The entire process of democratic and market transformation in Russia has come to depend importantly on inculcating a stable rule of law for companies, and fostering a corporate culture that gives investors and other stakeholders confidence that rational market-oriented behaviour is replacing the gangster capitalism of old. Similarly, as the analysis in Chapter 11 in this volume confirms, the global financial crisis of 1997-99 and the ensuing G7-led effort to create global codes of good conduct to govern the behaviour of financial institutions and other corporations in developing and emerging economies has brought the issue of corporate governance to centre stage (Kaiser, Kirton, and Daniels 2000). And the newer emphasis, from Cologne through Okinawa, on transparency and accountability, on combating money laundering and tax evasion, on having corporate behaviour promote the new priorities of human security, and on setting the rules to shape the information technology revolution has made corporate governance of core concern to the GS over a broad policy terrain. The issue is growing beyond the consensus-oriented analysis of experts in the OECD into one requiring the political attention of G7 and GS leaders themselves. Indeed, the global community is fast moving into an era where the G7/8 may emerge not only as an effective global centre of domestic governance but of corporate governance as well.

Given that both the culture of corporate control and the legal framework differs within multinationals and within the countries where they are based, there is a high probability of potential conflict among G8 countries over the issue of corporate governance. Brean first shows that poor corporate governance has serious consequences for the whole economy. In a second step, he distinguishes two different systems of corporate control, the market or outsider model versus the institutional or insider model. Brean concludes that the outsider model is superior to the insider model. He predicts that in future mergers the outsider model will increasingly dominate as the relevant model. However, as the empirical evidence proves, it is clear that an international merger is a very difficult undertaking with respect to corporate governance.

Although Chapter 12 refers to the process of global governance only indirectly, it gives rise to a very interesting comparison. If it is true that globalisation will lead to a widespread use of the outsider or market model of corporate control, a conclusion that seems very plausible, it may also be the case that globalisation will lead to an increase in the use of markets as a device for global governance. This would show that the relevant question in economic policy is not whether we need a neoliberal or a socially sensitive economic policy model but how to make a market-oriented economic system more socially sensitive.

In Chapter 13, 'Creating Sustainable Global Governance', Pierre Marc Johnson shows that the global agenda does not end with transnational corporations' behaviour, trade policy, and the financial architecture. Instead, other policy areas such as environmental and development policy as well as human rights are of vital interest. In particular, Johnson is convinced that these policies need to be treated through integrated international co-operation. In other words, he aims at a comprehensive strategy to meet all the objectives, partly by accepting their links among one another. Thus, he argues that, for example, trade and the environment cannot be treated separately. In addition to international organisations, civil society should participate in the relevant decision making.

By advocating a comprehensive agenda for global governance, Johnson favours harmonisation in a variety of policy areas, such as environmental standards. He also argues that the developing world should be equipped with more financial and technological resources to cope with the new -obviously high -environmental standards. Although not explicitly stated, he takes a long-run perspective. This chapter shows one way to a world with higher distributional justice, sustainable growth and democratic participation.

Part IV of the book, containing Chapter 14, offers a conclusion that integrates these chapters and the judgements they make in regard to the four central tasks identified at the outset of this introduction. Chapter 14 thus offers an overall assessment from the chapter contributors and the editors' own judgements of the degree, direction, and durability of the contribution made by the G7/8 at and after the Cologne Summit to new principles and processes of global governance, and how appropriate these are to the challenges faced by the international community at the outset of the twenty-first century. The concluding chapter also relates the legacy of Cologne to the agenda, process, and path to and through the Japanese-hosted Kyushu-Okinawa Summit in July 2000, in order to better assess the depth and sustainability of the new Cologne consensus.

The book ends with four appendices. The first is a statement by Helmut Schieber, president of the Land Central Bank in Baden-Württemberg and a member of the board of the Deutsche Bundesbank from 1992 to 2000, given at the Citizens Forum on the eve of the Cologne Summit, on 'New Challenges for the International Monetary System' . In his brief analysis, he notes several recent trends in the global economy -the growth of monetary aggregates, monetary turnover, financial integration, and financial volatility, which is much faster than the growth of the real economy. He argues that the resulting global systemic risks lend urgency to the task of creating resilient financial institutions, through such measures as international co-operation among prudential supervisors through the new FSF. There is a further need to adjust the current approach to capital account liberalisation and strengthen the role of the International Financial Institutions (IFIs) in crisis prevention and resolution. Their emphasis on promoting transparency and disclosure can do much to prevent crises, while a shift in emphasis from massive injections of financial aid to a catalytic role in organising private-sector participation is the key to successful crisis resolution.

The remaining three appendices contain several official documents of the Cologne Summit. These will allow the reader to check some of the judgements offered in this book, and explore other aspects of the changes initiated at Cologne.

Conclusions

As outlined in detail in the concluding chapter, the analyses contained in this volume offer a diverse and multidimensional array of views on the central questions of guiding global governance at the outset of the twenty-first century. The book thus demonstrates the quite different points of departure and perspectives on global order and the G8's role in it between currently mainstream economists and scholars of management studies on the one hand and political scientists and scholars of law on the other. It reveals similar differences between analysts based in North America and those in Europe, and between established analysts of the G7/8 and a new generation of younger scholars taking up this subject for the first time.

Yet amidst these vigorous disagreements, it enriches the scholarly and policy debate in several ways. It provides detailed, innovative, empirically, and analytically grounded treatments that demonstrates the G7/8's very real accomplishments and impact in guiding global order. These accomplishments range from the realm of macroeconomic policy co-ordination, a subject that remains at the heart of the G7/8's work and promise, to the most fundamental issues of war and peace. This book is often sharply critical of the direction the G7/8 has set at Cologne. It thus features a lively debate between those endorsing the shift to a socially sensitive, safeguarded, and thus sustainable, more inclusive approach, and those challenging the credibility and wisdom of the new direction.

Above all, the analyses in this book reveal a considerable underlying faith in the role of the G7/8 as the central institutional system for guiding global order in the new era. They do so both directly, by explicit endorsement of the new directions set and new decisions taken at Cologne and, indirectly, by offering a multitude of recommendations about the new path the G7/8 system, broadly defined, is taking and should take in substantive policy and institutional process, in the coming years. In doing so they have advanced a scholarly and policy debate that contains one of the central analytical challenges of our times, and one on which the contributions of a widening circles of analysts and citizens are needed.

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