

# **Germany and the G20<sup>1</sup>**

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Being both a G8 and a G20 founding member, Germany has embraced multi-lateral engagement in formal as well as informal forums of global governance right from the beginning. The country pursues a consistent strategy of international coordination in its own interest. Thus, Germany has, at an early stage, engaged in an intensified integration of the emerging economies in the institutional structures of international governance. In a current position of economic strength and in close ties with the emerging markets—especially in Asia—Germany is an explicit supporter of economic cooperation and global free trade. Moreover, it is trying to advance the global dialogue among the G20 with a normative agenda on questions beyond economic recovery and financial regulation.

## **1. The National Context: Exiting the Crisis—Germany's Economic Model Put to Test**

Overall, Germany has fared well during and after the global financial and economic crisis. A quick and strong V-shaped recovery allowed the country to return to growth as strong as before the time of its reunification: 3.6 percent situated Germany best both within the EU and among the G7 in 2010. A growth rate of about 3 percent is expected for 2011. As global trade revitalised, it was especially the economic recovery in the emerging markets which allowed an outstandingly quick return to the export-led growth path of the country (German exports to China alone grew about 44 percent in 2010<sup>2</sup>). This is positively reflected on the German job market as well—one of the points of major concern for German politics in the last years: the average number of unemployed people in 2011 is expected to remain under the margin of 3 million and the quota to stay around 7 percent – the lowest percentage since Germany's reunification. The German budget deficit is—compared to the massive public debt challenges within the Eurozone and in other OECD countries—of a more limited scope: the overall fiscal deficit for 2011 is estimated to be under 2 percent of GDP and would fulfil the Maastricht stability criteria of the Euro. Public debt in Germany was up to 66 percent of GDP before the

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<sup>1</sup> The editorial deadline for the article was September 2011.

<sup>2</sup> Cf. German Asia-Pacific Business Association (2010): *China ist größter außereuropäischer Handelspartner Deutschlands*, <http://www.oav.de/aktuell/meldungen/meldung/a/3506/tbpid/19/> (accessed 5 May 2011).

crisis; in 2010 it reached 83.2 percent of GDP and is expected to fall under 75 percent again from 2015 onwards.<sup>3</sup> Of course, open questions in this respect remain with the upcoming consequences of the current Eurozone debt crisis.

Certainly, there has been major regulative mismanagement in Germany—clearly demonstrated by the massive engagement of public banks in structured products on the international financial markets. But overall, the measures taken during and after the crisis have been guided by a thoughtful steering of economic policy, considered as a successful strategy so far—and inspired by the stability-focused approach which the concept of the Social Market Economy as Germany's economic and societal model stands for. The basic idea of a strong, state-led framework guaranteeing the activities of a competitive market has been proven right during the time of crisis. Beyond the strong belief in the effective distributional mechanisms of the market system, the model provides the opportunities for targeted public interventions in this same market in order to assure economic progress in times of challenges as faced during the recession after the crisis. The expansionary monetary and fiscal policies pursued at that time were ascribed to this logic. But with a defined end: an austerity plan was agreed on in 2010, foreseeing public budget consolidations in the volume of 80 billion Euros from 2011 until 2014. And it was already in 2009 that Germany decided to introduce a general debt limit, elevated to constitutional status, according to which new structural debts will be limited to 0.35 percent of GDP from 2016 onwards. A limited economic stimulus and a short-work program for qualified workers, reducing their number of hours to avoid layoffs, with the government covering parts of their salaries, compensated the losses. Important reforms on the German job market from 2003 onwards, extending flexibility and tightening unemployment and social compensations, also provided a good basis for the current development. In addition, an effective and responsible dialogue of the management and trade unions—focused on safeguarding jobs, wage restraint and overall flexibility—assured the quick return to economic growth. This growth is to a large extent based on the performance of the *Mittelstand*, the huge number of—often family-owned and internationally active—small and medium-sized manufacturing firms in Germany. Overall, this economic development is primarily rooted in a strong internationalised economic structure and contributes to Germany's commitment to international cooperation and coordination.

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<sup>3</sup> Cf. Bernhard Gräf et al. (2011): *Ausblick 2011: Deutsches Wachstum weiter robust*, DB Research Aktuelle Themen 505, [http://www.dbresearch.de/PROD/DBR\\_INTERNET\\_DE-PROD/PROD000000000268282/Ausblick+2011%3A+Deutsches+Wachstum+weiter+robust.pdf](http://www.dbresearch.de/PROD/DBR_INTERNET_DE-PROD/PROD000000000268282/Ausblick+2011%3A+Deutsches+Wachstum+weiter+robust.pdf) (accessed 9 May 2011).

## 2. Enhancing Multilateral Cooperation: Germany Engaging in Global Governance

Germany has shown, ever since the end of World War II, a distinct reluctance concerning a strong assertion of its national self-interest. The country is deeply committed to globally coordinated solutions for global challenges. This goes, among others, for international financial regulation and stabilisation, the question of climate change, poverty reduction and international security. Thus, Germany has been a traditional proponent of cooperative multilateralism and supporter of governance through international institutions. As one of the world's major economic powers, it benefits from a stable political and economic global environment.

It was in the wake of the 1997 Asian financial crisis that Germany initiated, during the 1999 German G7 presidency under Chancellor Gerhard Schröder, the launch of the G20 as a new forum on "key economic and financial policy issues among systemically significant economies".<sup>4</sup> Global financial stability and reform of the global financial architecture should be achieved by a close dialogue between the finance ministers as well as central bank governors of the 19 member states as well as the EU. The forum achieved good and concrete results—which nevertheless could not prevent the emergence of the global financial crisis from 2008 onwards. The G20 had been in place as a significant platform of North-South informal dialogue, when in winter 2008 it was elevated to a new level of importance in coordinating the economic policies of the major developed and emerging markets: the G20 was constituted in a new summit format of heads of state and government to face the global financial crisis. The near collapse of the financial markets resulted in a considerably strengthened willingness for international cooperation. This was demonstrated in the G20's performance at the peak of the crisis. The pragmatic approach stemmed from the acknowledgement of two facts: emerging economies had to be integrated in the deliberations and actions of immediate crisis response and existing institutions did not provide the necessary structures due to a stalemate in reform, having been in place for years.

Prior to these crisis-driven developments, Germany had already tried to include major emerging economies in an intensified dialogue within the framework of the traditional forums of global coordination. It was under the German G8 presidency in 2007 that Chancellor Angela Merkel launched the Heiligendamm Process as a 2-year structured outreach dialogue between the G8 and the G5-countries, Brazil, Mexico, South Africa, India and China. Topics discussed were development, with a special focus on Africa, promotion of cross-border investment to mutual benefit, and promotion of research and innovation, including intellectual property rights and energy, with special

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<sup>4</sup> Cf. G20: *About G-20*, [http://www.g20.org/about\\_what\\_is\\_g20.aspx](http://www.g20.org/about_what_is_g20.aspx) (accessed 5 May 2011).

focus on energy efficiency. Japan and Italy continued the engagement during their following G8 presidencies. The objective was twofold: Germany had acknowledged the role of the rising powers and the need to include them in the relevant informal forums as well as to strengthen their role in the formal international organisations in order to advance the agenda of global cooperation favoured by Germany.<sup>5</sup> Thus, the promotion of exchange and trust among the crucial actors was the purpose of this informal dialogue. Germany's motivation for the initiative had been “[...] driven by a combination of leadership qualities and national interests of a middle power with civilian characteristics.”<sup>6</sup> Furthermore, Germany was strongly opposed to enlarging the G8 to a G13 or other discussed formats. By installing the Heiligendamm Process, Chancellor Merkel had a strategic tool to—at least in the medium term—avoid the enlargement discussion while approaching the potential group members in a specific dialogue mode. The rejection of an enlargement of the G8 group is closely linked to Germany's normative approach in global governance.<sup>7</sup>

### **3. Facing the Challenge of Shared Responsibilities: Normative goals in the International Agenda**

The German G8 presidency in 2007 was themed “Growth and Responsibility”. This headline puts the logic of the German policy with respect to global governance in context: the acceptance of the growth-led shift of world power in favour of the emerging markets and the necessity to adapt Western-biased institutions and forums to this development. But at the same time a clear demand on the emerging powers to assume their share of a global responsibility in meeting common challenges—beyond economic power and national self-interest. It is an approach putting common norms and shared values at its basis. These characteristics also lie at the centre of the G8 as a group of like-minded countries who are supposed to be anchored in liberal democracy and market economy. Opening this club—which already faced strong criticism in integrating Russia in 1997—to a country like China would definitely turn down its normative reputation.<sup>8</sup> Germany's distinct appreciation of the G8 and its value

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<sup>5</sup> Cf. Angela Merkel (2007): *Rede der Bundeskanzlerin beim World Economic Forum 2007*, Regierung Online, <http://www.bundesregierung.de/Content/DE/Archiv16/Rede/2007/01/2007-01-24-rede-bkin-davos.html> (accessed 9 May 2011).

<sup>6</sup> Cf. Thomas Fues and Julia Leininger (2008): *Germany and the Heiligendamm Process*, in: Andrew Cooper and Agata Antkiewicz (eds.): *Emerging Powers in Global Governance: Lessons from the Heiligendamm Process*, Waterloo: Wilfrid Laurier University Press, p. 246.

<sup>7</sup> Cf. *ibid*, p. 238.

<sup>8</sup> Cf. Marc F. Plattner (2011): *From the G-8 to the G-20*, in: *Journal of Democracy* Volume 22 No. 1, January 2011, p. 34.

as a grouping is still valid despite its acceptance of the outstanding role the G20 has taken over as a global forum since 2008.

Germany also tried to advance the normative position when the G20 took centre stage as the premier forum for global policy coordination. A “Global Charter for Sustainable Economic Activity” as a commitment embracing core values of responsible economic progress should be developed—going beyond the focus of re-entering the GDP growth path. An international declaration was supposed to be developed, bringing about a framework encompassing free market activities, but nevertheless guaranteeing a stable, socially just and sustainable development of the world economy. Economic freedom, responsibility and liability should be brought into a distinct relation, forging a global consensus.<sup>9</sup> The idea of the Charter was an ambitious endeavour which proved difficult in concrete negotiations, especially with the major emerging economies. The top-down approach was finally abandoned. Nevertheless, the agreement on a set of “Core Values for Sustainable Economic Activity”, included in the annex of the G20 Pittsburgh Summit Declaration of 2009, was a great success.<sup>10</sup> A bottom-up approach has been pursued since then, trying to introduce the goals of the “Global Charter for Sustainable Economic Activity” into the different topical sectors negotiated during the following G20 summits. It is in this context that Germany intends to continue its engagement in following a normative agenda beyond economic growth also within the G20—as the forum brings together players of systemic significance for a variety of issues of global coordination.

In the face of rising consensus challenges in the G20 due to reduced crisis pressure, the G8, assumed to be outlived, might regain new importance. It was the core agenda of this forum to promote democracy, individual liberty and social advance.<sup>11</sup> The soft power of the G8 member states in this respect remains considerable—even in times of G20 summits. The G8 could take the chance to come back to its original focus and purpose. After a history of over 35 years of informal meetings in a grouping of very limited size, confidence and trust among the summit participants still play an important role for its attractiveness among the members. G8 summits prior to 2008 had, in the end, been heavily burdened by mass public demonstrations and protest against the overall agenda of the forum. Today, media focus and public interest have shifted away from the G8 to the G20—a chance for the smaller grouping to

<sup>9</sup> Cf. Jan Peter Balkenende and Angela Merkel (2009): *Die Chance jetzt ergreifen*, Frankfurter Allgemeine Zeitung 17.3.2009, <http://www.faz.net/artikel/C31147/f-a-z-gastbeitrag-die-chance-jetzt-ergreifen-30063978.html> (accessed 9 May 2011).

<sup>10</sup> Cf. G20 (2009): *Leader's Statement – The Pittsburgh Summit*, [http://www.g20.org/Documents/pittsburgh\\_summit\\_leaders\\_statement\\_250909.pdf](http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf) (accessed 5 May 2011).

<sup>11</sup> Cf. G7 (1975): *Declaration of Rambouillet*, 17 November 1975, <http://www.g8.utoronto.ca/summit/1975rambouillet/communique.html> (accessed 9 May 2011).

come back to consensus finding on core shared principles and actions, taking place in an atmosphere of trustful and open discussion on the level of heads of state and government. Nevertheless, the G8 finds itself confronted with a new pressing point on its agenda: the majority of the G8 members face major fiscal policy and public debt challenges which will have to be corrected in the near future. This brings about a new aspect of output legitimacy to the G8. A common solution to this challenge as well as common policies of the G8 members to face it have to be found within a short time span. In the past, the G8 became significant mainly for four important functions: as an agenda setter and for raising central issues to the level of the heads of state and government; as a forerunner, to obtain a specific attitude from non-members; as a “pioneer” for certain problem-solving tasks that can then be brought into other existing formats and institutions; and finally, as a forum in which the assembled nations can provide capacity for resource mobilisation and fund concrete projects.<sup>12</sup> In this spirit the G8 is likely to be continued as a summit format, but has to define its role and agenda in times of overall G20 focus.<sup>13</sup> Explaining the future relation of G8 and G20, Chancellor Merkel described the G20 as the “overarching roof”<sup>14</sup> for a multitude of global coordination and cooperation formats—being of formal or informal character.

Informal club governance has continuously increased during the last decade. A multitude of dialogue formats and forums has been established with varying member configurations. They all aim at problem solving beyond the capacities of nation states—and this is relevant for a growing number of topics. Membership and continuation of the groupings follow the subjects and specific questions that are at stake.<sup>15</sup> For Germany, the possibilities of international coordination through informal club governance groupings play an ever important role due to the blockade of reform in the traditional institutions which forged global governance in the past 60 years. In particular, the UN system in institutional and the WTO in procedural questions would need an urgent reform consensus among their member states. It is Germany’s hope to facilitate pending reforms by using the different G-formats in order to proceed in the adaptation of the international organisations to today’s necessities and circumstances. The successful IMF quota reform prior to the G20 summit in Seoul

<sup>12</sup> Cf. Ulrich Schneckener (2009): *Globales Regieren durch Clubs. Definition, Chancen und Grenzen von Club Governance*, SWP-Aktuell 47 (2009), p. 2.

<sup>13</sup> Cf. Lars Brozus (2011): *Eine neue Rolle für die G8*, SWP Kurz gesagt, 24.05.2011, <http://www.swp-berlin.org/de/kurz-gesagt/kuenftige-rolle-der-g8.html> (accessed 9 May 2011).

<sup>14</sup> Cf. Press and Information Office of the German Federal Government (2009): *L’Aquila: G8 auf dem Weg zu G20*, 10 July 2009, <http://www.bundesregierung.de/Content/DE/Artikel/2009/G8/2009-08-10-formate.html> (accessed 5 May 2011).

<sup>15</sup> Cf. Susanna Vogt (2010): *A progressive idea of style awaiting its embodiment: Global Governance between G8 and G20*, in: KAS Auslandsinformationen Volume 5 2010, p.10.

2010 in fact underlined this negotiation potential.<sup>16</sup> In particular Germany's striving in vain for a permanent seat in the UN Security Council gives ever more emphasis to the importance of the club governance participation of the country. This implies a strong openness for a variety of club configurations—as Chancellor Merkel puts it: "I think that a globalising world should have many different formats. This summit [Russian-French-German Summit 2010] is very useful as a format. We were not bored in the slightest and had plenty of subjects for discussion. There are other interesting formats too, the Weimar triangle, for example, between France, Germany and Poland, and plenty of other opportunities for meetings at which we can discuss various issues and work out new approaches in a calm and informal setting."<sup>17</sup>

#### 4. Outlook

Germany's engagement in international economic policy has always followed three principles: a structural emphasis on multilateralism, an institutional aim to strengthen international organisations and a normative commitment to the principles of the Social Market Economy.<sup>18</sup> It remains an important goal of German international cooperation to find a value consensus with the major global players in order to achieve commonly defined goals of global governance. Meanwhile, there is a strong awareness that the global South will continuously be challenging the Western dominance in international structural policies—be it in organisational or normative terms. For Germany, this challenge is closely linked to the question of how the relation of state, economy and society will be defined in the countries of global influence, as this determines major aspects of the economic and political system the respective country is willing to promote on the international scene. Of course, German foreign policy is giving a strong commitment to the promotion of the values of liberal democracy and market economy.

Today, economic differences between emerging powers and developed countries are reduced at high speed. The political and societal challenges brought up by this development cannot yet be clearly foreseen. They bring about new questions for international cooperation and the guidelines this

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<sup>16</sup> Cf. Katharina Gnath and Claudia Schmucker (2010): *The Summit in Seoul – After agreeing on IMF reform, the G20 faces further important decisions*, DGAP Analyse Kompakt, November 2010, [http://www.dgap.org/wp-content/uploads/2010/11/English\\_Version.pdf](http://www.dgap.org/wp-content/uploads/2010/11/English_Version.pdf) (accessed 9 May 2011).

<sup>17</sup> Angela Merkel (2010): *Joint news conference following Russian-French-German talks*, transcript <http://eng.kremlin.ru/transcripts/1168> (accessed 9 May 2011).

<sup>18</sup> Cf. Stormy-Annika Mildner (2008): *The role of the G20: The G20 has offered a useful informal forum for dialogue but it is no substitute for a reformed G8*, in: John Kirton and Madeline Koch (eds.): *G20: Growth, Innovation, Inclusion: The G20 at ten*, London: Newsdesk, p. 104.

cooperation is to follow: “[...] The global future of democracy will inevitably be shaped to a large degree by the newly rising economic powers. [...] The big question for the future is what role these countries will play in the global order: Will their international behaviour be motivated purely by national advantage and by the common interests that they share with fellow developing countries, or will they also pursue foreign-policy goals that reflect the democratic character of their regimes?”<sup>19</sup> The questions and challenges lying behind this decisive global development have not been answered yet.

The speed, extent, and consequences of the global financial crisis have caused rapid and important adaptations in global governance. The relationship between the various G-formats and the cooperation mechanisms that will exist between them are likely to develop further. They will be shaped by stronger ties between developed and emerging economies—on equal terms. This will be accompanied by the need for a constructive transfer of responsibilities and skills for reaching compromises between all participating interests. Solutions orientated towards the common good that reach beyond purely national interests remain central to effective global governance. Institutions run under Western norms and values had previously functioned as pillars of international cooperation. Meanwhile, emerging countries are pursuing their own development models and regard themselves as only partially bound to those institutions. Thus, remaining engaged in and committed to international dialogue in the various existing channels of global cooperation, as provided by the G20 and G8 among others, remains central to the German position in advancing global governance.

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<sup>19</sup> Cf. Marc F. Plattner (2011): *From the G-8 to the G-20*, in: Journal of Democracy Volume 22 No. 1, January 2011, pp. 36-37.