



GROWTH AND RESPONSIBILITY

THE POSITIONING OF EMERGING
POWERS IN THE GLOBAL
GOVERNANCE SYSTEM

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PREFACE

Dear reader,

The worldwide crisis in the financial markets and the evident failure of cross-border regulatory mechanisms has once again raised the issue of global governance. The crisis hit a nerve centre of our globally integrated system, and the worldwide consequences show clearly that only a global approach to policy that comprehensively integrates regional solutions can effectively battle crises.

But the call for increased and coordinated international cooperation goes beyond the financial markets. The question of global governance takes the nature of existing international structures and approaches to regulatory mechanisms into account. On a national level, governance is based upon closely integrating political, economic and social systems. Policies designed to take account of this approach ensure a sustainable and stable framework within which each actor plays their role.

National governance systems have changed in the world of globalisation. In part they appear to be substantially weakened; the state's capability to assert itself is reduced. The world is shrinking – politics, economies and societies are moving closer together. These facts require an international governance system. For the Konrad-Adenauer-Stiftung, this call is closely linked to the concept of Social Market Economy encompassing a free market with a strong regulatory framework at its core. Likewise at the global level, solidarity and freedom must be combined in such a way that takes the common good into account.

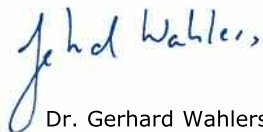
There is more to the issue of global governance than political and economic structures. A necessary question is which fundamental values form the basis for countries to cooperate and engage internationally. Which guiding principles should apply to the economy and the financial world in the future? Which values should shape the world that we want to live in? What concepts should guide international cooperation? In our view, the Social Market Economy model can here, too, provide a point of reference. The human being stands at its centre – this central tenet is where politics, the economy and society must jointly begin their efforts.

Beyond the necessary short-term interventions long-term solutions that will demonstrate sustainability have to be considered. This requires trusting and cooperative relationships with reliable partners. The debate on global structures and how to strengthen them, meanwhile, must engage important regional centres. Common viewpoints must be explored in a closely-knit dialogue. In addition, knowing the interests and positions of the negotiating partners is essential if one is to obtain enduring compromises.

The present publication gathers reports and analyses on the G5 countries of Brazil, China, India, Mexico and South Africa. They examine how these important emerging powers are positioning themselves on issues of global economic and political governance, the possibilities of an international social order, as well as questions on the system of values that guide these countries in their actions. The contributors from the G5 countries give their point of view on already existing structures and the kinds of reform required.¹

The Konrad-Adenauer-Stiftung is present and active in the G5 countries with seven foreign offices, where it has its own national and regional programs. We will use this network to expand the discussion of issues of global governance in politics and civil society in these important emerging countries, and to further intensify their dialogue with Europe on these topics.

I wish you inspiring reading.

A handwritten signature in blue ink that reads "Gerhard Wahlers". The signature is written in a cursive style with a large initial 'G'.

Dr. Gerhard Wahlers
Deputy Secretary General
of the Konrad-Adenauer-Stiftung

¹ | *The arguments and opinions expressed in the papers are those of the authors. They cannot be construed as to represent official positions or current policies of the institutions with which the authors are affiliated.*



GROWTH AND RESPONSIBILITY

**THE POSITIONING OF EMERGING POWERS IN THE
GLOBAL GOVERNANCE SYSTEM**

INTRODUCTION

TURNING GLOBAL POWER SHIFTS INTO OPPORTUNITIES FOR COOPERATION

Susanna Vogt
Konrad-Adenauer-Stiftung, Berlin

With global interdependence and technological innovation steadily on the rise, globalisation is accelerating as well. At the same time, the number of problems and challenges which can no longer be solved nationally or regionally has also increased: climate change, international terrorism, cross-border criminality, energy security and a sustainable trade policy are just a few examples. The devastating consequences of the current financial crisis worldwide highlight in particular the mutual interdependence of international relationships.

These developments are taking place amid profound shifts within the balance of global power. A substantial change is under way in the international order established after World War II, with the rise of new dynamic centres of power. Large emerging nations such as Brazil, China and India have so far profited the most from globalisation. They have been able to bring their comparative advantages to bear within the highly interconnected production and trade systems that exist worldwide. The term globalisation can no longer be considered separate from the growing economic importance of the South.

In the meantime, traditional powers – in particular the United States – have been weakened in their ability to act abroad. The unipolar moment under the leadership of the United States has passed; the financial crisis and the protracted involvement of the U.S. in Iraq and Afghanistan seem to prove it. The rise of the South has undermined the dominating role played by European and North American countries within the global system. New poles develop and as regional powers they often play a significant role at the global level as well. These developments, along with a growing interdependence, make the need for effective cooperation on a global scale all the more urgent.

THE NEW ROLE OF EMERGING COUNTRIES

The end of the Cold War offered the big emerging countries new development opportunities. The international role assigned to the countries known as the G5 – Brazil, China, India, Mexico and South Africa – is no longer simply defined by the size of their economies and growth rates. What matters are broader facets of global influence: how active they are in international bodies and forums; the international repercussions of their environmental and social problems; their influence on regional political stability and security. These countries have gained substantial amounts of expertise, self-confidence and real power in the foreign policy arena.

One must also take into account the geographic and therefore geo-strategic importance of the large emerging countries. The sheer size of these countries – they have to be considered country continents – gives them substantial regional leverage. The countries have realised this regional leadership role and are developing their own set of policies for their periphery. This is another way in which the traditional centres of power in the West are losing their international influence. Furthermore, the emerging powers are gaining demographic clout as the population drops in industrialised nations. The relative youth of the population of many emerging countries represents a great development opportunity. The economic development of these countries has given rise to a significant middle class, which over the long term will affect the country's economic and political situation.

Thanks to their distinctive development paths, the emerging powers can serve as a bridge between developing and industrialised countries. Many newly industrialising countries are already committed to development cooperation, even if they still frequently receive international assistance of their own. For some, this role can also be strategically important: their status as an emerging power means access to and having a voice in the forums of the developing countries. That, for example, partially explains China's lack of interest in joining the G8, perceived as merely a club of rich industrialised nations.

Despite the generally positive developments of the last two decades, the big emerging nations still face major domestic political challenges. Substantial dynamism, galloping growth and solid competitiveness in selected markets occur alongside endemic poverty, major income inequality, insufficient infrastructure, regional imbalances within these countries, ethnic tensions and major environmental challenges. Thus the development priorities of many emerging countries are improved productivity, better education, technological innovation and job creation.

INCREASING COOPERATION

Emerging countries are increasingly important on the global stage – in both positive and negative ways – and that poses a challenge for the traditional Western centres of power. A period of international power transition can be highly charged and can escalate into confrontation. After all, the appearance of rising powers on the one hand implies the existence of declining powers on the other. To head off potential conflict, a new mode of reliable international cooperation is required to reach consensus on the pressing questions of global governance. Compromises are required – despite the difficult situation that sees an increasing number of actors in very different stages of development and their attendant yet divergent priorities.

The fundamental crisis caused by the global meltdown of the financial markets appears to have strengthened the resolve towards international cooperation. This in turn has created opportunities for a new kind of global governance. Enhanced cooperation also provides an opportunity for new international alliances and new responsibility sharing to solve global problems.

NEED FOR REFORM

The debate over reforming the global governance structures is not new. The international community responded clearly to the devastation caused by two World Wars with the creation of the United Nations and the Bretton Woods institutions – the World Bank and the International Monetary Fund (IMF). But the dramatic increase of global

integration has long overtaken the parallel process of institutional cooperation. International institutions are making hardly any progress towards strengthening their role in the international balance of power. For some time, questions have arisen over whether international organisations are able to act and if global governance structures work. Criticism has been levelled at an inefficient decision-making process as well as the lack of concrete results of international agreements. Furthermore, questions must be asked about the legitimacy of these organisations given the rise of multiple new players on the global stage – who however enjoy only limited influence on the decisions international institutions make. One example is how the positions of World Bank President and IMF Managing Director are traditionally split up between Europe and the United States.

The financial crisis has led to calls for new institutions responsible for effective economic and financial cooperation. But since creating new institutions is extremely difficult, reform of the global governance structures should be based upon what already exists. Starting points can be found within the organisations themselves, and traditionally overlooked institutions should also regain enhanced importance in the search for effective problem solving. One example is the UN's Economic and Social Council (ECOSOC), which has come up in discussions over the current crisis. A reformed ECOSOC could assume a legitimate role as a world economic council. The Organisation for Economic Cooperation and Development (OECD) could become more involved in the dialogue between industrialised and emerging countries.

Existing structures are open to change and adjustment to a new global reality. But in the end, the will to change has to come from the member states of the organisations themselves. New and influential players must get more involved in the organisations and be encouraged to speak out – thus better reflecting the economic and political-strategic situation we live in today. Such a move must include concrete steps towards reform and will force Western nations that profit from the status quo to give up their privileged positions.

THE GROWING IMPORTANCE OF INFORMAL FORUMS

Given the reform backlog within international organisations, informal global bodies have played an increasingly important role in recent years. Among those with an expanded role are forums such as the G8 and the G20.

The G8 was founded as the G6 in 1975 to coordinate the economic policies of the world's biggest economies, with the founding nations Germany, France, Great Britain, Italy, Japan and the United States. Canada joined in 1976, and Russia became a member in 1998. Initially, the grouping mainly focused on monetary policy issues. But heads of state and government meeting at the G8 summits, as well as the responsible ministers, increasingly turned their attention to foreign and security policy issues as well as the environment. Since the end of the 1990s, the topics addressed by the G8 has expanded to international economic, political and societal challenges brought on by globalisation.

G8 decisions usually prove politically binding and have a lasting effect on the international agenda setting. They lay the groundwork for positions, which can then be presented with one voice in multilateral institutions. But a legitimacy issue has arisen over the selection of member states because, despite global developments, none of the emerging nations has a voice within the G8.



Heiligendamm 2007: the G8 meeting with the G5

To make up for this deficit, Federal Chancellor Angela Merkel initiated the Heiligendamm Dialogue Process during Germany's G8 presidency. For the time being limited to two years, the process institutionalises an exchange of ideas between the emerging nations of Brazil, China, India, Mexico and South Africa and the G8 countries. This exchange takes place continuously at the working level at the OECD, which provides the platform for the dialogue. The exchange is topic-oriented, and focuses on promoting alignment and establishing consensus over mutually beneficial cross-border investment; innovation and intellectual property rights; energy and climate change; and development especially in Africa. The results of this dialogue are due to be presented in 2009 during the Italian presidency of the G8.

The G20 also plays an ever-expanding role in addressing global issues. The group was founded in 1999 as a forum for informal dialogue between the finance ministers and the central bank presidents from emerging and industrialised countries to help coordinate their international economic and monetary policies. Aside from the G8 and G5 countries, the G20 counts as members Argentina, Australia, Indonesia, South Korea, Saudi Arabia and Turkey. The EU, the IMF and the World Bank are also represented. Altogether, the members make up some 90 per cent of the global economic output, 80 per cent of world trade and two-thirds of the world's population.

The G8 and G20 are part of an informal governance structure that allows for quick, operative and effective alignment among member states. Proof can be found in the G20 global financial summit called in response to the international financial crisis. The informal alignment that occurred in the run up to the gathering increased the potential for more effective cooperation within official structures, groupings and organisations. These global governance arenas also reflect a trend towards a new pattern of behaviour in international cooperation. States are increasingly developing coalitions and networks on concrete topics and issues, which are ad-hoc and issue-based, shifting alliances. This enables them to make allowances for the complex web of interests and new power structures in the world. Fixed alliances – in particular those of an ideological nature – are becoming less influential. Interestingly enough, the goals of the newly formed alliances are often contradictory and many initiatives duplicate each other. The danger of a selective multilateralism through an unstructured participation in too many cooperative structures – which can be considered as a kind of forum „shopping“ – exists. This development significantly increases the complexity of international relations.

SOUTH-SOUTH COOPERATION

A further effect of the shift in the international balance of power is a significant increase in the ties among countries in the South, making them simultaneously less dependent on OECD nations. Trade among emerging countries has skyrocketed in recent years; direct investments have jumped from \$2 billion in the mid 1980s to \$65 billion in 2005, mainly thanks to large multinational companies from emerging nations such as India's Tata group or Mittal Steel, Mexico's Cemex or Petrobras from Brazil.

In addition, active cooperation among the countries of the South plays an important role. The general public first took note of this development during the ministerial meeting of the World Trade Organization (WTO) in Cancun in 2003. There, some of the most important emerging and developing countries formed a grouping under the leadership of Brazil and India, which also called itself the G20. Among other issues, the G20 presented a unified approach to the liberalisation of agricultural markets, thus significantly influencing the agenda of the ministerial meeting, which ended without agreement. A new negotiating partner with substantial power to block decisions had formed. It was a self-confident partner – often under the leadership of G5 countries – that also asserted itself within other organisations and situations.

Brazil, India and South Africa are trying to increase cooperation on issues like trade and agriculture, along with transportation, health and defence, as part of the IBSA Forum that formed in 2003. The democratic nature of these three emerging powers is stressed as a base for cooperation within the IBSA framework and as criteria for the selection of other members, as a way, for example, to set themselves apart from China.

The alliances established by emerging countries themselves can be distinguished from concepts developed from the outside. One is the concept of BRIC countries developed by investment bank Goldman Sachs in 2001. It highlights the future importance of Brazil, Russia, India and China as emerging economies. Another such group is the G5, which the G8 developed as a way to improve dialogue. At the outset, these forums were little more than loosely defined groups of designated countries. But the forums soon underwent a type of consolidation. For example, BRIC countries drew up a joint declaration on security, development and climate change issues at their meeting in Yekaterinburg in May 2008. During the G8 summit in Hokkaido in 2008, meanwhile, the G5 was no longer just a loose affiliation of countries with which to hold discussions – it, too, put out its own joint declaration.

Even in these forums, however, the question must be raised whether the composition of the groups makes them any more legitimate or effective. The G5 operates like a North within the South, but whether it can be an effective leader of the South is questionable, as is whether the South acknowledges the regional influence of G5 members. Regional cooperation will continue to provide many answers to globalisation in the future. An ideal approach would be the expansion of regional networks along with the strengthening of global structures. But to what extent can South Africa, for example, truly represent the African continent and its interests at the international level?

On many topics, G5 members also have clearly diverging interests. Their views on such issues as the political system, economic integration, the societal model and the demographics of a country are very heterogeneous. As a consequence, members

pursue their own agendas on those topics, while rivalry exists within the G5 in other areas. One obvious example concerns efforts to secure a permanent seat on the UN Security Council where the big regional players are serious competitors with each other. Mexico and Brazil, as well as India and China compete when it comes to playing a regional leadership role and influencing the countries on their periphery – thus regularly undermining cooperation efforts. The fine line between partnership and competition is defined by the specific issue at stake and the appropriate negotiation alliance.

GROWTH AND RESPONSIBILITY

Expectations are high as emerging countries become more integrated into global governance structures. They need to contribute in a constructive and responsible manner to the resolution of global issues. Their increasing power requires them to become responsible stakeholders acting beyond their purely national interests on matters of international cooperation, to be part of solutions that contribute to the common good. Those countries must be willing to delegate a part of their national sovereignty to supranational instances, and, as they gain in influence, shift from the role of rule taker to active rule maker. With influence comes responsibility.

For the time being, domestic priorities still primarily shape the international agenda of emerging countries. In negotiations over critical economic and environmental issues, the countries often fall back on their wording of a common but differentiated responsibility and their option of defensive development.

The need for each country to find ways to support further economic development at home cannot stand in the way of the necessary solutions for, for instance, the reduction of greenhouse gases or world trade issues. Such solutions need to receive support from all influential actors in line with their global responsibilities. A free rider attitude would otherwise lead to global upheaval. At the same time, one must bear in mind the extent to which emerging countries can actually contribute to solving problems. Their effective participation in dealing with global issues is limited by their substantial domestic challenges. This dilemma will continue to restrict constructive global cooperation between industrialised and emerging countries.

Under whose leadership cooperation efforts will occur in the future is another problematic question. Despite the current weakness of the United States, a great deal of hope is being pinned on the new US President Barack Obama. For instance he announced that the United States would again step up cooperation with the United Nations, which could lead to new worldwide integration efforts. But the G5, in a multipolar world, might also move into positions of leadership. The traditional great powers should get involved in this process early on so as to remain part of the dialogue.

Countries with Western values and standards have so far largely shaped global governance institutions. Democracy and market economy have been the unshakable pillars of international cooperation. But alternative development models now exist, one such example being the Chinese approach. The goals of the global governance institutions will change with the increased integration of actors from the Global South. Which values and guiding principles will shape global governance in the future? How and where can one reach consensus over values; how can it be supported? Or is there a threat of a value-free competition between the most influential countries?

Until now the emerging countries have not made their positions clear on such questions. What kind of goals are they pursuing with their growing international involvement? What kind of demands and constructive ideas are the emerging powers putting forth in the development of a multipolar world order? The countries' medium- and long-term strategic positions are so far still underdeveloped, which also hinders finding a basis for joint global cooperation.

A JOINT BEGINNING TO A NEW ERA

The established industrialised countries have long supported the countries of the South in their development, and continue to do so to this day. Thanks largely to globalisation, the growing economic importance of some of these countries has now become highly relevant for the further development of global governance structures. The strategic orientation of countries such as Brazil, China, India, Mexico and South Africa with regard to global challenges as well as their increasingly independent-minded foreign policy will have a significant impact in the future.

This is however not reflected yet in the clout currently enjoyed by the large emerging countries in the existing international organisations and informal global governance forums. This shortcoming carries with it the risk that the emerging powers will choose the path of South-South cooperation, using a series of shifting alliances to develop their own approaches towards global influence and coordination.

In their own self-interest, the established Western powers should seek stepped-up dialogue on equal footing with emerging countries. To win the emerging powers over to a more effective multilateralism, one must know and understand their positions. While divergences and rivalries are inevitable, they must be overcome to find a resolution to global problems that reflects the common good. Emerging countries would also be at a disadvantage should they shun a coordinated approach with the established powers. Only joint action can lead quickly and efficiently to positive results for all. Global governance will in the future increasingly be shaped by the ability for a host of different actors with diverging interests to coordinate their policies. We stand at the beginning of a new era. The sooner both the established and emerging powers adapt to this new situation, and jointly agree on a new set of rules, the smoother the whole process will be.



BRAZIL



BRAZIL

Paulo Roberto de Almeida
UniCEUB – Centro Universitário de Brasília, Brasília

Denise Gregory
Centro Brasileiro de Relações Internacionais (CEBRI), Rio de Janeiro

EXECUTIVE SUMMARY

- During the last two decades Brazil has consolidated a new and stronger type of relationship with both the developed and the developing world. The country has discarded its former inward-looking approach and moderated its former protectionist posture in trade and industry. In its place, it has adopted a positive, outgoing attitude towards growth and development albeit preserving its main options in trade and development policies, in general favourable to special and differential treatment for developing countries.
- In the case of trade and investment flows, Brazil has expanded its links with other developing and emerging countries, becoming itself an investor in neighboring countries and promoting trade agreements with partners in the South.
- Lula da Silva's presidential activism focused on intensifying South-South exchanges while reinforcing and broadening Mercosur to form the basis of a unified economic and political space in Latin America. However, although the recently launched UNASUR's goal is full integration, there is no clear mechanism for real trade liberalisation among its members. Besides, South American countries still have diverging views on integration, with the new „Bolivarian way“ presenting a real challenge for Brazilian leadership in the region.
- Brazil has always favoured a multilateral approach to global economic governance. The country is an early and active participant in multilateral bodies, such as the Bretton Woods institutions and GATT. It defends a reorganisation of those institutions aiming to strengthen its own influence, and that of the other emerging countries in their decision-making process. Those countries wish to receive grants to finance critical infrastructure development projects and to protect them against speculative financial crisis.
- Brazil has become a real protagonist in multilateral trade negotiations. As a leader of WTO's G20, Brazil – together with India – has been invited to closed-door consultations with developed countries. Brazil's agenda is aggressive in agriculture and defensive in industrial goods and services in correspondence with its clear comparative advantages. G20 demands better access to the developed countries' markets pushing for the reform and elimination of agriculture-distorting production and export subsidies.

- Brazil experienced an export boom during the height of the world economic growth, from 2002 to 2008; its exchange reserves stand at US\$ 200 billion and equal the total foreign debt; foreign direct investment almost doubled in 2007 (US\$ 37.4 billion, against US\$ 18.8 billion in 2006), and has now reached investment grade. Furthermore, Brazilian firms, mainly private, are quickly internationalising their activities and investments. They invested US\$ 27 billion abroad in 2006, making Brazil a net exporter of capital for the first time.
- Brazil strongly supports multilateralism and UN collective action as the best ways to provide for global political governance. The country stresses its traditional adherence to the international law principles of non-interference in other countries, domestic affairs, and of searching for pacific solutions to interstate controversies.
- Brazil has always been an active UN participant and one of the most frequent non-permanent UNSC members. Since the beginning of its government in 2003, Lula has intensively campaigned for Brazilian UNSC candidacy, so far without success. Although Brazil has taken part in many UN Peace-Keeping operations, it has never engaged itself in a Peace-Making initiative of the UNSC.
- The IBSA Forum (India, Brazil, South Africa) initiated in 2003, is one of the most cherished by Lula's government. IBSA intends to articulate common positions to build up consensus on specific issues and push for changes in the global trading as well as UN system. There are several working groups operating on a vast thematic ranging from environment, education to health and energy.
- In order to give globalisation a more human face, Brazil argues that non-economic values have to be taken into account. Social justice is seen as a question of redistributing power, resources and technologies among participants in a new world order of solidarity. Existing asymmetries require action on the social roots of those injustices. Multilateral and bilateral cooperation have to focus on social investments.
- Brazil has recently engaged in an ambitious global initiative aiming to secure innovative financing mechanisms to reduce hunger and extreme poverty around the world, but especially in Africa. But these face the recurrent problem of implementation and poor management. Results so far have been restricted to a coordination center for the distribution of Anti-Aids drugs in Africa, based on voluntary contributions. The country has been a donor of official development assistance with a modest but increasing contribution. Brazil favours trilateral schemes, including the provision of Brazilian technical services with financing by third countries or agencies. Cooperation has focused on a selected number of partners in South America, and in the Portuguese-speaking countries in Africa.
- Due to its professional and highly skilled diplomacy, Brazil is capable of exercising a true leadership in both regional and multilateral instances. However, Brazil has limited resources, economic and military means, to exert full leadership.
- Regional integration and the construction of an integrated political and economic South American space depend on the ability of Brazil to build confidence among its neighbours. Current challenges are coming from the „Bolivarian“ activists, who adopt non-market and anti-capitalist approaches towards integration.
- All international market variables – trade, investment and financial flows – are favourable to Brazil. Most questions on the Brazilian foreign agenda are essentially those of domestic economic policy. The country has homework to do in order to prepare its engagement in a new phase of growth and sustainable development. The list of tasks include: tax and labour reforms, improvement of its judicial system, a complete restructuring of the educational system, and massive investment in logistical factors. Brazil has to continue to moderately open its economy to promote a greater integration into global economic interdependence. Current Brazilian political leadership is hesitating to implement the global agenda.
- Brazil has experienced modest growth rates, particularly when compared with the other emerging economies. The country has shown reduced capacity for saving and investing due to a distorted tax system and a high and increasing level of public government expenditures.
- The challenge posed to Brazil resides in its capacity to sustain an adequate rate of economic growth, compounded with necessary structural changes/reforms, productivity gains and market competitiveness.
- It is important to differentiate Brazil from the other G5 countries: obedience to a set of principles and loyalty to international values is a differentiating factor. In particular, the defence and promotion of democracy, the respect of international rules, human rights and a structured, dynamic market economy.

THE WORLD SCENARIO AND BRAZIL

During the almost two decades since the beginning of its adjustment, reform and stabilisation processes of the early nineties, and despite the financial crises in between, Brazil has consolidated a new, stronger type of relationship with the world economy. Notwithstanding the reluctance in some sectors of its political and economic elite, Brazil has discarded its former inward-looking approach and its protectionist posture in trade and industry, and adopted a positive outgoing attitude towards growth and development. In the foreign policy realm, there is a renewed capacity to act as a positive power broker in South America and, thanks to its highly qualified professional diplomacy, the country has reaffirmed its cooperative stance in the framework of contemporary multilateralism, easily recognised in its natural leadership of WTO trade negotiations.

Most importantly, during the last two decades Brazil has oriented its political values and economic 'philosophy' much closer to a pattern typical of OECD countries than was the case up to the big economic changes of the 1990s and early 2000s¹. This implies that there could be a common agenda in terms of macroeconomic policies – monetary, fiscal, investments and trade flows – with its main partners in the advanced economies and big emerging countries alike. Together with other rapidly emerging economies in the developing world, such as China, India, South Africa, Mexico, South Korea and many others, Brazil is actively looking to set the pace and to format the profile of a future interdependent world economy, combining the virtues of global capitalism and the redistributive potential of moderate state intervention.

Attempts to enlarge the G8 (at least politically) with new partners that have relative weight in these spheres, the so-called G5-countries Brazil, China, India, Mexico, and South Africa, represent an initial recognition that global coordination cannot be ensured on a small scale. All these countries, with the exception of Mexico, have come to depend less on the North and more on each other, which explains the explosion of South-South investment and trade flows, a move that Brazil has been actively seeking since 2003. Brazil entirely agrees with the initiatives aimed at enlargement of the G8 (at least politically) to include new partners that have relative weight in the spheres of economic policy coordination, strategic security and the joint administration of common global issues (environment, global epidemics and transnational crimes). Brazil acknowledges that the G5 represent an initial recognition that global coordination cannot be ensured on a small scale.

Future projections for economic growth in Brazil are mostly positive and point to a new dynamism that might lead Brazil and some other emerging economies to a position of relative prominence in the world economy over the next two or three decades. The growing relative weight of these new economies contributes to: (i) diversification of the basis for growth; (ii) extension of goods and services flows in the world economy; (iii) expansion of investment and financial flows in new geographic and political dimensions; (iv) new economic counter-cycles; and (v) dilution of focal crises and assurance that the costs of eventual adjustments can be more evenly distributed.

Brazil is steadily improving the economic basis for its integration into this new scenario. In the political and security spheres, Brazil can also contribute to the improvement of the regional strategic scenario, since it helps to reduce tension points and potential friction among South American neighbours. As a consequence, informal meetings and consultative mechanisms among them intensify the dialogue on the interests of these powers in the global and regional spheres. As a traditional exporter of agricultural commodities, Brazil has attained some degree of economic development by virtue of the industrial substitution process, but it has also opened its economy to the influxes of the global economy in the last two decades of the 20th century. Similar developments occurred with other major developing economies. Yet, despite much progress accomplished throughout the 20th century in industry, agriculture and the scientific establishment, Brazil has not reached high levels of technological development in the same manner, for instance, as others rapidly developing nations, such as Japan or, nowadays, South Korea. Brazil has, nevertheless, increased its integration into the world economy, coming from low levels of the foreign trade component of GDP to almost a quarter of it created in external exchanges, although this is still far less than the world average rate.

Each of the G5 countries has differentiated assets and weaknesses. If the criteria used by OECD for the assessment of a membership request can be considered valid for the exercise launched at Heiligendamm, namely market economy, political democracy and respect for human rights, the five countries could receive differentiated punctuation in each item. Brazil is a country that could receive a positive assessment in most of the criteria, with the partial exception of the critical treatment of human rights protection in some areas, mainly landless peasants in the agricultural frontier and poor people living in *favelas* dominated by criminal gangs. Brazil's adherence to demo-



In the megacities of the emerging countries many people live under poorest conditions.

cratic principles is nowadays unquestionable, although the quality of its public institutions needs improvement, because of extensive corruption and red tape. Brazil also has solid capitalist structures, even though they are distorted in part because of the strong tradition of state interventionism and unilateral market regulation by the government.

Brazil occupies a singular position, not necessarily unique, but specific, within the contemporary system of international relations. It is certainly a 'country-continent' that, in exploratory analyses, can be classified in the category of 'monster-countries', as George Kennan once referred to the other giants like the USA, Russia, and China, or even 'anchor countries', as German political sociology prefers to call them *Ankerländer*. This type of political characterisation is certainly ambiguous, since the primary dimension of the population data and the physical size of the territory do not always correspond to proportional importance in international relations or in the global economy, as in the case of China during a specific period of the twentieth century, or as in the case of Russia at the end of that century. In the case of Brazil, one can say that its diplomatic capacity and political influence are proportionally higher than its share in the world GDP or its part of the global financial flows or the total trade in goods and services.

Among these major players who are emerging or are already known as big powers, Brazil is presumably destined to play a prominent role in the changing scenarios of global governance. Among the G5, Brazil is the most culturally homogeneous nation, endowed with rich natural resources and biodiversity, with long-held market economic rules and institutions,

and, probably, with a unique economy capable of playing an enhanced role in the transition from an oil-based carbon emission productive system toward a renewable and sustainable world energy provider, through biofuels. Brazil is also a non-nuclear state, together with South Africa and Mexico. Brazil is part, with Mexico, of the Tlatelolco Treaty, which aims to promote denuclearization of Latin America, and has promoted the UN Resolution on a South Atlantic Peaceful Zone, to which South Africa has adhered.

President Lula da Silva came to power in 2003 aiming to gain more international space for Brazil, engaging its diplomacy in many negotiating fronts at the same time, either at multilateral, regional or bilateral levels. His goal is not only to gain international prestige for Brazil, but also to make diplomacy serve the cause of national development. This 'instrumentalisation' of Brazilian diplomacy is not new: historically, this political vision, which regards the functionality of its diplomacy as linked to the developmental process of the country, has been a long-enduring feature of diplomatic policies designed by the *Itamaraty* (as the Brazilian foreign ministry is called), and has been described by more than one author as a 'diplomacy of development'².

GLOBAL ECONOMIC GOVERNANCE

The decision-making process of cooperative regulation of international economic relations is clearly dominated by big partners. This is the case of the financial schemes defined in Bretton Woods, and the same can be said of the provisional application of GATT. In these two fields of international cooperation, the decision-making process was not multilateral, and the agreements achieved tended to reflect the existing power relationships.

The financial institutions as well tend to reproduce, with few adaptations, the decision-making pattern adopted in their constitutive phases, with a clear over-representation of small European countries at the expense of emerging economies and major developing countries. The IMF has been successful in providing emergency relief and in specific cases structural adjustment assistance. Nevertheless, it also tended to impose the same patterns of public policies, which in some circumstances resulted, in high costs to the economies that called for its assistance.

Brazil is an early participant in the major institutions of international economic interdependence, most notably the Bretton Woods organisations and GATT. Although it was a typical 'developmentalist', protec-

tionist developing country during most of the formative years of those institutions, Brazil took an active part in the successive multilateral trade rounds with a focus on the special needs of developing countries, as summarised in the most favourable treatment and non-reciprocity clauses³.

On the financial assistance side, Brazil has historically maintained a good relationship with the World Bank and the Inter-American Development Bank (IDB), even though Brazil's own National Development Bank (BNDES) nowadays has proportionally more resources than these two institutions. Brazil now enjoys full access to other sources of foreign capital. The country's relationship with the IMF was a more troubled one, due to Brazil's need for emergency relief as recently as 2002, and a record of many adjustment programmes in the past. More recently, an impressive rise in the country's exports reduced its financial vulnerability, with total exchange reserves in excess of its external liabilities. The current financial crisis, still unfolding, presents nevertheless many challenges for Brazil, as trade surplus are being drastically reduced and external credits have become scarce.

Brazil has always had little normative power within the Bretton Woods institutions. Nevertheless, especially in the trade agenda, it took advantage of the relative open rules that governed, and still govern, international economic relations during the last half-century. Brazil's participation in international trade flows has always been modest, around 1.1 per cent of the world exports for the last four decades. Acting sometimes as a free rider, Brazil requested access to developed-country markets, without necessarily providing an equivalent opening. Moreover, in the financial field it absorbed external savings but maintained strict control over capital flows, so as to keep the balance of payments afloat. Some of Brazil's greatest development projects, such as the Itaipu hydropower dam, were financed by the private financial market, with high costs to the national treasury. Today, there is no lack of private financing for infrastructure development, but a deficiency in management capacity to run big projects. That capacity has been seriously impaired inside the government, due to poor coordination among state agencies.

Regional and Multilateral Engagement

The economic opening and the trade liberalisation of the 1990s contributed more to the modernisation of the Brazilian productive system than the 'developmentalist' projects of the earlier decades⁴. Nevertheless, Brazil still hesitates between regional and multi-

lateral strategies of international economic integration, since each of them has different costs and specific opportunities: the costs can be created by the classical trade and investments deviation associated with regional integration, and a continued inward approach to trade liberalisation. This approach is connected to the neighbours' markets. Opportunities are linked to multi-lateral expansion of foreign trade, where Brazil expects to gain new market access for its modern agricultural sector. At the same time, this may lead to severe competition in the industrial domain, especially from the new dynamic trade players from Asia-Pacific.

Brazil is indeed aggressive in agriculture and defensive in industrial goods and services, corresponding to its clear comparative advantages. Notwithstanding, Brazil is still reluctant to open its national productive system. The current administration is committed to a policy of 'defensive development', i.e., the right to maintain policy space for future economic diversification. This position reflects some of the past 'developmentalist' era, which was considered positive during the vogue of substitutive industrialisation.

As a result of economic opening and trade liberalisation of the early 1990s, productivity gains accelerated. This trend was further strengthened by the wave of privatisation and constitutional reforms launched by president Fernando Henrique Cardoso (1995-2002). Some private companies (Gerdau, Marco Polo, Sadia, Friboi) and many former state companies (Embraer and Vale, among others) acquired a new sense of their importance outside the domestic market and decided to go global, undertaking acquisitions and starting new businesses on a worldwide scale. Many of them were upgraded in the lists of global companies, until then a status almost reserved to the giant state oil company Petrobras. In 2006, those firms invested US\$ 27 billion abroad, making Brazil a net exporter of capital for the first time in its economic history. The ongoing crises can impair the capacity of those big Brazilian companies to finance themselves hindering the prospects of new share issues and mergers and acquisitions abroad as planned by some of them. Also, there will be a probable drop in the investment plans of multinational companies in Brazil.

Leadership in the Trade Agenda

Recently, Brazil increased its involvement in the cooperative regulation of international economic relations by developing a clever leadership in the trade agenda, which gives it more influence on decision-making mechanisms of the WTO. Brazil's higher profile in trade negotiations at the WTO has been exercised through

leadership of G20⁵ in the Doha Round. G20. Although more consensual in its 'offensive agenda' (against protectionism and subsidies in rich countries) than in its 'defensive agenda' (the dismantling of its own protectionist devices in industrial, services and farm policies), Brazil became a real protagonist in multilateral trade negotiations, and was perceived in Brazilian society as capable of generating significant results. The real leadership is provided by India and Brazil, with China assuming a more timid posture⁶.

Strong Diplomacy

Traditionally, Brazil has consistently proposed reforms in international economic institutions, including the formal and informal bodies responsible for so-called 'technology transfer', that is, intellectual property, today shared between WIPO and WTO. The purpose of these initiatives has been to increase the weight and voice of developing countries in the decision-making processes, and to expand resource allocation and technical assistance. Brazil's growing role in the agenda of discussions certainly corresponds to its specific weight in the world economy, as well as to its active professional diplomacy.

Brazilian diplomats, by using their technical training and being present in several forums, are capable of applying their activism and thus compensating for the country's small relevance in terms of goods and services flows, and financial and technological exchanges. This activism, which comprises many initiatives at world level (such as President Lula's anti-hunger programme), interregional summits (like those organised between South American, African and Arab countries) and public health efforts (anti-HIV/AIDS cooperation), has been highlighted in Lula's administration which seeks to confirm a prominent role for Brazil in the regional and world context. This has been achieved to a certain degree, including non-economic fields, for instance in the leadership of the UN mission in Haiti⁷.

In order to achieve sustainable development in the international economic-trading system, Brazil defends the fulfilment of the Doha liberalising agenda and WTO panels' decisions on a review in intellectual property chapters that are, according to its current political-diplomatic view, incompatible with technological development or primary national objectives. Difficulties experienced, or less than ideal results achieved in the Doha Round, could represent a setback for Brazil, which expects some level of market access for its vibrant agribusiness export companies. The postponement of the multilateral trade negotiations pushes Brazil to try new arrangements for market access. But Mercosur's

coordinating mechanisms are faltering, due to diverging views among its members towards further liberalisation. Full adhesion of „Bolivarian“ Venezuela into the South American regional scheme will probably not improve the current situation.

Reform Agenda from the Brazilian Perspective

Brazil also defends a reorganisation of the Bretton Woods financial institutions. The developing countries wish to receive grants to finance critical infrastructure projects and protect themselves against speculative financial crises. These initiatives reflect a paradigm shift in Brazilian decision-makers and society as a whole: from a spectator stance to an aspiring active participant in changing global rules and influencing the international system, translated into some effective initiatives. Together with the other BRICs, Russia, China and India, and other emerging countries, Brazil expects to strengthen its influence in the decision-making process of those institutions, making them more reflective of today's world economic reality. Brazil defended the enlargement of both the G8 and of the Financial Stability Forum, during the recent G20 (Finance) meeting, in Washington, in November 2008, to encompass those twenty members.

Brazilian initiatives in favour of reforming old, multilateral, economic and political institutions are presented by their proponents as a search for a change in the world power axis, supposedly to reinforce polycentrism in the world order as opposed to the unilateralism of the superpower, in the direction of a new international trade geography. This new geography proposal would focus on the intensification of South-South exchanges, with the negotiation of preferential trade agreements between Third World countries.

Southern Activism

Nevertheless, there has been criticism in Brazil with very few concrete results coming from those negotiations⁸. Mercosul concluded a few fixed preferential trade agreements, but in tariff cuts they were very limited in scope and coverage. The Mercosul-India Agreement covers only 450 products and the Agreement with the Southern African Customs Union (SACU) only 958 products. No agreement has been reached in the negotiations with the European Union. With Mexico, Brazil deepened the existing complementarity agreement, basically in the automotive sector. The hemispheric project for a Free Trade of the Americas (FTAA) did not stand high within the ranking of Lula's foreign policy priorities. It was perceived as a project pushed by the United States that threatened Merco-



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sul's unity. FTAA negotiations came to a standstill in 2004. The initiative is practically dead, also due to the unwillingness of the US Congress to reduce sectoral protectionism. Even in the absence of a multilateral liberalization scheme, it was not possible for Brazil to negotiate a preferential trade agreement with its most important partner, and it was not only due to Mercosur's exclusive arrangements. Most important differences among the two partners were to be found in the Brazilian willingness to limit the agreement to a market access scheme, and in the US preference for a broader arrangement, covering services, investments and intellectual property matters.

Brazil's Southern activism, however, is not directed against the North. In fact, Brazil seeks selective alliances with developed countries on some issues, such as the efforts toward the reform of the UN Charter and the enlargement of the Security Council (where a G4 was established, together with Germany, Japan and India). Most of the time, Brazil's diplomatic activism is directed toward reinforcing the presence and power of 'peripheral countries' in the core system. It could be a reformist agenda if those emerging and developing countries were able to mobilise a sufficient coalition force with the same objectives, so as to promote a substantive change in both form and substance in these institutions. Since there is no concentrated alternative power, there are parallel initiatives, in varied coalitions with periphery partners, to build up pressure channels against the North.

Examples of such initiatives are the aforementioned G20; the IBSA process⁹; the Summits or high-level meetings among South American countries together with Arab and African countries; the BRIC coordination forum; and the Community of South-American Nations (CASA)¹⁰, replaced by Unasul. The formal constitution of a BRIC diplomatic group in May 2008 (at a ministerial meeting held at Yekaterinenburg, Russia); and the project of becoming the focal point

of an integrated economic space in South America, are new challenges facing the Brazilian diplomatic elite. All those endeavours require great capacity of policy coordination among various partners. In December 2008, Brazil promoted a Latin American-Caribbean leaders Summit, during which Cuba was formally accepted in some regional institutions, like The Group of Rio coordination mechanism for political issues.

The *Banco del Sur* (Bancosur), or Bank of the South, is also based on the idea of building institutions exclusively for developing countries. Bancosur, which is not yet in force, was proposed by Venezuela's president, and Brazil adhered to it only in order not to leave Hugo Chávez with a free hand in South America¹¹. Also, in trade negotiations, Brazil has been much tougher towards rich countries, for instance in refusing to make concessions in its defensive stances and asking aggressively for market opening for its competitive exports, than it has been in bilateral approaches toward Argentina, China, Russia or less developed countries, to whom it made many unilateral concessions. Many of those initiatives, especially towards less developed neighbours in South America, are explicitly labelled as 'diplomacy of generosity' which, despite its character of enlightened self-interest on behalf of the long-term interests of Brazilian industry, follows much more of an ideological approach than a pragmatic one.

Brazil also participates in initiatives that involve developed countries in the economic sphere, as for instance the financial G20, which has an agenda somewhat similar to that of the Financial Stability Forum, a smaller coordinating group which could be replaced by the G20, according to Brazil. It is important to highlight Brazil's effort, together with the US and other developed countries, in advancing the acceptance of biofuels in general, and of ethanol as a gasoline additive in particular. This objective comprises a definition of common technical standards for producers, industry and consumers.

In the trade front, Brazil is struggling to eliminate the protectionist barriers erected by US and EU against its sugar-cane ethanol, with no success up to now.

Another important chapter in global economic interdependence is the issue of foreign direct investment. Despite remarkable advances in the last two decades, in terms of new institutions to guide growing world economic interdependence, there are as yet no multilateral rules for foreign investment, for instance. This is undoubtedly one of the most notorious gaps in the multilateral economic system. Capital-exporting countries have established bilateral investment treaties (BITs) or voluntary adhesion rules that widely liberalise these flows, in agreement with their national treatment provision (but only valid between them, as in the existing OECD codes).

Brazil, which has historically been a recipient of foreign direct investment, signed more than a dozen of these bilateral instruments, but put none of them into force. The main reason for that was the government's fear that they could reduce Brazilian capacity to regulate public policies and curtail space for national development strategies. Overall, despite the new configuration of the global economy with the emergence of dynamic emerging countries, Brazilian economic diplomacy shows little enthusiasm for a wider liberalisation in the WTO, and maintains a defensive agenda, especially in its less competitive sectors, such as services, high-technology industry, investments and intellectual property. Brazil and other developing countries fear that this may result in the deepening of existing asymmetries.

The 'graduation' agenda, that is, the dismantling of preferential treatment for the most dynamic emerging countries, as proposed by the developed ones, requires an equivalent offer from developing countries by reducing their own barriers to trade in industrial goods, services and investments. According to rich countries, emerging economies have to offset the reduction in agricultural protectionism, subsidies and market access. For many developing countries, the asymmetries are typical distortions created by unrestricted markets which can only be compensated by appropriate sectoral public policies, generally industrial and 'import substitution' protectionist trade policies. In the past Brazil had relative success in its substitutive policies, which mobilised those same instruments. Nevertheless, at a certain stage of its development process, the same policies that had been responsible for the rise of its industrial capacity, together with external shocks and with serious imbalances in the fiscal side, led to the stagnation of the country's economic

growth. Excessive protectionism caused distortions both in production and distribution, as well as several weaknesses in the external competitiveness of Brazilian industry.

All along its industrialisation process, Brazil has insisted on policies that have clear distorting effects on the industrial sector and negative social impact. One of them is its persistent adherence to old practices, such as preferential treatment for developing countries, which has insulated its industry from competitive pressures. The so-called structural asymmetries could be seen as an opportunity for integrating these countries into the international system, rather than a barrier to such integration. The asymmetries are, to some extent, comparative advantages, such as low-cost labour force, and can be used, in a world characterised by high mobility of factors of production, at all levels and directions. Out-sourcing and off-shoring phenomena represent two aspects of processes with intense relocation of production, which are strongly benefiting countries like China and India. While these countries decided to integrate themselves more actively in the current dynamics of global capitalism, Brazil has been slow in following those trends.

GLOBAL POLITICAL GOVERNANCE

Brazilian involvement with global political governance has, first and foremost, a regional dimension. Latin America is a region untouched by great conflicts, and Brazil intends to keep it that way. After the classical years of ideological alignment during the Cold War, free from any major conflict except for the Cuban crisis of 1962, Brazil has no interest in a new arms race in Latin America (that could be promoted by some new candidates *to caudillo's*). Since the return of democracy in the mid-1980s, Brazil has been engaged in the promotion of the democratic evolution of the continent and its geographic integration¹².

Indeed, Brazilian diplomacy has deployed great efforts towards fulfilling this agenda of regional integration, economic and political cooperation. Fernando Henrique Cardoso was especially active by making Brazil the coordinator of the 'guarantor-countries mechanism' in the peace process between Peru and Ecuador. Indeed, between 1995 and 1998 the two countries negotiated the peaceful settlement of a territorial conflict that had lasted for over a century. The same diplomatic activism was deployed during political crises in Paraguay and Bolivia, avoiding a break up of their democratic institutions or a return of the military to power. A 'democratic clause' was conceived and implemented within Mercosul. Lula,

for his part, has helped to defuse potential crises in Venezuela and Bolivia, and clashes between Colombia, Ecuador and Venezuela, arising from the presence of guerrilla camps on their borders. Brazil commands the UN Stabilization Force in Haiti (Minustah), which is seen as the main Brazilian contribution to international stability, as it involves much more than the use of raw power and lays great emphasis on social and economic reconstruction of that country.

The major challenge to peace in the region seems to be the anachronistic problem of narco-guerillas, which is in fact entangled with organised crime. For this reason, it is closer to a police problem than to a strategic security matter. The relative peace in Latin America, that is, the absence of noticeable interstate and intrastate conflicts (despite aboriginal movements in some countries and, therefore, a potential cause of national fragmentation), should contribute to the low level of military expenditures in the region. But the refusal by national military forces, including Brazil's, to assume a role in tracking drug dealers may lead to the expansion of instability created by the narco-guerillas, which threatens to contaminate the political system and 'invade' the cities (if it has not yet done so).

Ambitions for UN Security Council Membership

Since the original framing of the United Nations Charter in 1945, Brazil has not succeeded in its ambitious project of joining the UN Security Council (UNSC) as a permanent member, a situation echoing its former frustrated candidacy to the Council of the League of Nations in 1926. Nevertheless, Brazil has always been an active participant in UNSC deliberations, as well as one of its most frequent non-permanent members; accordingly, it has taken part in many peace-keeping operations. However, there has never been a decision in favour of participating in peace-making operations, for political and constitutional reasons. However, this is feasible, since domestic opinion-makers, namely the military and diplomats, clearly endorse the establishment of such a project for Brazil to reach world leadership.

The UNSC candidacy gained a new impetus after the re-democratisation of Brazil in 1985, when president José Sarney addressed the UN General Assembly in 1989 and confirmed the intention, without necessarily demanding the concession of the veto right. Anticipating predictable objections to this intention among some of its neighbours, Brazil did not present its candidacy as an expression of the 'regional will', although the discussion of the regional representation issue would be inevitable. Although it has campaigned

intensively in favour of its candidacy since the beginning of Lula's government in 2003, Brazil has not yet seen its aspiration fulfilled. When might this be? This is difficult to say, taking into account not only the question of regional representation but also the diverging views among the current five permanent members. Perhaps they all tend towards a single undeclared stance: a complete lack of interest in enlarging the UNSC by even a few new permanent members.

In support of its natural candidacy to the UNSC, Brazil highlights its historical adherence to political multilateralism. Diplomatic doctrine and practices show its strict adherence to international law principles of non-interference in other countries' domestic affairs, and an orientation favourable to peaceful solutions in interstate controversies. Such legalism could be considered excessive, but it may also reflect a deficit of objective material conditions for Brazil's external power projection, as well as the lack of domestic support for external military undertakings. These factors explain Brazil's strong defence of the UN's legitimacy in solving any conflict between states, as well as its belief in the collective security mechanism as the sole acceptable resource for dispute settlement among states. In summary, no initiative should be taken against or in absence of UN resolutions, which are considered the equivalent of international law.

Traditional UN mechanisms are, however, considered inappropriate to deal with such global issues as underdevelopment and collective security. The General Assembly decision-making process and the Security Council structure have not followed changes in the global economic order, and did not accommodate the developing world agenda. Brazil defends multilateralism, but with more affirmative policies regarding new challenges like terrorism, climate change, energy security, renewable energies and combating hunger, an agenda that requires the developing countries' interests to be addressed. Affirmative policies are conceived by the new Brazilian leadership as actions directed at the roots of the perceived problems, e.g. social injustice, poverty, inequalities, and so on, rather than at their mere consequences¹³.

There is little academic reflection in Brazil dealing with UN issues and its Security Council concerning effective means for promoting peace, security and the legitimate use of force in international relations. Military studies about the UN's effectiveness tend to focus on the evaluation of its material capacity, while diplomatic statements prefer to highlight the desirable democratisation of the UNSC through the expansion of the number of its permanent members,

in other words through the inclusion of Brazil. There are few studies containing proposals to provide the UN with adequate military tools, besides the traditional instruments and peace-keeping mechanisms.

In matters of world political governance, Brazil tends to adhere to the existing cooperation schemes, such as the UN Economic and Social Council (ECOSOC) and its specialised agencies which focus on global or sectoral aspects of social and economic development. The country also tends to highlight the 'social' roots of any threat to peace and security, and proposes justice and development as almost universal means of solving conflicts¹⁴. In sum, multilateralism and collective action by the UN are emphasised as the best ways to provide for global governance, without disregarding regional cooperation. Informal dialogue schemes, as *ad hoc* groups, are considered useful, but not as legitimate substitutes for multilateral forums.

Informal Cooperation Mechanisms

Brazilian diplomacy has shown real activism, together with South Africa and India, as seen in the proposal for an IBSA coalition. This initiative is one of the most cherished by the current administration, and the Foreign Ministry has invested a lot of resources – diplomatic, financial, technical cooperation – in a variety of areas (cultural, educational, social, scientific and technological, productive and industrial), which include summit-level meetings and the tentative coordination of political objectives of the three countries on multilateral issues, such as peace and security, trade and development. They have expressed the urgent need for the developing world to articulate a coherent agenda and to take a collective approach to global governance, particularly the reform of the UN, the UNSC and the Bretton Woods financial institutions. IBSA intends to articulate common positions on issues such as climate change, especially the principle of common, but differentiated responsibilities and respected capabilities. Current modalities of cooperation include specialised ministerial meetings, as well as 14 thematic working groups on a vast prospective agenda: agriculture, health, energy, labour, education, environment, and even joint military exercises¹⁵.

In parallel, Brazil agreed with Russia's plan to transform the BRIC concept into a real diplomatic action. Several informal consultations have been held at foreign ministers' level, in order to institutionalise it as a new coalition¹⁶, which materialised in May 2008. Russia hosted the first formal meeting of the BRIC's foreign ministers, to be repeated annually at the margin of the UN General Assembly. Another BRIC

Summit will be held in Russia (Moscow, in July 2009). Real diplomatic gains here are clearly with Brazil, as Russia, China and India already have a real share of world power, due to their nuclear status and greater relevance in the global economy.

Current Brazilian diplomacy also favours *ad hoc* initiatives aimed at selected partners in the Third World. Innovative partnerships have been established in order to create an axis of cooperation for a new political and economic international geography. For example, IBSA has made technical cooperation commitments to benefit third parties such as the Palestine National Authority, and poor countries like Haiti or East Timor. The dialogue forums between South America, Arab and African countries also aim to go beyond trade, investment or private joint ventures, in order to encompass governmental technical cooperation, social, educational, and political objectives.

Following the first official visit of a Brazilian president to the Middle East, the South American and Arab Countries Summit of 2005 called for more bi-regional cooperation to promote trade opportunities, ethnic and religious tolerance, a more profound engagement in multilateral discussions concerning Middle East conflicts, and strengthening South-South cooperation.

Relations with China and India have been intensified, particularly in outer space and biofuels cooperation, where they are complementary to the Brazilian economy. The list of projects already initiated or in the pipeline is quite impressive, with many working groups discussing bilateral endeavours in agriculture, energy and other fields. As yet, there is no independent evaluation of the costs and benefits of all these initiatives, which may involve considerable resources in light of the limited Brazilian budget for cooperation.

Capacities of Leadership

Brazil is capable of exercising a degree of leadership in some of the issues on the multilateral agenda, focusing on economic fields, such as the multilateral trade negotiations, rather than on financial, technological, peace or security issues. Regarding the latter, Brazil has less leverage to act on its own and prefers to join UN initiatives in peace-keeping operations, rather than in peace-making, as in the case of Brazil commanding the United Nations Stabilization Mission in Haiti (MINUSTAH), launched in 2004.

In respect of South America, the first priority in Brazilian foreign policy, effective results have been somewhat less successful than initially expected,

despite considerable investments, both material and diplomatic. Mexico, whose decision to link up with the US at the end of the 1980s contributed to this South American inflection of Brazilian diplomacy, is seen, even though not officially, as a competitor for prestige and leadership in Latin America, as well as a potential opponent, together with Argentina, of the Brazilian project to become a permanent member of the UNSC.

Instead, the relationship with Argentina, is deemed of the utmost importance for Brazilian diplomacy. Such a priority has received criticism from Sao Paulo industrialists, who have been confronted with unilateral restrictions on their exports of manufactured goods to the southern neighbour. The Brazilian government tolerantly allowed Argentina to impose arbitrary safeguards, contrary to the principles and practices of a customs union, which Mercosul aims to be and WTO rules on trade defence mechanisms. In addition to this, the government's tolerant response to Bolivia's nationalisation of Petrobras' assets and investments in gas and oil fields aroused widespread protest. Lately, Brazilian diplomacy reacted more vigorously when Ecuadorian government undertook retaliatory measures against Brazilian companies operating in that country.

Lula's foreign policy priority has been the strengthening of South American integration, through the enlargement of Mercosul to include Venezuela (and possibly Bolivia), and make it a platform for a unified economic and political space in the continent. Nevertheless, the Brazilian project for CASA did not go forward as planned, and the recently-launched Unasul, first proposed by Venezuela, has objectives vaguely defined in its constituent treaty. Despite its diplomatic efforts, Brazil was not able to redefine this in line with the model initially desired: to be a political and institutional base for the programmes of physical integration and trade liberalisation in the South American region. Although Unasul's goal is 'full integration', there is no clear mechanism for real trade liberalisation among its members, or for reciprocal economic opening.

A Brazilian proposal to establish a South American Defense Council was grudgingly agreed and launched at a Summit meeting in Bahia, in December 2008; it should function as a consultative mechanism for peace and stability within the Unasul framework. Brazil sees it as an opportunity to extend its capabilities in the military equipment and defence industries to the whole continent, but some neighbouring countries express their discomfort with many demonstrations of Brazilian leadership in the region.

These South American initiatives, together with other South-South actions, should work as a test case for the exercise of a Brazilian regional leadership. In the future, this could be extended to the global sphere, as an alternative to the traditional models of political cooperation by the rich countries. The results of such diplomatic activism still need to be independently evaluated, in order to separate effective gains from diplomatic rhetoric, which tends always to be optimistic and unilateral in its assessments and presentations.

Among all these initiatives, it is curious to note that current Brazilian diplomacy is not strengthening the relationship with the OECD, the very institution that could facilitate and speed up Brazil's entrance into the current G8. Brazil has had a long relationship with the OECD, always pursuing a gradual and cautious approach. As of today, Brazil is a full member of the organisation's Steel Committee and an observer member in several other committees, such as those on investment, public management, trade and agriculture. Lula's administration views accession to the OECD with hesitation, mainly by virtue of its 'developmentalist' diplomatic position. There is the economic policy orientation, aimed at securing the so-called 'spaces for national development policies', that could allegedly be limited if Brazil decided to accept the set of liberalisation codes and protocols negotiated at the OECD. Moreover, joining the OECD could compromise Brazil's ability to independently articulate its positions on North-South issues, especially with regard to free trade and liberalisation. And finally, it could be viewed as a political betrayal of the South-South agenda.

Overall, Lula's foreign policy hesitates to incorporate a 'first world' agenda in its planning: it certainly does not intend to be seen as adhering to a 'rich country' structured system. Instead, it prefers to build up alternatives for economic and political action, according to a 'reformist agenda' for a new world order. Brazil's reform proposals for Bretton Woods institutions are oriented towards giving more weight to the criteria in which Brazil would respond more positively, population and GDP, instead of trade and finance; nevertheless, the fact that Brazil has amassed large foreign exchange reserves, in excess of its import needs or financial external obligations, together with the decision to create a Brazilian Sovereign Fund, reveals its eagerness to play a new role also in this domain. In the multilateral trade system, Brazil repeats traditional defensive arguments, asking for special and differential treatment to developing countries, and increased access to developed markets, without significant commitments in return.

INTERNATIONAL SOCIAL ORDER

Brazilian diplomacy sees the world in the traditional way, as divided between developed and developing economies, with all the asymmetries that characterise an international economic order that emerges from unequal relationships between central, dominant nations on the one side, and peripheral countries on the other. Although old exploitation theories or unequal exchange theses are discredited nowadays, due to their contradiction with actual historical reality, social justice is still seen as a question of actively redistributing power, resources and technologies among participants in a new, world order solidarity. Correction of existing asymmetries among countries would require action on the social roots of those 'injustices'.

According to those views, a new international social order should be built on the basis of programmes of multilateral and bilateral cooperation aimed at reducing the huge gaps in world development, with special focus on social investments. Also, together with many other developing countries, Brazil tends to highlight the 'social' roots of any threat to peace and security, and proposes justice and development as almost universal means to solve conflicts.

There are some doubts, nowadays, as to whether foreign aid promotes development, or whether it actually reduces the chances of a poor country to achieve its own pattern of growth and world economic integration, based on market incentives, generally in trade, rather than on foreign assistance programmes. In any case, Brazil became an industrial power as a result of state inducements to native entrepreneurs, and free flows of foreign investment guided by the market returns. Bilateral cooperation with advanced countries concentrated chiefly on human resources training.

Brazilian diplomacy is aware that practical solutions to development problems include the promotion of structural changes in the economies for the expansion of trade and investment. In order to fully integrate in the international trade circuitry, the developing countries must have free access to the developed countries' markets, through the elimination of defensive mechanisms and distorting instruments, especially production and export subsidies, which penalise the Third World primary good producers. Nevertheless, this agenda is hardly accepted at multilateral level. Developed countries require compensation in terms of corresponding market opening for services and investments. Therefore, continuing slow integration of developing countries in the world economy is the most likely result. For Brazil, it means simultaneously preserving diplomatic actions



The ethanol production from sugarcane is boosting Brazil's biofuels industry.

on the South-South scale and at the regional level. Whatever the results of those initiatives, they will certainly contribute to the consolidation of Brazilian diplomatic prestige vis-à-vis a broad range of partners in the developing world.

This does not mean that international cooperation is irrelevant. Technical cooperation can be an extremely helpful contribution for the developing countries. Nevertheless, the process of development needs a genuine endogenous basis, so as to induce effects that can be extended to the rest of the economy as well as to society as a whole. A practical demonstration of the accessory nature of official development assistance can be seen in the fact that very few developing countries have ever succeeded in effectively leaving their 'underdeveloped' condition to maintain a sustained process of economic growth, structural transformation and social distribution of the benefits of growth. Indeed, there are no examples of development based on assistance, despite the several development decades officially sponsored by the UN and the huge amount of financial contributions transferred to African countries. The very few countries that achieved positive results did not ground their development on international cooperation.

The Millennium Development Goals

The international community established a formal commitment in 2000 with the Millennium Development Goals (MDG), a set of eight groups of targets, to be accomplished by 2015 and aiming towards the reduction of poverty and social as well as gender inequalities, the access to basic means of livelihood and public provisions in health and education. However, most poor countries will probably not achieve those

goals. Problems include the lack of funding, the provision of basic medicines and of essential public services in countries that are deficient in basic state structures. But most important is that many of the targeted countries enter the category of 'failed states', while donor countries are suffering from what could be called 'donors' fatigue'. In other words, the crisis of official aid may not be just a matter of money or material resources. Most recipient countries lack the minimal requirements for governance. In Africa, many countries are almost entirely supported by international public assistance, while the general populations watch those resources being partially embezzled by elites who display very little commitment to national development. Brazil, for its part, has already accomplished many of its targets, including the reduction of poverty to one half of existing levels, but it will probably fail in halving the income distribution inequality. The main obstacles to achieving the development goals lie not in a lack of funds, but in institutional organisation, in Brazil and elsewhere.

Based on the domestic 'zero hunger programme', Brazilian diplomacy has recently engaged itself at the highest level in an ambitious global initiative for reducing hunger and extreme poverty, although with modest practical results. Together with other willing countries, including France, Spain, Chile and the Nordic countries, Brazil was seeking new ways to sustain effective actions against world hunger and poverty: the so-called 'innovative financing mechanisms'. Several of these would be mandatory, such as additional taxes on air tickets, in lieu of the famous, but inapplicable, Tobin Tax. They also propose the same bureaucratic implementation mechanisms, through the UN and its specialised agencies¹⁷. On the basis of French proposals, the new financial resources, many from national budgetary allocations, were diverted to a new UN office for the acquisition of anti-HIV/AIDS drugs for poor countries.

Although the intentions are the best possible, these projects are in many cases redundant and overlap with other UN programmes already in force. Although the problem of the correct management of resources exists, there is no lack of official programmes or financing to fight hunger. The problem is doing 'more of the same', or trying to make multilateral mobilisation in favour of the poorest countries feasible through traditional lines of action. These assume, on the one hand, the collection of funds and, on the other hand, their targeting to the 'needy'. Several economists have reduced expectations for this type of action that tends to reproduce the same patterns of dependency on foreign aid.

Donor Engagement

Brazil can add the bilateral level to its multilateral status as a contributor to the International Development Association (IDA) of the World Bank, since it has been a net donor of official development assistance (ODA) for many years. The country has developed its cooperation mechanisms, particularly by means of the Brazilian Agency for Cooperation (ABC), a subordinate entity of the Ministry of External Relations. This is in addition to multilateral channels that are used in combination with national ones, due to budgetary scarcity. In light of its limited financial resources, Brazil favours trilateral schemes for cooperation and assistance which includes the provision of Brazilian technical services with financing by third countries or agencies. Bilateral cooperation is focused on a selected number of partners, in particular neighbour countries in South America, and less-developed Portuguese-speaking countries in Africa (the PALOPs, including East Timor). Here, Brazil again seeks cooperation with rich countries, so as to increase the amount of available resources.

Social commitments also include a variety of other actions in international bodies, among them the International Labour Organization (ILO). Due to its current trade union leadership, the Brazilian government's 'labour' diplomacy is supporting many ILO conventions that are controversial domestically, such as like job stability of the work force. On the other hand, despite strong support from labour unions for the introduction of a social clause in international trade agreements, Brazilian diplomacy has restricted the discussion to voluntary commitments in ILO instruments. As a result, any advances in the WTO have been banned, under the correct assumption that this kind of device would be used for protectionist purposes.

Another engagement front for Brazilian foreign policy has been the discussion over the social and environmental impact of the production of renewable fuels, which has raised concerns about the effects on price surges and availability of food products. Official diplomacy is trying hard to defuse a political offensive by domestic allies and a varied group of ecologists, oil producers and leftist opponents of the ethanol and biofuels agrobusiness. Oddly enough, 'social' allies, like those of the World Social Forum, and political 'allies', like the Cuban and Venezuelan presidents, have taken sides with the most aggressive opponents of biofuels. In the end, the most important Brazilian contribution to a new world energy matrix, one that could help to reduce social imbalances and establish

a new, environmentally friendly, productive basis of renewable energy, is being opposed on the basis of social concerns. The issue is still open.

MODELLING THE NEW WORLD ORDER: BRAZIL'S ROLE

Brazil has no major security concerns, which could arise from hypothetical external menaces: there are no challenges arising from any big power or from border disputes. Brazilian military forces do not have any real 'enemy', i.e. foreign powers seeking the internationalisation of the Amazon region, terrorist attacks against Petrobras' offshore platforms, neighbouring guerrillas involved in drug traffic etc., that could justify their stronger preparation in terms of arms and military equipment. In the absence of credible threats, there is a possible role for them under the banner of UN peacekeeping missions, and in peace-making operations (which depends on conceptual changes, including constitutional ones).

The world economic scenario was very positive during most of the 2000s, opening excellent opportunities for a fully capitalist country like Brazil endowed with fully functional market institutions. The growth of alternative markets for Brazil in emerging economies was able to compensate for the sluggish trend in some old engines, like the USA, Japan or Germany. Brazil never pursued a socialist path like China, nor did it enter into nationalist and intrusive state practices like India.

Brazil is conspicuously lacking in investments for infrastructure, which, up to 2008, were plentiful in the world economy. There was no lack of liquidity in the international financial markets, where opportunities are linked to risk perception and high returns possibilities. In May 2008, two leading risk-rating agencies have upgraded Brazil to investment grade, which strengthens its capacity to attract additional flows of foreign capital. At that moment, all international market variables, trade, investment and financing flows, were favourable to Brazil¹⁸. However, the deepening of the crisis in the fall of 2008 worsened perspectives everywhere. In addition, the country still has 'homework' to do in order to prepare for a new phase of growth and sustainable development. In fact, most questions on the Brazilian foreign agenda are essentially questions of domestic economic policy, and this must guide the discussion on Brazil's role in the new world order.

Similar to the situation in most other emerging economies, Brazil's basic problem resides in the country's capacity to sustain an adequate rate of economic growth, compounded with structural changes, produc-

tivity gains, and market competitiveness. Overall world growth rates between 2002 and 2008 were higher than in the preceding 30 years, and emerging economies had been growing at double or triple the world average, at rates of 4 to 5 per cent annually in that period. Latin America and Brazil, unfortunately, were lagging behind, growing at half the world rates and three times less than dynamic emerging countries in Asia. The lower growth rates occurred despite the much higher commodity prices of natural resource products exported by Latin American countries, due to a sustained demand from international markets. With the declining trend in commodity markets everywhere, overall conditions for sustained growth rates in Brazil and most of Latin America became suddenly erratic and doubtful.

Modest growth rates also coincided with huge availability of financial resources and risk capital, which raises the question of the continuous financial dependency in Latin America: is the region really risk-free in respect of new financial crises? Latin American countries' exchange reserves have never been so high, at least one of the positive effects of the financial crises of the 1990s, and interest rates and spreads on borrowing have attained historically low figures. This was not due to a new wave of irrational exuberance or unsounded trust in those markets, but to the fact that liquidity was indeed flowing high. The reversal of fortune in late 2008 and early 2009 could put the regional economic scenario under a double strain: that of the downsizing of export receipts from commodities and that of lack of new foreign investments or external credits to sustain existing projects.

Irrespective of immediate perspectives for economic growth, what, then, could explain the low growth rates in Brazil and in many of its neighbours during the boom years? Some countries that were temporarily growing, like Argentina and Venezuela, were in fact leaving previous periods of recession, or they had been pushed by the demand side, that is to say high government expenditures, in the case of oil revenue. The answer, at least for Brazil, lies basically in the low level of productive investments, either domestic or external. In the case of Brazil, there is a clear practice of 'un-saving' by the state, and an exaggerated ratio of public expenditures to GDP (at 38 per cent similar to most OECD rich countries, but with a per capita GDP six times lower). External investments could be higher, should the business environment and government regulation be more positive and open for services and „strategic sectors“. With regards to domestic investment, the negative factor is the „crowding-out“ effect of excessive taxation over entrepreneurial activity in general.

In addition, persistent budgetary deficits limit the possibility of sustainable growth, taking into account the huge internal debt and high real interest rates. In spite of macroeconomic stability, painstakingly achieved in the recent past and conducive to good fundamentals in economic policy-making, there are still risk factors, which may reduce stronger trends in foreign capital inflows. Recent trends towards renewed state control of strategic activities, such as oil exploitation in the big, newly-discovered off-shore fields, could impair Brazil's desire to aspire to a bigger role in the future world economy, as the state clearly has no resources to replace foreign investors and make all the investments needed to enhance Brazil's presence in an international scenario.

Exchange rates have never appreciated so greatly in Brazil than during the boom years of 2002-2008. They were even higher than during the exchange band period of 1995-1998. Despite those facts, exports grew steadily each year¹⁹, and its revenues strengthened foreign exchange reserves, reducing the danger of a new external debt crisis. Nevertheless, the exchange boom did not reverse the traditional dependency on foreign capitals for consumption financing, due to the more expensive domestic credit. Volatility is inherent to the very nature of speculative capitals, but becomes perverse only when economic policy is itself at volatile, that is, unstable or erratic. That happened many times in Latin America since the 1950s, mainly due to budgetary deficits, fiscal irresponsibility and exchange rate manipulation. The main problems in Brazil's macroeconomic scenario are, precisely, fiscal imbalances and high levels of interest rates, both for investments or consumption credits.

Thus, we must accept the domestic nature of Brazilian problems of low growth and 'volatility'. But how can we explain the growth differentials among the BRIC countries? Let us check each of the elements that stimulate any country's economic growth and development. Brazil has plenty of vast resources of raw materials. Abundant and low-cost energy is largely available, too. Most of it is renewable, like hydro-power and ethanol, but it also includes prospectively huge volumes of offshore oil and gas. There is also enough manpower, at low-cost, albeit poorly educated. The transport and communications infrastructure is a hindrance, as Brazil still has to invest heavily in logistical factors. A modern capital market is present, but not very liquid or affordable for all. Finally, the country has also to improve its judicial system and a fast arbitration mechanism for dispute settlement, allowing for low transaction costs, stable and transparent rules of the game, with minimal external influ-

ence in the public sector. In sum, Brazil has serious deficiencies, starting with a burdensome, excessive and complex tax system, with the intrusive presence of the state acting as an uninvited partner in the life of private companies, at their fiscal and bureaucratic interfaces.

In comparison with China or India, Brazil is still a small player in the international economic and strategic scenario, due to its modest capacity to decisively influence any development that could impact the world's decision-making process. China, for instance, has experienced an impressive rise in every important market: manufacturing, commodity and raw-materials consumer, especially energy, finance and technology, not forgetting the political and military interfaces. India has followed closely. However, this should not diminish Brazil's chances of integrating a future G13, in case of such a development in the next few years. The retraction, both in volume and value, of its commodity exports, could impair the accumulation of foreign exchange reserves – necessary in case of an expanded leadership in the region and elsewhere – though not diminishing Brazil's prospects to play a future greater role in the world scenario.

But the real question is whether Brazil effectively wants to adhere to such a small club, taking into account all other necessary changes that must be introduced in respect of its current status as a developing country. Among the changes that could help raise its economy to a new level of world integration are, at the domestic front, tax and labour reforms, improvements in the judicial and political apparatus, and, above all, a complete restructuring of the educational system. On the external side, there is a pressing need for a continued trade and foreign investment opening, the liberalisation of capital account, going towards currency convertibility. Leadership exercises in South America could be just an appetizer in a bigger undertaking towards new world responsibilities, but even that is contested by the other middle powers in the region.

Brazil would have no greater role to play in world security matters, in cases of major disruptions in international order, such as military conflicts, nuclear proliferation, fundamentalist terrorism, even if it should hold a decisive regional influence. The South American region is, in principle, free from major risks of being involved in a conflict of major proportions. It cannot, however, be considered immune to indirect effects of destabilising factors elsewhere, or new forms of tensions arising from still undetected risks. Probable challenges are more likely to arise from or-

ganised crime and weapons and drug smuggling than from strategic menaces, but the real question is to know if the national States' security apparatus and their armed forces are ready and prompt to respond appropriately to those old challenges or whether the region will continue to linger on the verge of social disruption and political instability.

Islamic fundamentalist terrorism, for instance, the most probable source of new menaces for Western powers, is unlikely to take South America as its operational base, although one cannot exclude religious proselytism and other forms of resource mobilisation taking place among such an ethnically diverse population. In the case of major terrorist attacks and similar risks at world level, they are to be confronted by a combination of intelligence and direct repression, mainly under the command and leadership of the US. Brazilian diplomacy has reaffirmed its preference for political action on the 'causes' of terrorist menaces. Initiatives taken in the realms of social justice, development cooperation and poverty alleviation could dismiss real terrorist actions.

Overall, new opportunities for Brazilian industry, and its modern and very dynamic agriculture, are likely to arise in other big emerging economies. Trade flows with some of them, such as China, are already spiralling, and promise to maintain pace in the foreseeable future. China has just become the second individual trade partner of Brazil. Brazilian companies are investing a lot abroad, particularly in neighbouring countries. Although the pace is likely to be reduced during the ongoing crisis, those companies have already learned the way of internationalisation, and should be prepared for future challenges in regional markets and elsewhere. At the same time, Brazil is opening new embassies in African countries, in order to prepare for those future perspectives.

CONCLUSIONS: GRAND ASPIRATIONS, BUT HOMEWORK IS STILL ON THE AGENDA

Thanks to its open-minded society and very dynamic economy, international options remain widely open for Brazil. The main conditions for its integration into the global world depend much more on a set of social and economic reforms that need to be made domestically than on any other initiative that could be taken on the international level. In short, the best remedy for the international enhancement of Brazilian presence is, and forcefully needs to be, domestic reform.

Brazil has a unique capacity to mobilise and activate new partners and devise new alliances in the international sphere. Due to its competent diplomacy, the country has been able to exercise a true leadership in both regional and multilateral instances. It is true that Brazil lacks capabilities, especially in the financial or military aspects, in order to respond to its willingness to exert greater influence abroad. Nevertheless, it can mobilise extensive support for certain causes, on the basis of specific commitments taken on strong moral and legal grounds. For the accomplishment of its main international goals, that is, gaining open markets for its competitive exports, accession to a UNSC seat, and becoming a basis for an integrated economic space in South America, Brazil has to develop capabilities that depend solely on its own capacity to bring about a full process of domestic reform.

A successful conclusion of multilateral and regional trade negotiations, not only the Doha Round, is the first requisite for economic expansion domestically and a greater presence internationally. This outcome, of course, does not depend uniquely on Brazil. It is a complex game, which combines national interests, world economic structural trends – arising from foreign investment, capital flows and exchange movements – and political pressures at institutional level. Brazil is capable of playing this game, but it has to open itself more globally to world economic interdependence. The difficulty here is that Brazil, being a member of Mercosur, cannot negotiate independently, since Mercosur's trade rules and its internal differences in terms of industrial capacity, trade and sectoral policies constrain extra-bloc negotiations. Nevertheless, economic authorities, especially at the Central Bank, and entrepreneurs are adjusting initiatives in that direction, thus pushing for Brazil's integration into the world economy. Brazil's current political leadership is lagging behind on this new track. That explains the hesitation within the government to accept and promote the new international agenda for Brazil, and that agenda is globalisation.

Another issue of great interest to Brazil is the reform of the UN Charter and the expansion of its Security Council. Who is going to be admitted, and which regional adjustments have to be made to accommodate all interested parties? Some compromises have to be realistically feasible, otherwise there will be no reform, nor any enlargement of the UNSC. Brazil has been a permanent candidate for a permanent chair, with all the frustrations and successes of such a long-drawn effort.

Engagement in UN peace-keeping missions, like the one in Haiti, was perceived as a sort of entrance ticket to the UNSC, and tactical compromises at regional level would be the price to pay for that strategic victory. However, that seems not to be the case. In the big powers' game, political goodwill and disinterested cooperation do not register as qualifying elements for admission to the inner circle.

International security depends, also, on appropriate means for the use of force, as well as political will and capacity for making use of it. Willingness, or the power to use force has to comply, according to Brazilian traditional diplomacy, with international law and to guarantee the respect for institutions that legitimate its use in adequate circumstances. No matter what happens to the reform process in the UN, Brazil should acquire real capability to enter the big powers' game. The necessary requisites for that, not considering any kind of nuclear 'tool', are soldiers and a checkbook, i.e. military and financial resources. Brazil has to prepare itself to accede to this new status, entirely conscious that those requisites have to be built at home, not abroad.

Regional integration and the construction of an integrated political and economic space in South America depend, for sure, not only on material forces, but essentially on the ability of the Brazilian leadership to build confidence among its neighbours. They must believe that Brazil is pursuing this objective, not only for its own benefit or the desire of national grandeur, but for the common purpose of economic and social development, within an atmosphere of political equality and total respect for the sovereignty of other countries as well. Up to now, South American neighbours have harboured some distrust about Brazil's real motives to push for integration. They suspect that Brazil's natural inclination to seek national interests could possibly be disguised as 'common aspirations'.

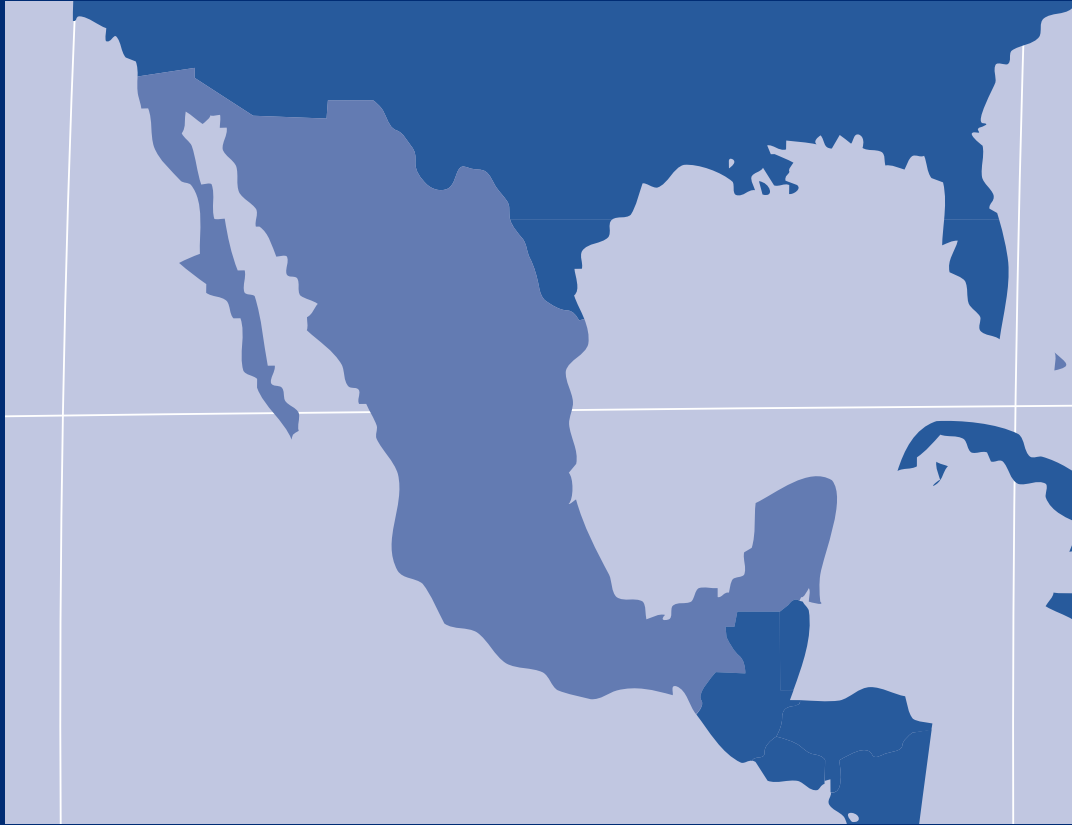
In fact, Brazilian foreign policy objectives are entirely legitimate and aligned with a better regional and international environment. They have been expressed in a set of values as corresponding to their national interests. Full 'power' for Brazil in the international arena is probably a distant perspective, but real objectives are much closer. They encompass: democracy, respect for the rule of law, promotion of human rights and of an open economic system, assuring equal opportunities for all, both individuals and nations. Those are the new frontiers for the advancement of humankind and Brazil is searching the best way to fully integrate this new trail.

- 1] *Nevertheless, entrepreneurs doing business in or with Brazil find it harder than in most other developing countries; see World Bank (2008): Doing Business 2008, Washington: The World Bank. Brazil is the 122th, in a list with 178 countries.*
- 2] Ricupero, R. (1989): *A Diplomacia do Desenvolvimento*, in: Pereira de Araújo, J., Azambuja, M., and Ricupero, R. (1989): *Três Ensaios de Diplomacia Brasileira*. Brasília: MRE, pp. 193-209.
- 3] *Brazil's integration into the world economy is thoroughly examined in: Barros, O. de, and Giambiagi, F. (eds.) (2008): Brasil Globalizado: o Brasil em um mundo surpreendente. Rio de Janeiro: Elsevier.*
- 4] *For an account of the Brazilian reforms since the early 1990s see Kaufman Purcell, S., and Roett, R. (eds.) (1997): Brazil under Cardoso. Boulder, CO; Riener, L., Font, M.A., and Spanakos, A.P. (eds.) (2004): Reforming Brazil. Lanham, MD: Lexington Books; Giambiagi, F., Guilherme Reis, J., and Urani, A. (eds.) (2004): Reformas no Brasil: Balanço e Agenda, Rio de Janeiro: Nova Fronteira.*
- 5] *The WTO G20 led by Brazil, which needs to be distinguished from a homonymous group for financial stability, was established at the WTO Doha Round Cancún Ministerial Meeting in September 2003. It has currently 23 members and has a balanced geographic representation: five countries from Africa (Egypt, Nigeria, South Africa, Tanzania and Zimbabwe), six from Asia (China, India, Indonesia, Pakistan, Philippines and Thailand) and 12 from Latin America (Argentina, Bolivia, Brazil, Chile, Cuba, Ecuador, Guatemala, Mexico, Paraguay, Peru, Uruguay and Venezuela). The Group has been consolidated as an essential and recognized speaker in agricultural negotiations. It represents almost 60 per cent of the world population and 26 per cent of the world's agricultural exports. Some of its members (among them China and India) also participate in the G33, which comprises developing countries net importers of food.*
- 6] *For an account of Brazilian foreign policy under Lula, see Almeida, P.R. de (2004): Uma política externa engajada: a diplomacia do governo Lula, in: Revista Brasileira de Política Internacional 47(1) 2004, p. 162-184.*
- 7] *Lula's diplomacy during his first presidency is examined in Almeida, P.R. de (2003-2007): A diplomacia do governo Lula em seu primeiro mandato (2003-2006): um balanço e algumas perspectivas, in: Carta Internacional, São Paulo: Nupri-USP, 2(1) (January-March 2007), pp. 3-10, http://www.usp.br/cartainternacional/modx/assets/docs/ CartaInter_2007-01.pdf.*
- 8] *Motta Veiga, P. (2005): Brazil's trade negotiation strategy under Lula. Mimeo.*
- 9] *The India, Brazil and South Africa Dialogue Forum (IBSA) is a trilateral initiative aimed at strengthening South-South cooperation, promoting themes of mutual interest in the international agenda, and increasing trade and investment opportunities among the three respective regions, with the purpose of alleviating poverty. The conversations began at the G8 Evian meeting in 2003, followed by trilateral consultations, and were formalised by the Brasilia Declaration in June 2003. The first IBSA Summit took place in Brasilia, in September 2006, and the second one in Tshwane, South Africa, in October 2007. The specific areas of cooperation are agriculture, climate change, culture, defence, education, energy, health, information society, science and technology, social development, trade and investment, tourism and transport.*

- 10] CASA stands as the bizarre acronym for the 'Comunidade Sul-Americana de Nações', or South American Community of Nations, a Brazilian diplomatic initiative launched in Peru in December 2004 as a basis for integrating the existing trade schemes, namely Mercosur and the Andean Community, and other South American countries (Chile, Guyana and Suriname) and to act as technical coordinator for infra-structure undertakings or physical integration. After two ministerial meetings and a summit meeting, member countries decided to replace it by Unasur, or Union of South-American Nations, for which a framework treaty was signed in May 2008 in Brasília, with a secretariat being established in Quito, Ecuador.
- 11] The first proposal by President Chávez for Bancosur mixed the functions of a stabilization fund and a lending organisation. It had to be corrected upon Brazil's insistence. It was then structured as a development bank, with the primary purpose of lending money to the South American nations for financing foreign trade, infrastructure projects, productive integration and the construction of social programmes. It will be headquartered in Caracas, but it is not yet an active institution. Participating countries (Argentina, Brazil, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela), signed its founding charter in December 2007. Chile participates as an observer and Colombia decided to join. Callable capital and contributions to the Bank's initial capital (of around US\$ 7 billion) follow the economic weight of each country, but they have the same voting rights. All South American countries are eligible to borrow from the Bank.
- 12] A recent contribution to the analysis of security problems in South America can be seen in Hofmeister, W. (ed.) (2008): *International Security: A European-South American Dialogue*. Rio de Janeiro: Konrad-Adenauer-Stiftung.
- 13] See Woodrow Wilson International Center for Scholars-Brazil Institute (2007): *New Directions in Brazilian Foreign relations*. Washington: Brookings Institution – Woodrow Wilson International Center for Scholars.
- 14] Brazil once gave its approval to something similar to an 'Economic and Social Security Council', as proposed by Jacques Delors, then president of the European Commission.
- 15] As a consequence of its increasing political importance, IBSA has attracted the attention of both key developed countries (which have asked for some sort of consultation and dialogue), as well as 'candidates' from the developing world. Mexico, Algeria, Egypt, Indonesia, Nigeria and even China have asked to join IBSA, ranging from observer to full member status. The three IBSA countries have so far agreed to strengthen the existing alliance, instead of acceding to the requests for enlargement.
- 16] The idea of constituting a strategic alliance of the BRICs was already expressed in Lula's government programme. The first informal meetings resulted from a Brazilian initiative, but the idea of a formal group was first raised by the Russian foreign minister. The purpose of the dialogue is to foster cooperation in the areas of trade, energy, environment and development.
- 17] In that sense, current Brazilian diplomacy sometimes seems closer to the World Social Forum ideas, with rhetorical objections to 'asymmetrical globalisation', and very far from the lines of action discussed at the World Economic Forum in Davos.
- 18] The primary fiscal surplus has remained above 4 per cent of GDP; reserves stand at over US\$ 200 billion, and FDI into the country in 2007 almost doubled: 37.4 billion against 18.8 billion in 2006 (99 per cent higher). The former peak was reached in 1994, when Brazil attracted US\$ 32.8 billion due to privatization programmes. That figure to a low of US\$ 10.1 billion in 2003.
- 19] Since 2002, Brazil has been experiencing an export boom, pushed by the growth of the world economy, the huge and unprecedented world demand for commodities, especially from China and India, and its effects on world prices. Brazilian exports have grown almost 17 per cent on average annually since 2000, while world exports grew at 11 per cent. From a deficit of US\$ 24.2 billion in 2000, the Brazilian current account jumped to US\$ 40 billion surplus in 2007, an historic record. The balance of payments is in remarkable condition, with sustained current account surpluses from 2003 to 2007, and exchange reserves amounting to its total foreign debt.

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MEXICO



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Arturo Sotomayor

*Center for Interamerican Policy and Research (CIPR), Tulane University, New Orleans
Centro de Investigación y Docencia Económicas, A.C., Mexico City*

Susan Minushkin

Pew Hispanic Center, Washington D.C.

EXECUTIVE SUMMARY

■ In terms of relative power, there should be no question that Mexico is a candidate for inclusion within the group of emerging powers or middle powers, given its territorial dimension, demographic characteristics, economic importance, geographic location, and relative weight in the Latin American region.

■ Yet, it has rarely behaved as such, sometimes assuming a 'reluctant middle power position'. As Guadalupe González argues, 'Mexico's internationalism and multilateralism have been erratic at best. Mexican political leaders have only occasionally defined the country as a middle-power with a proactive global focus.'¹

■ This is not to say that Mexico is indifferent towards global issues. Its diplomacy has been involved in all major multilateral and global negotiations. However, Mexico has been distinguished by its cautious diplomacy and distaste for protagonist roles. In that sense, the country behaves as an 'unorthodox middle power' at best, or a 'reluctant middle power' at worse². Overall, Mexico is essentially a system-cooperative actor or a *status quo* middle power, in the sense that it does not promote a radical reform of the international order, nor does it actively engage in changing the rules of the game.

■ In the following lines we should focus on the reasons that explain Mexico's reluctance to assume a larger and more active role, one that is concomitant to its place and location in world politics. Throughout the different sections here presented, we will argue that in the past two decades, Mexico has experienced systemic, regional and domestic transformations that have drastically changed the strategic environments in which its foreign policy has operated.

■ Those changes included the end of bipolarity, the re-emergence of regionalism in the Hemisphere, and the democratisation of Mexican politics. To some extent, Mexico's ambivalence in world affairs is largely explained by the regional and domestic constraints it faces, stemming mostly from the strong relationship it has with the US and the ambivalence of its domestic politics.

■ In analysing Mexico's role in global governance we will make use of the biennial survey conducted by CIDE in 2004 and 2006, *Mexico and the World*³. This survey monitors Mexicans' opinions, outlooks, values, and general attitudes towards the world. While surveys do not necessarily reflect the official policy, they do provide data as well as a snapshot that can help analyse and assess Mexico's foreign policy.

GLOBAL ECONOMIC GOVERNANCE

Mexico is a founding member of the International Monetary Fund (IMF), the World Bank (WB), and the Inter-American Development Bank (IDB.) Since the 1990s, it joined the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), the Asian Pacific Economic Cooperation (APEC) mechanism, and signed more than 43 bilateral free trade agreements (FTAs).

Mexico also has a highly respected financial and economic bureaucracy that has largely adhered to orthodox macroeconomic policies. Many Mexicans have held, or have aspired to, top positions in these international organisations. Antonio Ortiz-Mena, former Finance Minister in the 1970s, was President of the IDB. José Angel Gurría, another former Finance Minister from the 1990s, is the current OECD Secretary General. The current Finance Minister, Agustín Cárstens, was the Deputy Managing Director of the IMF. Hence, in theory, the country does have an explicitly multilateral foreign policy to deal with economic issues.

Furthermore, the Mexican public has largely favourable attitudes towards international economic institutions: on a scale of 0 to 100, with zero signifying extremely unfavourable feelings and 100 signifying extremely favourable feelings, Mexicans rated the World Trade Organization at 69 in 2006, second only to the United Nations (UN) (80) and slightly higher than the ratings for the European Union (EU) and the Organization of American States (OAS.) Mexican opinion towards the International Monetary Fund is also positive. In 2004, it received a favourability score of 63, slightly higher than the OAS, but significantly lower than the ratings given to the UN (75).

However, Mexico has a strong bilateral economic relationship with its northern neighbour, the United States (US), through institutions such as the North American Free Trade Agreement (NAFTA), and it tends to rely substantially on those bilateral institutions, too. Moreover, within the international political economy organisations, Mexico has played a pivotal role, not necessarily because of its initiative-oriented position, but because it was the detonator site of two major financial international crises in 1982 and in 1994, respectively, leading to an active intervention of these very same international organisations. Consequently, the relationship between Mexico and the existing international economic organisations is a close one, but is subject to controversy, too.

Mexico's Position on WTO and IMF

To date, Mexico is the 14th largest economy in the world in terms of GDP, one of the largest oil producers and trading nations in the world, by far the most important in Latin America. Currently, more than 70 per cent of its GDP derives from trade⁴. But Mexico is a late-comer to the trade regime. It joined the GATT in 1986 and became a full member of the WTO upon its establishment in 1995.

Throughout its modern history (1945-1982), Mexico had a closed economy, and its growth was dependent mostly on oil exports. From the late 1940s until the mid-1970s, the basic thrust of economic policy was the use of high tariffs, import licensing requirements, and foreign direct investment restrictions. A severe downturn in 1982-1983 caused by a drastic drop in the world price of oil and a rise in worldwide interest rates forced Mexico to seek financial assistance from the IMF. A second economic downturn in 1986 coupled with a stock market crash and a devaluation of the peso in 1987 and 1994 led to a second IMF intervention, in which Mexico opened up its market unilaterally, through its membership to GATT. Hence, the relationship with the IMF and the WTO has grown from necessity more than by choice, accompanied by economic crises and severe downturns.

The IMF intervention in the 1980-1990 period had important domestic consequences in both Mexico's economic institutions and its foreign policy. Perhaps the most dramatic change was reflected in its bureaucratic organisation, whereby international economic institutional relations are now coordinated and managed by mostly technocrats and economists as opposed to diplomats. While the Secretaría de Relaciones Exteriores (or Ministry of Foreign Affairs) has a responsibility for managing Mexico's relations with all international organisations, leading roles are placed by different Ministries depending on their competence.

The *Banco de México* (Federal Bank) and the Finance Ministry are paramount in managing relations with the IMF. The Ministry of Trade and Economics (also known as Secretaría de Economía) is predominant with the WTO. Because of the diverse nature of the WB and IDB's work, a variety of Ministries work in tandem with these institutions, including the economics and finance ministries, the central bank, and the social development ministries. This has consequences for Mexico's foreign affairs, since its fragmented policy making means that the country rarely

has a unified or homogenous position vis-à-vis economic, trade, and financial issues. As Andrés Rozental, former deputy Secretary for Foreign Affairs, argues:

Frequent differences arise between trade negotiators and foreign policy operators which cannot be resolved within a single ministerial structure and require arbitration from a higher level. The problem is more acute in the field, where trade offices separate from the embassies have a tendency to operate on their own, rather than under the overall supervision of the Foreign Ministry⁵.

Reform Agenda from a Mexican Point of View

This does not necessarily mean that Mexico does not favour some kind of reform within these organisations: Mexico has actively participated in international committees charged with reforming the international financial institutions following the Asian financial crises and has been a leader in compliance with new data reporting standards to the institutions. Yet, Mexico's behaviour in these organisations tends to be quiet and institutional, rarely triggering international attention or promoting large coalitions for change. We refer to this role as a system-cooperative actor.

For instance, the WB has been charging middle-income countries higher interest rates on loans compared to other lower-income countries (approximately 0.25 per cent higher.) To some extent, the WB is responding to the criticism, that its lending policies go to large middle-income countries that have access to international capital markets rather than lending more to the poorest countries. Mexico has opposed these efforts to reduce WB lending to middle-income countries, but it has done it quietly, without openly opposing such reform.

Mexico's opposition to such reforms stems from WB grants via the International Finance Corporation (IFC) that lends to private companies in developing countries. Private enterprises in Mexico have been large beneficiaries of IFC lending. Supporting the reform of the WB would imply that Mexico will pay less for the social development and reform-oriented loans than its public sector receives from the WB itself.

The Trade Agenda

With regard to trade, Mexico's overall aim is to contribute to a more open, fair and stable international system through the actions of the WTO, and at the same time to ensure that the very significant gains it has made through its FTAs are maintained. With that

goal in mind, Mexico hosted the Fifth Ministerial Conference Meeting of the WTO in Cancún, in September 2003. There, it tried hard to push for launching a new multilateral trade negotiation round, Doha; yet it failed because of a stalemate between mostly developed and developing states. Mexico has traditionally favoured a single undertaking given that, in its view, sectoral negotiations make compromise and side bargains difficult. In terms of issues, Mexico believes that the implementation of market access commitments in agriculture and textiles has not translated into improved access for developing country exports; that special and differential treatment for developing countries has not materialised in practice; and that legitimate implementation difficulties by developing countries should be recognised and allowed for.

In theory, Mexico practices a multilateral policy towards trade; however, in practice it relies heavily on bilateral agreements to deal with its trade agenda. It makes liberal use of the WTO's permitted exception to non-discriminatory trade policies through its network of Free Trade Agreements (FTAs). Currently, Mexico has free trade agreements with 43 countries; no other country in Latin America has signed so many of these bilateral trade commitments. In addition to the US and Canada, Mexico's network of agreements stretches from Chile through Central America, to the European Union, Japan and Israel. It is currently discussing preferential trading arrangements with South Korea and other Asian countries. Mexico's network of FTA's has helped to strengthen its position in a variety of international economic institutions and to play an increasing leadership role in the international economic system.

In spite of Mexico's large network agreements and linkage to the WTO, its trade relationships continue to rely heavily on the US and the NAFTA. In 1970 57 per cent of Mexican exports went to the US market; by 2006 more than 86 per cent went to the North American region. Hence, Mexico's foreign trade dependence and its foreign trade concentration with the US have increased substantially. In that sense, Mexico is currently much more concerned about the future of NAFTA than it is about multilateral trade, because there are far more stakes involved with its trade with the US and Canada than with the rest of the world. Declarations by US President-elect, Barack Obama, regarding the renegotiation of NAFTA, have only increased Mexico's concerns about the future of North American free trade. As we argued in our introduction, Mexico's role in international trade dynamics is pretty much determined by the constraints it faces vis-à-vis the US.



Mexico's dependence on US trade does not mean that Mexico is fully indifferent towards the WTO. However, it is far less involved than Brazil in opening agricultural markets and eliminating subsidies within the WTO, although it is greatly affected by agricultural policies, since it is a net importer of grain and corn. Unlike Brazil, Argentina or India, Mexico has a weak agricultural sector and has unilaterally eliminated agricultural subsidies, an issue that has caused much domestic tension among peasants since the 1980s, when it joined GATT. Most of its trade with the US takes place in the form of services and manufactured goods, which for the most part have been already opened and negotiated through diverse GATT/WTO rounds. It also imports most grains, including corn, from its northern neighbour. Mexico is thus extremely sensitive to US policies, because they might adversely affect its regional and global preferences regarding trade, even though it believes that bilateral and multilateral trade liberalisation can be compatible.

Consequently, from this section, it is evident that Mexico has not shown the kind of strong internationalist activism associated with the paradigmatic model of emerging powers, despite its increasing integration to the international economy. In sharp contrast to India or Brazil, the importance of economic issues in Mexico's agenda has not integrated economic and foreign policies, leading to increasing levels of compartmentalisation in the decision-making process. It is also unclear whether Mexico uses its leverage and resources to implement an active reform role in world affairs. For the most part, Mexico behaves like a status quo outreach country and implements a mostly bilateral agenda.

Alternative Regional Structures of Economic Governance

Alternatives to the IMF, the WB, and the IDB in Latin America, such as Banco del Sur, are not supported by the current Mexican government for a variety of reasons. First, Banco del Sur was proposed by the Venezuelan government with which Mexico has only in the past months re-established full diplomatic relations after a series of incidents during the previous administration. It is unlikely to enthusiastically sign on to any project sponsored by an ideological rival with which it has tense relations.

Second, Mexico has a relatively privileged position within the existing international economic institutions compared to most developing countries, including those of Latin America. Although it would enjoy a relatively powerful position within any regional organisation, because of its size, it would be directly confronted with rivalry from Brazil, on the one hand as the region's other large economy, and Venezuela, on the other hand as the region's largest cash spigot, at least as long as oil prices and Venezuelan oil production remain at high levels. While Mexico's foreign policy seeks a leading role for Mexico in international organisations, within Latin American institutions it generally seeks to be one among equals.

Third, although Mexico's government is making its relations with Latin America a priority of its foreign policy, after a significant deterioration in its regional standing during the previous administration, it continues to emphasise its role as a bridge between North and South America, and North and South more generally. Finally, its economic interdependence (or dependence for that matter) with the US makes it unlikely

that Mexico will support regional alternatives that either question standard economic policies or intend to drive the US out of the region.

This policy appears to be supported by public opinion. Surveys indicate that 41 per cent of Mexicans say that their country should prioritise being a bridge between North America and South America, while only 32 per cent want Mexico to prioritise integration with South America and 18 per cent want integration with North America to be a priority⁶.

Therefore, a regional financial institution that relegates the IMF, the WB, and the IBD to secondary status within the region would diminish Mexico's influence on international and regional financial and monetary affairs. Mexico does not support the creation of alternative regional or international structures, although it would not necessarily oppose the creation of complementary organisations.

Regional Arrangements of Economic Governance

One has to understand Mexico's geographic dilemma, which impedes the country from performing a larger regional role. Mexico is clearly a member of the Latin America community: it speaks the language, shares their social difficulties, and is a constant cultural presence in Latin America. However, economically and even politically speaking, the relationship with the region has been tepid at best.

Trade with Latin America forms a relatively insignificant part of Mexico's total foreign trade. Mexican exports to the region were about 2.2 per cent of the total exports in 2006, compared to 87 per cent of total exports that went to the US. Trade agreements signed with nine Latin American countries have been largely symbolic and have not been beneficial for Mexico, since they have generated mostly deficits. Under those circumstances, it does not seem realistic that Mexico would assume an active role in promoting regional arrangements on global economic governance, at least not in Latin America as a whole, which encompasses a large universe of countries and enormous variations within and across all nations. Latin America is not a homogenous region and neither Mexico nor Brazil can fully implement regional arrangements of cooperation on their own.

Given this restriction, the economic relationship that probably has some regional trends is that with Central America. Potentially, Mexico could well serve as a third-party between foreign aid donors and Central America, since the country has technical expertise



The informal sector still plays an important role in the economy of the emerging powers.

and knows the region like no other country in Latin America. Some triangular cooperation agreements have been formally signed between Japan's aid agency (JICA), Mexico and Central America, mostly in the area of natural disaster relief funds, although this is insignificant in terms of foreign aid and terms of trade. Other initiatives, such as the Plan-Puebla-Panama, are facing the same fate (see section below).

The most important institutions for Mexico are the WB, the IMF and NAFTA. While still very important, the WTO is perhaps at a second level of importance, largely because much of Mexican trade relations are conducted under WTO exceptions through FTAs. Nevertheless, Mexico uses the dispute settlement mechanisms of the WTO to resolve disputes with both its FTA partners, when it cannot resolve the dispute through the FTA mechanisms, and with other trading partners, particularly in anti-dumping and safeguard cases.

GLOBAL POLITICAL GOVERNANCE

Since its inception, the UN has always played an important role for Mexican foreign policy. As a founding member of the UN, Mexico actively participated in the San Francisco conference that led to the creation of the world organisation. Mexico had fully committed itself to the Allies' effort during World War II, and its contribution was rewarded in 1946, when the first Security Council (UNSC) meeting took place, in which both Brazil and Mexico were the only representatives from Latin America. Since 1946 the two states have participated in all major UN bodies and have been among the world's major contributors to the UN regular budget.

Likewise, public opinion in Mexico is quite favourable to the UN system. In fact, Mexicans feel more warmly towards the UN than towards any other international

institution. From a scale of 0 (cold feeling) to 100 (very warm feeling), the organisation that received the highest score was precisely the UN, with 75 points. When asked how important the foreign policy goal of strengthening the UN should be, 60 per cent of the interviewees believed that it should be a very important goal, 24 per cent said it should be somehow important, and only 8 per cent thought it is not important at all⁷.

Mexican participation in the UN serves several foreign policy goals: (1) to express a principled and mostly legal view of world politics, (2) to reinstate its relative political independence vis-à-vis the US, (3) to build political coalitions with other partners outside Latin America, and (4) to promote human rights and economic development⁸.

With regards to the first goal, Mexico's constitution places a special importance on multilateralism in the constructive, effective, and legitimate, solutions of global order problems. The principles of the UN are enshrined in Article 89 Section 10 of the Mexican Constitution, including self-determination, non-intervention in domestic affairs, peaceful settlement of disputes, the prohibition of the threat or use of force in international relations, and the sovereign equality of states. These principles were adopted specifically from the UN Charter and form the base of Mexican foreign policy. In that sense, Mexico is a strong advocate of international public law regulated by the UN and its bodies, specifically the International Court of Justice (ICJ)⁹.

Second, politically speaking, the UN is Mexico's preferred forum to exercise its relative independence from its northern neighbour, the US. Throughout its most recent participation in the UN Security Council (UNSC) in 2002-2003, Mexico opposed US attempts to authorise the use of force in Iraq. While this measure probably created political tension with Washington, it was applauded by a majority of Mexicans who were against US overall policies in the Middle East. This has led some scholars and foreign policy experts to argue that Mexico should probably try to stay away from the UNSC, because it puts the country in a potential face-off with Washington¹⁰. According to this view, Mexico simply cannot aspire to play a key role in the UNSC, because in so doing it might find itself opposing US global interests in issues such as nuclear non-proliferation, peaceful settlement in the Middle East, and terrorism. As Peter Smith describes, 'Mexico's strategic position has been severely restricted by the hegemonic power of the US. The simple fact is this: Those places where Mexico might exert the most impact are also well within the US sphere of influence, so Mexico's performance as a pivotal state is con-

tinually subordinate to the overwhelming presence of the US.¹¹ Nevertheless, Mexican diplomats believe the risks are worth taking, because in so doing it might offset the impression that the country has drifted away from the UN because of NAFTA. Mexico sees the UN as the solution to raw power politics. For this reason, Mexico will join the UNSC again in 2009-2010. This will only be the fourth time that Mexico serves in that position, having served before in 1946, 1980-1981, and 2002-2003.

In that sense, Mexico sees the UN as an important vehicle to take a number of bilateral issues it has with the US to a multilateral level. For instance, being the country with a high rate of emigration, Mexico perceives that its citizens are treated poorly in the US. While migration is a bilateral matter between these two neighbours, Mexico partially tries to address the issue through the promotion of human rights of migrants on the multilateral front. To give an example, in 2004, Mexico sued the US at the UN ICJ in The Hague, alleging systematic US violations of notification obligations under the Vienna Convention on Consular Relations¹².

Third, the UN is also a preferred forum to build relationships with countries located outside the Americas. Mexican diplomats remain firmly attached to the notion that participation in the UN enhances Mexico's voice opportunities, as it can relate to other continents. Unlike Brazil, Mexico has only a few embassies in Africa and the Middle East, so its only diplomatic contacts with those regions tend to be channelled through the UN system (see table below). In practice, Mexico does not exercise what is often referred to in the UN system as 'capital-to-capital diplomacy'; that is, diplomatic contacts between the world's most important capitals to foster UN initiatives. Instead, Mexico's efforts are concentrated in implementing foreign policy through its UN contacts in the General Assembly, where the G77 (of which Mexico has not been a member since 1994) and the Non-Alignment Movement (made up mostly of African and Asian states) have a majority of votes. In other words, it practices UN and multilateral diplomacy to foster stronger bilateral relationships.

Fourth, Mexico perceives the UN as playing a constructive role in promoting development and human rights. Having been a key actor as facilitator and the host of the Conference of Financing for Development (FfD) in Monterrey, in 2002, Mexico is actively involved in the FfD follow-up process. In particular, it promotes the implementation of the commitments made within the Monterrey Consensus, as well as the build-

ding of new bridges and initiatives to enhance their impact on sustainable development. Likewise, Mexico has actively participated in the creation of the Human Rights Council (HRC) as a subsidiary body of the General Assembly (see section below for more information on Mexico's position in human rights).

The UN Reform Agenda

Therefore, Mexico perceives the UN essentially as serving its multilateral and diplomatic policies. This does not mean that the country does not promote change within the UN. In fact, Mexico has become more proactive in the UNSC since 2003, although it continues to debate its role as a non-permanent member. Particularly sensitive to Mexico is the attempt by the G4 (Brazil, Germany, India, and Japan) to modify the structure of the UNSC by including more permanent members. Mexican diplomats have expressed their total rejection of such an initiative and have encouraged the creation of ad hoc groups to prevent the G4 from achieving their goals. In particular, Mexico is opposed to having Brazil as a permanent member for the Latin American region, thus creating some diplomatic tension and rivalry with the Southern Cone country. Instead, Mexico favours a reform of the UNSC that leads to the inclusion of more non-permanent members for a longer period of time and with the possibility of re-election.

Mexico's diplomacy believes that introducing the principle of re-election for non-permanent members would allow a more continuous presence in the UNSC of countries that are willing to play an active role in the international agenda, and at the same time it would guarantee their accountability and transparency¹³. In order to prevent the G4 from achieving its goals, Mexico's previous president, Vicente Fox, invited a group of fourteen similarly minded countries (Algeria, Argentina, Australia, Canada, Chile, Colombia, Spain, Japan, Kenya, New Zealand, the Netherlands, Pakistan, Singapore and Sweden) to form a new grouping, called 'Friends for the Reform of the United Nations'. Its official objective is that of formulating substantive proposals for the UN reform process as well as designing a diplomatic strategy to push for the evolution of the UN system. However, it was also seen as a group of countries openly opposed to the G4. The group has submitted documents to the General Assembly and Secretary-General of the UN and continues to work together on an ad-hoc basis on reform issues. The reform initiative of the previous government continues to enjoy the support of the current government of Felipe Calderon as well as generalised support by the major political parties.

Informal Global Governance

Mexico sees the G8, the G77 and the G20 as significant organs of global governance, but certainly not as a replacement for the UN or WTO in any sense. Smaller groupings can arrive at consensus position more easily than universal membership institutions and facilitate bargaining within the traditional international organisations. As such, they give Mexico the opportunity to have a greater influence on issues of global governance than within the cacophony of voices present in international organisations. But Mexico is cautious about the role of such groups and at times has withdrawn from such organisations. For instance, Mexico was one of the founding members of the G77 and led it twice; first under President Luis Echeverría, in 1974-1975, and again under President de la Madrid, in 1983-1984. However, Mexico withdrew from the G77 when it entered the OECD in 1994. These mechanisms have not proved to be exceptionally far reaching. The vast diversity of countries in these groups has allowed Mexico to reach at best extremely general agreements. Frequently, these forums merely reflect agreements already bargained and negotiated in established organisations, such as the UN.

Multilateral and Bilateral Cooperation

While the Mexican public strongly supports the principle of multilateralism, as evidenced by the importance it places in strengthening the UN, Mexicans also demonstrate some ambivalence in their support for multilateralism in action. About 46 per cent of the public said that when dealing with international problems, Mexico should be willing to make decisions within the UN, even when this means that their country will sometimes have to go along with a decision that it would not have preferred. By contrast, 27 per cent disagreed with making decisions on international problems within the UN and 19 per cent said that 'it depends'. However, Mexicans are just as wary of bilateral decision-making, at least when it involves the US. While 42 per cent agreed with joint decision-making with the United States to resolve common problems, 31 per cent disagreed and 18 per cent said that 'it depends'¹⁴.

For the Mexican government, multilateralism is the best means to reduce dominance by the most powerful countries. Multilateralism is thus perceived as a means to reduce the heavy burden imposed by its bilateral relationship with the US. In other words, multilateralism and the UN system are consciously developed further to balance and compensate for the close bilateral and somehow dependent relationship

with Washington. As argued before, Mexico has often tried to take certain issues to a multilateral level, although that have been traditionally subject to the bilateral agenda, for instance immigration.

However, Mexico's political independence is only relative and the country's multilateral orientation is perhaps strongest on political and security-related issues and weakest on economic-related issues. Mexico will rarely openly divert from US positions, unless it has the popular support of domestic audiences, as happened during the 2003 Iraq crisis in the UNSC. Moreover, Mexico has always pursued an explicitly bilateral trade policy through its network of FTA's. Trade is the one issue that remains highly bilateral in Mexico's agenda¹⁵.

Consequently, Mexico is an archetypical model of a country that engages in forum shopping and multilateralism, in the sense that Mexican diplomacy selects and discriminates among overlapping multilateral institutions in deciding where to implement its policies. Depending on the case and the forum, Mexico will go unilateral, bilateral (as in trade issues), multilateral (as in human rights) or both bi and multilateral (as in immigration).

Relations with Emerging Countries

Mexican government policy is not adverse to strategic partnerships among emerging countries, but not in an attempt to create distinct institutions which would operate independently from the traditional international institutions. One key aspect of this strategy is to position Mexico as a bridge between the South and the North, through membership in organisations such as the OECD and NAFTA. For instance, at the UN Mexico forms part of the Group of Latin American and Caribbean Countries (GRULAC). Unlike all other GRULAC members, Mexico, which joined the OECD in 1994, does not belong to the G77. Mexico sees this as a privileged, independent position and likes to think of itself as a mediator between industrialised and developing countries.

However, in practice, this self-image as a 'bridge between the North and South' has its limitations and appears to be merely aspirational. If anything, Mexico's strategy to portray itself as a bridge has failed as a policy, because the country has not been perceived as such by Latin America or any other developing nation. With the mere exception of Central America,

Mexico City



Mexico has failed to play the bridge role effectively or successfully. Quite the opposite, Mexico has been excluded from recent political projects, such as the South American Community of Nations. Brazil has often portrayed Mexico as a country that belongs to the North, not solely in terms of geographic location, but also in terms of its foreign relations.

Mexico's relations with the other G5 countries have been relatively limited, but friendly, except in the case of Brazil, with which it has a much more complex, long-standing relationship. Nevertheless, Mexico's efforts to reach out to other countries are limited by the small network of embassies abroad. The *Cancillería* (or Ministry of Foreign Affairs), which is usually underfunded because of the strong federal, bureaucratic fights for resources and budgets, has had to use its limited assets to support Mexican diasporas, while overlooking other foreign policy issues. Mexico's support of its diaspora is administered through a large network of forty-seven Mexican consulates in the US, the world's largest network of consular representations in America. All of these consular offices sustain various projects directly targeting the Mexican-American community, such as buttressing community organisations, promoting formal education programmes in Spanish for US state schools, arranging meetings with leaders of immigrant clubs and Mexican politicians, and fostering various cultural and folklore programmes to enhance 'Mexicanness' (*mexicanidad*)¹⁶.

Hence, Mexican diplomacy is often driven by the demands of diasporas, who are becoming increasingly visible in both the US and Mexican politics. This has important consequences for Mexico's foreign affairs, since the country has almost as many consulates in the US as embassies abroad (63 consulates, of which 47 are in the US, and 70 embassies worldwide). Staff members, resources, money and infrastructure go directly into North American consular offices, while diplomatic missions in Africa, Asia, and Europe are underfunded and understaffed. In some cases, it is more costly to maintain a consulate in a US city than an embassy in Africa or Asia. In some regions, such as Africa, Mexico has barely four embassies, leaving Mexican diplomacy with no formal links or networks with the strong African community. Consequently, while Mexico does have relationships with countries such as India, South Africa or China, its diplomacy is limited in scope, as it cannot practice a more global and active foreign policy, like Brazil or India.

Embassies and Consulates Abroad: Brazil and Mexico in Comparative Perspective

Embassies in:	Brazil	Mexico
Latin America and the Caribbean	25	23
North America	2	2
Europe	26	25
Asia	14	12
Africa	23	4
Middle East	10	4
Total embassies	100	70
Consulates		
Worldwide	42	63
US	7	47

Source: *Secretaría de Relaciones Exteriores de México (Cancillería mexicana) and Ministério das Relações Exteriores do Brasil (Itamaraty), 2006.*

Diplomatic relations with China, India and Brazil are essentially issue-driven. For instance, bilateral trade issues dominate Mexico's relations with China, with the former accusing the latter of dumping a variety of goods on its domestic markets, increasing the trade deficit. China has now replaced Mexico as the US's second-largest trading partner.

In the international security sphere, Mexico and China are frequently in agreement on intervention, with both countries sharing the principle of non-intervention as pillars of their foreign policy. Mexico does not support Japan's candidacy for a permanent seat in the UNSC, opening future areas of political agreement between China and Mexico.

In Mexican public opinion, China is overall well perceived: when asked to rate their feelings toward a list of sixteen countries on a scale of 0 to 100, with 0 meaning extremely unfavourable feelings, 50 meaning neither favourable nor unfavourable, and 100 meaning extremely favourable, the average rating by the general public for China was 66, fifth on the list after Canada, the United States, Australia, and Japan, and ahead of Brazil, which scored 57, and India which scored 51.

Nevertheless, Mexicans are unsure about whether China's rise is a good or bad thing. When asked if China's economy were to grow as large as that of the US, would this be seen as mostly positive, mostly negative, or neither positive or negative, 38 per cent of the public said that it would be mostly positive, 38 per cent said that it would be mostly negative, and 16 per cent said it would be neither positive nor negative. Leaders feel strongly that China's rise would be mostly negative, 60 per cent responded mostly negative while only 22 per cent responded mostly positive¹⁷.

On the other hand, relations with India used to be closer, when Mexico led the G77 and when the two developing countries were leaders of the Six Nations for Disarmament in the 1980s (which included Argentina, Greece, India, Mexico, Sweden and Tanzania). Indian-Mexican bilateral exchanges, especially within the UN system, were far more common in the 1970s and 1980s. Mexico's active role in promoting nuclear disarmament and non-proliferation decreased overtime, while India assumed a quite different role by becoming an overt nuclear power a few years ago, thus reducing cooperation levels among both countries in the area of non-proliferation. Mexico supported sanctions on India, when it tested a nuclear bomb in 1998. It also opposes, albeit quietly, the recent US-India nuclear agreement, because of its exceptions to the Nuclear Non-Proliferation Treaty, which Mexico strongly supports. Mexico is now looking at India with a far more economic interest in mind, evidenced by the recent visit of President Felipe Calderon to South Asia. Discussions between the leaders of the two countries focused on increasing bilateral trade and investment. Unlike China, Indian exports do not directly compete with Mexico's either in the domestic market or in the US market, making progress on trade and investment relatively easier.

Similarly, Mexico's relations with South Africa are extremely limited. Although it maintains an embassy in South Africa, it is one of only three in sub-Saharan Africa, and it is responsible for five other countries in the region. Trade and investment between the two countries is negligible, at best.

Conversely, Mexico's relations with Brazil have a longer and more complicated history. In short, the two countries are friendly 'brother' nations in Latin America, but as the two largest economies in the region, they, at times compete for influence both in Latin America and in the international economic and political system. Trade between Mexico and Brazil is limited, but the two countries are direct competitors for many products in the US market, and they also compete for foreign investment within the region. Some

Mexican multinationals have large investments in Brazil, particularly in the telecommunications sector. Brazilian investment in Mexico is much more limited.

Mexico has been more of a status quo country with respect to traditional international organisations, while Brazil has been more supportive of creating alternative institutions to complement existing institutions, and it even advocates for radical reforms, both in the WTO and the UNSC. Brazil also has more of a vocation for seeking to exercise political and security leadership in the region and endeavours to be the Latin American representative on the world stage. Mexico is more ambivalent about leading the region or representing the region in the political and security spheres, although it fiercely defends its leadership ambitions in the international sphere. In 2005, both countries clashed diplomatically in the UN system, when Brazil explicitly tried to become a permanent member of the UNSC, much at the expense of Mexico. Since then, Mexico has built its UN diplomacy in a way that challenges Brazil's dominance at the UN. Hence, Mexico will be in the UNSC again in 2009-2010, coinciding with Brazil, who will also serve as a non-permanent member in 2010-2011. This will be the first time that the two Latin American giants will coincide in the UNSC since 1946: This may open the door for increased diplomatic interaction between the two countries, but it could also lead to more direct confrontations on leadership roles.

In spite of their mutual competition, Brazil and Mexico have recently explored different mechanisms to expand their economic ties. Mexico is now seeking Brazilian investment in the area of oil exploration through a joint venture between PEMEX and PETROBRAS, since the latter is an innovator in deep water drilling. However, these investment projects will depend on the success of the oil sector reform in Mexico, which at the present time restricts foreign investment.

The Mexican public judges Mexico's relations with Brazil to be that of friends, rather than as partners, rivals or threats. 53 per cent said that Mexico and Brazil were friends, compared to 30 per cent who said the two countries were partners, while 4 per cent said that the countries were rivals and 2 per cent saw Brazil as a threat¹⁸.

Regional Governance

Mexico has, like Brazil to some extent, serious difficulties in implementing regional coordination mechanisms. First, in the Latin American region, Mexico has played a pivotal role in creating and fostering coordi-

nation groups, such as the Condadora Group in 1983, the Rio Group in 1986, and the foundation of the Ibero American Summit in 1991. Yet, as Olga Pellicer argues, 'the vast diversity of countries in the region has allowed them to reach at best extremely general agreements that reflect a minimal common denominator.'¹⁹

Second, the relationship between Mexico and Latin America, as well as that between Brazil and the region itself, now faces obstacles derived from the growing ideological diversity and rivalry. Brazil and Mexico can do very little to control Venezuela's Hugo Chávez' radicalism, and the gap separating the pro-Chávez countries (Bolivia, Ecuador and Nicaragua) from the anti-Chávez regimes (Colombia) is increasing and causing much political tension that probably requires a third-party intervention from outside the region.

Third, unlike Western Europe within the EU framework, Latin America is not a homogenous regional entity. Attempts to coordinate the region are condemned to failure, because of the diversity and heterogeneity of interests, policies, stakes and perspectives. On the one hand, the Southern Cone of South America is perhaps the most cohesive sub-area in Latin America, with Mercosur playing a small role in fostering integration. But even in that sub-area there are serious challenges posed by Venezuela's recent membership to Mercosur and by the lack of free trade policies practiced by some of its members, including Brazil. On the other hand, the Andean countries in South America are facing serious dilemmas posed by ideological rivalries between Colombia and Venezuela (with the US affecting the security complex), and by the increasing role of drug trafficking and organised crime. Finally, Central America is lagging behind most economic development indicators (with the exception of Costa Rica), while crime and domestic violence are imposing serious governance challenges. Therefore, not only is the region heterogeneous, but its problems and challenges with regards to governance are quite different between sub-regions and across countries. Clearly, countries such as Brazil or Mexico cannot by themselves coordinate efforts to overcome such diversity of interests and problems.

Fourth, a regional coordination function is also dependent on US leadership. There is very little Brazil or Mexico can do without US intervention. Even Brazil's most recent UN peacekeeping participation in Haiti is channelled by US interests in the region. Under such circumstances, it is extremely difficult to foster regio-

nal powers, because the US is the de facto hegemon of the region. Ultimately, Washington plays the role of regional leadership, at times facilitating cooperation, although often causing more problems than posing solutions, as evidenced by the failure of Plan Colombia.

Hence, regional powers are unlikely to exercise coordination functions in Latin America. At best, Mexico has paid greater attention to the problems posed by certain specific countries and sub-regions, such as Central America, Guatemala, Cuba, and to some extent Chile. However, none of these instances has generated a true strategic alliance, conceived as a programme for political cooperation and orchestration with the ability to generate substantive and consistent benefits for all parties. Plans for a strategic alliance with Chile, with whom Mexico has strong political and economic affinities, given their pro-free trade approach, have been derailed by Mexico's opposition to support a Chilean candidate for the OAS Secretary General position.

INTERNATIONAL SOCIAL ORDER

While Mexico probably shares the vision of the importance of international development cooperation, it does not give it high priority, relative to other foreign policy goals. Helping to improve the standard of living in less developed countries ranked tenth on a list of thirteen foreign policy goals perceived to be very important for the general public²⁰.

Having said that, Mexico's priorities in this sphere are the issues of migration and the human rights of immigrants. There are approximately ten million Mexicans living in the US, roughly half of whom are undocumented, and Mexico is a firm defender of their rights. This priority is reflected not only in relations with the US, but also in Mexico's emphasis on this issue in many international forums.

Similarly, perhaps moved by its very own democratic transition in 2000, human rights are now a salient political issue in Mexico. The country has become an active promoter and founding member of the new UN Human Rights Council (HRC). Mexico was elected as a member of the Council for the 2006-2009 period, and then presided it during its first year of operation, in 2006-07. Under its presidency, the Council submitted to the General Assembly the Convention for the Protection of all Persons from Forced Disappearance and the United Nations Declaration on the Rights of Indigenous Peoples. Mexico favours strengthening the

HRC as the organ par excellence entrusted with promoting and protecting human rights worldwide. This position has led the Mexican delegation to the UN to favour resolutions that have condemned countries like Cuba for their human rights record, leading to a serious diplomatic stalemate with the Caribbean country in 2006.

The Role of the Existing Institutions in Social Governance Questions

In terms of labour and environmental issues, Mexico accepts the need for their discussion, but it is opposed to formal commitments within the realm of the WTO that would result in disguised protectionism by developed countries. It thus considers that those issues must be dealt with through the International Labour Organization and the UN World Environment Programme²¹.

Mexico places paramount importance on the role of the UN as evidenced by its hosting of the Summit and its commitment to the Millennium Development Agenda in Monterrey in 2003. In all matters of international cooperation, the UN is the most important organisation in which Mexico acts. The International Labour Organization has a lesser role; although it is a large contributor to the organisation, Mexico has not participated actively in recent years.

Fulfilling Commitments on the Social Agenda

Mexicans like the idea of multilateralism and of Mexico being a good international citizen. For instance, when asked what Mexico should do regarding countries that do not respect human rights, 58 per cent said that Mexico should advocate that international organisations, such as the UN, censor such violations. They do not necessarily agree with living up to such commitments. When asked if they agree or disagree that Mexicans who have been accused of crimes against humanity, such as genocide and torture, should be tried in the International Criminal Court, 42 per cent agreed, 43 per cent disagreed and 9 per cent said that 'it depends'²².

Since the arrival of democracy in 2000, the government has made compliance with international human rights commitments a top priority in its foreign policy. Efforts are being made to harmonise existing local, state and federal legislation with international human rights obligations. It is also taking actions to implement recommendations made by international organisations, including those of the UN and Inter-American

systems, to eliminate racial discrimination, to protect the human rights of all migrants, including foreign workers in Mexico, to eliminate torture, and to protect the rights of children.

Nevertheless, Mexico still has a mixed record on complying with its international commitments in the social sphere, particularly in dealing with torture and treatment of journalists²³. The deterioration of Mexico's public security has led to serious violations of human rights, as the army has occupied police stations in several cities that were once taken by organised crime. If anything, Mexico's position in the UN should serve to foster the human rights agenda at home, but there are few signs of improvement.

Mexico is officially committed to opening itself to international scrutiny with regard to human rights and to constructive cooperation with international organisations on this issue. Equally important is the fact that a vast network of NGO's already exists in Mexico dealing essentially with human rights and environmental protection. Likewise, Mexico currently maintains a policy of openness and cooperation with the international human rights mechanisms and organisations. It has extended an invitation to the UN High Commissioner for Human Rights to visit the country. As of to date, Mexico has received 11 visits from the UN special representative for human rights and 7 visits from Inter-American procedures. Nevertheless, the country is still lagging behind in complying with all international human rights regulations.

Mexico does actively support the Inter-American Court of Human Rights, which is an autonomous judicial institution of the Inter-American system, established in 1979 with the purpose of enforcing and interpreting the provisions of the American Convention on Human Rights. Mexican jurists have served as judges in the Court; while the latter has ruled on specific cases of human rights violations in Mexico. Hence, the country does grant ample jurisdiction to the Court itself. But when it comes to promoting initiatives, Mexico prefers to deal with human rights issues in the global arena, often discriminating against other regional forums.

Mexico is also a signatory to the Kyoto Agreement and an active participant in international environmental issues, albeit always with the caveat that developing countries should benefit from international cooperation when complying with such agreements.

INTERNATIONAL RESPONSIBILITY

The administration, the foreign policy bureaucracy, and the opposition parties in Mexico have not yet worked out a strategy on Mexico's vision for its own future: Mexico could be a leader in the economic sphere, due to its size and trading patterns. Mexico also has taken on responsibilities in international jurisprudence and nuclear non-proliferation, two traditional areas of emphasis in Mexican foreign policy. However, there is great reticence about involvement in international security issues, beyond non-proliferation. Furthermore, because Mexico borders the US, has millions of its citizens living there and relies on its trade and investment flows, its responsibility in the international sphere runs the risk of damaging its relations with Washington. This reticence is evidenced by Mexico's limited participation as a non-permanent member of the UNSC, where many fear it may be forced to take positions on issues that go against the interests of the US, and which may cause problems in its bilateral relations in parts of the world where Mexico has very limited interests.

Consequently, Mexico tends to operate primarily as an economic actor, even on issues that are largely political or deal with international security. For instance, according to the Global Policy Forum, in 2006, Mexico was the tenth largest financial contributor to the UN system, with US\$ 32 million, accounting for 1.82 per cent of all the assessment. In fact, Mexico is the largest contributor from Latin America and the Caribbean, providing 52 per cent of the region's quota. Likewise, Mexico is among the 15 largest financial donors to the UN peacekeeping (PK) budget, contributing more than US\$ 25 million in 2005²⁴.

Therefore, Mexico is a responsible and generous financial contributor and will rarely miss its quota. It uses its economic leverage to play in the UN system. Yet, its UN behaviour has been somehow ambivalent and erratic, because it rarely participates actively in collective security and UN peacekeeping. For decades, Mexico abstained from participating in the UNSC because of its concentration of power vis-à-vis the General Assembly (GA) and because it did not want to openly disagree with the US (especially during the Cold War era). While the country has become a more proactive non-permanent member in the UNSC, there is still wide resistance among the general public to engage in collective security.

The debate regarding Mexico's role in the UNSC is also convoluted by the fact that the country has a bureaucratic setting that impedes an active role. For instance, in 2001, when Mexico made official its intention to serve in the UNSC, the Cancillería was hindered by

UN Regular Budget Payments of Largest Payers, 2006

Country	2006 Assessment	Percentage of Assessment
US	424	24.47%
Japan	332	18.81%
Germany	148	8.36%
UK	105	5.93%
France	103	5.86%
Italy	83	4.7%
Canada	48	2.6%
Spain	43	2.4%
China	35	1.95%
Mexico	32	1.82%
Republic of Korea	31	1.75%
Netherlands	29	1.6%
Australia	27	1.5%
Brazil	26	1.4%
Switzerland	20	1.1%

Source: Global Policy Forum, www.globalpolicy.org/finance/tables/reg-budget/large06.htm

other federal bureaucrats who overall disagreed with the policy. As a diplomat involved in the process argued, 'we needed to rectify a position given the transition to democracy...we needed to express commitment and international credibility.'²⁵ Nevertheless, the Finance and Economics ministries opposed releasing funds to bargain for votes in the UN, arguing that such policy would create unintended consequences, such as having small countries permanently demanding aid, whenever Mexico would join an international body. The finance establishment then successfully lobbied the executive branch and convinced the President to abstain from granting funds, debt relief and foreign aid to Mexico's allies in the UN. In the absence of substantial 'carrots' for bargaining, Mexico was unable to win a majority of votes in the General

Assembly and had to go for a second round against the Dominican Republic, which almost won as many votes as the Mexican delegation. In the end, Mexico did prevail in the second round of votes, not without a sour note, given the lack of support provided by the Finance Ministry itself. The Foreign Ministry is thus unable to mobilise on its own a candidacy for a non-permanent seat in the UNSC, unless it has explicit support from the finance and economics ministries.

This has happened occasionally, as in 1980 and in 2008, when Mexico announced its candidacy for the 2009-2010 period. It is not that bureaucrats in the economic sector reject international activism per se; instead they prefer to be actively involved in other international economic bodies, such as the WTO and the Bretton Woods system, where not only the economic benefits are more tangible, but the policies are dictated by them and not by diplomats.

Mexico and Brazil in the UN System

	MEXICO	BRAZIL
Contribution to regular UN budget	(2005) \$33.5 million	(2006) \$26 million
UNSC non-permanent member	1946, 1980-81, 2002-03, candidate for 2009-2010	1946-47, 1951-52, 1954-55, 1963-64, 1967-68, 1988-89, 1993-94, 1998-99, 2004-05, candidate for 2010-2011.
Contribution to UN PK	(2006) \$25 million 0 peacekeepers	1,217 troops, 10 police, 30 military observers (13th. from top)
Important UN posts	Alicia Bárcena Ibarra, UN Under-Secretary-General for Management, Bernardo Sepúlveda, ICJ Judge; María Elena Medina Mora, Board of Narcotic Control; Griselda García, Intergover. Committee for Safeguarding of Cultural and Tangible Heritage, UNESCO.	Luiz Carlos da Costa, Deputy Special Representative of SG for Operations in Liberia; Paulo Sergio Pinheiro, Special Rapporteur on Human Rights in Myanmar, Fernando Henrique Cardoso, Chair of the Panel on UN-Civil Society Relations
Membership in UN Commissions and Committees	Conference on Disarmament, Human Rights Council, UNESCO Executive Council, Int. Seabed Council, UN Commission on International Trade Law	Peacebuilding Commission, Law Commission, Human Rights Council, Governing Council UNEP, Conference on Disarmament.
Number of NGOs registered with ECOSOC (consultative status or on roster)	15 (out of 3,051)	NA
Number of NGOs registered with DPI	13 (out of 1,664)	6 (out of 1,724)
Number of registered partnerships with Commission for Sustainable Development	26 (out of 334)	24 (out of 321)
Number of enterprises participating in Global Compact	273 companies (out of 3,647)	127 companies (out of 3,709)

Source: Global Policy Forum, www.globalpolicy.org/finance/tables/reg-budget/large06.htm

International Military Engagement

Mexico does not have significant hard power in the international political arena. Although Mexico has Latin America's second largest military force, after Brazil, it spends less than one per cent of its GDP on its armed forces. Likewise, the military has never had the appetite to project power abroad, because since World War II Mexican soldiers have not dealt with any concrete external military enemies. Mexico is too small to fight a war against the US and too big to do battle with its small southern neighbours.

Even if the large border with the US is increasingly problematic, due to drug trafficking and now terrorism, the peril is seen as consisting not in the extreme event of an armed invasion, but in the daily socio-economic interaction with the northern and powerful neighbour. The idea of deploying a large number of soldiers to UN operations is troubling for the Ministry of Defence, because these are not seen as part of their domestic missions. Thus, Mexico has made a strategic decision to de-emphasise traditional hard political power.

Indicators of Power for Brazil and Mexico in Comparative Terms, 2006

INDICATORS OF HARD POWER	BRAZIL	MEXICO
GNP (in US\$ billions)	794,098	785,468
GNP per capita	3,460	7,310
Foreign direct investment (in US\$ billions)	18.2	17.4
Population (millions of inhabitants)	186.1	106.2
Exports measured as a % of GNP	22.7	29.9
Exports (in US\$ billions)	96.4	189.
Number of armed forces personnel	302,909	192,770
Armed forces per 1,000 inhabitants	1.8	1.8

Source: *The World Bank Group Data Query, World Bank, 2006.* <http://devdata.worldbank.org/data-query/>; *Jane's Sentinel for Central America and South America 2006, IIS-Military Balance 2005-2006*

Unlike the other G5 countries, such as China and India, Mexico has rarely used its military might to serve international purposes. There are a number of domestic and international reasons that explain Mexico's lack of interest in world military affairs.

First, Mexico has been extremely sensitive to external interference in its internal affairs, with a traditional distrust of the US and a defensive position regarding its sovereignty. This makes deep military cooperative efforts very controversial. Mexico is not a member of the North Atlantic Treaty Organization (NATO), and it is opposed to joining the US Northern Command. The country is currently engaged in discussions with the US and Canada with the Alliance for Security and Prosperity in North America (ASPAN). Mexico wants to deepen its security cooperation with its North American partners, with a large caveat related to its fervent defence of its national sovereignty.

While Mexico's government and its public share many of the same threat perceptions related to security issues as do the US government and the American public, in many ways its cooperation within ASPAN reflects its desire not to see the US security perimeter drawn at the Mexican border, because of potential disruptions in the growing economic integration between the two countries. Mexico thus cooperates on security issues with the US, only when its trade interests are threatened by Washington's security agenda. Mexico will not, however, support any engagement or commitment beyond ASPAN, such as supporting peace missions in Afghanistan.

Second, Mexico's hesitance to engage its armed forces in missions abroad is also driven by domestic considerations, particularly the evolving nature of civil-military relations and the complex bureaucratic decision-making process. In Mexico there is bureaucratic competition and a division of labour between the Cancillería and the Ministry of Defence that goes back to the 1930s. In 1929, when the Revolutionary Institutional Party (PRI) was founded, a pact was agreed between soldiers and civilians, whereby the former accepted the demilitarisation of politics and the latter conceded institutional autonomy. This pact facilitated the division of labour and made possible the emergence of a consensus, placing special emphasis on civilian supremacy, since there was nothing above the official party. By 1946, when the first civilian president was elected, the military institution had not only been unified and disciplined, but had also been successfully subordinated to civilian power. In exchange, the armed forces were given institutional autonomy to decide promotions, doctrine, strategy, and of course, military

operations²⁶. As a result of this pact, the Mexican armed forces have their own domestic priorities and have sufficient institutional autonomy to craft their own missions. Since the military was not in power during the PRI era, the democratisation of Mexican politics in 2000 did not modify the civil-military pact itself, it simply altered party politics, but not civil-military relations.

The Mexican armed forces' approach regarding security is, for practical purposes, an exclusive doctrine of national security. Indeed, the rationale and justification that drives the Mexican armed forces is their role in national development, consisting essentially of maintaining control of the intelligence community, providing public services in rural communities, containing revolutionary movements, and halting transnational organised crime²⁷. To date, the growing influence of drugs and cartels in Mexico has had an impact on the armed forces. Increasingly, the military is being used to deter transnational organised crime within Mexican borders. In fact, during the past three years, almost the entire law enforcement apparatus for combating drug trafficking has been replaced with military soldiers, and numerous key political appointments and governmental positions have now been filled with Mexican generals and colonels²⁸.

Therefore, although the Mexican democratisation process would seem to signal a demise of the national security state, the armed forces have remained faithful to their old doctrine, obsessed with domestic order, apathetic towards international trends, and opposed to PK participation. The idea of sending observers in support of UN peace initiatives is not even openly debated among the officer corps. As Roderic Camp argues, 'the military has not encouraged a free flow of ideas, nor a natural exchange socially or otherwise between the officer corps and the civilian leadership, at least up through 2000'²⁹.

Given these considerations, it was not surprising that Mexico withdrew from the Rio Treaty (the Inter-American Treaty of Reciprocal Assistance) in 2001. While this measure was uncontroversial in Mexico, it took many of its allies, including the US and Latin America, by surprise, since it was unilaterally announced without previous consultation. The Rio Treaty binds the signatory nations of the Western Hemisphere to protect the Americas from outside attack. The heart of the Treaty is Article 3, which states that 'an armed attack by any State against an American [Western Hemisphere] state shall be considered as an attack against all the American States, and, consequently, each one of the said Contracting Parties undertakes to assist in meeting the attack in the exercise of the

inherent right of individual or collective self-defence.'³⁰ Speaking to the OAS (the treaty's depositary organisation) in 2001 the then Mexican President Vicente Fox called the Rio Treaty 'useless' and 'obsolete'. Fox made a point: to some extent, the Treaty was useless, since it was a rather ineffective protection against Fidel Castro and often provided a legal justification for US intervention in Latin America. However, the reasons to withdraw were never appropriately discussed or justified by the Mexican government.

To date, Mexico is virtually outside all regional military alliances and has not promoted an alternative to the Rio mechanism. This has led many experts, including the authors, to describe Mexico's decision as maverick and poorly informed. If the Treaty had become obsolete, then a reform initiative might have been in order, but Mexico gave no signals to engage a reform process within the TIAR. This move shows that Mexico is rarely an initiative reformer, although its withdrawal also puts in question its multilateral vocation.

With regards to PK, Mexico is still lagging way behind its Latin America counterparts. Mexico has not been able to provide blue helmets to UN PK missions since 1950, although it did deploy police officers to El Salvador. The Ministry of Foreign Affairs has made multiple efforts to deploy troops, but the ultimate decision on whether Mexico will join a UN force relies on two strong federal bureaucracies, the Ministry of Defence (the Army and the Air Force) and the Ministry of the Navy. The armed forces, however, do not have a unified voice. The Navy, with more international exposure than the Army, but with fewer personnel, supports PK participation. A plan within the Navy has already been devised to allow personnel from that military branch to join a PK force³¹. Nevertheless, PK requires intensive manpower that only large armies can provide, and in this respect the Mexican Army has led the opposition to such an engagement³².

The Army perceives peace operations as weakening the military's ability to respond to its primary domestic roles. The reasons advanced by Army generals to abstain from joining a UN force are multiple: first, it is argued that most Mexican soldiers do not fulfil the foreign language requirements established by the UN for observational posts, since mandatory English courses have never been part of their curricula. Second, there is a serious concern about over-stretching missions, when the military is already engaged in multiple operations at home. Third, the military has shown anxiety about an increased involvement of US military forces in UN PK operations and regards diplomatic efforts as attempts to de-nationalise Mexico's defence



Mexico City: massive urbanization is one of the great internal problems the newly industrialized countries have to face.

strategy. Finally, there are questions about budgets and PK associated costs, such as vaccines, uniforms, gear, and equipment for the mission, none of which are subsidised by the UN. As a result, Mexico's commitment to international PK is still determined by domestic forces, especially civil-military relations. The fact that the transition to democracy has not been settled quite yet means that Mexico is still not able to contribute troops to international endeavours.

Nuclear Non-Proliferation

Another area where Mexico has retrenched somehow from the UN system is nuclear disarmament. Mexico played a leading role in promoting global and regional nuclear non-proliferation by establishing the first nuclear-weapon-free zone in the world, also known as the Treaty of Tlatelolco, for which Mexico's UN Ambassador Alfonso García Robles shared a Nobel peace prize in 1982 with Sweden's Ava Myrdal³³. Yet, the former regional leader on non-proliferation has not been able to articulate a coherent and comprehensive policy towards nuclear disarmament since the end of the Cold War. The options for Mexico have narrowed somehow, since the agenda is now clearly dominated by the UNSC, while the UN Disarmament Conference in Geneva has been paralysed since the 1990s. It is not clear how Mexico can now use its prominent role on nuclear disarmament in the UN, unless it plays a more active role in the UNSC, too.

Consequently, Mexico is more likely to operate as an economic actor, providing funds to finance several UN activities. Mexico might someday assume more roles, using its military power to support peace and stability, but much will depend on domestic factors, as well as on the availability of appropriate international conditions.

Hard and Soft Power Influence

Similarly, Mexico rarely uses its economic hard power to influence other countries, even though it is one of Latin America's most important economic forces. It does not impose conditionality terms on trade or investment, nor does it offer or negotiate special investment benefits for Mexican multinationals. Mexico has the largest concentration of multinationals in Latin America, who invest heavily in the region, such as Bimbo, Televisa, Telmex, and Cemex. This has often caused tension with Mexican companies, such as Cemex, the world's largest cement company, because the business sector often feels its interests are not well defended or protected by Mexico's foreign policy, especially when dealing with countries that have threatened to nationalise Mexican companies abroad, such as Venezuela.

Instead, Mexico seems to emphasise its soft power, not only as a good international citizen and multilateral country, but also as a major exporter of culture. Mexico is more widely known for its television programmes (also known as telenovelas) and cultural heritage, which it proudly showcases around the world. The country's renowned artists, from Diego Rivera to Frida Kahlo, and its diverse gastronomy have increased Mexico's image as a cultural power. It is partly because of this reputation, that Mexico is the largest recipient of tourism in Latin America and one the top ten sites for world tourism. Unfortunately, the Mexican government is less capable of transforming such power resources into concrete governmental actions in the area of global governance. Mexico's soft power thus remains just soft.

Development Cooperation Engagement

Traditionally, Mexico has sought to be a recipient of aid to help address its own problems of poverty, inequality, and social and economic exclusion. However, since its accession to the OECD in 1994, Mexico has received less aid and has now become a net aid donor.

Mexican international assistance is largely limited to international humanitarian assistance, particularly within Latin America as a whole, and especially to Central America and the Caribbean. This pattern of international humanitarian assistance reflects Mexico's interests in the region. It is a very powerful country relative to its Southern neighbours, and is to a large extent one among equals within South America. The amount of aid provided so far is still very small, totalling less than US\$ 80 million from 2000-2006. Instead, Mexico has offered technical assistance and human expertise, deploying engineers and technicians to natural disaster areas.

Recently, it has provided humanitarian assistance with the deployment of Navy officers. The first of these was in early 2005 to aid the victims of the Tsunami disaster in Southeast Asia. This was then followed by the deployment to Mississippi to assist in relief operations in the wake of Hurricane Katrina. This type of aid is rarely quantified, but it involves human resources which the Mexican government has financed.

Within Latin America, Mexico is most willing to assume wide ranging leadership responsibilities in Central America and the Caribbean, most notably through its Plan Puebla-Panama. It is less willing to act as a leader within South America, where its power is balanced by that of Brazil.

Indeed, perhaps the most important regional cooperative initiative that Mexico has carried out is the Plan Puebla-Panama. Proposed by Mexico's President Vicente Fox in 2001, it attempts to foster economic development across the Mesoamerican region to increase integration, extending from Puebla in Mexico, to Panama in Central America. The Plan includes projects grouped into eight initiatives designed to increase the competitiveness of the region. The Plan Puebla-Panama is the foremost Mexican cooperative initiative in the region. Its plan projects aim to work with existing regional and international institutions, such as the IDB and the WB for financing and implementation. The Plan is complementary to the economic development work done by the international economic institutions. Nevertheless, the lack of development funds to finance such

an ambitious project has halted its full implementation. The construction of highways, airports and development infrastructure is still way behind schedule. Not to mention the fact that narcotics and crime in the whole region have diverted many of the funds that were otherwise destined for development.

Likewise, Mexico's ambivalent role in Latin America fosters an equally ambivalent opinion among Mexicans. Surveys indicate that the public is not convinced about the desirability of a plan to promote the development of southern neighbours, if this entails fewer resources for the development of other regions in Mexico. In 2004, only 36 per cent of Mexicans said that providing aid to Central America would benefit the country a lot or somewhat, while 55 per cent said it would benefit the country only a little or not at all. Surprisingly, even Mexicans living in the South and Southeast were not convinced that it would benefit Mexico, only 37 per cent said that Mexico would benefit a lot or somewhat, while 48 per cent said the benefits would be little or none. In 2006, when asked how strongly they believed that Mexico should provide economic resources to help develop the countries of Central America, only 24 per cent said a great deal, while 22 per cent said somewhat, 31 per cent said not very much, and 15 per cent said not at all³⁴.

VALUE SYSTEM

Mexico's value systems and legal and social systems are Western and liberal in origin. As such, most of the values of the world's traditional powers are shared by Mexico. Mexico differs from many Western countries in its explicit non-interventionist, pacific foreign policy, which in some ways has a greater resemblance to Chinese non-interventionism and Japanese pacifism than to that of the United States or Western Europe. However, not all Asian countries are non-interventionist, nor are they all fierce defenders of the pacific resolution of conflicts. To the extent that the rise of 'Asian values' is a significant force in the globalisation process, Mexico is a firm defender of the Western values of democracy and liberalism.

Mexico is living an historic moment in which significant changes in the work of organisational systems are taking place. Therefore, the debate about Mexican values becomes important, and even more so because many Mexican multinational firms have started introducing changes in their organisations that attempt to take into account and adapt to the values and behaviours of Asian countries receiving their export products.

Furthermore, the country also has a very heterogeneous population that constantly questions Western values. For decades, there has been a stereotype related to the Mexican 'essence', which was strongly identified with the Mexican Revolution in the 1930s. In fact, most literary essays, philosophical reflections and studies about the character and psychology of the Mexican 'essence' focused on cultural practices performed mainly by the Mexican working class and mestizos and not so much by European Mexicans. The social revolt of the Zapatista movement in the 1990s questioned some of these European values and raised concerns about the significance of globalisation overall. After all, the Zapatista movement made itself public the same day NAFTA entered into force. To date, many intellectuals from the political left question Mexico's position in North America and have advocated a more Latin American or non-Western foreign policy. However, this has not translated into a clear non-Western policy, in part because the political left is still part of the opposition, as it has never won elections at the executive federal level.

The most important normative criteria influencing Mexico's actions at the international level are those enshrined in the Constitution: the self-determination of peoples and nations, non-intervention in the internal affairs of other states, the pacific resolution of conflicts, the prohibition of the threat or use of force in international relations, the sovereign equality of states, international cooperation for development, and the struggle for peace and international security. In addition to these codified criteria, the current government and the previous four governments have all included an explicit endorsement of the desirability of free and open markets, or economic liberalism, as the best means to achieve increased welfare. Since Mexico has seen the arrival of democracy in 2000, political liberalism has also stood behind Mexico's rhetoric and actions to shape the globalisation process.

CONCLUSIONS

The preceding sections have offered an ample view containing economic and political factors which might impinge on Mexico's role as an active G5 country. There is no doubt that Mexico faces a large number of obstacles, including a broad sense of scepticism and ambivalence among the public with regard to the form of foreign policy that the country should exercise. Will Mexico become a major player in the international system? Is Mexico a reliable emerging power? The answer lies in three evolving and related circumstances.

First, while Mexico has behaved essentially as a very responsible actor within the international system for several decades, the US continues to be of such overriding importance for Mexican diplomacy, that very little thought is given to its role as a middle power in the global system. Mexico's external behaviour is thus restrained by the fact that it interacts in a region immersed with large asymmetries of power and economic interdependence. The extent to which Mexico will assume an active role in world affairs will depend on how the political leadership defines its relationship vis-à-vis Washington.

Second, contrary to countries like Brazil, Mexico's foreign policy does not pursue a regional hegemonic role. Given its particular geographic location, midway between the North and the South, Mexican diplomacy finds it particularly difficult to articulate a regional leadership role. Instead, it will attempt to portray itself as a bridge between the rich and the poor, the North and the South. Yet, even this role is limited by the fact that other countries must legitimise and accept such function. To date, there are few signs that countries in the South or in Latin America will view Mexico as a channel or bridge to the North.

Third, the extent to which Mexico can assume a leadership role in economic and political governance also depends on how it handles its own domestic transition. The country has not fully graduated from its recent democratisation experience, and several key actors have yet to understand and assimilate the consequences of the transition to democracy. Democratisation trends have been affected by a number of factors, including military reserve domains and bureaucratic pressures, all of which exercise an influence on Mexico's commitment to international organisations and global governance.

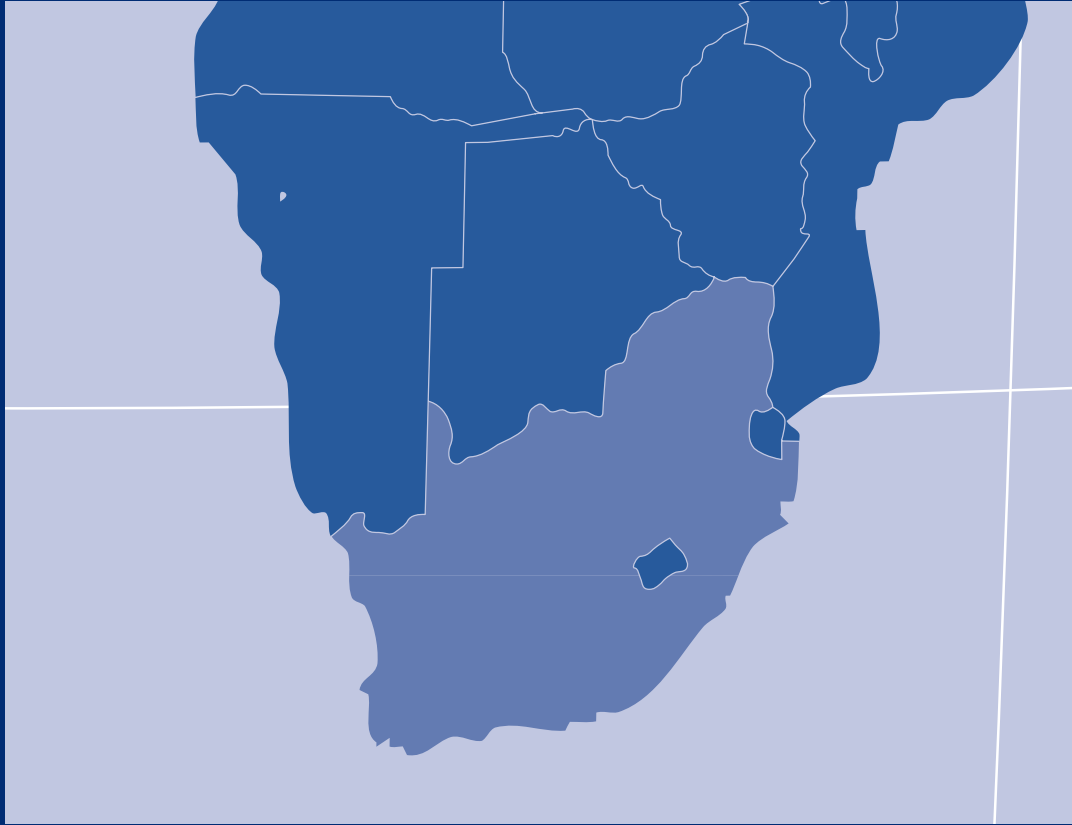
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 - 6| González and Minushkin (2006).
 - 7| González, Minushkin and Shapiro (2004); González and Minushkin (2006).
 - 8| Pellicer, O. (1994a): *México y las Naciones Unidas, 1980-1990: De la crisis del multilateralismo a los retos de la posguerra fría*, in: Sepúlveda, C. (ed.): *La Política Internacional de México en el decenio de los ochenta*, Mexico City: Fondo de Cultura Económica, pp. 199-231; Pellicer, O. (1994b): *Voz de México en la Asamblea General de la ONU, 1946-1994*, Mexico City: Fondo de Cultura Económica.
 - 9| Mexico has provided four of its most distinguished jurists to serve as judges at the ICJ, including Isidro Fabela, Luis Padilla Nervo, Roberto Córdova and, currently, Bernardo Sepúlveda.
 - 10| Serrano, M., and Kenny, P. (2006): *Iraq and World Order: A Latin American Perspective*, in: Ramesh T., and Sidhu, W.P.S. (eds.): *The Iraq Crisis and World Order, Volume 1: Structural and Normative Challenges*, New York and Tokyo: United Nations University Press and International Peace Academy; Benítez, R. (2004): *Mexico and the New Challenges of Hemispheric Security*, Woodrow Wilson Center Reports on the Americas No. 11., Washington D.C.: Woodrow Wilson International Center for Scholars, p.56; Domínguez, J.I., and Castro, R.F. de (2001): *The US and Mexico: Between Partnership and Conflict*, New York: Routledge, p. 57; Pellicer, O. (2003): *Los dilemas de México en el Consejo de Seguridad*, in: Castro, R.F. de (ed.): *México y el mundo: En la frontera del imperio*, Mexico City: Editorial Planeta, pp. 91-104.
 - 11| Smith, P. (1999): Mexico, in: Chase, R., Hill, E., and Kennedy, P. (eds.): *The Pivotal States. A New Framework for US Policy in the Developing World*, New York: W.W. Norton and Company, p. 217.
 - 12| Mexico sought extensive relief, including the release or retrial following consular notification of fifty-four Mexican nationals. Mexico alleged that all fifty-four had been sentenced to death in ten US states without being notified of their right to contact a Mexican consular official as required by Article 36 of the Vienna Convention, Crook, John R. (2004): *The 2003 Judicial Activity of the International Court of Justice*, in *The American Journal of International Law*, Vol. 98, 2 (April), pp. 309-317.
 - 13| Hesse, Valeska (2008): *Fact Sheet: New Powers for Global Change: Mexico at the UN, Dialogue on Globalisation, Friedrich-Ebert-Stiftung; Sotomayor, Arturo (2008): México y la ONU en momentos de transición: entre activismo internacional, parálisis interna y crisis internacional*, in: *Foro Internacional*, Vol. 48 (1-2).
 - 14| González and Minushkin (2006).
 - 15| For instance, in 1996, Mexico challenged a US safeguard measure under the provisions of NAFTA. While few were surprised that Mexico filed this case, many were puzzled by Mexico's decision not to bring it, instead, to the WTO. Indeed, the case seemed better suited to the WTO, since other members were affected, and because Mexico's arguments largely centred on issues of WTO law; Busch (2007). Yet, Mexico thought differently, in part because its trade policy is mostly determined by economic dynamics in the US, thus making it subject to a strict bilateral agenda.
 - 16| González Gutiérrez, C. (1997): *Decentralized Diplomacy: The Role of Consular Offices in Mexico's Relations with Its Diaspora*, in: Garza, R.O. de la, and Velasco, J. (eds.): *Bridging the Border: Transforming Mexico-U.S. Relations*, London: Lanham, pp. 49-57.
 - 17| González and Minushkin (2006).
 - 18| González and Minushkin (2006).
 - 19| Pellicer (2007).
 - 20| González and Minushkin (2006).
 - 21| Ortiz Mena (2005), pp. 234-36.
 - 22| González and Minushkin (2006).
 - 23| Sotomayor (2008).
 - 24| *Global Policy Forum (2006): Regular Budget Payments of Largest Payers: 2006*, www.globalpolicy.org/finance/tables/reg-budget/large06.htm. According to Global Policy Forum, the top financial contributors to UN PK operations are the US, Japan, Germany, UK, France, Italy, Canada, Spain, China, Mexico, South Korea, the Netherlands, Australia, Brazil, and Switzerland.
 - 25| Personal interview with a member of the Mexican Foreign Service and former ambassador of Mexico to the United Nations. CIDE, Mexico City, 13th November 2004.
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 - 29| Camp, R. (2005): *The Mexican Military on the Democratic Stage*, New York and Washington D.C.: Center for Strategic and International Studies and Praeger Publishers, p. 4.
 - 30| Rio Treaty, Article 3.
 - 31| Arellano, J.A. (2004): *Entrenan para misiones de paz a militares mexicanos*, *El Universal*, 13 May: P. 12.
 - 32| For instance, in June of 2005, Patricia Olamendi, the then deputy foreign secretary for multilateral affairs and human rights, resigned in protest after President Vicente Fox's spokesman Ruben Aguilar flatly contradicted her statement, that Mexico might someday contribute personnel to PK missions. Apparently, the Defence Ministry complained that a civilian in a non-military bureaucracy was meddling in the affairs of the armed forces. Soon after the military commanders had complained, President Vicente Fox made it clear that his administration would never authorize sending Mexican troops to UN missions, thus siding with the Ministry of Defence and the military establishment, much to the chagrin of the Cancillería; Ramírez, C., and Merlos, A. (2005): *Chocan Los Pinos y SER, Reforma*, July 30, 2005, *Internacional Section*: www.reforma.com.
 - 33| Serrano, M. (1992): *Common Security in Latin America: the 1967 Treaty of Tlatelolco*. London: Institute of Latin American Studies.
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SOUTH AFRICA



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Elizabeth Sidiropoulos

Leaza Kolkenbeck-Ruh¹

The South African Institute of International Affairs (SAIIA), Johannesburg

EXECUTIVE SUMMARY

- South Africa is a committed multilateralist and an active global citizen. It is also committed to a global governance structure that is fairer, reflects changing power configurations and the concerns of developing states (for example, effective global solving of socio-economic issues and a departure from orthodox solutions, which have not always had the desired positive outcome).
- Its global governance agenda is closely linked to its African agenda (peace, stability, poverty eradication) and to its Global South agenda of deepening South-South cooperation at all levels.
- South Africa's modus operandi has been to develop coalitions with other states to take these issues forward. Sometimes these coalitions are within the South and on other occasions South Africa has built bridges with the North.
- Over the last 14 years (since 1994), there has been a shift in South Africa's foreign policy away from emphasis on its role as a bridge builder to one that is overtly about the Global South. The consequence of this development has been the emergence of a more confrontational engagement at times with the North. However, South Africa's engagement at all levels is far more complex; the country plays different roles in different circumstances.
- South Africa is small in comparison to the other Outreach/Group-5 partners. For example, in a 2006 study of the BRICs (Brazil, Russia, India and China) by Goldman Sachs South Africa does not make it into the 'Next 11' group, which includes Nigeria. The key reasons for South Africa's participation in the Group 5 include:
 - Its preponderant role and position in Africa
 - Its 'soft' power, i.e., what it has achieved domestically through a peaceful transition and tried to replicate elsewhere, which has given it moral standing and credibility. This is the one element that distinguishes it from the other members of the G5. Global actors listen to South Africa because of this, but equally have certain expectations about how it will behave on the global stage.
 - Its own desire to be engaged in global matters (more than any African state). But this can only work if others see that and recognise it, which is indeed what has happened since 1994.

■ However, a key challenge for South Africa continues to be acceptance by other African states of its leadership role on the continent. There is only a grudging acceptance of this role, although very few other African states have the capacity to underwrite the continent's political and economic frameworks. South Africa has been extremely conscious of these perceptions that it is the 'big brother' and is careful not to fuel them. There is an inherent contradiction in this, though, which results sometimes in South Africa's being overly cautious on issues where it could be leading.

■ South Africa's global standing has been high since 1994. However, its more recent foreign policy actions, especially in the UN Security Council, have created fissures in this perception among elements of the international community. A barometer of South Africa's 'global standing' now is likely to be quite different from what it was in 1994. In many respects South Africa has lost some of the initial lustre of the honeymoon 'miracle transition'; perceptions of it are gradually becoming less sanctified and more normal, although the feeling in some Northern countries, that it has not lived up to its reputation, reflects that the 'honeymoon' is not forgotten.

SOUTH AFRICA ON THE GLOBAL STAGE SINCE 1994

Since its return to the international fold, South Africa has not shirked from active engagement in global affairs. Although in comparison to the big emerging powers of China and India, South Africa is a midget – economically and demographically – it is clearly a pivotal or anchor state in its immediate region and on its continent. In addition, South Africa has a track record of participation in the debates and negotiations on new international regimes, most notably its leading role in the Ottawa Treaty on landmines and also on nuclear non-proliferation. Under the Mbeki administration, this engagement increased further, with South Africa also being invited to the G8 summits as part of what some now bill the Outreach Five or the G5 of China, India, Brazil, Mexico and South Africa.

Indeed, South Africa has the structural and human resources to engage constructively in Africa, and it has the capacity to back up its ambitious foreign policy. As an emerging African power, with political and economic clout, South Africa has assumed responsibility to keep the continent on the international agenda, to help create effective continental institutions, to act as a champion of the developing world and to push

for a more equitable global order. This role is partly self-ordained and partly assigned, if somewhat grudgingly, by the continent.

South Africa's participation in global affairs has been guided by its key foreign policy principles, identified as strategic priorities of the Department of Foreign Affairs in their 2007-2010 Strategic Plan,² namely:

1. Consolidation of the African Agenda
2. Strengthening of South-South Cooperation
3. Strengthening of North-South Cooperation
4. Participation in the Global System of Governance
5. Strengthening of Political and Economic Relations

Strategic priority four, i.e., participation in the global system of governance, specifically motivates participation in the system so as to give the Global South an equal voice with the developed North. In addition, the objectives of its South-South and North-South cooperation also play a key role in its participation in the global governance system.

However, the strategic priorities of consolidating the 'African agenda' (which is sometimes difficult to define), and reforming the global governance system present something of a dilemma. Much of the legitimacy for South Africa's actions on the international scene derives from the country's acceptance and recognition as an African state representing the continent. However, from the viewpoint of the other African nations, this is not unanimously the case. As a result, this makes it difficult for South Africa to fulfil its strategic priorities of consolidating the 'African Agenda' whilst at the same time contributing towards the reform of global the governance system as a weighty representative of the African continent. This is perhaps not easily appreciated by the Global North. South Africa's membership in the G5 is largely a result of the legitimacy it has among industrialised countries as a leader in Africa, but a status emanating from the North can be a sword of Damocles in terms of how it plays out in the intra-continental dynamics in Africa.³

South Africa's global profile has much to do with the fact that President Mbeki was largely a foreign policy president. Although the general focus of South African foreign policy after Mbeki's departure from government (which occurred unexpectedly in September 2008) is unlikely to change dramatically, it is still an open question as to whether his successor⁴ will maintain the same level of engagement outside of the country – at least initially.

South Africa's own domestic challenges and shortcomings are also a potential constraining factor in how it will choose to engage at the global level in the medium term. The country's multilateral engagement has mushroomed since 1994, but while this good global citizenship is to be welcomed, it has not always occurred with a proper assessment of how its involvement plays into its national interest. The need to be more discerning in the areas in which South Africa engages in the multilateral sphere is linked to its ability to mitigate the substantial domestic challenges it faces. Invariably, success at home will affect how it is viewed by its peers in Africa, but also more broadly by the rest of the international community. Perceptions of its global standing will be absolutely crucial to its future involvement and influence on the debates necessary to shape a new global institutional order.

This paper sets out to investigate South Africa's position and engagement in different global governance forums, as well as in its region and continent. The paper is divided into five parts. It begins with an analysis of how South Africa sees its responsibility in the international arena. The second section discusses the values that South Africa espouses and which may, or may not, play themselves out in the way it conducts its international engagement. This is followed by a discussion of South Africa's global economic and political governance involvement. The study ends with a brief interrogation of South Africa's position on an international social order.

INTERNATIONAL RESPONSIBILITY

Although countries such as China and India are often billed as emerging economies, their global significance has become broader than simply their economic relevance. These big emerging economies, as well as some smaller ones such as South Africa, have not eschewed participation in the global debates on pressing issues. Rather they are increasingly determined to make their mark in the formulation of new international rules.

When he was deputy secretary of state, Robert Zoellick, noted that the US was encouraging China to be a 'responsible stakeholder', as it became a major global player. This meant that it would work with the US and others 'to sustain, adapt, and advance the peaceful international system that has enabled its success. [...] Without always pursuing the same policies, we can still pursue the same policy goals with complementary approaches'⁵.

It is the expectation of both the US and the EU that the emerging powers will become responsible stakeholders in the international community. This concept is a key element in understanding international responsibility. However, the term may well mean different things to these countries. When enunciated in the context of China it referred to the expectation by the US that this rising country would be willing and able to cooperate in the 'delivery of international public goods such as economic stability, non-proliferation, peacekeeping and regional security'⁶. As an emerging power it should not be expected to be a free rider in the international system, but rather work to strengthen it.

However, responsibility implies an acceptance of certain underlying objectives and values, which a country with suitable capacity undertakes to meet and to protect. When the term is used by the US or by the EU, it is understood to imply those values and objectives that are vital to their world view and particular interests. Even before it became accepted that Fukuyama's much-touted 'end of history' and the triumph of the liberal international order did not reflect the reality of the post-Cold War environment, non-Western countries did not necessarily share the same sentiments on the system and values that should be underpinning it. Thus, it must be stated at the outset that perceptions about what kind of behaviour constitutes international responsibility may differ between Western states and emerging powers.

South Africa takes its role on the global stage very seriously. Unlike China and India, South Africa's economic significance in global terms is very small (except in the context of the African continent). Its desire to be part of shaping the new global order is driven largely by its political determination to be active on the international stage. In addition to this, its economic and political dominance in Africa means that it is also given a seat at the global table on these matters by others, including the West, as an important representative of the continent.

In its ten-year review of the South African state, undertaken in 2003-04, the Presidency noted,

South Africa has, since 1994, sought to contribute towards the strengthening of a democratic, transparent and rules-bound international political and economic order to advance the interests of developing countries. This has informed South Africa's position on issues of international security, the environment and trade.

However, South Africa's perspectives on what international responsibility means are often very different from what the US or indeed Europe regards as behaviour befitting a 'responsible stakeholder'. This has become very obvious in the votes in the UN Security Council since South Africa joined in January 2007 as a non-permanent member. Although human rights and democracy have been regarded as important values determining South Africa's actions since 1994, South Africa has adopted an approach in international forums that approximates that of China and Russia regarding non-interference in the internal affairs of states. At the UN Security Council South Africa has thus voted against the resolution initiated by the US on Myanmar, opposed sanctions against Iran and Sudan, and sought to avoid discussion of Zimbabwe (especially after the March 2008 elections there, the presidential results of which were not announced for several weeks).

In taking positions on these issues, which have seemed to go against the grain of advancing peace and security, South Africa has repeatedly emphasised that more punitive measures would be counterproductive to efforts aimed at crafting a sustainable settlement in those countries, especially since regional organisations were already exerting efforts in these matters.

South Africa would like to see itself as a rule maker in the international system – the apex of international responsibility. Responsibility cannot be detached from having the right to create input in an evolving international system. However, it is likely that in the case of South Africa this rule-making may be constrained by the country's need to heed solidarity with Africa, a factor which plays less of a role in Brazil, India and China.

Soft versus Hard Power: South Africa's Political Strategies

At the heart of South Africa's foreign policy is its African Agenda. South Africa has realised that it cannot insulate itself from developments in its geographical neighbourhood and that much of its prosperity rests on its ability to create surrounding zones of peace and stability, which in turn make growth and development possible.

In sub-Saharan Africa, South Africa has the largest economy (about US\$ 290 billion in 2007/08)⁸, while it has 63,000 military personnel – Angola has 108,000 and Rwanda has 70,000⁹. Since 1994 South Africa has been at the forefront of enunciating a vision for the continent's internal as well as external challenges. Former President Mbeki in particular was a visionary

in giving content to the 'African Renaissance' through the New Partnership for Africa's Development (Nepad)¹⁰. South Africa has used alliances with other key African regional leaders to propel the formulation of new intergovernmental structures in its region and the continent, which would reflect the vision of an Africa better able to deal with its challenges and those posed by an increasingly globalised world into which Africa was asymmetrically integrated.



South Africa: a young generation representing the strong demographic development of the countries in transition.

In doing so it has used largely its soft power. South Africa does not consider that its hard power should be wielded unilaterally. With the exception of the intervention in Lesotho in 1998, its military power is deployed within African or UN multilateral frameworks. It has deployed troops in peacekeeping missions, among others in the Democratic Republic of Congo (DRC), Burundi and Sudan since 2001.

Both its military (hard power) and its soft power are elements of its objective of creating peace and security on the continent. South Africa's own peaceful transition and negotiated settlement have given it the global prominence and the legitimacy to contribute towards conflict resolution. Indeed, this is seen as one of South Africa's 'key exports'. South Africa has become involved not only in conflict resolution in Africa, but also in Northern Ireland and the Middle East, and many of its eminent constitutional lawyers have worked on crafting constitutions for states emerging out of conflict (for example in Rwanda and also more recently in Iraq). Some of these initiatives outside of Africa have also taken the form of 'second track' diplomacy.

Arguably, much of South Africa's soft power comes from its particular historical experience, which elevated South Africa's global standing among developed



and developing countries. Its ability to punch above its weight and be heard has been largely due to its willingness to engage, but also the willingness of others to see it do so. Often, the developed world has given South Africa more stature and responsibility than its own neighbours in the region may want to recognise. And this is the dilemma of its foreign engagement. It is for this reason that South Africa emphasises for example, that its presence in the UN Security Council (UNSC) provides an opportunity to voice the concerns and interests of the Africa group, as well as those of the G77.

Its position in the Security Council and in the UN Human Rights Council has tended towards emphasising that it is not the West's lapdog, and that it is not opposed to standing up to the P3 in the Security Council, that is the US, the UK and France¹¹.

However, at the global level, South Africa has made a valuable contribution to norm setting, especially during the late 1990s. First, it is the only country to have given up its nuclear arsenal voluntarily. It made a significant contribution to the review and extension conference of the Non-Proliferation Treaty, as well as to the negotiation of the Ottawa Convention on landmines. But at the same time it jealously guards its right to have a civilian nuclear capability. Its positions at the International Atomic Energy Agency (IAEA),¹² and also its advocacy of the right of developing states to develop civilian nuclear capability are important elements of its engagement in this regard. It has also been very critical of the 'nuclear club's' own non-compliance and double standards in adhering to the Nuclear Non-Proliferation Treaty. South Africa is also a member of the Nuclear Suppliers' Group. The country has also worked to transfer its own expertise in nuclear energy to other African states in order to build up their own peaceful nuclear energy capabilities.

South Africa's Regional Responsibility

South Africa's strategy in terms of shouldering regional responsibility has been to help build effective regional and sub-regional institutions. This has been the case both in the establishment of the AU, as well as in streamlining the SADC Secretariat to make it more effective. Nepad was also largely President Mbeki's brainchild. South Africa is the only country in the region (and possibly the continent) that has the economic, political and military clout, capabilities and expertise to fulfil this agenda. The country has been one of the largest contributors financially to AU institutions since its creation in 2002.

However, concerns about being characterised as a bully or a regional hegemon have meant that often South Africa has avoided overemphasising its leadership role within the continent. It has always sought to act in concert with other powers such as Nigeria and Algeria.

South Africa is ambiguous in its bilateral dealings with the rest of Africa. It remains acutely aware of the fact that its pre-eminence as the partner of choice for governments and organisations outside Africa is a source of resentment in some quarters on the continent. As a result, South Africa is careful to act with the African bloc wherever possible, despite the fact that its interests often differ from those of other African states as a result of its own more developed economic status, and its different historical and political experience. It is also reluctant to offer open criticism of other African leaders, as is seen most clearly in the case of Zimbabwe's president. This undercuts South Africa's moral stance at the very moment it is trying to promote principled approaches. South Africa's actions often reflect a need to ingratiate itself with the leaders of other African states, to assure them of its African credentials.

South Africa's strong commercial presence in the rest of the continent further complicates this relationship. Its investments are not always regarded as making a positive contribution to individual economies, especially because they are often more competitive than local businesses (the retail sector has been singled out in particular). The South African government is also equally sensitive to the role that its national companies play in the region, and has spoken about developing a code of conduct for their operations.

Regional Responsibility on Security Issues

South Africa's identification of itself as an African state since 1994 and its recognition of the vastly transformed local and international conflict environment underpin the country's foreign policy with regard to security. Pretoria acknowledges this, saying that:

[a]lthough South Africa acknowledges its global responsibilities, the prioritisation afforded Africa in South African foreign policy makes Africa the prime focus of future engagements. South Africa has an obvious interest in preserving regional peace and – stability in order to promote trade and development and to avoid the spillover effects of conflicts in the neighbourhood¹³.

A formative factor in South Africa's approach to security policy is the country's own experience of peaceful transformation from apartheid to democracy. Since 1994, South Africa has been involved in a number of conflict resolution attempts: Burundi, the DRC, Côte d'Ivoire and Sudan (Darfur). To this may be added Zimbabwe and Lesotho. The record is mixed, but it is not without notable interim successes. In Burundi and the DRC South Africa's efforts have resulted in, first, a restoration of political contestation in both countries, and second, successful elections. These have produced fragile but nonetheless functioning governments. South Africa's biggest challenge now, however, is to ensure that these fragile political settlements stay on track. In Zimbabwe the power-sharing agreement negotiated by President Mbeki, which was announced in September 2008, provides an opportunity for the political impasse to be broken in that country, but at the time of writing it had yet to be fully implemented. With President Mbeki's resignation, which followed a few days after the signing of the agreement, the role that a new South African government may want to play is unclear. The efforts in Côte d'Ivoire and Darfur have thus far been unsuccessful.

A major constraint is that, despite all its resource allocation to conflict resolution, South Africa has limited institutional back-up for its senior political leaders when mediating conflicts to ensure that the agreements of the peace process are implemented.¹⁴

South Africa has also actively promoted institution-building through the creation and reform of new security architecture for Africa. The AU Peace and Security Council (PSC), which aims to 'promote peace, security and stability in Africa', officially came into being in July 2002 and South Africa was elected as an inaugural member. South Africa has financed many of the PSC's initiatives, including the AU's first peacekeeping operation, the African Mission to Burundi (AMIB).

The AU's security function is supported by nine smaller, overlapping regional economic communities. While full economic integration is the primary ambition of these structures, most of them include co-ordinated security components, such as SADC's Organ on Politics, Defence and Security (OPDS). However, since the Protocol on Politics, Defence and Security was adopted by SADC, the Organ has exerted very little influence over the member country to which it might be thought to matter most – Zimbabwe.

Perhaps the most significant constraint on South Africa's responses to conflict in Africa is its own ambivalence. While Pretoria has provided a bold vision and vigorously supported the building of Africa's new diplomatic and security architecture, there remains an element of hesitation, possibly a legacy of South Africa's apartheid past. As Flemes notes:¹⁵

In particular the former frontline states are highly sensitive to any behaviour that reminds them of the apartheid regime's aggressive policies of regional hegemony. Hence a pronounced articulation of Pretoria's claim to regional leadership would imply a high risk of isolation.

This may help to explain why South Africa has been proactive and persistent in building multilateral structures at the AU level and taking a lead in mediating conflicts further north, while showing reluctance to provide the same energetic leadership within its own sub-region.

South Africa has used its position as a non-permanent member of the UN Security Council to address some of the weaknesses in that global body's interaction with regional structures to resolve conflicts. In March 2007 South Africa presented a concept paper on the link between the UN and regional organisati-

ons (Chapter VIII of the UN Charter), especially in the areas of conflict and peace-building, for debate by the Council. Underlying the motivation for such an engagement between the UN and regional organisations is South Africa's advocacy for a larger voice for the global South, i.e., the global South will sort out its own problems; it will implement its own diplomatic mechanisms to deal with conflicts; and it will be treated as doing the regional job on behalf of the Security Council.

In April 2008 Resolution 1809 was adopted¹⁶, which focused essentially on cooperation between the UN and the African Union. In addition, one of the outcomes of South Africa's initiative since 2007 has been to establish annual meetings between the UN Security Council and the AU Peace and Security Council.

Regional bodies are an important component in South Africa's solution to problems of global security. It will therefore tend to deflect issues of global insecurity to respective regional bodies rather than address them in the Security Council. Indeed, regionalism allows South Africa to be seen as a partner in resolving conflicts and reduces the chances of its being seen as a new hegemonic leader. This, linked with negotiated settlements between parties, reinforces the image South Africa wants to create of itself as a mediatory power promoting peace and stability. The challenge for South Africa is to help redefine security concepts in the area of overlap between regional organisations and the UN, and indeed in the area of collective security when it comes to the nexus between security, development and democracy.

South Africa is currently listed as the seventeenth-largest contributor to UN peacekeeping operations globally. South Africa has also taken part in IBSA (see also below), Atlassur, and NATO naval exercises in the South Atlantic/South Indian Ocean.

As of May 2008, South Africa had over 3,000 troops deployed on various AU/UN missions. These included missions to Burundi, the DRC, Cote d'Ivoire, Sudan, Uganda, Eritrea/Ethiopia and Darfur¹⁷. However, peacekeeping operations are, and will continue to be, constrained even further by a drop in GDP spending on defence from the current 4.4 per cent to 1.9 per cent in 2009 (projected)¹⁸. Operations will be further restricted by the high incidence of HIV/Aids in the South African National Defence Force¹⁹.

On global security issues South Africa's view is that tackling poverty and underdevelopment is the most important challenge. The international system is not

only challenged by global security issues such as terrorism, organised crime, drugs, human trafficking, the proliferation of weapons of mass destruction (WMD) and small arms. It is also challenged by security issues that are critical to the South such as poverty, underdevelopment, pandemic and communicable diseases (such as HIV/AIDS). These issues cannot be separated from one another. The US's focus on the war on terror has meant that the security debate has become very narrowly focused, and has indeed made the world a more dangerous place. This is largely the position taken by South Africa, although it has collaborated on some intelligence and terrorism issues with the US and others.

South Africa as a Development Cooperation Partner

South Africa's foray into development cooperation began fairly modestly but has mushroomed over the last several years. However, this has occurred often on an ad hoc basis, without an overarching framework. A 2007 study²⁰ by SAIIA found that South Africa's development assistance (DA) lacks a coherent policy framework. South Africa currently does not have a development aid agency. The African Renaissance and International Development Fund Act, passed in 2000, is the primary structured vehicle for aid disbursements. The objectives of the African Renaissance Fund are to foster:

- cooperation between SA and other countries, in particular African states;
- the promotion of democracy and good governance;
- the prevention and resolution of conflict;
- socio-economic development and integration;
- the provision of humanitarian assistance; and
- the development of human resources.

However, the Fund represents only a small percentage of the DA given by the South African government (about 3.8 per cent in 2002 and 3.3 per cent in 2004). Disbursements by the African Renaissance Fund accounted for around R50 million of overall DA in 2004/05, R150 million in 2005/2006, and around R300 million in the 2006/07 financial year. In addition, the growth in South African imports has resulted in an increase in the Southern African Customs Union (SACU) transfers to Botswana, Namibia, Lesotho and Swaziland ('BNLS states') from R3.2 billion in 1994/95 to R23.1 billion in 2007/08²¹. These are not strictly speaking development cooperation funds, but there is a debate currently within government about whether these should be converted into funds meant specifically for development rather than for running costs of its other SACU partners.

The majority of South Africa's DA comes from government departments, parastatals (e.g. Eskom), statutory bodies (e.g. Independent Electoral Commission), government agencies (Council for Scientific and Industrial Research (CSIR)), as well as politically and institutionally affiliated but financially autonomous government agencies (the Industrial Development Corporation of South Africa (IDC) and the Development Bank of Southern Africa (DBSA)). South Africa's estimated DA contributions as a percentage of GNI are at 0.17 per cent (2004). South Africa prioritises DA to African countries. The South African government's financial aid to the rest of Africa could be conservatively estimated at some R19 billion in 2007, and peacekeeping and training are the main areas in which South Africa gives support²².

South Africa has shown a willingness to cooperate with other donors and multilateral bodies and is increasingly involved in trilateral or tripartite partnerships. However, South Africa has to balance its

involvement in trilateral assistance with the desire to remain politically independent in the eyes of other African countries. There is also the issue of capacity constraints, and the absence of effective monitoring systems.

At the 52nd National Conference of the African National Congress (ANC) in 2007, the ANC supported the creation of a South African Development Partnership Agency (SADPA), and it is likely that this will materialise in the medium term. A white paper on development cooperation is under way. A key theme raised by policy makers and political commentators in South Africa is the necessity of elucidating a central objective of having a development cooperation programme. While the Department of Foreign Affairs's (DFA) African Renaissance Fund is guided by the legislation that established it, the lack of a centralised and coherent approach across government makes the aims and objectives rather diffuse and unclear.

Johannesburg suburbs



VALUE SYSTEM

The rise of non-Western actors on the global stage, with growing global influence and increasing ability to shape the globalisation process, undoubtedly has implications for the type of value system that will dominate a new world order.

South Africa's world view is dictated by its historical experience and its position as a developing state. This experience was based on the value of negotiations, which are inclusive rather than exclusive, and conciliatory rather than confrontational; the imperative of removing apartheid at the global economic and political level, much as the country had done at the national level; and the value of human rights as encompassing not only civic political rights but also socio-economic rights.²³

If the UN Charter is considered to reflect the values which underpin the current global order, South Africa would regard itself as supporting those values. However, South Africa believes that the West practises double standards when it comes to upholding these values. Thus while the UN Charter and the composition of the General Assembly convey the sense that equality of states is the basis of the system, the UN's actual operations (especially in the Security Council) reflect the unequal power relations. An examination of South Africa's pronouncements illustrates the importance of equality and greater global justice in its values discourse.

When the new South African government came to power peacefully after the elections in 1994, enormous expectations were placed on it internationally to promote peace, good governance and respect for human rights in its foreign policy. This human rights based foreign policy has in time given way to a more fragile balancing act between principle and pragmatism. In recent years, the refusal of South Africa to condemn Robert Mugabe and the political and economic chaos his regime has caused in Zimbabwe, as well as its failure to support the vote against human rights abuses by the military junta in Myanmar at the UN Security Council (mentioned above) have highlighted the contradictions caused in South Africa's foreign policy by this balancing act. While the pragmatic handling of South Africa's foreign policy allows the country to engage with a range of actors with very different value systems, this has also raised questions, not only among states but also among civil society actors in Africa and elsewhere, about South Africa's commitment to human rights and good governance

For South Africa the overriding factors in the discussion about value systems are those of poverty and inequality at the global level because of a skewed system of global institutions which favour the strong over the weak. South Africa's actions in various global forums reflect the growing importance of this perspective in its thinking. For example, the unwillingness of Northern countries to discuss socio-economic rights in the Human Rights Council, focusing rather on political rights in selective countries (Zimbabwe and Myanmar) is perceived as insensitivity to the plight of the poor, and as double standards. South Africa, partly because of its own experience, prefers an approach to so-called 'rogue' regimes that engages rather than isolates.

However, viewed from a different angle, South Africa's consistency in this regard could be called into question, given that the country based its own domestic construction of a national identity on human rights credentials earned through its exceptional transition in 1994 and its policy of reconciliation.

As a middle power, South Africa supports a rules-based multipolar world order. Since 1994 South Africa has positioned itself as a bridge between developing and developed countries as well as working hard in numerous international forums to fashion consensus between emerging countries on global political and economic governance structures. It has also expanded efforts in creating, and becoming part of, parallel structures of rising economies. South Africa has been directing its efforts towards creating a more inclusive, democratic system of global governance that enjoys greater legitimacy. More recently, however, its bridge-building role may have been undermined by the strong, sometimes contrary positions it has taken in UN forums, which have been criticised by the West for not being helpful in efforts to build consensus.

GLOBAL ECONOMIC GOVERNANCE

Global economic governance is the set of norms and institutions along which rules are generated to manage the global economy. The actors are not only states themselves but also intergovernmental organisations, business, and non-governmental organisations. According to Stiglitz, '[t]he failures of globalisation can be traced to the fact that in setting the rules of the game, commercial and financial interests ...have prevailed within the international economic institutions²⁴, and that the most fundamental change that is needed 'to make globalisation work is a change in governance regarding the international economic, financial and trade institutions²⁵.

Although the global economic governance institutions that emerged after the Second World War were the strongest of the bodies created, they are experiencing a severe crisis of legitimacy today, with both their credibility and their efficacy being questioned.

Since 1994 South Africa has taken a keen interest and participated fully in these institutions, especially in how to reform them so that they are more legitimate and take into account the new global realities.

The Bretton Woods Institutions²⁶

While some analysts and actors in the developing world argue that the Bretton Woods institutions have outlived their usefulness, becoming relics of a post-World War Two order that no longer pertains, South Africa's position is that these institutions can play an important role, but not as they are currently constituted. South Africa has been very engaged on this issue since 1994. The minister of finance, Trevor Manuel, has been an active proponent of their reform, both through the IMF and also South Africa's participation in the G20 Finance meetings.

In an address he gave at the World Editors' Forum in 2007 he remarked:

If we accept the reality that the integration of the world's economy has outpaced its institutions by far, then we must also accept that equilibrium will not be possible without institutions capable of constructing the policy consensus. And, in order to do this, the legitimacy of the multilateral institutions is paramount. Yet, there is very little disagreement on the fact that the IMF and World Bank are constrained by a huge deficit of democracy²⁷.

Reform also entails changing the practice of appointing the heads of these two institutions, in which the US appoints the World Bank president and the Europeans appoint the IMF Managing Director. In referring to the appointment of Bob Zoellick as World Bank president, Minister Manuel noted:

The problem is that the US administration lacked the courage that its candidate needed by way of support. It relied on what Joe Stiglitz recently described as "the appointment of the President of the World Bank is perceived as a birthright of the USA." And so, the legitimacy of both the institution and the candidate are compromised. On the voting structure of these organisations too, we must pose serious questions. [...] The United States holds 18 per cent of the share-

holding, and while there has been some variation to the shareholding structure, the USA as the biggest shareholder still has veto power. The presidency of the World Bank should not be determined merely by its citizenry.

South Africa has also sought to emphasise its African identity in the Bretton Woods institutions. It was very telling for example, that when South Africa was readmitted into the IMF it was invited by the Swiss group to become a member. This group comprises a very small number of countries²⁸ and membership of it would have allowed South Africa to hold the managing director seat more frequently than in the Africa group. However, the government preferred to join the Africa group.

The reform of the Bretton Woods Financial Institutions is primarily pursued by the South African National Treasury. The Treasury's core objective with respect to reform of the Bretton Woods institutions includes the following:²⁹

- Reform of the process whereby the heads and senior management of the two institutions are selected, moving from an approach whereby the US and Europe nominate leaders of the Bank and Fund respectively, to a merit-based approach in which developing countries have a say; and a process which is more transparent.
- Increasing the voice and representation of developing countries in decisions taken at the two institutions. However, it is not clear whether this extends to the G24³⁰ position of increasing the voice of all developing countries or simply those of 'systemically significant' developing countries.³¹
- Putting both institutions' funding bases onto a longer-term, sustainable track in light of the fact that their erstwhile principle clients in the middle-income countries group no longer access both institutions' lending facilities. Here we should note that a few years ago the South African government was opposed to the IMF's proposal to sell its gold reserves in order to finance its longer-term needs. That position has since moderated owing to the IMF's evident funding problems and the currently high gold price.
- Addressing the needs of low-income countries by broadening support strategies beyond macroeconomic adjustment to microeconomic reform, and being more sensitive to local particularities, i.e., avoiding a 'one-size fits all' approach.
- Improving the effectiveness of the Fund's surveillance of the global economy.

- Supporting the Multilateral Debt Relief Initiative, through monitoring its implementation and ensuring it does not fall off the agenda. Related to this is the need to develop domestic revenue sources independent of unpredictable aid flows. This is captured in the 'fiscal space for development' agenda.
- Harnessing the World Bank's resources and expertise to building supply-side capacities in African countries, notably through provision of trade-supporting infrastructure. Similarly, harnessing both the Fund and Bank's resources to build African capacities to govern their own economies.

These issues are taken up directly with the Fund and the Bank, and with other member states in a variety of forums such as the joint Fund-Bank Development Committee which Minister Manuel chaired recently; and the Commission on Growth and Development of which Minister Manuel is a member. However, the G20 Finance forum seems to have become the primary locus for pursuing South Africa's objectives in this regard.

The G20 of Finance Ministers and Central Bank Governors was co-chaired in 2007 by the South African National Treasury and the South African Reserve Bank. In the communiqué which followed the meeting of the G20 Finance in Hermanus, South Africa, in 2007, it is noted with respect to Bretton Woods Institutions reform that the G20 Finance has contributed 'to a convergence of views among the IMF's members'. This refers to the G20 Finance position that reform should enhance the representation of 'dynamic economies, many of which are emerging economies'. It also notes progress made in adopting a new income model for the Fund and in designing a new liquidity instrument for managing financial crises; and it reaffirms G20 Finance support for overhauling selection processes for senior management at the Fund and Bank, including the positions of Managing Director and President, respectively. South Africa has played a very active role on the issue of IMF reform, and is viewed by other countries as an honest broker in the process. At the time that South Africa assumed the chair of the G20 Finance, many hoped that it would be able to broker an agreement on quota and governance reform, because the country stands to lose from any new formula or ad hoc quota increase that is currently being discussed.³²

The World Trade Organization

As a committed multilateralist, South Africa has favoured the development of a global trading system within an effective multilateral framework. Thus its involvement in the WTO processes has been a particular



focus of its foreign trade policy. Nevertheless, this engagement needs to be understood in the context of South Africa's commitment to work towards the elimination of 'global economic apartheid', more specifically the unequal terms of trade that developing countries have had to endure.

Its approach has thus been characterised by the building of issues-based coalitions with like-minded states within the WTO. Most notable was South Africa's role, together with Brazil and India, in putting together the Brazil-India led G20³³ grouping of developing countries pushing for reform of agricultural subsidies at the Cancun Ministerial Conference. Despite predictions of its demise, the grouping has managed to stay together and has played a key role in ensuring that developing countries insist on reforms in the North's agricultural subsidy system. While some may attribute to this the lack of progress with the Doha Round, it has also been a case of greater assertion by key emergent developing countries of their interests. However, it is important to note that South Africa also participates in the Australia-led Cairns group, the primary focus of which is reform of agricultural tariff regimes in the developed world.

Even more than within the G20 agriculture, South Africa has played a leading role in another informal coalition within the WTO, the Non-Agricultural Market Access (NAMA) 11. This has been motivated by the resistance of the Department of Trade and Industry (DTI) to major cuts to its industrial tariff regime, for two reasons: to protect policy space to implement its newly minted industrial strategy; and because it sees the cuts being demanded as disproportionate to the agriculture reforms on offer by developed countries. The NAMA-11 group is led by South Africa but includes its G20 alliance partners, India and Brazil.

Overall, both the G20 and the NAMA-11 have had substantial impact on negotiations in the Doha Round, to the extent that initiatives emanating from developed countries have to take these two groups into account and be tailored accordingly. This is reflected in the fact that the pivotal countries in these groups – Brazil, India, and to a lesser extent South Africa – are consistently invited into closed-door consultations. The G20, in particular, has been able to put forward middle-ground positions towards which the agriculture negotiations – the most fraught of all – have gravitated. Although the Doha Round negotiations ground to a halt in Geneva in August 2008, on the technical issues the major negotiating players are not far apart. Negotiations stumbled largely because of politics and the electoral cycles of the US and India in particular³⁴.

In the WTO, South Africa also operates in the African, Caribbean, and Pacific (ACP) group space, with particular emphasis on Africa. Hence South Africa is a member of the Africa group. However, unlike South Africa's relations with Brazil and India, which are relatively uncomplicated, its relations with the Africa group have been fraught at times. Mostly this revolves around the fact that South Africa is a major investor on the continent, and hence has an array of offensive interests in keeping with its middle power status. Yet the Africa group's overall orientation is largely defensive, since most of its members are least-developed countries (LDCs). These countries wish to maintain preferential access into northern markets by retarding agriculture market access liberalisation; defend what is left of their industrial tariff protection (a goal shared by the South Africa); and resist services liberalisation and further regulatory reform. Hence South Africa finds itself caught between a foreign policy logic built around notions of African solidarity, and market access imperatives pushing supporting its companies in their penetration of the continent.

One may argue about the specific positions that South Africa may have adopted in the WTO negotiations; however, the process of developing small coalitions around common issues, where South Africa has played an important and leading role, has yielded positive outcomes by contributing to shifting the power dynamics within the WTO membership. In the wake of the impasse over the Doha Development Round, South Africa has continued to pursue and explore regional free trade agreements. However, it has assiduously insisted that it would not negotiate on issues that have not been embarked on within the WTO multi-lateral framework, such as the 'Singapore issues'.³⁵

South Africa's Participation in Regional Arrangements

South Africa is a member of the two significant regional organisations in Southern Africa; the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). Although only the former is recognised by the AU as a building-block of an African Economic Community, SACU provides a stronger base for a regional economic community for Southern Africa than SADC. SADC launched a free trade area in August 2008, but there are still many obstacles to realising its benefits in real terms, especially as it moves to harmonise macro-economic policies. Attainment of a SADC customs union by 2010 is also a highly ambitious timeframe because of the wide gap between policy and implementation. In contrast, SACU has the potential to become the key economic organisation in a Southern African regional economic community (REC), provided progress is made in the short to medium term on harmonising policies among member states.

Although the most recent renegotiation of the SACU agreement, which came into force in 2004, means that in principle South Africa's domination of trade policy formulation and also negotiations is being reduced as the customs union becomes more democratic in its decision-making, the disagreements among SACU members³⁶ over the signing of the interim economic partnership agreements (EPAs) have potentially undermined the chances of its operating as the engine of integration in the region.

South Africa, the dominant regional power, views regional integration via SACU as a priority. Therefore, South Africa may choose to use its influence to support SACU's economic integration agenda, but to entrust non-economic issues to SADC. It is not clear whether the other members of SACU (the BLNS) support this approach.

A SACU that accommodates more members would consolidate the regional institutional architecture in South Africa. This might be an alternative to accepting the EU-inspired design of the EPA. Political differences within the region remain an obstacle to negotiations. Other states are generally suspicious of South Africa's intentions, and they are therefore unwilling to join an arrangement (SACU) which may make them financially dependent on South Africa.³⁷ However, it is also true that South Africa was instrumental in organising the SADC Free Trade Agreement (FTA) and putting pressure on recalcitrant members to sign the FTA. Given the various integration sche-

mes that are being developed in the eastern and Southern African regions, the regional architecture of which South Africa is a part will be affected.

From a development financing perspective, South Africa has two key institutions which provide financing to the region and beyond: the Development Bank of Southern Africa and the Industrial Development Corporation. The IDC has signed memoranda of understanding and various other formal agreements with individual African development finance institutions, including Banque de Developpement du Mali, the National Development Corporation of Lesotho and the Namibian Development Bank. Relationships have also been established in information shared with other international development finance institutions, namely Brazil's Banco Nacional de Desenvolvimento Econômico e Social and the China Development Bank.³⁸

South Africa's Perspective on Alternative Regional or International Structures

South Africa is committed to a rules-based international system. This means that in the long run alternative, or parallel, structures should not be the objective. These may be necessary in the short term and provide alternative options in the face of stagnating reforms at the global level. However, they are not the basis upon which a stable rules-based multilateral system can be built.

Nevertheless, South Africa is a strong proponent of the view that the continent should not rely only on external funds, whether aid or investment, to address its developmental challenges. In this regard it sees a role for institutions such as the African Development Bank, its own Development Bank of Southern Africa (see above), and the mobilisation of African funds, for example to deal with infrastructural needs. South Africa has been at the forefront of finance innovations to mobilise African funds. Together with Ghana, it was instrumental in setting up the Pan-African Infrastructure Development Fund, which was launched at the AU Summit in Accra in July 2007. The Fund's aim is to create a 'sustainable infrastructure platform for the continent'.³⁹ Its size is US\$1 billion, and includes private and public investors, mostly from South Africa.

South Africa is supportive of regional integration in Africa but favours the existing SACU as the basis for broadening economic integration in its subregion. South Africa also supports the creation of regional financial institutions and is a key player within the African

Development Bank. In terms of international trade and finance institutions, South Africa advocates the reform of existing institutions such as the IMF and World Bank. However, this does not mean that South Africa is adverse to alternative international formations, such as the G20 Finance or the NAMA 11 within the WTO, particularly if these can be used to build consensus for action within existing international structures. Indeed, this has been a key mode of engagement by South Africa at the global level.

Relevant Institutions: Global and Regional

From the preceding analysis it is clear that South Africa does not aim to overthrow the international economic order as reflected in its institutions. However, it believes that these are due for a major overhaul, so that they become more legitimate and reflect the changing world. Achieving this not only requires working within these global institutions, but also the creation of alliances among developing states to spearhead changes. There is also space at the regional level for better mobilisation of institutions and resources to address developmental issues.

Regarding the IMF, South Africa is fiscally secure and is unlikely to need IMF loans again. South Africa is not a large recipient of development assistance, and as a result multilateral loans through the World Bank group are also unlikely to be of any great significance to the country. However, the IMF and the World Bank remain vital from a governance perspective, especially in Africa, and as such have special relevance for South Africa. The G20 Finance is regarded by South Africa as an important institution in bringing about the reform of the IMF and the World Bank.

In the same vein, the WTO, as a functioning rules-based multilateral trading regime, is regarded as central to achieving equitable global trade, a priority of the South African government.

South Africa's engagement with the Organisation for Economic Cooperation and Development (OECD) has also accelerated in recent years. South Africa is currently at the level of 'enhanced engagement' with the OECD (as are India, China and Brazil) and the Treasury is considering OECD overtures to take things forward. However, the implications of full OECD membership are still being considered. Among the issues that need to be weighed up are the potential benefits that could accrue from membership, such as improvement in credit ratings as well as OECD best practice, versus what would be seen in some quarters as 'cooption by the North'.⁴⁰

South Africa still considers SACU to be the most important institution in the regional context. SACU has a better chance of deepening and broadening economic integration in Southern Africa than SADC does, and it will allow South Africa greater control in the shaping of that process.

African institutions are crucial in South Africa's vision of more effective regional and continental governance, which is why it has played a key role in devising the architecture of the African Union and indeed being one of the five major financial contributors to its running, hosting the Pan-African Parliament, and pushing in the early 2000s for a more streamlined SADC Secretariat. Naturally, the AU and Nepad are important institutions for South Africa, given the emphasis placed on the African Agenda in its international engagements.

The most notable developing country alliances as vehicles for global change are first, the IBSA dialogue forum (see below), although to date nothing spectacular has evolved out of it. However, it reflects a more strategic thinking on the part of Brazil, India and South Africa about how to push for global reforms in a more coordinated manner.

Second, South Africa places great store by its inclusion as a member of the G5, which has been interacting in a more systematic way with the G8. This interaction with the G8, which in the case of South Africa began at Okinawa in 2000, provides it with an important platform to engage with the key Northern actors on matters close to its foreign policy agenda, and which are specifically related to Africa and to the reform of global governance system. However, the engagement in the forum of an 'outreach 5' has also helped to consolidate a new grouping of the G5, which will operate outside of the G8 format. This gained impetus during 2008, with the decision that the G5 leaders should also meet separately and independently of the G8 and its agenda.

South Africa is faced with an internal contradiction when considering its economic interests in the future. The advanced nature of its economy means that often South Africa has more in common with emerging and developed countries than it does with the economies of most other African states. The country also has a number of domestic imperatives, such as addressing the high rate of unemployment and a large unskilled workforce, which are vital for the continuing growth of the South African economy.

Consequently, South Africa is required to balance what is in its own best national interest against the risk of alienating itself through its economic and trade

policies from the rest of the Africa group. It is also essential that South Africa maintains its legitimacy as the interlocutor for Africa in informal and formal global economic governance forums, since it is this reputation which provides it with a seat at the table and with the ability to influence the discourse on global economic governance reform. South Africa's dilemma is that, although it participates very actively in many of the forums focusing on the big emerging powers and is seen as representing the interests of Africa there, other African states do not necessarily see South Africa as their 'mandated' spokesperson. This contradiction is not likely to disappear in the future.

GLOBAL POLITICAL GOVERNANCE

The 20th century, often described as the bloodiest and most violent in history, was also the century that saw the concrete movement towards establishing international institutions based on evolving norms of international behaviour, 'to promote peace, curb aggression, regulate diplomatic affairs, devise an international code of law, encourage social development, and foster prosperity'.⁴¹ The United Nations (UN) has been the pre-eminent institution of global cooperation since 1945, and while it has many shortcomings, including the composition of its Security Council that reflects a different historical period, it is still regarded as an important legitimating forum. The transnational nature of many of the world's new challenges means that institutions of global governance, such as the UN, are more necessary than in the past. However, as the world changes from the circumstances that prevailed in the immediate post-war period, visions of the structure and role of such an institution have also changed, and new global and regional powers have an interest in shaping their transformation.

South Africa acknowledges the importance of the United Nations as the global body with legitimacy to play a constructive role in dealing with the many problems facing the world, especially those that are transnational in nature, such as international terrorism, global pandemics such as HIV/AIDS, tuberculosis, malaria and the SARS virus and including the challenges posed by climate change.

However, it is because South Africa appreciates the importance of the United Nations that it emphasises the necessity of UN reform to make it more inclusive, equitable and hence more legitimate. At the annual meeting of the General Assembly in September 2007, President Mbeki emphasised with frustration the need of the United Nations to reform, if it is to meet the

targets it has set itself regarding the reduction of poverty and the uplifting of the poor, when he said:

Because the nations of the world are defined by the dominant and the dominated, the dominant have also become the decision makers in the important global forums, including at this seat of global governance.

Accordingly, the skewed distribution of power in the world, political, economic, military, technological and social, replicates itself in multilateral institutions, much to the disadvantage of the majority of the poor people of the world.

Indeed, even as we agree on the important programmes that should bring a better life to billions of the poor, the rich and the powerful have consistently sought to ensure that whatever happens, the existing power relations are not altered and therefore the status quo remains...

President Mbeki went on to say that:

... [T]he cold reality is that it will be difficult for the UN in its present form fully to implement its own decisions and therefore help the poor achieve urgently the MDGs [Millennium Development Goals].

Indeed, until the ideals of freedom, justice and equality characterise this premier world body, the dominant will forever dictate to the dominated and the interests of the dominated, which are those of the majority of humanity, would be deferred in perpetuity⁴².

South Africa therefore views the reform of global governance institutions, such as the UN, as an important process of redistributing power in the world system. But it also sees this as a way of increasing its own influence in the world. A greater distribution of power amongst nations will mean a greater role for emerging middle powers such as Brazil, India and indeed South Africa. These countries are already regarded as significant drivers (politically and economically) of their regions, which in turn increases the global political and economic significance of these countries. It is therefore in South Africa's strategic interests to be seen as fighting the cause of the 'dominated' of the world (and specifically of Africa). Deputy foreign minister Sue Van der Merwe noted in 2006:

It is clear that it is only through a reformed UN that threats and challenges facing humanity can be collectively confronted. Such a reform should be meaningful, strengthen the ability of the organisation to implement its mandates effectively and enable it to

serve the interests of the collective membership. A stronger UN that responds more effectively to our collective needs is in our common interest. We therefore remain seized with the issue of the reform of the UN⁴³.

A recent statement by African National Congress (ANC) President Jacob Zuma indicates that the importance of the UN to the South African government is unlikely to change, even though there is now a new president at the helm:

South Africa's foreign policy recognises that in order to achieve a better life for all, development and security are best addressed through adequate attention to all global threats facing humanity. I believe that no organisation other than the United Nations has proven its ability to play this role effectively⁴⁴.

South Africa's Vision for Reform of Global Institutions

South Africa wants to make the existing institutions of global governance more inclusive and democratic so that the Global South, the interests of which South Africa articulates frequently, has a stronger voice and a say at the table. This is reiterated constantly by many of South Africa's senior political leadership. In 2007 South African Finance Minister Trevor Manuel said that:

The major problems of the world affect all its citizens and we can only begin to develop solutions to these problems when we change towards a more inclusive system of global governance. There is a need...to recognise the interdependence and interconnectedness of our changing world, more importantly, to design a set of institutions and governance arrangements to meet the needs of everyone⁴⁵. (emphasis added)

Earlier in 2005, South Africa's Foreign Minister Nkosazana Dlamini Zuma emphasised the necessity of restructuring global power relations:

[A]s agents of progressive change we shall continue our engagement with the global debate directed towards the restructuring of the existing global power relations, particularly through the reform of the global multilateral institutions such as the United Nations, Bretton Woods institutions and the World Trade Organization. To this end the department has actively participated in the debates on UN reform, particularly on the reform of the UNSC, in order to make the UN more effective in dealing with the new challenges as well as to make it more transparent and democratic.

Needless to say, as an African country we have worked with other countries on the Continent, to shape and determine the Common African Position with regard to the United Nations reform as a whole. Consequently as an African country we shall pursue Africa's goal to be fully represented in all decision-making organs of the UN, particularly in the Security Council, which is the principal decision-making organ of the UN in matters relating to international peace and security⁴⁶.

UN Reform

South Africa has been an active advocate of UN reform and was nominated by former Secretary General of the UN, Kofi Annan, to serve on the task team that advised him on UN reform. South Africa has supported the African position on UN Security Council reform as set out in the Ezulwini Consensus, despite originally favouring a position similar to that of the G4 (India, Brazil, Germany and Japan) which called for the creation of additional permanent seats without the veto.

The Ezulwini Consensus calls for two permanent seats for Africa with veto rights, if the veto right is to continue to exist, as well as five non-permanent seats. These representatives from Africa would be selected by the African Union. Furthermore, South Africa is in favour of reforming the UN beyond just the Security Council. South Africa has revelled in the lead it has allowed itself to take of the G77 and China in spearheading UN reform. These reforms are varied, and include improving the procurement system of the UN, better human resource management and the creation of the UN Ethics Office to highlight and guard against instances of corruption within a UN system that has been tainted, among other things by the Oil for Food Scandal as well as sexual violence perpetuated by UN peacekeepers in the DRC.

South Africa also supported the creation of the Peace Building Commission and the Human Rights Council, and it seeks the revitalisation and strengthening of the General Assembly. In addition, South Africa is in favour of the reform of the secretariat and the strengthening of ECOSOC⁴⁷. This is in line with the importance South Africa ascribes to socio-economic rights, not only civic and political rights, which many Western countries emphasise.

As a member of the Security Council in the period 2007-08 South Africa has placed on the agenda the exploration of links between the UN and regional organisations, especially in conflict resolution. Its point



of departure is that the UN should provide financial assistance to delegate some of its political and developmental tasks to regional organisations which share the same goals and interests as the UN. The South African argument is that such action would not only increase the efficiency of the UN, but also increase and strengthen its cooperation with regional organisations as per chapter VIII of its Charter.

Another issue is the financial constraints that the UN faces. South Africa has expressed its concern regarding nations who contribute to the financial constraints by withholding critical funding, and it has 'adopted the position that this problem must be addressed urgently in order to avoid paralysis'.⁴⁸

The reform of the UN system is the strongest theme of South Africa's foreign policy, and it is consistent with its efforts to 're-establish norms and principles of multilateralism within the UN Security Council'.⁴⁹ As a non-permanent member of the UNSC, South Africa has been critical of the disproportionate power of the P5, which has been perceived as undermining the multilateral nature of the UN. South Africa has acted as a de facto spokesperson of both the Non-Aligned Movement (NAM) and the G77+China group in its efforts to increase and strengthen multilateral engagement within the Security Council⁵⁰.

South Africa's commitment to the reform of the UN can also be seen through its membership of The Four Nations Initiative on Governance and Management of the UN, along with Chile, Sweden and Thailand⁵¹. This Initiative, which finalised its work on 1 October 2007, looked at the management of the UN Secretariat, and the way that it could be reformed and strengthened from a member state and governance perspective. In this initiative South Africa showed again one of its

strengths in the global system, which is its ability to work with countries across any developmental divide. Equally important is the fact that other countries see the value of South Africa playing such a role.

However, South Africa's voting as a member of the UN Security Council in 2007-08 has raised questions among states in the North, but also among civil society in both North and South, about its ability to build consensus among different positions, as well as its commitment to issues such as human rights and democracy. South Africa's positions on why it opposed voting against the Myanmar resolution brought by the US, as well as a resolution on Zimbabwe's post-2008 election violence, have come across as legalistic and pedantic on the big issues of principle. It has argued that the Security Council's mandate is to address issues inimical to international peace and security, and that neither of these countries poses a threat to that. It argues that the problems in both countries are internal issues, and that their respective neighbours are working with them to resolve the matter. Given that the ANC had strongly advocated for apartheid to be taken up by the UN and the Security Council during the liberation struggle, this line of argumentation rings of hypocrisy in many circles, including countries that had supported the current South African government in international forums, such as the UN. Ironically, the National Party government at the time kept insisting that the issue of apartheid was an internal matter.

Significance of Informal Groupings

South Africa's approach to informal groupings is best characterised by Minister Manuel's comment regarding the G20: '[...] no forum is too unimportant. We've got to get our voice heard.'⁵² These forums are important because they can build up consensus around particular issues among key players whether in the developing world or in the developed world.

The South African government's position is that it should engage with both formal and informal institutions and work in both arenas towards reforming the global governance architecture. As unfair as many may regard the present division of global power, any sort of substantive reform requires carving out consensus with those who created the rules, in order to move into rule-making. Indeed, this is one of the paradoxes of South African foreign policy. South Africa advocates the equal representation of both the developed and developing world in institutions such as the UN. It does, however, also participate in forums that are fundamentally exclusive, limited

to the membership of the big developing countries, such as the G5, the G8 or IBSA.

Furthermore, in the absence of progress in the formal institutions, South Africa's participation in informal groupings where North-South dialogue can be pursued, such as the Outreach 5 (O5 or G5) and the G20 Finance has provided the country with a different avenue for more informal interaction at the most senior level. It is through these and other institutions that push the South-South perspective, such as the Africa-Asia Strategic Partnership, Non-Aligned Movement (NAM), IBSA, the G77+ China etc., that South Africa applies pressure to help push through reform in the traditional international organisations.

South Africa furthermore sees participation in these South-South initiatives as a strategic move towards cementing its own role in the global arena. In co-chairing the Asian-African Sub-regional Organisations Conference in Bandung in 2003, South Africa aimed to indicate its economic and political clout, not only within Africa, but also within the Global South. South Africa's challenge, however, is to prioritise which institutions or groupings provide the most desirable and effective vehicle for its objectives. Its involvement in all of these forums at the current level makes real impact difficult because of capacity constraints, but also because not all of these institutions or groupings are very effective.

IBSA's creation was underpinned by the need to jointly strategise on how big developing countries could advocate change more effectively in the UN and the global trading system. The grand vision behind IBSA is a G8 of the South.⁵³ Given its size, this is conceivably a more effective vehicle for the global transformative agenda than the G77 or NAM (see also below, Alliances of the developing South).

Thus, there are two challenges that South Africa has to be aware of. The first is that seeking to deepen its South-South engagement may increase South Africa's involvement in a number of initiatives, whose overall impact in terms of South Africa's objectives is minimal. The second is that there are pitfalls to being associated with an exclusivist grouping, such as G8-Outreach, G13 or L20. This is linked to South Africa's relations with African and other developing countries. Such clubs perpetuate a two- or three-tiered world; yet it is difficult to see how global governance can advance in the absence of strong leadership from such clubs. As these engagements become more institutionalised, how the 'club' determines its function and mandate will be critical to how it is perceived.

Legitimacy may be assured, if such a club is seen as a vehicle for supporting the formal multilateral framework and strengthening a rules-based international system.

Bilateral versus Multilateral Cooperation

South Africa sees both bilateral and multilateral engagement as imperative to the pursuit of its global governance agenda.⁵⁴ In the area of global governance reform it is clear that South Africa also leverages its good bilateral relations with key players to discuss these issues.

South Africa has pursued a number of strategic bilateral agreements, particularly with key development partners in the North. The signing of bilateral arrangements is most often strategic and used to elevate the bilateral relationship to one of greater political and economic importance. An example of this is South Africa's Strategic Partnership with the European Union, signed in October 2007. This relationship was elevated to Summit level in July 2008. The discussions between the EU and South Africa in the context of the Strategic Partnership were broad-ranging and included reform of the Bretton Woods institutions and nuclear non-proliferation.

The importance of multilateralism in South Africa's foreign policy objectives is evident from its willingness to chair a number of multilateral bodies over the last 14 years, as well as the sheer number of multilateral summits that South Africa has hosted. These include UNCTAD IX in 1996, the 12th Summit of NAM in 1998, the Commonwealth Heads of Government Meeting in 1999, the United Nations Aids Conference in 2000, the World Conference on Racism in 2001, the founding Summit of the African Union in 2002 and the World Summit on Sustainable Development in 2002. South Africa has also been very active in the regional multilateral domain, working with other African countries in building up the sub-regional and continental security and political architecture. 'For South Africa, multilateralism is not an option but the only choice that can guarantee durable peace which underpins the fight against poverty and underdevelopment', according to deputy foreign minister Sue van der Merwe.⁵⁵

However, as with the active engagement in most South-South initiatives, South Africa sometimes dedicates much energy to multilateral initiatives often with the prospect of marginal tangible benefits, at the expense of cultivating bilateral relations (both in the North and South) which provide more concrete outcomes – in both spheres.

Role of Strategic Partnerships among Emerging Countries

South Africa believes that, while sharing each other's domestic challenges and concerns, the emerging South (and most specifically the G5) can collectively push for a more equitable global order with the redistribution of power between the North and the South. This is more possible in the current international environment, because economic power in particular has begun to shift dramatically. This has meant that even among the developed states there is a greater realisation of the need to bring about change, unwilling as some might be.

On strategic partnerships with the South, President Mbeki noted:

One of the messages communicated by the collapse of Doha talks is that, for countries of the South to realise rapid development including fair trade, economic development, job creation and poverty eradication, these developing countries, should, first and foremost, form strong partnerships and strategic alliances that would unlock the vast resources and economic opportunities within and between their countries and regions.⁵⁶

President Mbeki saw alliances with Southern countries as a useful platform for discussion between key leaders of the South, and as an innovative means of keeping his African agenda alive. Over the course of his administration, Mbeki increased cooperation with these countries at both the bilateral and multilateral level, aiming to use the alliance at a global level to enhance the security and development of South Africa's immediate region. In order to accomplish its peace and security interventions on the continent, for example, South Africa requires the assistance and cooperation not only of African states and its traditional partners, but also from its counterparts in the South.

Although relations with several Latin American countries have long existed,⁵⁷ a deliberate policy of building relations in Asia has been pursued by South Africa. Countries such as China and India have received particular attention.⁵⁸ South Africa has bi-national commissions with most notably China, Argentina, Brazil, India, Cuba and Iran. These Commissions provide a formal platform on which a variety of issues can be discussed by various government ministries. These extend well beyond the traditional political and diplomatic issues, and include expert bodies with specialist functions on science and technology, agriculture, education, trade and industries, customs, arts and culture and environmental sustainability.



The India-Brazil-South Africa (IBSA) Forum, initiated in 2003, is an important example of the potential for strategic partnerships between emerging countries at Summit level. This forum has allowed these three countries to enhance their cooperation on issues of mutual concern, as can be seen by their cooperation in the WTO Doha Round. There are currently 14 sectoral working groups operating within the Forum, ranging ambitiously from climate change, human settlement development, to health and corruption.⁵⁹ Even with the limited membership of IBSA, it is notable that it has taken a considerable amount of time to build trust in the viability and value of the group. It is for this reason that there is an implicit recognition that large groupings of the past, such as the NAM, are too unwieldy and include countries with interests that are too divergent for them to be effective.

India, the most sceptical partner in IBSA since its inception, has only recently affirmed its confidence in the grouping as voiced by the Indian Prime Minister after the IBSA Summit in Pretoria in October 2007. South Africa, like Brazil (the main initiator of the initiative), has enthusiastically supported the concept from the outset. It views it as providing another channel for South-South cooperation among the three countries while strengthening bilateral relations with these important players in their regions.

A recent and notable development is the establishment of new South-South groupings by key individual emerging economies, notably China and India, with Africa. South Africa participated in the recent India-Africa Forum in Delhi in 2008, as well as the Forum on China-Africa Cooperation (FOCAC) in Beijing in 2006. However, the closer engagement of these emerging powers in the African space could in future also pose a threat to South Africa's influence in the region and

requires a strategic and considered response. It may present a golden opportunity to pool resources with these emerging players to act in a mutually beneficial way for them and the region, but it is also likely to witness rivalry in areas of overlapping interest.

South Africa's Relations with the Other G5

South Africa's bilateral relations with the G5 countries are largely positive. While South Africa has a high-profile political engagement with both India and Brazil through the IBSA trilateral forum, its engagement with China is more complex. Deep relationships with leading countries of the Global South serve another purpose for South Africa, although this may not be articulated. Acceptance by powers in the Global South plays a legitimising role for South Africa's position as a leader in Africa, although it is not sufficient on its own to remove the ambiguity with which many countries in Africa view South Africa.

South Africa and China

For South Africa the relationship with China is extremely important. A reflection of this importance is the soon-to-be-signed Partnership for Growth and Development between the two countries. In the words of the deputy minister for trade and industry, Rob Davies, the discussions in the context of the partnership have no comparison with any other engagements.⁶⁰ The partnership discussions include agreements on long-term access to resources in return for investment and market access for value added and beneficiated products.

However, notwithstanding the importance of the relationship, it is viewed with suspicion by various sectors of South African society. Reasons for this include a surge in China's global export growth. As many imported items are in so-called sensitive sectors (such as clothing, textiles, footwear, and leather), widespread opposition grew, not just to a potential trade agreement that had been mooted but to trade with China itself. Nevertheless, Chinese investment in South Africa was estimated at US\$130 million in 2007, although it is difficult to confirm the actual figure, since the South African Reserve Bank provides figures by region. In particular, Chinese FDI reached new heights with the announcement in November 2007 that the International Construction Bank of China would be purchasing a 20 per cent stake in Standard Bank worth R36.7 billion (US\$5.6 billion). South African investments in China are estimated to be about US\$400 million. However, planned negotiations for a trade agreement with China have been shelved since 2005.

South Africa and India

Historically ties between the two countries have been good, although both sides agree that the commercial relationship can be improved. In 2006, the South African government estimated Indian investment in South Africa to be in the region of R10 billion (or about US\$1.4 billion), making India one of the top ten investing countries in South Africa. The Indian government estimated foreign direct investment received from South Africa up to January 2005 as only US\$ 9.43 million. However, this figure was expected to grow. There are already about 40 South African companies with investments in India. Sasol is the company with the largest potential investment at between US\$6 billion and US\$8 billion.⁶¹

India and SACU committed to negotiating a bilateral preferential trade agreement in 2000, but formal negotiations are expected to begin only in 2008. Such an agreement would fit in with a mooted IBSA trilateral trade agreement, which would be based on the narrow, shallow agreements already in place between SACU and Mercosur, and between India and Mercosur.

South Africa and Brazil

The political relationship between South Africa and Brazil is very strong, especially after President Lula da Silva came to power in Brazil. Both countries share positions on the need to change power relations globally as they manifest themselves in the global governance architecture.

Nevertheless, despite being part of the trilateral IBSA alliance, there appears to be little foreign direct investment by Brazil into South Africa or South Africa into Brazil. This can be partially explained by the similar nature of the Brazilian and South African economies, which limits the areas in which companies would have a comparative advantage. According to the Brazilian Central Bank, South African investment in Brazil in terms of stock held in 2005 was US\$3.69 million. The South African Consulate General in Brazil estimates that there are approximately 12 South African companies with operations in Brazil, mainly in the mining, financial, IT, beverages, steel, paper & chemicals sectors. SACU-Mercosur negotiations are close to completion, and have been in this state for over three years now. As of December 2007, agreement on tariffs for certain product lines (in the auto sector) was yet to be reached, and some rules of origin issues remained outstanding.

South Africa and Mexico

Despite the fact that the countries have many problems in common, the relations between South Africa and Mexico have little substantive bilateral content. Mexico's membership of the North American Free Trade Area (NAFTA) and its overwhelming pre-occupation with its northern neighbour, the US, leave little space for relations with geographically remote South Africa. The relative lack of interest is reciprocated by South Africa which has other preoccupations. The position is more positive in the multilateral arena where both countries are members of the G5 and the G20 Finance and share similar views on disarmament and non-proliferation issues.

INTERNATIONAL SOCIAL ORDER

The composition of an international social order aimed at giving globalisation a 'human face' has featured much in public debate, not least in South Africa, where the ANC government's alliance partners, the trade union federation COSATU and the South African Communist Party, have often advocated strong anti-globalisation positions, and the rights of workers and the poor and marginalised.

Global social order can be defined as 'the values and subsequent norms that are espoused within the overall value systems of a group or community'. There are two ways in which social order can be attained: either through outside influence and control; or through individuals willingly adhering to norms and values, to which they have grown accustomed and have internalised. To realise a more social shape of globalisation, non-economic values need to be taken into account and form an integral part of public policy. These would include strategies to improve and provide social justice and human rights regulations, universal access to healthcare, consumer protection to its citizens, as well as, among other things, protection of the environment.⁶² South Africa's definition of an equitable social order includes policies to prevent the marginalisation of disadvantaged and vulnerable communities, and to adequately reverse the negative impacts of globalisation on these groupings. Invariably, in an environment where the gap between the haves and the have-nots has grown, moving towards a global system that adheres to minimum social standards is important for global stability. Amartya Sen's 'capabilities approach' to poverty, which emphasises that poverty is more than just about income deprivation, forms an important exegesis to this challenge of a social order, i.e., poverty concerns a person's broader freedom to enjoy a healthy and long life, to be educated and to participate in political life.⁶³

In 2001, President Mbeki proposed a Global Partnership for Africa's Development at the World Economic Forum Meeting:

The continued marginalisation of Africa from the globalisation process, and the social exclusion of the vast majority of our people constitute a serious threat to global social stability. Simultaneously the establishing of sound governance at the global level remains incomplete, but is essential for the sustainability of the globalisation process. Implementation of our programme will not only be a major step forward in developing effective global governance but also make a profound contribution to the future welfare of the entire globe⁶⁴.

It is clear that South Africa perceives a link between global governance reform and the aim of giving globalisation a 'human face.' Indeed, the argument is that more representative and democratic global institutions, such as the World Bank, would be in a better position to address the developmental challenges facing Africa. The reduction of poverty and the attainment of the Millennium Development Goals (MDGs) are perceived as being vital to creating a socially just global order. The fight for greater emphasis on socio-economic rights in the global arena forms part of this debate. South Africa often wants to reinforce this point in forums such as the Human Rights Council.

Significance of International Organisations in Attaining a Global Social Order

The UN, the World Bank, the WTO and other global governance bodies are very significant for South Africa. Its desire to work to reform these institutions, as discussed above, attests to this. Yet, application is often more elusive than the political commitment.

In a recent report by the South African Human Rights Commission, it was pointed out that South Africa has not yet ratified at least four international treaties that protect human rights, including one on the protection of migrant workers. Treaties and protocols that have not been ratified include the International Convention on the Protection of All Migrant Workers and Members of their Families (ICRMW), the International Covenant on Economic, Social and Cultural Rights (ICESCAR), the Optional Protocol to the Convention Against Torture (OPCAT) and the International Convention for the Protection of All Persons from Enforced Disappearance (ICPED). In other instances where South Africa has ratified treaties, the country has not submitted its reports to committees, or has done so after the deadline. The Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) was rati-

fied in December 1995, but as of May 2007, South Africa's second and third period reports were overdue (due dates were January 2001 and January 2005). South Africa also failed to present its second and third country report on the Convention on the Rights of the Child, due in 2002 and 2007 respectively. The ICRMW establishes the rights of people who work or plan to work in a country of which they are not a national, but South Africa has not signed or ratified it.

South Africa has ratified all the core conventions of the International Labour Organisation and has strong labour laws domestically that protect the rights of the worker. The chair of the ILO is South Africa's Minister of Labour, Membathisi Mdladlana.

Social Order and the Environment: the South African Position

Sustainable development and climate change mitigation and adaptation are increasingly becoming a crucial element of the global social order. This is particularly relevant to Africa, where the poor are the most vulnerable to the negative impacts of climate change. The World Bank states that the old paradigm of 'development versus environment' has now evolved into the paradigm where 'better environmental stewardship is essential to sustain development'⁶⁵.

Within the South African context and in light of the growing concerns of the impact of anthropogenic climate change, it is crucial that the South African government continue to factor in environmental sustainability in the economic plans and strategic frameworks. Indeed, as President Mbeki said, 'If we do not succeed in building a climate change regime that balances adaptation and mitigation, underpinned by the transfer of technology and financial resources, we will place an unmanageable burden on future generations.'⁶⁶

South Africa is a signatory of the United Nations Framework Convention for Climate Change (UNFCCC), as well as the Kyoto Protocol. South Africa hosted the World Summit on Sustainable Development (WSSD) in Johannesburg in 2002 and has been active in the debate on climate change so far. Indications are that South Africa will be instrumental in the drafting of the post-Kyoto framework and will become an advocate for Africa in these discussions. It has assumed the role of lead negotiator among African states at discussions on climate change and the environment, but emphasises that developmental priorities should not be ignored in the process. Thus it advocates common but differentiated responsibility. At the Bali conference in 2007, South Africa consistently pushed for

increased funding for adaptation to developing countries through the UN body. In September 2007 at a meeting on energy security and climate change, South Africa's minister of environmental affairs and tourism, emphasised that,

[...] multilateralism must prevail. An ambitious and equitable framework must work for all parties. It must balance our stabilisation and sustainable development objectives and our mitigation and adaptation responses. It must deal with the unintended consequences of these responses. And it must be underpinned by an empowering technology and financing framework that allows developing countries to reach economic and human development goals quicker and cleaner than developed countries did⁶⁷. (emphasis added)

South Africa forms part of the G77+China in the negotiations leading up to the Copenhagen meeting in 2009. The bloc's position is that member countries should not agree to binding targets on carbon emissions individually.

South Africa's carbon foot print is disproportionately large in comparison to the rest of the continent (making up approximately 35 per cent of Africa's total emissions).⁶⁸ At the national level, South Africa completed a National Country Study Programme in 1999, aimed at providing a national inventory of greenhouse gas emissions, and determining how climate change would impact on biodiversity, agriculture, and water supply in South Africa. South Africa has embarked on a national strategy to guide the country's response to climate change. The policy proposes a number of priority actions relating to pollution and waste management, energy, agriculture and water. The strategy identifies the development of renewable energy sources as a priority. It also calls for the rapid development of a national authority, within the department of minerals and energy, to facilitate implementation of a Clean Development Mechanism, which encourages rich countries to finance projects that reduce emissions of greenhouse gases in poor countries in return for credit against their own emissions targets. (South Africa has the highest number of clean development mechanism projects in Africa.) Other specific needs identified are implementation of a national air quality monitoring network and assessment of technologies needed for climate change-related projects. The plan also highlights the need for more education, training and awareness initiatives about climate changes. However, the challenge of having to meet escalating demands for power generation mean that in practice, South Africa is building more coal-fired power stations, while exploring alternative energy sources.

Social Order and the Access to Medicine

South Africa, together with Brazil and India, has argued strongly for greater access to affordable medicine for developing countries. Indeed their strong positions taken at the Doha Development Round to push for TRIPS (Agreement on Trade Related Aspects of Intellectual Property Rights) flexibilities, as well as the presence of generic pharmaceuticals in India and Brazil has pushed medicine prices down considerably in certain cases. IBSA, given the large demand for affordable medicines in their own countries, and coupled with their emerging power status globally, are in a unique position to firstly, forge ways of bringing down the high costs of pharmaceuticals, secondly, to impart expertise to neighbouring states, so that they too may start taking advantage of TRIPS flexibilities and thirdly, to resist moves by developed states to impose TRIPS+ mechanisms on developing countries that render TRIPS flexibilities pointless.

South African civil society actors have played an instrumental role in many key global debates, such as intellectual property rights of pharmaceutical companies and the right of access to medicines in developing countries.

CONCLUSION: PURSUING A GLOBAL GOVERNANCE STRATEGY

South Africa has demonstrated willingness to take a leading role in the field of developing an international social order through its participation in the multilateral areas highlighted above, as well as at a continental level, where the establishment of the AU (and its programme, Nepad) has provided greater impetus to continental developmental projects. Both of these continental bodies are founded on the premise that African states will take ownership in adopting and implementing the principles of good governance, transparency and, accountability, and in return developed countries will work in partnership with Africa and these home-grown initiatives to uphold the same principles.

However, a fairer international social order cannot be uncoupled from a more equitable one at the national level. South Africa has played a leading role in the evolving discourse around good governance, but has also been subject to criticism when it has been seen to abandon these ideas in favour of more 'pragmatic' approaches to regional relations. South Africa has been hesitant to criticise repressive governments in Africa, whether it is Zimbabwe or Sudan.

The country's pursuit of global governance reform in all its aspects is informed by its aims to achieve a more equitable system of global governance that would distribute power more evenly between developed and developing states. However, the underlying assumption is that a more equitable distribution of power will also allow for a socially just system which will be more capable of addressing poverty and underdevelopment globally.

Since the advent of democracy in 1994, the people at the helm of South Africa's foreign engagement have largely been the same. Even during the Mandela administration, Thabo Mbeki as deputy president was very involved in all aspects of government and indeed foreign policy. Under the Mbeki administration foreign policy was largely driven by the Presidency, given the President's own particular interest in this area. It is too soon to make precise predictions about the impact of President Mbeki's early departure from office in September 2008 on the country's foreign policy. South Africa's new president is expected to hold this office until mid-2009, after which the new president is likely to be Jacob Zuma, the president of the ANC. It is unlikely that there will be any substantive policy changes in this interim period, given also that the Foreign Minister, Nkosazana Dlamini-Zuma, is still in place. A post-2009 administration is not expected to withdraw from the international stage, although the focus of foreign policy may shift and a greater prioritisation may ensue that reflects national interests more closely.

- 1] *The authors would like to acknowledge the assistance of Romy Chevallier, Auriel Niemack, Thomas Coggin and Tom Wheeler. Elements of the discussion on global economic governance reform draw on an unpublished report done by SAIIA on South Africa's North-South engagement earlier in 2008. The authors would also like to thank Professor Maxi Schoeman and Dr Brendan Vickers for the very useful comments on an earlier version of the paper.*
- 2] *Department of Foreign Affairs (2007a): Strategic Plan Update 2007-10, Pretoria.*
- 3] *We are grateful to Professor Maxi Schoeman for her comments in this regard.*
- 4] *Kgalema Motlanthe, the deputy president of the ANC, was elected president of the Republic by the National Assembly on 25 September 2008. His term expires with the scheduled general elections due to take place between April and July 2009.*
- 5] *Zoellick, R. (2005): Statement on Conclusion of the Second U.S.-China Senior Dialogue, 8 December 2005.*
- 6] *Bates, G. (2007): China becoming a responsible stakeholder, presentation at Carnegie Endowment for International Peace, Washington, 11 June 2007.*
- 7] *The Presidency (2003): Towards a Ten Year Review. Pretoria: GCIS, October 2003, <http://www.thepresidency.gov.za/main.asp?include=docs/index.htm>.*
- 8] *Investec, <http://www.investec.com/GroupLinks/EconomicResearch/SouthAfrica/>.*
- 9] *NationMaster.com (2001): Military Statistics, Armed forces personnel (most recent) by country, 2001, http://www.nationmaster.com/graph/mil_arm_for_per-military-armed-forces-personnel.*
- 10] *Nepad was the amalgamation of two plans, South Africa's Millennium African Programme (MAP) and Senegal's Omega Plan, which focused on infrastructure development in West Africa.*
- 11] *See its stance on Myanmar, where South Africa voted against the resolution brought by the US. It reasoned that the SC was the wrong forum, and that the issue should preferably be dealt with in the Human Rights Council (HRC). When it was brought to the HRC it was however again opposed. South Africa's view mirrors that of weak powers, that an allegation of human rights abuses should be discussed in a forum where all parties are represented equally.*
- 12] *In September 2008 South Africa announced the candidacy of Abdul Minty, its representative on the IAEA, for the post of Director-General of the IAEA.*
- 13] *South African Department of Foreign Affairs (1999): White Paper on South African Participation in International Peace Missions, <http://www.dfa.gov.za>.*
- 14] *See Sidiropoulos, E., and Chevallier, R., (2006): The European Union and Africa: Developing partnerships for peace and security, SAIIA report 51, p. 37.*
- 15] *Flemes, D. (2007): Conceptualising Regional Power in International Relations: Lessons from the South African Case, GIGA Working Paper Series, no. 53, p. 20.*
- 16] *Security Council Resolution S/RES/1809/2008, 16 April 2008, on 'Peace and security in Africa', <http://daccessdds.un.org/doc/UNDOC/GEN/N08/308/12/PDF/N0830812.pdf?OpenElement>.*
- 17] *<http://www.irinnews.org/report.aspx?ReportID=78301>.*
- 18] *Ibid.*
- 19] *In a court case brought against the South African National Defence Force in May 2008 by the South African Security Forces Union, it was revealed that almost 25 per cent of the force was HIV positive. In this particular case, the High Court ruled that the military's exclusion of HIV positive people from recruitment, promotion and foreign deployment was unconstitutional.*
- 20] *Braude, W., and Sidiropoulos, E. (2008): Emerging Donors in International Development Assistance: The South Africa Case. IDRC, Canada. http://www.idrc.ca/uploads/user-S/12066375471SouthAfrica_Final_Summary.pdf.*
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- 22] *Braude, W., and Sidiropoulos, E. (2008).*
- 23] *The South African constitution reflects this, as it makes provision for both civic rights and socio-economic rights.*
- 24] *Stiglitz, J. (2002): Globalisation and Its Discontents. London: Penguin, p.224.*
- 25] *Ibid., p. 226.*
- 26] *Parts of this section and the one on the WTO are drawn from a paper produced by SAIIA on South Africa's North-South engagement in April 2008.*
- 27] *Trevor, M. (2007c): Address to the 60th World Association of Newspapers Conference and the 14th World Editors' Forum, Cape Town, 6 June 2007.*

- 28| The voting group comprises Poland, Serbia and the ex-Soviet republics of Azerbaijan, Tajikistan, Turkmenistan, Uzbekistan and Kyrgyzstan, and Switzerland.
- 29| Manuel, T. (2007a): Keynote Address, Parliamentary Network on the World Bank, 16th March 2007; Manuel, T (2007b): Africa, Our Future, Speech delivered at the Economist of the Year Banquet, 8th May 2007; Manuel, T (2007d): International Engagements, presentation to PCOF, 29th August 2007; National Treasury (2006): Background to 2006 Annual IMF and World Bank Meetings, 7th September 2006, available at www.treasury.gov.za; Parliamentary Monitoring Group (2007): Minister of Finance Address: International Forums and Hosting of G20 Summit, Finance Portfolio Committee, 29th August 2007; Parliamentary Monitoring Group (2007b): Southern African Development Community Developments: Briefing, Finance Portfolio Committee, 11th September 2007.
- 30| A grouping of developing countries, of which South Africa and the BRICs (although China is an observer) are members, pursuing reform of the IFIs. See <http://www.g24.org/members.htm>.
- 31| The Director General of the National Treasury remarked at a symposium organised by the Institute for Global Dialogue that 'it doesn't matter what formula you use, Africa's voting share will decline owing to its relative decline in the global economy'.
- 32| Phillips, L. (2007): Closing the Deal: IMF reform in 2007, ODI Briefing Paper 26. This is a particularly vexed discussion, especially concerning calculation of the relative weight and associated voting shares of member states. Apparently, South African officials were closely involved in technical efforts to broker a solution, including *inter alia* through devising a 'blended formula' using both market exchange rates and purchasing power parity measures of GDP.
- 33| This is a different G20 to the Finance one. Its founding impulse came from developing countries, and its membership is exclusively comprised of developing countries.
- 34| Draper, P. (2008): The WTO in a Changing Global Economic Order: Financial Mail, 6th August 2008.
- 35| This has been most evident in its negotiations with the EU and the US.
- 36| South Africa has not signed an interim agreement because of objections to some of the clauses in the agreement with the EU. However, all the other SACU members have (Namibia was the last to sign with some provisos), and Botswana in particular has regarded South Africa's engagement in the negotiations as acting against the interests of the rest of the group.
- 37| Draper, P., Halleon, D., and Alves, P. (2007): SACU, Regional Integration and the Overlap Issue: From Spaghetti to Cannelloni, SAIIA Trade Policy Report no. 15, 2007.
- 38| Braude and Sidiropoulos (2008).
- 39| The Fund's sectoral focus is telecommunications; energy and power; transport; and water and sanitation.
- 40| However, it is no longer mandatory for countries joining the OECD to give up their membership of the G77 as in the case of Mexico when it joined.
- 41| Kennedy, P. (2006): The Parliament of Man: The United Nations and the Quest for World Government, p.xi.
- 42| Address by President of South Africa, Thabo Mbeki, at the 62nd session of the United Nations' General Assembly, New York, 25th September 2007, <http://www.dfa.gov.za/docs/speeches/2007/mbek0925.htm>.
- 43| Address by Sue van der Merwe, SAIIA, Cape Town, 14 June 2006.
- 44| Zuma calls for greater North-South cooperation, Mail & Guardian, http://www.mg.co.za/articlePage.aspx?area=/breaking_news/breaking_news_national/&articleId=33748.
- 45| Quoted in: Sidiropoulos, E. (2008): New actors in a changing world, in: *Emerging Powers and Global Economic Governance*. SAIIA Policy Briefing, Number 1 April 2008, pp.1-2.
- 46| Address by the Minister of Foreign Affairs of South Africa, Nkosazana Dlamini Zuma, on the Occasion of the Budget Vote of the Department of Foreign Affairs, Cape Town, 15 April 2005, <http://www.dfa.gov.za/docs/speeches/2005/dzum0415.htm>.
- 47| Statement by Xolisa Mabhongo, Charge D' Affaires at the Informal Meeting to Consider the Draft Outcome Document for the High-Level Plenary Meeting of the General Assembly, to be held in September 2005, 22 June 2005, http://www.Southafrica-newyork.net/pmun/view_speech.php?speech=4096320.
- 48| Le Pere, G., Pressens, M., Ruiters, M., and M., Zondi S. (2008): South Africa's Participation In The System Of Global Governance, Draft Review prepared for the Presidency's Fifteen Year Review, Institute for Global Dialogue, February 2008, p.11.
- 49| Ibid.
- 50| Ibid., p.13.
- 51| The Four Nations Initiative on Governance and Management of the UN, <http://www.the4ni.org/index.php>.
- 52| Cited in Taylor, I. (2005): South Africa: Beyond the impasse in global governance, in: English, Thakur A. and Cooper A.F. (eds.) (2005): *Reforming from the top: A leaders' 20 Summit*, p.233.
- 53| Mokoena, R. (2007): South-South cooperation: The case of IBSA, in: *South African Journal of International Affairs*, vol. 14, issue 2, 2007, p.126.
- 54| <http://www.dfa.gov.za>
- 55| Address by Sue van der Merwe to the South African Institute of International Affairs, Western Cape Branch, Centre of the Book, Cape Town, 14 June 2006.
- 56| Remarks by Thabo Mbeki during the India-Brazil-South Africa (IBSA) Meeting of Heads of State and Government with CEOs, Brasilia, Brazil, 2006.
- 57| Wheeler, T. (2003): South African relations with Latin America and the Caribbean, in: *Latin American Report, UNISA*, vol. 19 No 1, 2003, p 33.
- 58| Interview with the DFA, 21 February 2008.
- 59| IBSA also represents in many respects an important South-South forum for pursuing South Africa's sustainable development agenda. The Tshwane IBSA Summit Declaration of 2007 commits all three countries to '[...] pursue the deepening of South-South cooperation for sustainable development.' For example, the declaration also stresses the importance of implementing the Rio Declaration, Agenda 21 and the Johannesburg Plan of Implementation of the World Summit on Sustainable Development. Issues of clean energy, energy security, renewable energy sources, climate change and its impact on developing countries were all highlighted in the Tshwane IBSA Summit Declaration and a Working Group on 'Environment and Climate Change' was created, Department of Foreign Affairs (2007b): *The Tshwane IBSA Summit Declaration*, 17 October 2007, <http://www.dfa.gov.za/docs/2007/ibsa1018.htm>.
- 60| Presentation by deputy minister of trade and industry, Rob Davies, at the SAIIA conference China and South Africa, Pretoria, 21 May 2008.
- 61| Alves, P.(2007): India and South Africa: Shifting priorities, in: *South African Journal of International Affairs*, vol. 14, issue 2, p.101.
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- 63| Butler, A. (2008): Mending the two cracked pillars on which renewal must lean, in: *Business Day*, Johannesburg, 18 August 2008.

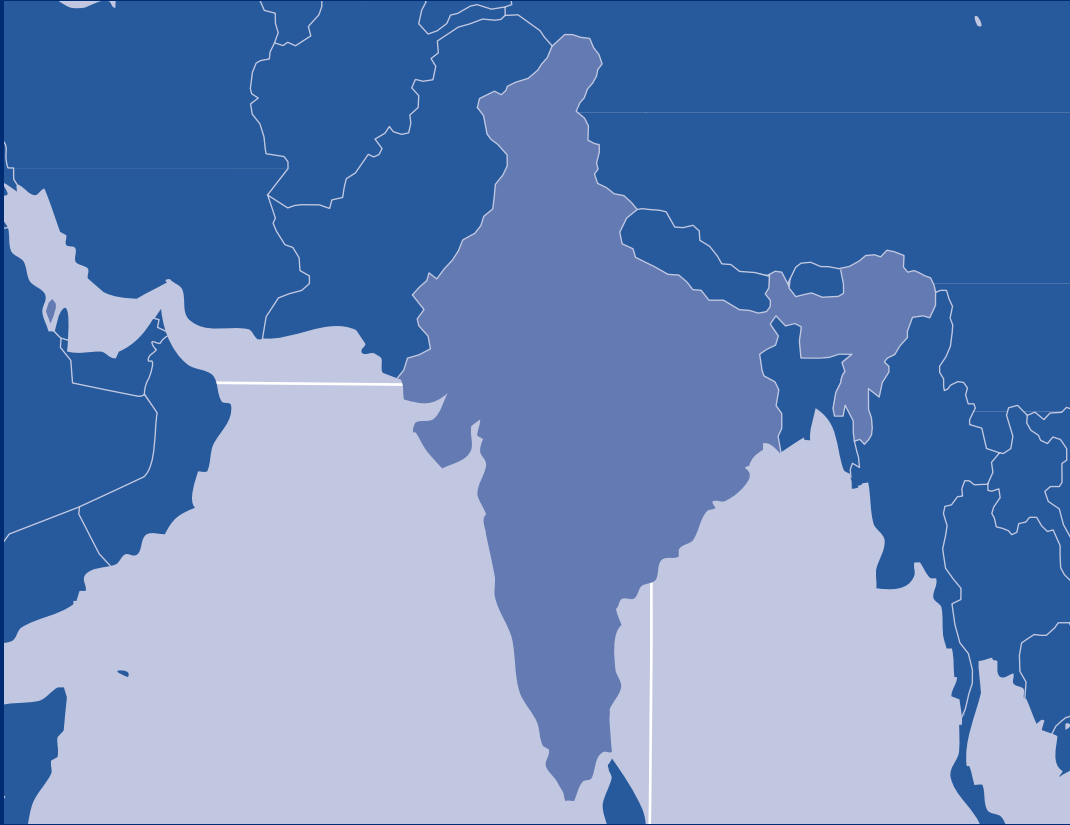
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INDIA



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Rajiv Kumar

Mathew Joseph¹

Indian Council for Research on International Economic Relations (ICRIER), New Delhi

EXECUTIVE SUMMARY

- There is a growing recognition that the system of global governance needs reform. The present system of global governance is more or less a continuation of the arrangements made immediately after the Second World War more than 60 years ago. This does not correspond to the changed ground realities. The global economic, strategic and social order has many different and more dynamic players than at the time of the formation of the United Nations and its allied agencies.
- It is, in our view, important to fully appreciate the rationale for reforming or restructuring international institutions that are presently responsible for global governance. The current and ongoing rise in the share of emerging economies in global output has to be recognized and the necessary adjustments made both in the market place (where they take effect more naturally and quickly) and in the structure of the institutions regulating and safeguarding the global economy.
- A failure to achieve these adjustments and institutional changes could generate thoroughly avoidable consequences similar to those in the first half of the twentieth century. It is neither wise nor even practical to wait for the time when one of the current hegemonic or dominant powers has to face a real threat to its economic solvency, as the UK did at the end of the Second World War, before the new global governance order is successfully established.
- India has emerged as an important global player. Its worldwide second largest population, likely to emerge as the largest within the next three decades, makes it a natural comparator with China. While India is clearly far behind China currently in economic terms, the possibility of its overtaking China, because of the underlying structural features of the two economies, is always held out. Thus, the world and especially the OECD countries see India as an emerging global economic power that should be given the corresponding space and responsibilities in any emerging global governance structure.
- The willingness and desire on the part of the current world powers to give India a greater role in global governance and recognize it as a major global player finds a strong resonance among the elite segments of the domestic establishment within India. The country's political class, since the time of Gandhi and Nehru and its elite bureaucracy, including the elite of the diplomatic corps, has always had global leadership aspirations.

■ This desire of the Indian elite to play a global role, has received a substantial boost from the strong economic performance starting with the reforms of 1991 and more so in this decade. India has been thrust in the same league as China, Brazil, South Africa and Mexico, all of whom have significantly stronger economies as reflected in their significantly higher per capita incomes. The Indian negotiators, comprising politicians, diplomats and bureaucrats, have found themselves to be members of the 'international high table' in several forums, an opportunity which is completely reconciled with their own aspirations for a larger global role. This represents an optimal outcome that suits both the global agenda for restructuring governance and the Indian elite's perception of its global role.

■ However, there are several reasons why this outcome is unlikely to come about. These range from India's weak economic position as reflected not only in the low per capita incomes but also in India's low share in the global economy and trade, to the lack of capacity within its external relations departments to tackle important issues of global governance. Hence, India may have to seriously consider the trade-offs between devoting greater policy attention to completing its own unfinished reform agenda, thereby promoting rapid and inclusive growth, or allocating more resources to tackling issues in global economic and political governance.

■ Thus, while India has strong credentials to contribute to this global undertaking, its ability to play its due role in addressing emerging global challenges is highly constrained by its present economic weaknesses in terms of low per capita incomes, large numbers continuing to live in unacceptable poverty and India's relatively low shares in global trade and investment flows. It is important, therefore, for the global community to reinforce India's own efforts towards overcoming this critical weakness as quickly as possible. We will then have a credible India contributing its considerable talents to addressing the present-day global challenges.

INDIA ON THE INTERNATIONAL STAGE

With its recent spurt in economic growth and a clear break from old ideological bias towards central planning and strategic links with the erstwhile Soviet Union, India has emerged as an important global player. Its second largest population, likely to emerge as the world's largest within the next three decades, makes it a natural comparator with China. While India is clearly far behind China currently in economic terms, there is always a conceivable possibility of its overta-

king China because of the underlying structural features of the two economies. India's success in training its large human resource base in complex technical skills, and thereby its emergence as the sole surplus provider of technically trained labour, is seen as its major strength in coming years. The country's successful breakthrough in information technology and software industry, combined with the greater strength and global reach of its private enterprise, has prompted some experts to think of the 21st century as belonging to India rather than China in terms of their relative economic prowess.² This is further reinforced by the finalisation of the Indo-US nuclear deal that will provide India with access to frontline technologies and the prospect of overcoming its energy deficit in a sustainable manner. Thus, the world and especially the OECD countries see India as an emerging global economic power that should be given the corresponding space and responsibilities in any emerging global governance structure.



The willingness and desire on the part of the current world powers to give India a greater role in global governance and recognise it as a major global player finds a strong resonance among the elite segments of the domestic establishment within India. The country's political class, since the time of Gandhi and Nehru, and its elite bureaucracy, including the diplomatic elite, has always had global leadership aspirations. This is reflected in the organisation of the first Asian Relations Conference in New Delhi in 1947³ and India's leadership of the Non-Aligned Movement (NAM), which continues in some form even today. The country's leaders, both the politicians and to a greater extent the senior bureaucrats (always used in this paper to include the country's elite in the diplomatic corps) are strongly attracted to a role in the global arena, as



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they see it as a continuum from the early days of India's independence, when it was clearly one of the spokespersons of the developing world. This global role also allows the leadership to achieve greater job satisfaction, especially when the domestic situation often does not permit them to achieve the development objectives which should have the highest priority. Playing a leadership role on behalf of developing countries is seen by the Indian diplomats as an important part of their job description and mandate. This is, in one sense, an outcome of India's self perception of being a truly independent nation state, with a global role and not willing to be aligned with any other power as its junior partner. An independent nation state with aspirations for a global role necessarily has to seek and create its own constituency. India has actively sought this constituency in other developing countries. If this has on occasions required adopting a stance opposed to or contrary to developed countries, India has not hesitated to do so.

This desire of the Indian elite to play a global role has received a substantial boost from the country's strong economic performance, starting with the reforms of 1991 and more so in this decade. Having achieved an average annual growth rate of more than 8 per cent since 2003 the Indian economy has emerged as the second fastest growing economy in the world. This growth performance with its concomitant growth of the middle classes and their demand for technology, natural resources and investment has made India an attractive market and destination for global corporations seeking fresh expansion opportunities. The 'good India story' has taken roots and changed perceptions about India both in corporate boardrooms and in OECD policy-making circles. This has given additional clout to the Indian elite in its quest for a larger global

role. They have been thrust in the same league as China, Brazil, South Africa and Mexico, all of whom have significantly stronger economies as reflected in their significantly higher per capita incomes. The Indian negotiators, comprising politicians, diplomats and bureaucrats, have found themselves to be members of the 'international high table' in several forums, an opportunity which completely responds to their own aspirations for a larger global role.

For the world community India's rise as one of the leading emerging economies, and the Indian elites' desire for a larger global role, presents both a challenge and an opportunity. This represents a challenge, as they have to now adapt to dealing with an even more assertive and demanding India as a negotiator in different forums, often leading the developing countries or their G77 or G30 groupings. India's rise also presents an opportunity because it has given the global community a counterpoint to China's burgeoning economic growth and global influence. India can now be held up as an alternative model of development that combines democracy, free market and rapid growth. This is best reflected in the slogan adopted by the Indian delegation at the annual meeting of the World Economic Forum in Davos in 2006 which extolled the 'Incredible India' as the 'fastest growing free market democracy'.

The global community will thus like to see India emerge as a viable and alternative model which can also be used to set off some of the more difficult demands that a resurgent China can be expected to make as it continues to grab greater shares in global markets and trade. Moreover, a possible coalition between India and China, the two rising economic giants, in united demands for a greater share in global governance in line with their economic clout could

make the change far too drastic and compressed in time for the global community and international organisations to handle in an incremental manner that allows restructuring while keeping intact the basic features of the international institutions and organisations. In this framework, there is a convergence of interests between the Indian establishment and the western developed economies as represented by the OECD: according to this scenario, India, together with China, will emerge as a major global player and will be willing to shoulder greater responsibilities in ensuring an orderly global transition. Given India's longer and more rooted democratic institutions and traditions, there could naturally be more expectations from India on this account.

There are however, several snags in this otherwise near optimal outcome. The first, and the most important, is the inherent and long standing asymmetry between the global aspirations of the Indian elite and the material basis for achieving these aspirations. With still a 2 per cent share in global gross domestic product (GDP), that rises at most to 4-5 per cent in terms of purchasing power parity (PPP) numbers, India is nowhere the size of the economic giants like the US, EU, Japan and China. This is also reflected in India's mere 1 per cent share in global trade which has not increased despite the much greater openness of the Indian economy since 1991. India may, therefore, be a large and populous country, but it is not a large economy in the global context. And in the present world a necessary condition for achieving the status of a global strategic player, economic strength and dynamism is a necessary condition. Why then should India be one of the leading voices either in global economic governance or international negotiations? Could it be that the Indian elite sees its role on the global stage as a substitute for the more difficult task of pushing policy reforms in a country where, because of its sheer heterogeneity and diversity, such reforms can be successfully pushed only through building complex coalitions and persistence which are both difficult to manage?

It can be argued that by trying to 'punch above its economic weight' India does not always adopt or articulate positions which necessarily correspond to its real national interests. Two examples should suffice to highlight this paradox: Until almost the very end of the Uruguay Round, Indian negotiators took the position that India will not negotiate services and will not allow it to be on the agenda of the Round. India's own interest, as some of us had argued at that time, would be in the services sectors, if these were opened up to private investment and given the country's comparative

advantage in highly trained manpower. Ultimately the Indian position crumbled in the face of sustained pressure from OECD countries and the last minute desertion by major emerging economies. India's strength in services has since been borne out. In our view India adopted the anti-services position more to secure its leadership of G77 than to serve its own interests.

It can, however, be argued that there cannot possibly be any harm in India being able to punch above its weight in the global arena, because of its soft power and standing amongst developing countries. This brings India some additional advantages of stature and more importantly in concessional financial flows and a more than proportionate role for Indians in international organisations. There is, nonetheless, a cost involved in letting its finite political and governance capability be used up in pursuing these global issues. Thus, while these are benefits or advantages not to be sneered at, it is not clear whether the costs and benefits are necessarily more positive when letting some of its best talents be focused on international affairs, rather than having them address the domestic constraints on more rapid and inclusive growth and improving the delivery of public services.

Second, in the current Doha Round, India's opposition to lowering the coefficient for determining the bound level of tariffs for non-agriculture manufacture products is not in line with its own declared policy of unilaterally lowering these tariffs (applied rates) to ASEAN levels. Once again the real beneficiaries of any agreement that keeps tariffs higher for manufactures would be the African and other least developed countries (LDCs). And again India has adopted the position to secure leadership among the LDCs. This behaviour often results in India taking positions contrary to the OECD countries and in sharp contrast to China, articulating them vociferously on behalf of developing countries. Other negotiating partners do not quite understand India's position and see it often as being dilatory. China, as is noted by several observers, cleverly adopts a very focused approach of serving its national interests by remaining relatively silent and in a way letting Delhi handle the promotions itself.

Third, another hurdle in achieving a greater degree of convergence between India and developed economies on issues of global governance is the different perception of India's role in South Asia. Until recently, the US and European countries did not see India as the regional leader. Attempts to bolster Pakistan as a counterweight to India in South Asia clearly reflect this policy stance of the US, the EU and even Japan. China in any case has always had a policy of a close

strategic alliance with Pakistan that was, and still is, aimed at balancing India's influence in the region. This stance clearly caused considerable consternation in Delhi which, quite correctly, demanded an asymmetric approach with a bias in its favour from developed countries. While there has been a marked shift towards India in recent years, the South Asian policy of developed countries is still evolving. India is unlikely to pull its weight in efforts to restructure or reorganise global governance institutions and practices until it is convinced that its own dominant position is unequivocally accepted by the leading global powers.

Fourth, India's long-standing and in some ways special relationship with Russia and its precursor the Soviet Union still has an important position in determining its world view and relations with other countries. In recent years this has changed to become far more balanced as compared to the past, but it will always remain one of the major considerations for India while deciding on its attitude and approach towards international institutions and governance issues.

Finally, there is the issue of sheer capacity constraint within India's foreign affairs and diplomatic establishment to be able to play any enhanced role in global governance. The elite Indian diplomatic cadre from the Indian Foreign Service is completely overstretched even now, and sometimes it is unable to handle routine issues. And there is a clear weakness in crucial areas of long-term goal setting or strategic thinking. As in other countries this needs both a development of internal capabilities and a more effective interface with think tanks and policy experts outside the system. While some serious efforts are being made to rectify the situation, much still needs to be done.

From the above discussion it can be surmised that the necessary conditions for India to play a more proactive and constructive role in global governance in future are: (i) sustaining rapid economic growth without neglecting inter-regional and inter-class equity issues; (ii) being unequivocally recognised as a regional leader and also accepting the responsibilities that come with that role; (iii) reducing its energy dependence on a few selected countries, especially Iran; (iv) achieving an even greater distance from Russia, especially in the area of defence and strategic equipment as well as technology; and (v) developing a greater capability to design and articulate its longer term strategic objectives and the coherence to pursue them. Developed countries can help address these constraints on India's expected and enhanced future role in global governance.

GLOBAL ECONOMIC GOVERNANCE

The basic structure of the existing multilateral and regional institutions of economic governance represents the immediate post-World War II demographic and economic realities and needs thorough reform to reflect the world realities and challenges of the 21st century. The distribution of ownership shares, votes and chairs in the IMF, the World Bank and the Asian Development Bank as well as their restrictive leadership selection processes and the way of financing of their operations have to undergo considerable change.

The Bretton Woods Twins

Despite the recent approval for increases in the quota and voting shares of some emerging economies including India, the fundamental imbalance in the governance structure of the IMF and the World Bank, the so-called Bretton Woods twins, remains. The two-year exercise starting in 2006 has now produced a 'minuscule shift' in the allocation of voting power of about 2.7 per cent in favour of emerging-market countries⁴. The countries who currently dominate the IMF have strong geo-political interests in preserving their quota and vote shares. Changes towards redressing the severe 'democratic deficit' in the governance of multilateral institutions are painfully slow. It appears that getting a larger, more proportionate share for emerging economies in the IMF's governance will be an arduous and long-drawn-out process. And even if that was achieved, the special relationship that the IMF has with the US Treasury may still remain intact. This central feature will continue to sustain the perception in emerging economies that the IMF and the World Bank will continue to remain instruments of US foreign policy. This may well drive emerging economies both in Asia and Latin America to embark on alternative arrangements, such as regional monetary funds, over which they can have more democratic oversight and which will be seen as exclusively devoted to handling the problems of that specific region⁵.

The IMF's role or functions should continue to be (i) macro surveillance of countries, (ii) exchange rate supervision, (iii) financial sector advice and (iv) standby financing in times of crisis. With the growth of country reserves and the adoption of reasonable prudent macro policies, the crisis-focused role of the IMF has declined. Prior to the global financial crisis culminating in 2008 this could be seen as an ironical outcome for the IMF which had lost its business and its *raison d'être*, because economies had effectively implemented its counsel, and have thus effectively insured

themselves against crisis. This has meant that the IMF's loans to its member countries have sharply declined in the past decade, and its income has dwindled bringing financial stress for the organisation that became rather acute in 2007⁶. A change of the institution's mission in the wake of the global financial crisis in 2008 has to be awaited. As the present Managing Director of the IMF said at the time of taking up office in 2007, the IMF cannot have a financing model that relies on countries getting into crisis. A new model will have to rely more on emerging economies for its capital needs, and this should also bring about commensurate changes in its governance structure. It is indeed a paradox that several European economies, which are significantly smaller in size, though clearly not in per capita terms, than several emerging economies, continue to have larger quotas and a role in the governance. This situation needs changing.

The IMF should remain the main institution to handle global financial crises, because it is the only institution with universal participation and the technical capacity, built up over decades, to anticipate and handle macro imbalances. In fact its capacity should be even more sharply focused on monitoring and handling macroeconomic imbalances and crises. Its foray into long-term structural development issues and poverty eradication through the Enhanced Structural Adjustment Facility (ESAF), the Structural Adjustment Facility (SAF) and other instruments should be wound down and handed over completely to the World Bank and the regional development banks. However, the IMF will have to sever its special relationship with the US Treasury, if it desires to regain its legitimacy and credibility among emerging economies.

According to the current dispensation, the Director of the IMF can only be a European. The mode of selection of the Managing Director of the IMF must be changed from a pre-selected European candidate to open application. Europe itself is currently overrepresented in the IMF with a combined voting power of 23 per cent and a combined eight chairs on the current 24-chair board. The high European voting shares and chairs have to be reduced as the European countries are clearly over-represented according to any parameters.

The financial sector crisis in the US and Europe in 2008 has underlined the fact that the IMF's supervisory capability has to be strengthened and its mandate made more enforceable also in non-borrowing and developed economies. The IMF has recently introduced an updated policy framework for bilateral and multilateral surveillance. In the IMF'S first multilateral



consultation on global imbalances, which it carried out in 2006, and which brought together China, the Euro zone, Japan, Saudi Arabia and the US, the Fund insisted that the imbalances were due to the unsustainable fiscal policies of the US and the maintenance of an undervalued exchange rate by China. However, neither the US changed its fiscal policies, nor did China appreciate its currency. This raises questions about the effectiveness of the Fund's multilateral surveillance⁷.

Regional Development Banks

The role of the World Bank and the Asian Development Bank should remain that of project financing agencies and development policy advisers. However, the effective undertaking of these functions by these institutions would require a governance reform which gives greater weight to emerging and developing countries in their management and which results in more merit-based management and staffing patterns. Even in regional banks, the positions of the President and Vice Presidents are earmarked for particular countries or regions. This needs to be changed as well⁸. These regional development banks have spawned very large bureaucracies and rather cumbersome and involved modalities for designing projects and disbursing the finances: it is now important to streamline their working to the greatest extent possible.

The World Bank and the Regional Development Banks presently serve three major functions: monitoring the development experience to identify constraints and requirements; designing and executing development projects and mobilising the necessary financing for them; and building capacities within developing economies through technical assistance. Other functions also include encouraging regional cooperation and



promoting the work of the private sector. It needs to be considered that there is merit in creating different agencies for the three primary functions performed by these banks⁹. In the present setup, technical assistance, which in many developing economy members is perhaps as important as project financing, gets rather short shrift and is relatively neglected. There is a culture of 'fund and forget' in the case of technical assistance projects, as the existing system does not really reward this kind of work.

A greater focus on capacity building will help address a paradox in which the regional development banks find themselves at present: they are unable to lend to poor developing economies because of a lack of absorptive and implementing capacities. Therefore they have become dependent on borrowing by middle income or large emerging economies. The latter can easily mobilise these funds from the private financial sector, but choose to continue borrowing from the World Bank or the Regional Development Banks to create the required influence in the management of these organisations. As a result, nearly all the policy leverage that development agencies had over these larger emerging economies has virtually disappeared. This may not be such a bad outcome, especially if one was to believe the reports on the continuing erosion of professional talent in multilateral and regional development banks. Yet it is clear that neither lending resources are optimally allocated, nor is the policy influence achieved to the desired degree. The way forward is to focus much more on technical assistance and building up analytical and implementing capacity instead of treating this as a 'side activity' while keeping the volume of lending as the main and often only criteria for evaluating individual staff or organisation's performance.

Trade Arrangements

India has been a strong advocate of strengthening the multilateral system to solve global problems. While multilateral trade liberalisation based on the non-discriminatory 'most-favoured nation' principle maximises welfare for all, the world has unfortunately moved towards creating many preferential trade arrangements and customs unions which could lead to trade diversion away from non-members to member countries. While still strongly wedded to multilateralism, India itself is now pursuing regional and bilateral trade, investment and financial arrangements with regional groupings as well as individual countries. In this way it can offset the loss of being a non-member and develop a safeguard against the inordinately slow progress in liberalisation of the multilateral trading regime. As with other countries, there is also some strategic element in pursuing these bilateral and regional arrangements.

In recent years, however, India has been a vocal supporter of the idea of an Asian Economic Community (AEC). The Indian Prime Minister Manmohan Singh set out the vision for an AEC at the third India-ASEAN Business Summit in October 2004 when he said:

'Such a community would release enormous creative energies of our people. One cannot but be captivated by the vision of an integrated market, spanning the distance from the Himalayas to the Pacific Ocean, linked by efficient road, rail, air and shipping services. This community of nations would constitute an 'arc of advantage' across which there would be large scale movement of people, capital, ideas and creativity. Such a community would be roughly the size of the European Union in terms of income, and bigger than NAFTA in terms of trade. It would account for half the world's population and it would hold foreign exchange reserves exceeding those of the EU and NAFTA put together.'

Manmohan Singh's vision of an AEC is an outcome of India's 'Look East Policy' launched in 1992 when India was granted the status of a sectoral dialogue partner by ASEAN. India's efforts, which received significant support from Japan, Australia and New Zealand, have not found favour with China and Korea. Both these countries have expressed a clear preference for pursuing the more limited ASEAN+3 regional formation under which the Chiang Mai Initiative, the Asian Regional Coordination Agency and the Regional Bond Market Initiatives have already been launched. The Japanese position changed under former Prime Minister Fukuda expressing a strong preference for the ASEAN+3 rather

than the AEC which was supported by his predecessor Abe. The AEC could over time expand to include other Asian countries in South, West and Central Asia and bring in all of Asia and Oceania within its ambit. This would then become the third economic pole of the world economy after the EU and NAFTA¹⁰.

Having seen all its major trading partners clambering on to regional and bilateral trade arrangements (RTAs / BTAs) India has also decided not to be left out of this current trend. It has already signed three BTAs with Sri Lanka, Thailand and Singapore. These have been instrumental in increasing the two-way trade and investment flows between India and these countries. India will also sign an Indo-ASEAN Free Trade Agreement¹¹. The South Asian Free Trade Agreement (SAFTA) is already in place. However, this has not helped to increase the share of intra-SAARC trade flows, primarily because of the continuing stalemate in economic relations between India and Pakistan, the two largest economies in South Asia. However, with India adopting a qualitatively more positive approach towards SAARC and accepting the asymmetric responsibilities that come with its dominant position in the region, greater progress is likely in coming years. Negotiations are at an advanced stage for a free trade agreement with BIMSTEC (Bay of Bengal Initiative for Multi-Sector Technical and Economic Cooperation) countries which include Bangladesh, India, Sri Lanka, Bhutan, Nepal and Myanmar. India is likely to start negotiations for a regional trade agreement with the Gulf Cooperation Council (GCC) countries. In addition to this, India has signed bilateral free trade agreements with a number of countries in the region. India would further explore possibilities to strengthen economic relations with countries and groupings within the Asian region with a view that all these sub-regional and bilateral relations will ultimately merge into a broader regional economic architecture in the form of an Asian Economic Community.

South-South-Cooperation

India would like to promote greater South-South economic cooperation covering trade, investment and technology flows¹². Trade and investment flows among developing countries have reached a critical mass, so that new institutions and the strengthening of existing institutions for South-South cooperation will contribute towards realising substantial gains in terms of growth, employment and poverty reduction within developing countries. Therefore, in its quest for leadership among developing countries, India should redouble its efforts to make institutions such as UNCTAD, UNIDO, UNESCAP more effective. On the

other hand, it should support the call for a thorough revamping of these and other UN institutions that seem to have strayed sometimes almost completely from their original mandates. Another approach would be to focus greater efforts on further cooperation amongst the larger emerging economies, termed as BRICSAM, BRIC or G5, and institutionalise the interaction and cooperation amongst them. It is perhaps not so well known that about 70 per cent of tariff barriers that developing countries face are from other developing countries. Recent studies show that full trade liberalisation of intra-developing country trade could bring about US\$ 130 billion as welfare gains separate from merchandise and services¹³. Therefore, India should concentrate its efforts and lead by example in reducing these tariffs.



GLOBAL POLITICAL GOVERNANCE

India was one of the founding members of the UN at a time when UN membership was a third of its current level and an overwhelming majority of the UN membership, including India, was under colonial dispensation. India recognises the importance of the UN in preserving global peace and stability and in solving the variety of problems confronting the world community. However, there is a general consensus that the effectiveness of the UN has weakened considerably over time, and it needs sweeping reform to perform its tasks.

There are three aspects of reform of the UN system: (i) broadening the Security Council membership, (ii) activating the dormant Economic and Social Council (ECOSOC) into an effective global economic and social policy coordinating body, and (iii) streamlining the many fragmented UN agencies¹⁴.

India's official line has been to insist that a comprehensive reform and expansion of the Security Council, to make it more 'democratic, representative and responsive', and revitalisation of the General Assembly lie at the heart of the UN reform. India, with partners from Africa, Latin America and Asia, tabled a resolution in the UN Assembly on September 11, 2007 spelling out the principles on which the Security Council has to be restructured¹⁵. These principles include: expansion in both permanent and non-permanent categories of membership, greater representation for developing and developed countries that is reflective of contemporary world realities and improvement in the working methods of the Security Council. India has also suggested that the revitalisation of the General Assembly must restore and enhance the role and authority of the organ as originally envisaged in the UN Charter. We should note in this regard that the serious and sustained effort by India in the last few years to gain a permanent seat in the Security Council have not been successful. The country did not receive much support for its bid to the Security Council even from other developing countries. This brings back the issue discussed earlier in the introduction of whether India should continue to pursue these efforts for a larger role in global governance or wait until it has much greater claim on this position by virtue of its larger share in the global economy and international trade and investment flows.

The principles of multilateralism, sovereign equality of states, non-intervention in the internal matters of each state, non-use of force and the right of self-defence in the event of an armed attack are core to the UN system. The UN Charter lays down a central role for the UN in the fields of social, economic, cultural and human rights. However, important decisions affecting the international community are taken outside the UN, in groupings like the G8 and through defence arrangements like NATO. The reform of the UN lies not just in changing its functions and structures, but more importantly, in restoring its legitimacy and central role in the multilateral system.¹⁶ India will continue to push for restoring the UN mandate and not letting it be diluted by developed countries which tend to take major decisions outside the multilateral framework.

Informal Global Governance Forums

The United Nations and its specialised agencies, including the IMF, the World Bank, regional development institutions, and the WTO, were set up to address the global issues and challenges. The summits of the G7 countries, created in the mid-seventies to tackle

the imbalances among the world's major industrial countries through coordination, were expanded to the G8 with the inclusion of Russia in 1998. It has now turned into a consultation forum and steering group discussing global economic and political issues, such as global economic imbalances, global warming and environment issues, global terrorism and security, global poverty, debt and aid, global trade negotiations, energy security, nuclear proliferation, reform of the UN and the various international institutions. The late Joseph Gold, a former IMF legal counsellor, aptly called the G5, G7 and G8, an 'extra-territorial authority'¹⁷. Although there has been considerable debate and discussion on the role of the G8 internationally, in India there has not been much discussion¹⁸, nor does there appear to be any officially stated position on the G8.

We feel that the G8 serves a useful purpose as an informal body for discussions on global issues, but that the G8 as currently constituted is not up to the task. A more representative apex forum needs to be created for meeting the present global challenges effectively. It is also believed that the summit reform is an essential prerequisite to reforms of such multilateral institutions as the IMF, the World Bank and the UN which are currently badly stuck in a stalemate. A broad-based more representative summit of world leaders would be able to provide the critical push for kick-starting the stalled reform of international institutions¹⁹.

China has now become the world's fourth largest economy in terms of GDP at market exchange rates and the second largest in terms of GDP at purchasing parity prices. India is the 12th largest economy and fourth biggest in terms of PPP-GDP. In 2006 and 2007, over two-fifths of the growth of the global economy was contributed by China and India taken together. Developing countries as a whole now account for more than two-thirds of world output growth measured in terms of purchasing power parity. They represent over 85 per cent of the world population and possess nearly two-thirds of international foreign exchange and gold reserves. Overall, therefore, the significance of the emerging economies, especially of the G5, is today greater than in the past. The design of global political and economic governance and related institutions must reflect the enhanced role of the emerging economies. The present system of inviting a few members of developing countries to the annual summit meetings of the G8, the so-called 'G8-Outreach', is a step in the right direction, but this should pave the way for offering a formal membership to a larger representation of countries for full participation



in the decision-making process. A 'two-tier' system appears discriminatory, as it denies an equal partnership role to the invitees.

Reform of the G8

Basically, the G8 has to be expanded to include more members. How many more? The basic principles to be considered for arriving at an optimum number of countries for inclusion are universality and manageability: the larger the number of countries, the more representative it will be of the global membership, but a very large number could make it unmanageable as reaching a consensus through informal interactions becomes ineffective. In striking a balance between these two principles of inclusiveness and practicality, it is thought appropriate to enlarge the G8 to about 16 countries at the most by adding another 8 countries and representatives of groups of countries to the present G8. Besides including the five large emerging market economies (G5), one could include the attending heads of regional groups in Africa, Asia and Latin America as is done in the case of the head of the European Union. Legitimacy will be maximised by giving a representation to the large number of small countries in these three continents accounting for a large proportion of the global population²⁰. This G16 will be large enough to represent diversity and small enough to facilitate a meaningful exchange of views.

There have been suggestions to convert the current forum of G20 Finance Ministers to the summit level. Most agree that the G20 Finance has done a good job in dealing with the global financial crises. However, we also support the view that the G20 should continue with its finance focus and should not be elevated to an apex body to deal with a much wider range of issues facing the global economy.

Bi- and Multilateral Engagement

India no longer considers multilateralism and bilateral cooperation as mutually exclusive alternatives. The Indian strategy is to move forward in the direction of multilateral, regional and bilateral cooperation with equal enthusiasm. This is a break from the policy it upheld until the 1980s and a response to the world reality of the proliferation of regional trade blocs.

India has bilateral free-trade or preferential-trade agreements with countries such as Sri Lanka, Bhutan, Nepal, Afghanistan, Singapore, Thailand and Chile. Negotiations are under way with countries such as South Korea, Mauritius, Japan, Russia, Indonesia, Malaysia and Israel. India is already part of the South Asian Regional Free-Trade Arrangement (SAFTA) and the Asia-Pacific Trade Agreement (APTA). The country will sign a free trade pact with ASEAN. Negotiations have started to conclude free-trade agreements with BIMSTEC, GCC and the combined IBSA-MERCOSUR-SACU entity.

South Asian integration efforts through the SAARC founded in 1985 have yielded limited results mainly due to problems in Indo-Pakistan relations. SAFTA, which became operational in 2006, is expected to give a major boost to intra-trade within the region which is currently one of the least integrated regions in the world. It has now been decided to expand the scope of SAFTA to services and also to reduce the negative lists of sensitive items. However, Pakistan's reluctance to grant India the 'most-favoured-nation' treatment in violation of WTO rules is a major hindrance. As the largest economy in the region, India has shown readiness to accept asymmetrical responsibilities, including opening her markets to South Asian countries without insisting on reciprocity and implementing a unilateral duty-free access to her

markets for the least developed countries in the region²¹. It now appears that India has seriously taken it as a foreign policy challenge to realise the vision of a South Asian community characterised by 'a smooth flow of goods, services, peoples, technologies, knowledge, capital, culture and ideas'²².

While the IMF and the World Bank as institutions of global economic governance suffer from unequal distribution of votes between the developed and developing countries, the WTO which works on the principle of 'one-country one-vote' has turned into a remarkable institution overseeing the trade flows of goods as well as services and the international intellectual property regime. The fact that the world trade body has recognised the rising economic weight of developing countries is reflected in the replacement of the 'old' quad consisting of the US, the EU, Japan and Canada by a 'new' quad consisting of Brazil, India, the US and the EU in driving the negotiating process at the Doha Round²³.

India has played a key role at the G77, the largest group of developing countries within the UN, in articulating the collective interests of developing countries, enhancing their joint negotiating capacity on major international economic issues and promoting South-South cooperation for development. An important achievement of South-South-cooperation has been the formation of the G20 in the context of the WTO led by Brazil, India, South Africa and China which has been able to shape the course of trade negotiations at the Doha Round.

Relations to the other G5-Countries

India and China had troubled relations following the 1962 border war and the presence of Tibetan exiles given asylum in India. Relations have improved in recent years and the two countries established what is called 'the strategic and cooperative partnership for peace and prosperity' in 2005. Significantly, the two countries agreed upon 'A Shared Vision for the 21st Century' during the visit of the Indian Prime Minister to China in January 2008. This vision recognises that India-China relations affect not only the wellbeing of the people of the two countries, but also have an impact on the region and whole globe. Therefore the two countries should work together 'in creating a world of positive externalities and mutual prosperity, rather than one based on balance of power calculations and animosity'²⁴. The best signs of the strengthening relations between India and China can be seen in the remarkable growth in trade between the two countries crossing US\$ 40 billion in 2007-08, from

practically nothing at all in 2001-02. Now China has overtaken the US as India's largest single trading partner. Investment flows and the movement of persons for work and tourism between the two countries have also been rising in recent years. There have been talks about a free-trade agreement between the two countries, and the Commerce Ministers of the two countries will take further steps in this regard²⁵. India and China have been cooperating with each other in regional and multilateral forums, and the close cooperation between the two countries has been most evident in the recent Doha Round negotiations²⁶.



India and South Africa have been strategic partners, and there has been strong cooperation between the two countries on multilateral issues particularly on the reform of the UN and the WTO Doha Round. India sees the India-Brazil-South Africa (IBSA) Economic Cooperation set up in 2003 as an important step in South-South cooperation. Trade among these three countries has been rising fast. It crossed US\$ 10 billion in 2007 and is targeted to reach US\$ 15 billion by 2010. A trilateral FTA among the three countries may not be technically feasible, because Brazil and South Africa are members of customs unions MERCOSUR (Southern American Common Market) and SACU (Southern African Customs Union) respectively. Therefore, IBSA would have to evolve into a free trade arrangement among India, SACU and MERCOSUR. The talks on an India-SACU-MERCOSUR FTA already commenced in 2007. Besides integrating the three continents, IBSA is also evolving into a collective leadership for the developing world by articulating common positions on important international issues, such as UN Reform, multilateral trade talks, climate change and terrorism²⁷. India and Brazil entered into a 'strategic partnership' in 2006. Indo-Mexico relations were elevated to a 'privileged partnership' in 2007.

INTERNATIONAL SOCIAL ORDER

A largely closed economy until the mid-1980s, India opened itself up slowly in the mid-1980s and faster since the 1990s. India benefited enormously from globalisation as the growth rate of the economy rose from an average 3.4 per cent per annum during 1950-80, to 5.6 per cent during 1980-2000 and 7.2 per cent during 2000-08. Poverty has also gone down with the percentage of people below poverty line declining from 44.5 per cent in 1983-84 to 36 per cent in 1993-94 and 27.5 per cent in 2004-05. Inequality has widened, but the level of inequality in India remains lower than that in several other countries including the US, UK, Brazil, China, Mexico, Russia and South Africa²⁸.

While globalisation brings in several benefits, it is also seen to exacerbate inequalities between countries and within the populations of each country. This is quite contrary to the promise of globalisation which was expected to result in greater convergence both across countries and across income segments within countries. Now it seems that the more interdependent and interlinked the world economy, the more it is prone to instability as the contagion effects spread faster and wider. This could be seen both in the East Asian Crisis of the late 1990s and now in the case of the global financial crisis. India recognises, from its own experience, that globalisation has substantial benefits and growth-raising potential, especially for developing economies. At the same time it is important to recognise and address the deleterious effects of globalisation and minimise its 'backwash' effects, for instance the brain drain, cultural domination and the decimation of local traditions and ways of life, which currently dominate in some developing countries. In this specific context India is in favour of setting up an international institutional mechanism under the UN system to contain the ill effects of globalisation. The Indian constitution in fact safeguards local systems, culture, art and language. Similarly, institutions have to be in place at the global level to protect local systems from the onslaught of globalisation.

The eight Millennium Development Goals (MDGs) adopted by the world leaders gathered for the Millennium Assembly at the United Nations in September 2000, provide the broad contours of an international social order. These bind the world to a series of quantified and time-bound steps to reduce extreme poverty, illiteracy, disease, human deprivation and environmental degradation. The first seven goals imply sharp cuts in poverty, illiteracy, disease and atmospheric pollution and the eighth goal is a commitment of global partnership between rich and poor countries to



An emerging middle class creates new demands in the G5 countries.

work together to achieve the first seven goals. But the achievement of the internationally agreed MDGs has been tardy: the latest IMF-World Bank Global Monitoring Report indicates that most countries will fall short on these goals. Strenuous efforts are required from both the poor countries and the donor rich countries on the one hand, and better coordination among the UN specialised agencies (UNDP, FAO, IFAD, UNEP, WHO, UNPF, UNICEF), World Bank and the IMF, on the other, to achieve uniform and acceptable social development goals across developing countries. However, after their eight years of existence, it is also time to review the relevance and effectiveness of the MDGs as social development goals. At the same time the reasons for which these goals could not be achieved should also be identified and responsibility assigned.

INTERNATIONAL RESPONSIBILITY

Apart from focusing its policy attention on removing unacceptable poverty and human degradation at home, India's major concern has been peace and prosperity in its neighbouring countries in South Asia. India would like to see herself as a partner to all her neighbours for promoting regional cooperation and inclusive economic growth. India could then emerge as a force for stability, security and economic prosperity, rather than being seen solely as a regional hegemon²⁹. India would like her neighbours to develop confidence and their shed fear of their big neighbour. India benefits from the growth and stability of its neighbours and the neighbours benefit from the growth and stability of India. The country would devote increased attention to developing friendly relations with the South Asian countries.



New Delhi

As the biggest country in South Asia constituting over three quarters of the regional GDP and population, India's position is overwhelming, and it is necessary for India to reassure her neighbours through words and actions. There has been criticism in the past that India has not been doing enough to instil confidence into her neighbours. Recently India has decided to take up asymmetric responsibilities without insisting on reciprocity. The country has offered duty-free access to its markets to the least developed countries in the region which include Afghanistan, Bangladesh, Bhutan, Maldives, and Nepal. She has also pruned the sensitive list for these countries. India is committed to the vision of a South Asian Customs Union and a South Asian Economic Union which should be realised in a step-by-step manner³⁰.

India's willingness to assume regional responsibility is seen in her contribution towards reconstruction and development in Afghanistan. India has so far committed assistance to the tune of US\$ 1.2 billion. Indian companies and personnel are engaged in the massive rebuilding of the war-torn country under extreme security threats and attacks. The projects undertaken by India included both the economic and social infrastructure spheres, for instance power, road, irrigation, education and public health³¹.

India as an Emerging Donor

India has been engaged with countries in Africa, and India's multifaceted ties with the continent predate the colonial era. Under the Indian Technical and Economic Cooperation (ITEC) programme, about 40,000 African students have been trained on professional courses in Indian educational institutions through Indian scholarships. India has just completed the full roll-out of the 'Pan-African E-Network Project', under which the major universities in Africa are linked with

the major universities in India, and the major hospitals in Africa are linked with super-speciality hospitals in India. The first India-Africa Forum Summit held in New Delhi in April 2008 laid the foundations for a further deepening of Africa-India relations. India stands committed to be partner in Africa's development by helping to build capacities, in both human resource base and production base. In particular, India offered her assistance in ushering in a 'Green Revolution' in Africa through all-round capacity building in the production, storage and transportation of agriculture produce. In addition, India announced duty-free access to her markets for exports from all 50 least developed countries, which include 34 African countries. India extended lines of credit to African countries totalling US\$ 2.15 billion during 2003-08 and these have been raised to US\$ 5.4 billion for the next five-year period. India will also undertake projects in African countries against grants in excess of US\$ 500 million over the next five to six years. In this connection it may be noted that India has been providing assistance to developing countries in the form of technical cooperation and training, and this amounted to US\$ 382 million, mostly in the form of grants, during 2006-07³². Thus, while India will continue to remain a borrower of concessional funding from MDBs, and also perhaps from other developed countries on a bilateral basis, it will increasingly combine this with its role as an emerging donor to less developed countries both in South Asia and Africa. This is not internally inconsistent or contradictory, as several countries routinely follow a two-handed approach to achieve their own development targets and at the same time contribute to the welfare of poorer economies.

India is a hugely diverse country with different castes, creeds, ethnicities, religions, languages, cultures, etc., but it has managed to achieve a 'collective identity' and has created an open society on principles of

democracy, pluralism and common development. As India grows economically and its status rises in the global arena, it can play a balancing and bridging role in the world. It should try actively to bridge the divides and differences between rich and poor nations, east and west, powerful and less powerful³³.

VALUE SYSTEM

The present-day world is characterised by a contradiction: on the one hand, we have increasing integration of individual economies into the world economy, a process normally referred to as globalisation. This also has other features, such as extensive connectivity through the telecom revolution; shortening of geographical distances, because of the ever increasing size of jet airliners; large volumes of capital moving across borders; shrinking of the global market place through the use of the internet; and the ever increasing ecological interdependence across countries. But, on the other hand, there appears to be an increasing divergence across countries and communities in terms of cultural, social and religious fields. And there is also the emergence of a 'hyper power' which does not regard all of the universally applicable 'values' as being relevant to its own decision making and acts arbitrarily. Both these features, which militate against the very core of global integration, have to be addressed as early as possible. Clearly there is urgent need for establishing a universally acceptable set of values, without which the world could descend into major chaos and strife.

A step forward in addressing the problem of religious extremism and divergence would be to adopt India's unique definition of 'secularism': Unlike in the West, where secularism clearly implies the state of 'a-religiosity', the Indian constitution has interpreted secularism to mean the 'non-discriminatory support by the government to all religions and faiths.' This allows for a relatively peaceful and stable social order, in which all the religions have the freedom to operate in their respective communities. India's relatively successful sixty-year experience in the peaceful evolution of its complex multi-ethnic, multi-religious society, demonstrates that the Indian definition of secularism is more suited to the current times. Secularism, or equal support from the state to different faiths and religions, should form the basis for conducting international relations as well.

India believes that the 'Panchsheel', or the five principles of peaceful co-existence which India and China jointly came out with in the early 1950s, can still provide a value-based framework for relations between

nation states. The five principles are: (1) mutual respect for each other's territorial integrity and sovereignty, (2) mutual non-aggression, (3) mutual non-interference in each other's internal affairs, (4) equality and mutual benefit, and (5) peaceful co-existence. India would like to maintain friendly relations with all countries, to resolve conflicts through peaceful means, and promote multi-polarity in world relations. India believes in strengthening and reforming multilateral institutions and mechanisms for collectively addressing global challenges, such as terrorism, the proliferation of weapons of mass destruction, drug-trafficking, global warming and the spread of diseases like HIV/AIDS. No one country, or small group of countries, can tackle these challenges on their own. We need to pool our scientific and technological advancements and the collective wisdom of the world in defeating the ills of poverty, disease and environmental degradation on our planet.



India is committed to the strengthening of multilateral institutions including the United Nations. In particular, the Security Council should reflect the vast increase in membership of the UN, from 50 countries in 1945 to 192 countries at present, and the changed geopolitical and economic realities of the contemporary world. India with its large population, the largest democracy in the world, its dynamic economy, its long history of contribution to international peace-keeping³⁴ and other regional and international causes, deserves to be a permanent member of the UN Security Council along with the representative countries of Africa and Latin America.

Although India has nuclear weapons, it remains committed to a nuclear weapon-free world, a cause strongly espoused by its leadership over the years. As a responsible nuclear power with an unblemished

record on non-proliferation, India has earned increasing international recognition as a partner against proliferation.

India has given the highest priority to closer political, economic and cultural ties with her neighbours in South Asia. This demonstrates India's commitment to promoting not only economic cooperation but also a pluralistic, multi-cultural and multi-ethnic society, despite the current increase in religious and social extremism across the world. India has a vision of South Asia bound together by its common ancient civilisation and commercial ties that can overcome its historical divisions and work towards a collective pursuit of peace and prosperity. The country has to take on additional responsibilities for the success of SAARC because, by connecting the diverse ethnic groups within India with their counterparts across the borders, this would greatly strengthen India's multi-religious, multi ethnic and pluralistic society. This pluralistic polity will be further preserved and nurtured if the various ethnic and religious communities within India can freely interact with their communities across the Indian borders and as a result feel less isolated or pressurised as a minority within India. This would also contribute to a greater enrichment of the cultural diversity that is a hallmark of the South Asian sub-continent. This is an important reason for India to support SAARC, as its functioning has the potential to facilitate India's ongoing modernisation.

India's relations with the US have entered an elevated level in recent years. The current phase is characterised by an attempt to 'correct the strategic historical imbalance' with the US. It has moved beyond a bilateral partnership towards a global partnership anchored on common values and common interests³⁵. This can also be the basis for India's growing relations with Europe. The common values that will underlie heightened cooperation between India and OECD countries include fighting terrorism and the proliferation of weapons of mass destruction. There has been a convergence of views on strategic and security issues and on opportunities for India-US cooperation in defence, science and technology, health, trade, space, energy and environment.

India seeks to promote multi-polarity in international relations and to strengthen forces of multilateralism which support the interests of developing countries and contribute to stability in the region and the world as a whole. Towards this end India is endeavouring to create stronger ties amongst the more dynamic and larger emerging economies. This is exemplified in its support for forging a coalition of the developing world.³⁶



Finally, Indian traditions have always aspired to create a harmonious relationship between man and nature. The concept of man in nature is much closer to the Indian ethos than that of man conquering nature. This has direct relevance to evolving the much needed value system for ecological balance and nature conservation. From the Indian viewpoint this can only be achieved, if there is a shift from a definition of welfare as continuous growth in material production to one that lays greater emphasis on fulfilling a balanced human welfare function which includes varying levels of material, intellectual, cultural and spiritual components. We may also have to move away from a sense of continuous competition among communities coupled with the achievement of higher levels of material consumption to a more cooperative stance: one which tries to pursue the achievement of commonly evolved and universally accepted welfare goals across nation states and communities.

CONCLUSION

The challenge of changing both the content and form of global governance is central to the future stability and prosperity of the global community as it adjusts to accommodate the rise of emerging economies. This challenge has to be addressed successfully. The objective of any such effort must go beyond accommodating the new global players in the structure of global governance. It should also include establishing a set of universally accepted norms for interaction amongst nation states. Attention also has to be given to achieve inter-generational equity, which has to start by collectively addressing the immediate challenge of ecological sustainability. India has strong credentials to contribute to this global undertaking. These credentials are based upon its traditions of harmonious relations between man and nature and

its sixty-year history of successfully developing a democratic, multi-ethnic and pluralistic social order. This experience can be of immeasurable value to the global community at its present juncture. However, India's ability to play its due role in addressing the global challenge is highly constrained by its present economic weakness in terms of low per capita incomes, large numbers continuing to live in unacceptable poverty and India's relatively low shares in global trade and investment flows. It is important, therefore, for the global community to reinforce India's own efforts in overcoming these critical weaknesses as quickly as possible. We will then have a credible India contributing its considerable talents to addressing the present-day global challenges.

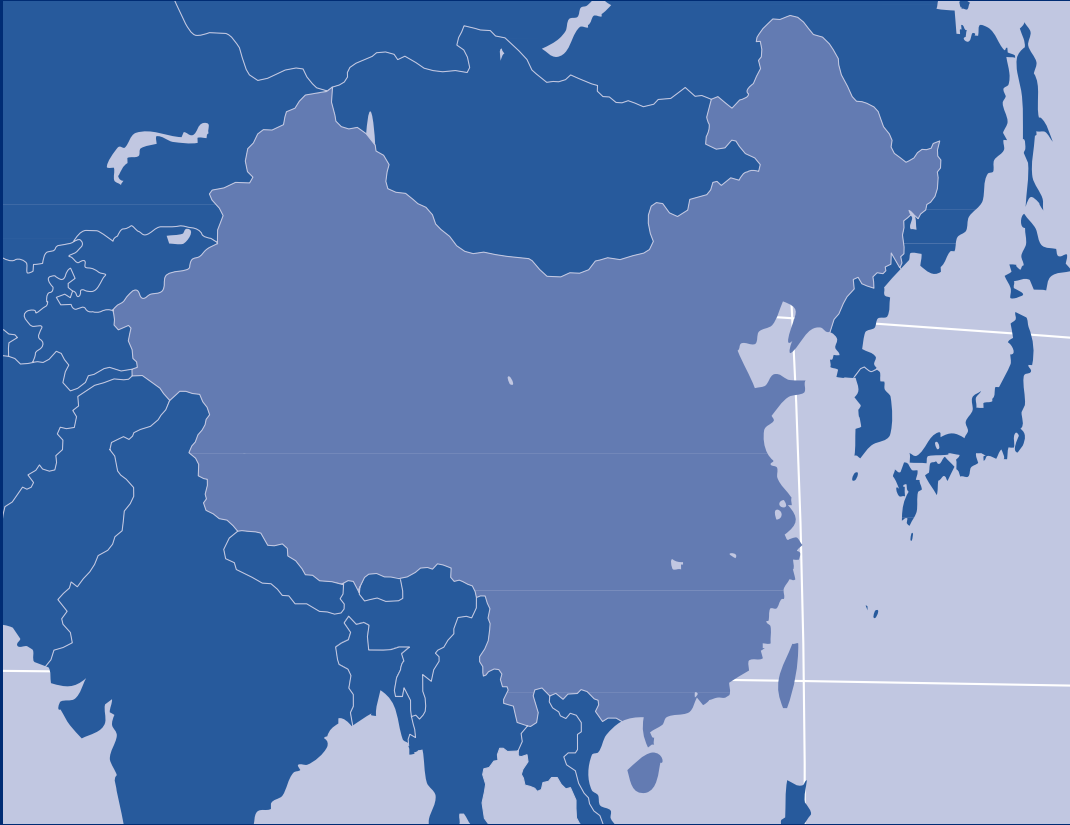
- 1] *The authors benefited immensely from the views of a cross section of members of parliament, policy makers, academics and opinion makers who came together at a brainstorming workshop on 12 March 2008 in Delhi to discuss an earlier version of this report.*
- 2] Khanna, T., and Huang, Y. (2003): *Can India Overtake China?*, Foreign Policy, Washington D.C., July/August.
- 3] *This Conference brought together all the newly independent Asian countries or leaders from national movements including China and Indonesia and was addressed by Mahatma Gandhi, Chou en Lai and Nehru.*
- 4] Lombardi, D., and O'Neill, J. (2008): *How Europe can shape the Fund*, Financial Times, London, 8th April.
- 5] Khatkhate, D. (2008): *Reforming the IMF in a New Global Order: A Leap in the Dark?* mimeograph.
- 6] *This forced the IMF to make a cut in its staff strength and to sell some of its gold reserves.*
- 7] Khatkhate (2008).
- 8] *The President of the Asian Development Bank has always been a nominee of Japan's Ministry of Finance and so always a Japanese person. The positions of the Vice Presidents are earmarked for the US, Europe and the Developing Country group. This of course does not always make for effective management.*
- 9] *The function of promoting private sector development is already separated out in the case of the World Bank to its sister organisation the International Finance Corporation.*
- 10] RIS (2005): *Regional Trading Arrangements (RTAs) in the World and Asia: Options for India*, RIS Policy Briefs No.17, New Delhi, August; RIS (2006a): *Regionalism with an Asian Face: An Agenda for East Asia Summit*, RIS Policy Briefs No.28, New Delhi, October.
- 11] *The Indo-ASEAN Agreement was reportedly finalised in Singapore on the sidelines of the ASEAN foreign ministers' meeting in September 2008. This will bring India on a par with Japan and China, both of which have already signed such agreements with ASEAN. This can also lay the grounds for a wider pan-Asian economic cooperation agreement.*
- 12] *Total developing-country merchandise exports increased rapidly in the last decade to US\$ 4.5 trillion in 2006 accounting for 37 per cent of global trade, up from 29 per cent in 1996. The services exports of developing countries rose fourfold since 1990 to reach US\$ 700 billion in 2006 constituting a quarter of the world total. Foreign direct investment (FDI) from developing countries rose nearly threefold since 1990 and reached US\$ 193 billion or 16 per cent of the world total in 2006.*
- India's outward FDI has risen sharply in recent years, which is typified by the purchase by India's Tata Group of British Land Rover and Jaguar cars, Corus steel and Tetley tea. Trade among developing countries is also growing rapidly: it has tripled to over US\$ 2 trillion in 2006 from US\$ 577 billion in 1995.
- 13] Panitchpatki, S. (2008): *South-South trade Pivotal for global good*, Secretary General, the United Nations Conference on Trade and Development (UNCTAD), Economic Times, 21st April, New Delhi.
- 14] Dubey, M. (2007): *Reform of the UN system and India*, in: Sinha, A., and Mohta, M. (Eds.): *Indian Foreign Policy: Challenges and Opportunities*, New Delhi: Academic Foundation, pp 139-191; *India has shown major interest in the implementation of the reform of the UN. It has listed the areas of action as: '...reform of the Security Council, revitalisation of the General Assembly, reform of the Economic and Social Council (ECOSOC) and the recovery of the central role of the UN with regard to international development issues, efforts to conclude and adopt a Comprehensive Convention on International Terrorism, better management of the post-conflict peace-building processes. Within the Organisation, reform includes efforts to bring to the UN improved management and budgetary practices.'* Ministry of External Affairs (2008): *Annual Report, Ministry of External Affairs, Government of India, 2007-08.*
- 15] *The current structure of the Security Council reflects the geopolitical realities of 1945, when the UN was founded and not that of today. The Council had 11 members out of a total UN membership of 51 in 1945, constituting 22 per cent, and today 15 members out of 192 UN members, just under 8 per cent. Its skewed membership gives Europe, which accounts for barely 5 per cent of the world population, a controlling 33 per cent of the seats. The 5 permanent members (i.e., the US, UK, France, Russia and China) enjoy veto power over any Council resolution by virtue of their weight in the balance of power immediately after the Second World War; Tharoor, S. (2008): *Why Security Council is a distant dream*, Times of India, New Delhi, 11th May.*
- 16] Dubey (2007).
- 17] Khatkhate (2008).
- 18] *An exception is a recent piece by Datta-Ray, D.K. (2008): G8 needs an overhaul*, Times of India, New Delhi, 15 July, which argues for a G6 consisting of the US, one EU seat, China, India, Brazil and Russia.
- 19] Bradford, C.I. Jr., and Linn, J.F. (2007a): *Global Governance Reform: Breaking the Stalemate*, Washington: Brookings Institution Press.
- 20] Stiglitz, J.E., and Griffith-Jones, S. (2007): *Growth with Responsibility in a Globalized World - Findings of the Shadow G8, Dialogue on Globalisation, Occasional Papers, No. 32, Friedrich-Ebert-Stiftung, May, pp. 1-31.*
- 21] Kumar, R. (2008): *Bring the Region Closer*, The Times of India, New Delhi, 18th August.
- 22] Menon, S. (2007): *The Challenges Ahead for India's Foreign Policy*, Speech by Indian Foreign Secretary at the Observer Research Foundation, New Delhi, 4th April.
- 23] Panagariya, A. (2008): *Global economic & financial governance*, The Economic Times, New Delhi, 24 April.
- 24] Singh, M. (2008a): *India and China in the 21st Century*, Speech by Indian Prime Minister Manmohan Singh at the Chinese Academy of Sciences, Beijing, 15th January.
- 25] Ministry of External Affairs (2008).
- 26] *It therefore came as a big surprise to India that China, which had also never formally opposed the India specific waiver on global nuclear commerce in the IAEA, supported the 'nay sayers' in Vienna when the waiver was formally discussed in the Nuclear Suppliers Group. China also opposed India's entry into the East Asian Summit. Its policy towards India can therefore be seen as one of constrained cooperation.*

- 27] RIS (2006b): *India-Brazil-South Africa (IBSA) Economic Co-operation: Towards a Comprehensive Economic Partnership*, RIS Policy Briefs No.26, New Delhi, June.
- 28] This is based on the percentage share of the poorest quintile in national consumption or income as reported in the World Bank's World Development Report 2007, pp. 338-9.
- 29] Bajpai, K.S. (2007): *Engaging with the world*, in: Sinha, A., and Mohta, M. (Eds.): *Indian Foreign Policy: Challenges and Opportunities*, New Delhi: Academic Foundation, pp. 75-89.
- 30] Singh, M. (2008b): *Statement by the Prime Minister Manmohan Singh at the Inaugural Session of the 15th SAARC Summit, Colombo, 2nd August.*
- 31] *Neighbourhood is a relationship of widening concentric circles, and India believes that historical and cultural ties over many centuries make India's destiny interlinked with that of Asia. A pan-Asian regional cooperative architecture is the ultimate objective and to attain this India will enthusiastically participate in various sub-regional forums of integration, ranging from the South Asian Association of Regional Co-operation (SAARC), Bangladesh-India-Myanmar Science and Technological Co-operation (BIMSTECH), the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC), and the Shanghai Cooperation Organization (SCO) to the East Asia Summit or the ASEAN plus 6.*
- 32] Reserve Bank of India (2007): *Annual Report of the Reserve Bank of India 2006-07*, New Delhi: Reserve Bank of India.
- 33] Khilnani, S. (2007): *The Long Cool View*, Corporate Dossier, *The Economic Times*, New Delhi, p. 5, 9th November.
- 34] *India is among the longest serving and the largest troop contributors to UN's peace-keeping activities. More than 100,000 Indian troops, military observers and civilian police officers have participated in 43 out of the 63 peace-keeping operations established since the inception of the UN. India remains the third largest contributor of troops to UN peace-keeping missions, with the deployment of 9,357 personnel (including 493 police officials) to 11 out of the 17 ongoing UN peace-keeping missions as of end December 2007, in areas as diverse as the Democratic Republic of Congo, Sudan, the Ethiopia-Eritrea border, Lebanon Golan Heights and Liberia, where India has contributed the UN's first fully Female Formed Police Unit (Ministry of External Affairs (2008), p. 90).*
- 35] Saran, S. (2007): *Present dimensions of the Indian foreign policy*, in: Sinha, A., and Mohta, M. (Eds.): *Indian Foreign Policy: Challenges and Opportunities*, New Delhi: Academic Foundation, pp. 113-122.
- 36] *Ibid. This was also the basis for the Ministry of External Affairs' support to ICRIER for an international conference of professionals and academics from nine emerging economies (Brazil, China, Egypt, India, Indonesia, Mexico, Nigeria, Russia and South Africa).*

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CHINA



CHINA

He Fan

Chinese Academy of Social Sciences, Institute of World Economics and Politics, Beijing

EXECUTIVE SUMMARY

- The rise of China will have significant and far-reaching impacts on the global economy. As a new driver for globalisation, China may change and challenge the current world economic trends and global governance dynamics.
- The country is one of the greatest beneficiaries of globalisation, and it is in China's own interest to strengthen a cooperative global multilateralism. Traditionally China is a strong defender of sovereignty, now it is ready to surrender some proportion of sovereignty in exchange for world peace and prosperity as well as its own long-term interests.
- China greatly values its participation in the WTO, World Bank and IMF, for both their substantive contributions to China's development and the status the membership brings. China also plays a vital role in promoting regional cooperation. China respects the authority of the UN, and wishes to strengthen its authority heart and soul.
- China started to cooperate with the G8 recently, but is not willing to join the G8 at this moment. China has a long-standing friendship with developing countries and is a strong supporter of 'South-South' cooperation.
- China also started to build strategic relations with other emerging large countries, such as India, Brazil and South Africa. The rise of China, however, will also change the landscape of world economy and politics. Many developing countries as well as developed countries have already sensed the competition from China.
- China has its own history, ideology and culture, and this may change some of the core tenets of international development thinking. China's posture in global governance may greatly influence the reform of both multilateral and regional institutions.
- We believe that China does not have a grand strategy to pursue big power politics by flexing its military muscles. Rather it tries to promote trade and investment with other countries and increase its presence through social, cultural and educational exchanges.
- China's spread of its soft power is underpinned by its burgeoning commercial ties. Being willing to talk about and share the lessons of its own experience will help to promote successful development in other countries, and hence increase China's influence in the international arena.

GLOBAL ECONOMIC GOVERNANCE

China is one of the greatest beneficiaries of globalisation, second only perhaps to the US. The majority of Chinese elites seem to believe that the trends of globalisation are inevitable and that there are no alternatives to globalisation. They also recognise the central role of international organisations in the arena of global governance.

The country greatly values its participation in the WTO, the World Bank and the IMF, for both their substantive contributions to China's development and the status the membership brings. However, many Chinese scholars believe that the influence of these institutions on global governance has been weakened, and that their influence in China has diminished over the past decade.

The Global Financial Crisis and China

At the second half of 2007, when there were already clear signals that a severe financial crisis was coming and would trigger a domino falling in the international financial markets, China still watched this development from a far distance. Many Chinese officials as well as scholars remained quite optimistic if not naïve. They were misled by the popular „decoupling thesis“ which claimed that developing countries like China are „decoupled“ from the US economy and can achieve a robust growth independently.

Now it becomes more and more obvious that the American financial crisis definitely affects the Chinese economy both through trade and financial channels. More than 30 per cent of China's exports head for the US. Some analysts argue that China has already diversified its export and this would help China to escape from the storm. But so far what we can see is that EU and Japan have also been dragged to a recession. China's export to these markets will consequently slow down. If more and more small export companies fall down next year, China might have to face rising unemployment. Seeing the downturn risk, Chinese banks become reluctant to extend loans to export companies. China is also experiencing a credit crunch, although not as serious as the one at Wall Street. Housing prices started to fall since summer 2008, and it may continue to turn down. Stock markets jumped over 60 per cent since early 2009, and they will keep trembling.

Especially China's huge foreign exchange reserves have to be considered, having reached a volume of US\$ 2 trillion until now. The lion's share of China's foreign exchange reserves is held in US-Dollar deno-

minated assets. Some American politicians worried that China might use this massive foreign exchange reserve as a „nuclear weapon“ at its disposal for countering the US. The truth is, with most of its foreign exchange reserves invested in US-Dollar-denominated assets, China is taken hostage by the US. If China dumps its dollar, it will create a free fall of the US-Dollar and China will lose immediately. If China sticks to the greenback, however, the US-Dollar might depreciate further, and China will lose gradually.

The world economy is in trying times. The last two decades witnessed a „golden era“ of globalisation. But the strong economic growth of both the US and China is built on an unsustainable relation. China sells cheap products to the US and piles up the debts from the US, and at the same time helps to finance the budget deficit in the US. The result is that trade deficit in the US will become larger and larger, and trade surplus in China will also keep swelling. The financial crisis will force both the US and China to change course. There is no consumer in the world like the American consumer, but now they are forced to spend less. If the excess consumption in the US has to be corrected, China will also have to change its development path. The traditional Chinese development strategy emphasized export growth and FDI inflow, and it has led to an expanding trade surplus and the massive accumulation of foreign exchange reserves. When export and GDP growth are high, there were no incentives for China to take the painstaking reform. But if the resiliency of the Chinese economy has to be improved, more efforts have to be put on stimulating domestic demand, investing more on human capital and building stronger social safety networks.

WTO Accession

China's entry into the WTO in November 2001 marks one of the most significant steps towards fully integrating the Chinese economy into the world economy. It sent out a clear signal that China will never turn back into an isolated and autarchic country. Needless to say, at that time there were mounted concerns that China might not be ready for such a bold move and the fierce competition from outside might crush many domestic industries. After China's entry into the WTO, however, domestic firms did not collapse but flourished instead. Foreign trade became an engine for China's robust economic growth and China gained new momentum for its market-oriented reforms.

This encouraged China to take a more open and active attitude towards international organisations. China has given top priority to the implementation of

its WTO accession commitments: the country's average tariff has been reduced to 9.9 per cent from 15.3 per cent in 2001. China has phased out many non-tariff restrictions on imports including relevant import quotas, designated trading and import licenses. China has also revised some 3,000 items of domestic laws and regulations in accordance with WTO rules and promulgated a series of new laws to fulfil its WTO commitments¹.

China has always been very supportive to the Doha negotiations. It also tries to help to strengthen the position of developing countries in the WTO negotiations, in order to pursue 'a balanced outcome'². Yet it is unlikely that China can act as a new leader for the developing countries in these negotiations. First, compared with their counterparts in Brazil and India, Chinese diplomats are less eloquent and aggressive, and they are quite often not fully authorised to make critical decisions. China has kept a low profile in the WTO, lacking the capacity of defining new agendas and creating coalitions. At Cancun, for example, China allied itself with the G22 and strongly resisted the agendas of the United States and Europe. But in the G22, India is actually the advocate; China's role is confined to just expressing its support for India and other developing countries. Second, developing countries have quite diversified interests. Some developing countries are exporting products with the same

destination as China, others benefit a lot from China's imports of energy and raw materials. While many developing countries view the rising of China as a great opportunity, others already felt the threat of Chinese products both on international and domestic markets. Third, many Chinese officials as well as scholars are more concerned about the impacts of the WTO on China's domestic governance. Many high ranking officials believe that the major challenge is how to 'get the government to adopt to WTO rules'³.

Chinese Relations with the World Bank

The World Bank has built up its presence in China since 1980. China has received a large amount of loans from the World Bank, especially at the early stage of its development. Until the end of 2007, the loans that the World Bank has extended to China amounted to US\$ 44.59 billion. But the World Bank loans only account for a small share of China's resource flows, about 0.6 per cent of GDP at its maximum in the early 1990s. The World Bank has not only extended loans to China, but also helped China to improve the management capacity for public funds as well as the macro-economy. For example, the World Bank played an important role in supporting the macro management reforms, the reform of state-owned enterprises and the financial sector.

Beijing



China has maintained a very good relationship with the World Bank, due to its sympathetic attitude towards China's reform. The World Bank views China as its best client and has highly praised China's achievements on poverty reduction and economic development⁴. With China's rapid economic growth, it has formed a new partnership with the World Bank: China has not only received loans from the World Bank, but has consistently shared its experiences with the Bank, helping it to improve the performance of its aid programmes around the world. Recently, Chinese economist Justin Lin has been named as senior vice-president and chief economist of the World Bank. He is the first economist from the developing world to hold this position. Lin's candidacy is a sign of China's increasing links with the Bank and the World Bank's intention to increase the presence of the developing countries in its senior management.

China and the IMF

China has also maintained a good relationship with the IMF, but not as close as that with the World Bank. First, the IMF mainly deals with financial crisis and balance of payment issues. China has so far not suffered from financial crisis and does not need to borrow from the IMF. Even if China experiences a disastrous financial crisis, it is quite doubtful that the IMF can bail China out with its limited resources. Second, the IMF is the proponent of the 'Washington Consensus', but China is not impressed by the policy package that the IMF is trying to peddle.

Although quite cautious and suspicious about the IMF recommendations, China's criticism of the IMF was much muted. Recently, however, China became more disappointed when the IMF arbitrarily labelled China's Renminbi (RMB) exchange rate as 'fundamentally misaligned'. The Chinese government is fully aware of the necessity of appreciating the RMB. What China needs are convincing analyses on the likely impacts of an appreciation and tailor-made proposals which the IMF failed to provide. The collapse of the US sub-prime mortgage market and its rapid spread to the international financial market was a warning signal for the potential risks of globalisation, and it also revealed the deficiency of the IMF in promoting global economic stability and financial surveillance.

China displays a great recognition of its global interests. It is a very open economy with a trade dependency (import and export / GDP) as high as 70 per cent. Its export markets are global, and it also depends more and more on the import of energy, raw materials and agricultural products. Foreign investors play a vital role



A huge part of the population does not benefit from the economic growth.

in the Chinese economy. It is in China's interest to strengthen the multilateral system and promote globalisation. But, similar to other developing countries, China also feels discontented with the current multilateral system. The WTO Doha Round has failed. The World Bank has done a lot of work to reduce poverty, but its success has been localised in China and a few other countries like India and Vietnam. The gap between the rich countries and the poor countries continues to widen. The Fund's reputation was greatly tarnished during the Asian financial crisis. Also, the existing structure is still dominated by the West. The international decision-making mechanisms are far from democratic and thus allow a hegemon to ride roughshod over the weak, imposing its will and values on others.

China believes that the need for reforming the Bretton Woods Institutions (BWIs) is urgent: the function of the BWIs needs to be redesigned. The mission of the World Bank should not be confined to poverty reduction; it should take more responsibility to promote long-term sustainable growth worldwide. The World Bank should also play a more important role in the provision of global public goods⁵. Meanwhile, the IMF has always been criticised for not taking the reality of individual countries into proper consideration. More tailor-made policy analysis and suggestions should be encouraged. Also, it is quite ironic that in 2007, when the sub-prime crisis led to an earthquake in the international financial market which seems to drag the world economy into recession, the IMF did nothing and could do nothing but indulging itself in labelling the currencies of China and Maldives as a 'fundamental misalignment'⁶. China holds the opinion that the BWIs should offer more opportunities for developing countries to speak up and talk about what they would like to see from these institutions.

Regional Economic Cooperation

Traditionally, regional economic cooperation is weakly developed in Asia. In the past decades, however, there has been a proliferation of regional economic cooperation initiatives across the region. Such initiatives are the result of a combined response to the Asian financial crisis, slow progress in the WTO, and the fast economic integration in Europe and other areas in the world.

China always prefers a multilateral approach to global economic governance and considers the regional initiatives sub-optimal in pursuing its international economic policy. But its mindset changed dramatically after the Asian financial crisis. Now it has become an active participant, an influential facilitator and even an advocate in some cases of regional economic cooperation. China is not mainly seeking the benefit of trade creation from the regional free trade agreements, nor does it think that regional monetary cooperation can safeguard it from external speculation. The underlying reasons behind China's positive attitudes to regional cooperation are: it could ensure financial stability of the East Asian region; it could create a good surrounding for China's economic development; it could help China to exert greater influence in ASEAN 10+3, and it could improve its bargaining power with other economies.

The first ambitious proposal for regional cooperation in Asia is the Asian Pacific Economic Cooperation (APEC), which includes Asian countries as well as the United States, Australia and New Zealand. APEC adopts an approach of 'open regionalism', which is good for consensus building, but it fails to produce anything significant in the area of trade liberalisation, not to mention help in stabilising the Asian economy, for instance when the Asian Financial Crisis struck. Despite these failures, China is still very positive about APEC, because APEC is a forum providing leaders in the region with good opportunities to meet and become acquainted with each other. This window of opportunity for leaders 'to agree to disagree' is precious⁷.

A rash of Free Trade Agreements (FTAs) is now at various stages of negotiation involving different formulations between China, Japan, Korea and ASEAN. China is playing a leading role in these formulations. ASEAN and China signed a 'Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China' in November 2002 in Phnom Penh, Cambodia. The Agreement aims at establishing an ASEAN-China FTA within ten years. These agreements are beginning to bear fruit. Economic ties between

China and ASEAN have intensified, and this will further strengthen China's central role in the regional production networks.

The political meaning of this agreement is more important for China: ASEAN countries used to view the rise of China as a threat, but now they have changed their attitudes dramatically. ASEAN countries think it is beneficial to have China as a neighbour, because China is providing a ready market for them. China's generosity contrasts sharply with Japan's reluctance to open its agricultural market. Japan changed its trade policy and started its negotiations with ASEAN countries on an FTA, mainly because of the stimulus from China. Further agreements between China and Korea, China and India, Japan and ASEAN, Korea and ASEAN are under negotiation or being studied.

In May 2000, the Financial Ministers of ASEAN countries plus China, Japan and Korea (ASEAN+3) met in Chiang Mai, Thailand, and launched the Chiang Mai Initiative (CMI) which involves an expanded ASEAN swap arrangement and a network of bilateral swap arrangements among the ASEAN+3. It is designed to counter disruptive capital movements and exchange rate instability. The development of the CMI has caught much attention, not only because it is the first significant regional financial arrangement in Asia, but also because it can be a stepping-stone for full-fledged regional financial cooperation.

Following the CMI, new proposals emerged for regional financial cooperation, such as the pooling of foreign reserves⁸. But the CMI still has some inherent drawbacks and without reform, it will not provide a meaningful regional mechanism: the design of the CMI was to provide liquidity support to member economies, when they are facing external disequilibrium. Asian economies are now facing new external risks, such as the global financial crisis, US dollar depreciation, US and international economic recession, and the surge in oil prices. Without coordinated efforts these risks can easily develop into financial crises. In order to solve these problems, the CMI needs to be reformed and transferred from the 'fire fighting' mode of a liquidity provider to a more restrictive form of regional arrangement. To be honest, China cannot benefit a lot from the original design of the CMI. China is quite likely to become a creditor rather than debtor in the region. But China still has the interest in enhancing the functioning of the CMI and using it as a platform to explore the feasibility and desirability of an efficient regional monetary arrangement capable of addressing more important issues, such as exchange rate coordination.⁹



There is no doubt that China will play a crucial role in the development of regional economic cooperation, yet it is premature to predict that it will pursue the leadership in Asia. Asian countries do not want to see either China or Japan dominating this region; they want to see a more stable regional environment grow out of the balance of power. As for China, it is satisfied to see that its trade and investment ties with Asian countries become closer, with or without the FTAs. China also respects Japan's leading role in promoting regional financial cooperation.

Before the RMB becomes fully convertible, it is unlikely for China to take the lead in regional financial affairs. China may want to see more coordination on exchange rate policy, given the pressure from other countries urging the RMB to appreciate. But whether a common move to appreciate the Asian currencies is good for China is unclear. China imports a lot from Asian countries and if the neighbouring countries all appreciate their currencies, import costs for China will increase substantially. When Japan proposed the Asian Monetary Fund (AMF) after the 1997 Asian financial crisis, China rejected the proposal for fear of weakening the authority of the IMF. Later on, China became more and more enthusiastic about regional financial cooperation. Now China welcomes the idea of an AMF, but it also believes that there is still a long way to go towards such an institutional arrangement.

The past two decades witnessed a rapid increase in de facto regional integration in Asia, although political and institutional integration is still weak. Many observers think the slow progress of Asian regional arrangements arises from tensions between China and Japan, but what is more important is the resistance from the United States to any initiatives that would exclude or erode its influence on regional affairs. China is now

playing a vital role in promoting regional cooperation, and it will continue to be a strong supporter of both regional FTAs as well as financial cooperation. It is also in China's interest to establish new platforms for Asian countries to work closely with each other and tackle new challenges, such as energy security, environmental degradation and infectious diseases.

Regional Trade Cooperation

Intra-regional trade is booming in East Asia. An emerging regional production network has boosted a triangular trade flow among the advanced Asian economies, developing Asian countries and the rest of the world. China is becoming the hub of this cross-border production sharing. After China entered the WTO, it started negotiating RTAs with different other Asian economies. Under the 2002 Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN, bilateral tariffs will be lowered to 0-5 per cent on most goods and non-tariff barriers will be gradually dismantled. A key element in the 2002 ASEAN-China agreement is an Early Harvest Programme: under this programme Chinese agricultural markets will be opened for ASEAN countries ahead of the planned establishment of the China-ASEAN FTA in 2010.

China has also signed two initial framework agreements with Australia and New Zealand. These two agreements tend to cover trade, investment, and the wider economic relationship between China and these two OECD countries. China and other emerging countries, including India and South Africa, have started discussing possible bilateral trade agreements. There are also bilateral activities with Chile, the Middle East and Central Asia. Compared to the FTAs of the US and the EU, which are quite comprehensive and precise, the bilateral agreements in which China is in-

volved are rather vague, mainly focusing on trade in goods and services, and often without a formal dispute resolution. These features show that China is taking a pragmatic approach to promote boarder economic relations with other countries.

In the future, China should help to bring about region-wide integration in East Asia, for example, if possible, China should approach the formation of a pan-East Asia FTA. China's influence in this region will be further strengthened by its deepening trade and investment ties with the other East Asian countries. As China's income level grows, there will be a greater Chinese appetite for services and final consumer goods from other East Asian countries. The country will also increase its demands for energy and other resources and raw materials. It is in China's interest to broaden its integration with other East Asian economies. Indeed, China would benefit greatly from the formation of a region-wide free-trade grouping¹⁰.

Regional Financial Cooperation

The Asian financial crisis spotlighted the dangers of external shocks from the international financial markets, and Asian countries have moved quickly into regional monetary cooperation. Asian countries resolved to create institutions to avoid future crises. A network of bilateral currency swaps was first established, and now Asian economies are working closer together to find ways of pooling their huge foreign exchange reserves. It is quite ironic that Asian economies have to invest most of their foreign exchange reserves in US dollar assets. With the depreciation of the US dollar and the deterioration resulting from the sub-prime crisis, Asian economies have been placed in a kind of hostage position. Developing an Asian bond market, in which Asians own bonds issued by Asian countries, can break this cycle of financial dependence. The Asian Bond Fund 1 (ABF1) and Asian Bond Fund 2 (ABF2) have already been launched. The sizes of ABF1 and ABF2 are quite small compared to the US\$ 2 trillion of foreign exchange reserves owned by Asian economies. But hopefully from the seeds of ABF1 and ABF2, the Asian-owned Asian bond markets will grow rapidly.

China supports both the CMI and the Asian Bond Fund. The country is also interested in establishing a regional investment bank and promoting the building of infrastructures which can link the more developed areas in East Asia to less developed areas. International capital flow is also one of the most important issues of economic security for China. Consequently, China has great interest in collaborating with other countries and establishing a regional surveillance system.

Energy and Environmental Cooperation

Energy and environmental issues are further potential areas where China is ready to collaborate with other Asian countries. Asian countries, as a whole, are consumers and importers of energy, and without coordination they are likely to pay the 'Asia premium' when negotiating with oil exporters, and maybe even worse, there will be new tensions among China and its neighbouring countries. China is seeking new technologies to improve its energy efficiency from developed countries, especially from the EU and Japan. China is also concerned about the safety of its international shipping lanes¹¹. In sum, China has shown great interest in cooperating with Asian neighbours on energy issues. Many environmental problems already have cross-border impacts, for example, the pollution of Songhua River in November 2005 and the problem of acid rain which has already spread to Korea and Japan. The extent of the problem and the need for a regional approach is widely recognised by Asian countries. The Chinese government also realises the grave challenges of environmental degradation and pollution and is seeking ways to cooperate with other countries.

The Shanghai Cooperation Organization

The Shanghai Cooperation Organization (SCO) was primarily aimed at addressing security issues, but it has now moved to other issues such as energy projects. Border security was the initial motivation for the Shanghai Five Mechanism (S5), because the former Soviet Union republics of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan all share a common border with China. Border agreements between China and the former Soviet Union states were negotiated and signed after 1992. Agreements were signed for those sections where consensus could be reached, while the solutions were left for further negotiation in the case of problematic sections. This piecemeal approach to solving border problems was very successful. The SCO then focused on regional security issues: Terrorism, separatism and religious extremism are the 'three forces' that the SCO countries are trying to fight together. Drugs, arms smuggling and other transnational criminal activities are also on the SCO agenda. Recently, the SCO has also moved to economic issues with efforts to boost regional economic cooperation. Areas which have been identified as the major fields of cooperation include: energy, information, telecommunication, environmental protection and comprehensive utilisation of natural resources.



Trade between China and the Central Asian countries developed rapidly. But infrastructures, such as roads and railways are still a major bottleneck. Western observers, especially from the US, always interpret the SCO as an organisation with an anti-American stance. But this is not the case, at least from China's perspective. China has long given up fighting 'imperialism,' and its interests are more focused on domestic security concerns as well as regional economic integration.

The Reform Agenda from a Chinese Perspective

From China's point of view, the existing Bretton Woods Institutions, i.e. the IMF, the World Bank and the WTO, should continue to play their roles in global economic governance. There are no better alternatives that are more representative and legitimate. It is too costly and risky to try to invent new organisations to replace them.

But like many developing countries, China also believes that the reform of the BWIs is necessary: the WTO has failed to live up to the expectations of the developing world. China never wants to weaken the WTO, but it does insist that any new agreements in the WTO must be negotiated more inclusively and must deliver a more equitable outcome. China is willing to play a more active role in reviving the WTO talks. China's influence can be described as a bridge between the developed and developing countries. Other large emerging economies may share the same interests with China and should cooperate with each other more closely. India and Brazil have many veteran trade diplomats, and they are much more eloquent in trade negotiation. China's participation and its strong support for the interests of the developing world can bolster this alliance.

China is disappointed to see that the IMF is in eclipse as the pre-eminent institution of international economic and financial stability. Reforms are needed to restore its central position. China believes that the US should take more responsibility to ensure the stability of exchange rates of major currencies. The United States need to take into consideration the spill-over effects of its macro-economic policy to other countries, especially the developing countries. The IMF should give due attention to the potential risks in the international financial markets and strengthen its role in monitoring and even regulating the massive private international capital flows. It should consider reforming the distribution of voting power and the representation on the Executive Board. The IMF should also upgrade its research capacity and discard the one-size-fit-all illusion to provide more relevant and useful analysis and policy advice.

China hopes that the World Bank can play a more important role in world development. From China's own experience it knows that development cannot be transplanted from outside, therefore the country ownership should be encouraged. China also believes that the World Bank can do much better in facilitating the provision of public goods at the global level.

From a Chinese perspective regional economic cooperation is welcome, but the country does not have the ambition of challenging the multilateral institutions. Neither does China want to take the leadership in regional economic cooperation. If China becomes too aggressive in taking the leadership in regional economic cooperation, neighbouring countries will become quite suspicious and may turn to Japan or the US to keep a power balance in this region. Its influence in the region has largely relied on increasing economic integration, in which China is becoming the hub of regional production networks.

China is already a full member of various formal multilateral institutions. Its presence and influence in these organisations will grow over time. China is also learning how to use a wider variety of platforms to promote globalisation. In the more informal groupings, such as G8/G20, China can have a stronger impact in the coming future. But there is also the problem of 'duplication': many institutions and initiatives overlap with each other, and many international conferences result in nothing more than cheap talks. Through the learning-by-doing process, China will gradually become familiar with the different dynamics in these various groupings and adopt a somewhat different strategy in dealing with each of them.

GLOBAL POLITICAL GOVERNANCE

The UN is unquestionably the single most important international organisation for China. China recognises the central role of the United Nations in safeguarding global stability and peace, and builds its multilateral diplomacy based on the United Nations as an anchor.

China's embrace of the UN is not surprising. First, China is a permanent member of the UN Security Council, and this membership helps to promote its positions in world politics. With its veto power, China feels safe and comfortable. Second, China agrees with the principles of equality and state sovereignty which are enshrined in the UN Charter, and believes the UN principles can constrain the ability of big powers to impose their self interests on weaker states. Third, within the UN, China can find more friends who share its wishes and worries. China believes that multilateral diplomacy can enhance China's block support from the Third World in its bargaining with the West.

However, it also needs to be pointed out that China seems to maintain a rather passive and defensive posture in the UN. It has rarely used its veto power, unless of course its own sovereignty is on the line. China is reluctant to offend other countries and hence does not want to take a position on controversial issues. When China finds itself in opposition to other permanent members of the UNSC, it prefers to abstain rather than veto.

This passive attitude is changing, however, with China trying its best to cooperate with other members of the Security Council. Take China's participation in UN peacekeeping operations, for example. China was reluctant in the past to support the use of coercive measures to solve security and humanitarian problems. But in the 1980s it started to participate in UN-led peacekeeping operations. By the end of 2006, China had already become the largest contributor in troops among all five permanent members of the UN Security Council. In 2006, China's support for the UNSC resolutions on imposing sanctions against North Korea and Iran also indicated that China is changing its perception on sovereignty and becoming more aware of the need and value of coercive measures in global security governance. The world is changing, and so too is China. When China has more self-confidence, both domestically and internationally, it will become more active and cooperative in the UN.

In sum, China respects the authority of the UN, and wishes to strengthen its authority heart and soul.



Chinese UN soldiers on a peacekeeping mission.

China supports the UN reform, and wants to see an authoritative, efficient and representative United Nations. As far as we know, however, China does not have a concrete plan for UN reform. From 'position papers' and statements of the Chinese government we can see that China supports the reform of the UN, but always emphasises the importance of consensus building. As for the reform of the Security Council, it is important to enhance its effectiveness and efficiency. But in general China believes that UN reform should focus on urgent issues, such as development and poverty, rather than solely Security Council reform.

Informal Global Governance

China used to watch the G8 from a distance, but has started to cooperate with it recently. China is willing to strengthen its cooperation with the G8, mainly because it fully recognises its importance in shaping global economic policies. China wants to further develop its dialogue with the G8. China's leaders would like to utilise the opportunities to meet with the leaders from the G8 and establish friendly, personal relationships with them. Chinese officials at different levels are glad to have the chance of exchanging views with their counterparts in the developed countries and forming a network for information sharing and policy coordination. In this way all the partners can have a better understanding of what is going on elsewhere and react more quickly and efficiently to changes in the world economy.

However, China does not covet membership of the G8. G8 members are still debating whether to accept China as a permanent member or not. Even if it were to be invited, China sees no necessity to join the G8 at this moment. China does not want to be intrusive to an exclusive club consisting of so-called 'like-

minded people'. On the other hand, China does not want to bear a responsibility that is not its to bear¹².

Top political leaders nowadays do not lack opportunities to meet with each other at various international events; the marginal benefit of different kinds of summit meetings is diminishing. But we should further enhance the informal networking among major policy makers concerning macroeconomic issues. For example, in the discussion on exchange-rate policies, there should be a platform allowing a full participation of Senior Representatives ('Deputies') from the US Treasury, the European Central Bank and the Euro group of Finance Ministers, the Japanese Ministry of Finance, and the People's Bank of China. Given the sensitivity and immediate market-relevance of these consultations, this forum should be limited to the main currency areas and involve only a sub-group of deputies of the G8. With the confidential, informal consultation process, China and other major countries can work out a better solution on exchange rate policy as well as other issues. Potentially this 'G4' format on the single issue of exchange-rate policy coordination could be the forerunner of an informal G4, steering the world economy in the distant future in other areas as well¹³.

China does not have this problem with the G20 on finance issues. Since 1999, China has actively participated in all G20 meetings and has made its due contributions to the development of the G20. For example, China successfully conducted its Presidency of Finance Ministers and Central Bank Governors of the G20 in 2005. China has been and will be actively participating in the discussions of the G20, along with other major developing countries. The composition of the G20 lends itself well to forging consensus on a number of pressing and longer-term issues facing the global economy: energy policy (with the largest oil producers and consumers around the table); strategic reform of the IMF and the World Bank; reform of the international financial system (with the largest trade deficit country and surplus country around the table); global warming and climate changes; regional integration; migration policies, and so on.

However, China is also worried that the G20 may have difficulties in living up to this expectation. The size of 20 countries seems too big to avoid the difficulty of mobilising collective actions. The diversity of the G20, which consists of both developed and developing countries, makes it easy to divide its opinions into two opposite camps. APEC's failure to reach significant agreements is a good reference. China thinks it will be too costly and undesirable to transform the G20 from a

loose forum to a permanent organisation with a secretariat. Thus the function of the G20 would be to serve as a supplement or complement to the G8 by making the G8 hear the voice of developing countries. It is not very realistic to expect the G20 to do more.

China is not a member of the G77, but it has maintained a very good relationship with it. China often presented jointly with the G77 common position papers as well as announcements, airing opinions from the vast number of developing countries and proposing their own amendments. China is now becoming the largest donor to the G77.

However, it is becoming more and more difficult for China to assume leadership along the traditional 'North-South' division. China's rise has raised both hopes and fears in developing countries. China has always supported developing countries' struggle to survive in the global economy, but many developing countries have also felt the competition from Chinese products. Some developing countries benefit from their export of oil and raw materials to China, while others share similar export destinations with China and may have a more difficult time. The traditional collective identity of the developing countries is obsolete, since developing countries are forced to form separate coalitions during multilateral trade negotiations. For example, when negotiations on agriculture began, Brazil and some other agricultural developing countries formed the 'Cairns group' which also included some developed agricultural countries. This group takes a pro-liberalisation position on agricultural issues. Some food importing developing countries, such as Egypt, Mexico, Peru and Jamaica, sided with the EU to oppose the liberalisation of agriculture.

Bilateral and Multilateral Cooperation

China has always been a strong supporter of multilateralism. On the one hand, China accepts the current international order that reflects the political and economic reality after the Second World War in the form of the authority of the UN and the Bretton Wood Institutions. On the other hand, China wishes to reform the international order to better reflect the changes on the stage of international politics and economy.

China's bilateral relationships with major countries are very crucial. The Sino-US relationship is always a love-hate relationship. The Chinese economy and the American economy complement each other, and there is still great potential for further cooperation. For example, with China's rapid growth and the gradual opening of its financial sector, American banks and

investment funds will find best opportunities in the Chinese market. Chinese people also remain attached to the liberal, democratic aspects of US characteristics, as well as popular culture in the United States, and they feel positively about Americans as individuals. However, Chinese people are very suspicious of American foreign policy. China feels the US is trying to block its emergence as a rising power, propagating the 'universal values' as a way to reshape China according to America's own image. The bilateral relationship changed greatly after September 11, 2001, when US attention shifted to the immediate threat of terrorism. Different channels for dialogue and coordination have been established in recent years. The semi-annual US-China strategic economic dialogue is a good example, since it helps to facilitate candid communication and prevents miscalculations.

The traditional attitude of the EU towards China was one of 'benevolent neglect', but as China rises rapidly, the China-EU economic relationship could potentially be filled with more tension. Exports from European countries, especially the more labour-intensive products from South European and East European economies, are facing more pressure from Chinese competition. Moreover, the EU labour markets are much less flexible than those of the US, further increasing the likelihood of political pressure that trade liberalisation with China may entail. China's quest for more energy and raw materials, including the use of strategic foreign investment in some cases to secure access to such resources, might put pressure on the EU which is equally import-dependent on these raw materials. Meanwhile, China's rising economic strength could imply a diminished role for the EU in multilateral institutions and informal groupings. Closer consultation and joint actions between China and the EU could help ease the pain. It is in the interest of both China and the EU to step up the dialogue process as early as possible¹⁴.

China and Japan normalised their diplomatic relations thirty years ago, and these two countries downplayed their differences in favour of mutually beneficial economics and cooperation. However, the Sino-Japanese relationship has witnessed ebbs and flows. During Prime Minister Koizumi's period in office, Sino-Japanese diplomatic relations were at their worst since the 1970s. Recently this situation has been greatly improved, although in the future friction may continue to strain the balance between China and Japan. From the 1990s, the rise in China's power and influence in Asian affairs coincided with a 'lost decade' of economic stagnation and weak political leadership in Japan. Many Japanese view China's rise as a threat to their leading economic role in Asia. An increase in Japanese

nationalism and the generational change in Japanese leadership also contributed to this sentiment. On the other hand, China also harbours concerns about Japan's impressive military capacities and has been dissatisfied with Japan's policy on historical and other issues. Koizumi's visits to the Yasukuni Shrine which honours Japanese war criminals, and Japan's increased support for Taiwan have also raised Chinese apprehensions. The foundations for an amiable relationship and closer cooperation between Japan and China lie in economic exchange. China depends heavily on Japan for technology and investment, and Japan is becoming increasingly dependent on China as a huge market, a source of imports and an offshore manufacturing base. The phrase 'chilly politics and hot economics' has now come to summarise current Japan-China relations, indicating that the differences between these two countries will continue to collide with the need to cooperate for common prosperity and regional security.

Cooperation among Emerging Countries

There is an increasing recognition of the economic and political importance of the emerging countries, but it is still premature to predict any institutionalised alliance among these countries.

Emerging countries share the same aspiration of increasing their influence in the international political and economic arena. They have the common interest of developing mechanisms to better coordinate their positions on related issues. As members of the developing world, they should closely consult with each other on trade negotiations, reform of the international financial architecture and other issues in the framework of multilateral institutions. Outside the WTO, IMF and UN, they should also strengthen their cooperation. It should be noticed that, as a newcomer in the international organisations, China still has a long way to go in developing its capacity. China has been much less strident in its criticism of the current international order than Brazil, India and many other developing countries. As other emerging countries have been engaging in international negotiation for decades, there is much to be learned from their experiences.

A political coalition among these emerging countries is, however, unlikely at present. These countries are quite different in their economic structure, cultural background and political interests. China is an open economy with increasing competitiveness on manufacture exports. It also has a huge appetite for the import of energy, raw materials and agricultural products. India is a rising star in the IT sector, and its

service industry is developing very fast thanks to the communications revolution and global outsourcing. Brazil and Russia, on the other hand, gain a lot from soaring energy and mineral prices. The renewed geopolitical clout of Russia is also bolstered by its military power. China's trade relations with all these emerging countries are developing rapidly, but the terms of trade are now in favour of Russia and Brazil. With its import costs increasing, China's terms of trade are continuously deteriorating. The alliance among these emerging countries also faces a dilemma: their influence in the international arena relies on support from the Third World, but if they form their own exclusive club and a closer relationship with the developed countries, their reputation among the poor countries will be harmed.

Among these emerging countries, China and India are most likely to come closer. It is true that there remain strategic tensions between these two countries. As rising powers in this region, they will continue to compete for influence on the periphery. They will also choose other allies as a means of balancing each other. India will probably move closer to the US and Japan, and China may continue its support to Pakistan. However, the imperative for concentrating on development will drive India and China to look for ways to develop a partnership for common progress and cooperative security.

From the 1950s onwards, China has established a very close relationship with African countries. During the 1960s and 1970s, driven by perceived ideological, anti-imperialist affinities, China invested significant energies in support of independent Africa. China provided economic aid and dispatched Chinese medical support teams. Throughout the 1990s, China increased its aid to African governments. China-South Africa relations have enjoyed rapid and healthy development since diplomatic ties were established between the two countries in 1998. The Taiwan issue was once a stumbling block in the China-South Africa relationship, because of President Mandela's hope that South Africa could maintain diplomatic relations with both the PRC and Taiwan. This was not negotiable for China. Now, with the rapid development of bilateral trade, both countries have realised that Sino-South African friendly cooperation has broad prospects for development. Potential friction may come from the competition between Chinese import goods and South Africa's domestic industry.

China's most important relationship in the region is with Brazil, with which China has cooperated closely in international affairs. In 1994, China and Brazil



termed their relationship as a 'strategic partnership,' a designation that reflects the aspiration to develop the relationship in the future. In recent years, China and Brazil have cooperated in numerous ventures including satellite technology, energy and infrastructure development, and aircraft manufacturing. China and Mexico have also concluded strategic partnerships. However, Sino-Mexican relations have also been subject to frictions in recent years. China is competing with Mexico on the US markets, where China has overtaken Mexico as the second largest source of US imports. Unlike other Latin American countries, such as Argentina, Brazil, and Chile, which have found channels for exporting agricultural and mineral products to China, Mexican exports in these categories have been minimal. China is also penetrating Mexico's domestic market. China has been its second most important trading partner since 2003, and its trade surplus with Mexico is growing steadily.

INTERNATIONAL SOCIAL ORDER

Sovereign Countries versus Civil Society

China believes that the international order is still based on the consensus of sovereign states. Multilateral institutions and agreements, bilateral treaties and coordination between sovereign states are the foundation for the international order. China is also aware of the importance of civil society and social movement in forming an international social order. As a matter of fact, the impressive influx of NGOs, especially international NGOs into China, is to a great extent the result of globalisation. China's attitude towards NGOs has fundamentally changed: The government is now trying to promote civil society to meet development and social needs. In the last two decades, NGOs brought fresh air into China and made

impressive achievements on such issues as environmental protection, legal assistance, poverty reduction, HIV/Aids prevention, culture, education, health care. But one fundamental weakness is the underdevelopment of local grass-root NGOs. Many local NGOs rely heavily on international assistance. This has hindered the growth and full blossom of indigenous NGOs, and has also increased the suspicion of the government towards international NGOs. In the future, China's involvement in international society will rely more and more on the development of local NGOs. China does not lack the seeds for social innovation and social entrepreneurs.

'Washington Consensus' versus 'Beijing Consensus'

China regards the dominant view on globalisation as the so called 'Washington Consensus'. Although the anti-globalisation campaign has been growing like a raging fire in the rest of the world in recent years, China seems quite apathetic to this movement. It is fair to say that China does not totally disagree with the 'Washington Consensus'. China actually follows quite a lot of suggestions similar to the components of the 'Washington Consensus', for example, sound macroeconomic policy, trade liberalisation and privatisation. What China feels uncomfortable with is the 'pride and prejudice' of the United States behind the masks of the Washington institutions.

Quite interestingly, an American journalist, Joshua Roma, coined the eye-catching concept 'Beijing Consensus' which emphasises China's innovation capacity.¹⁵ Chinese officials may feel good and flattered, but it is quite doubtful that there exists such a clear vision of the 'Beijing Consensus' in the mind of Chinese policy makers. The success of China's reform, according to the most popular view among Chinese officials and scholars, relies on the gradual approach of 'crossing the river by touching the stone'. Anyway, China's explosive growth challenges many widely accepted tenets of policy analysis. Private ownership, democracy and the rule of law, which are seen by new classical economists as necessities in economic development, were notably absent, at least at the earliest stage of China's reform. China is just like a student who never does his homework, but always outperforms his classmates in examinations. Based on its own experience, China always wants to emphasise the 'developmental dimension' of international policies. Economic growth is the best way to reduce poverty, and probably even a short cut to cultivating democracy.

Domestic Challenges and the Role of the International Community

Without a blueprint or well-designed plan, China has been muddling its way through all the unpredictable and complex situations and has achieved remarkable success. However, the 'crossing the river by touching the stone'-approach cannot guarantee that China will be able to sustain its vigour. Without a comprehensive and forward-looking plan, China's economy may become stuck in the mud and lose its momentum.

The good news is, that there is a surprising consensus across different levels of government and also across society on the need for reform. The central government must tap these sentiments to work out a comprehensive set of changes. The public finance system, financial sector reform, and social programmes like education and public health should be the priorities of this new agenda for reform. The package of reforms will be complex, difficult and protracted.

What should the international community do to foster the next generation of reforms in China? In the 1980s, international organisations like the World Bank were very active and influential in China. Their influence faded, unfortunately. This is partly because of the learning curve, since Chinese officials and experts now know much more than before. But it is also because the international community's failure to propose policy suggestions attractive to the Chinese government. Such kinds of proposals should take China's complicated political, economic and social situation into consideration. Outsiders' policy suggestions have often been viewed as naive or unrealistic, because they did not include those domestic factors. International communities can do better by targeting manageable objectives and providing user-friendly analyses. They can also do better by providing international experience, including examples of both successes and failures. One good example is worth a thousand theories. This is especially true for most Chinese politicians, because they are trained as engineers; they are very practical and favour examples above abstract theories.

INTERNATIONAL RESPONSIBILITY

In the medium term, the most important goal for the Chinese government is to maintain robust economic growth. There is no indication that China is interested in altering the current international political and economic orders.



China has been the fastest growing economy in the world for almost three decades, and is very likely to continue to grow in the coming future. But China is still plagued by a host of domestic problems which, if not handled properly, may pose huge risks to China's long-term development. A well-rehearsed list of these problems include, among others, issues such as the imbalance of macro economy (excessively high saving and low consumption, inefficient investment), a widened gap between the coastal and inland area, the uneven distribution of wealth, rampant corruption, insufficient public spending on education and health care, environmental deterioration. How to manage these challenges is a leading priority on the Chinese government's agenda, while China's international presence is of secondary consideration. The Chinese government fully realises, that as long as it can maintain vigorous growth and secure social stability and national integrity, it will get the political support of the Chinese people and increase its legitimacy.

In the foreseeable future, China's international profile will be still very much a low-key one, not least because of the current diplomacy strategy which was laid down by Deng Xiaoping in the early 1980s: China still adheres to Deng's guideline of 'not taking the lead in international affairs'. But we believe that China should play a more active role in the affairs of regional and international economies. The global economy faces various risks that require determined and joint actions from the major economic powers: the resolution of the global imbalances; greater exchange-rate flexibility in East Asia; joint responses to rising oil prices; reviving trade negotiation and preventing trade protectionism, etc. In these and other policy areas, China's active participation is essential to help bring about a meaningful and successful outcome.

The emergence of China as an economic power has important implications for energy use and environmental outcomes, not only in China but also at the regional and global level. China is currently the world's third largest energy producer and the second largest energy consumer. In the near term, it is unlikely that China's energy supply will rise as rapidly as its energy demand, and therefore China's energy imports are likely to continue to rise. With world energy prices reaching record levels, China's import costs will increase substantially and energy security will become an important factor shaping China's development as well as its diplomatic and military strategies.

China will continue to rely on fossil fuels (particularly coal) as the primary source of energy for many decades into the future, the environmental impact of which is a concern to China as well as regionally and globally. China accounts for 13 per cent of global emissions of carbon dioxide. In addition, the emission of black carbon is estimated to be responsible for local climate problems in China, such as increased drought in northern China and summer floods in southern China.

In sum, China is willing to participate constructively in international affairs, but whether or not it can fulfil its commitment is directly dependant on its state capacity. This state capacity relies on the evolution of China's political and economic institutions and how successful the Chinese political leaders can carry out the next generation of reforms. The international community needs the constructive and active engagement of China. In an era of increasing integration of the world economy, what is good for China is also good for the world.



Beijing living an enormous boom in construction industries.

Chinese Assessment of the Globalisation Process

China is rising in the age of globalisation. Globalisation provides huge opportunities for the Chinese economy to take off in a short period of time. This successful experience is encouraging the Chinese government to embrace interdependence and globalisation with increasing enthusiasm. But globalisation also introduces new sources of economic vulnerability. The Asian financial crisis is a clear manifestation of this, and it reminds China to take a sober attitude towards globalisation. Chinese political elites now recognise globalisation as a double-edged sword.

The benefits of China's growing participation in the global economy are undeniable. The potential risks include: heavy dependency on international trade; trade protectionism against Chinese products; unregulated international capital flows (China was perturbed by the capital outflow after the Asian financial crisis and the hot money inflow in recent years). The growth of non-traditional threats, such as terrorism and the spread of infectious diseases, also present serious threats to China's security¹⁶.

Traditionally China is a strong defender of sovereignty and very sensitive to foreign interference. Now it realises that more and more decisions that traditionally fall within the sovereignty of one state must be subjected to the authority of international organisations. China is ready to surrender some proportion of sovereignty in exchange for world peace and prosperity as well as its own long term interests.

China is now a full member of the international community. It does not have a 'grand strategy' to pursue big power politics by flexing its military muscles. Rather it tries to promote trade and investment with other countries and increase its presence through social, cultural and educational exchanges. China's spread of its soft power is underpinned by its burgeoning commercial ties. Being willing to talk about and share the lessons of its own experience will help to promote successful development in other countries, and hence increase China's influence in the international arena.

VALUE SYSTEM

Many believe that globalisation will be associated with the destruction of cultural identities. This is why China is extremely alert to 'western cultural imperialism'. This position is quite understandable considering China's history in the 19th century which was full of foreign invasions and national humiliation. The Chinese government responds to the emergence of global culture with different strategies. The authorities and the official media welcome the western-style management system and corporate culture, tolerate popular culture and westernised consumer culture, but remain quite suspicious about 'Western values', such as democracy, human rights and religion. This is reflected in the government's imposition of censorship, not only on newspapers but also on the Internet.

China does not want to become victim to the accelerating encroachment of a homogenised and westernised culture, and hopes there will be dialogues among cultures and civilisations. China feels extremely un-

easy with the idea of a 'clash of civilisations' and wishes the world to become increasingly pluralistic and polytheistic. If there is a basic canon of global values or ethics, it should be nothing but 'respect others'.

A warring phenomenon is that China's image of itself and other nations' views of it are out of alignment¹⁷. This imbalance makes it difficult for China to build the store of international trust that is essential for reducing the costs of the next, complicated phases of reform. Chinese authorities became accustomed to the old-style 'broadcast' propaganda campaigns that do not work anymore. The high expectations on the 2008 Olympics to remake the nation's image were a similar miscalculation. Now the Chinese government is trying to promote a new idea of foreign policy, based on Confucian wisdom to forge a 'harmonious world'¹⁸. Actually, this harmonious world vision is quite similar to Europe's civil power tradition. But more innovation and efforts should be made to properly convey the traditional Chinese values to the outside world.

Confucius states that the ultimate pursuit of a statesman or intellectual is to bring stable peace and lasting prosperity to the world. Chinese are taught to live in harmony with people and nature. There is nothing in the deep roots of society that will lead China to become a nation of violence and invasiveness. An interesting phenomenon is that religions like Islam and Christianity with their deep belief in one god led to many conflicts and slaughters in Europe and the Middle East, but they were brought to China quite peacefully. The Chinese view of the international order emphasises 'win-win' solutions through cooperation, as opposed to a 'zero-sum' game resulting from competition; the coexistence of the strong and weak, as opposed to a brutal social Darwinistic struggle for the survival of the fittest.

Here is our favourite story: two thousand and five hundred years ago, the great Chinese sage Mencius was once asked by a prince how neighbouring kingdoms should deal with each other. Mencius said, 'It requires a benevolent prince to be able, with a large kingdom, to accommodate a small one; and it requires a wise prince to be able, with a small kingdom, to accommodate a large one. He, who with a large kingdom accommodates a small one, is grateful of the mandate of Heaven. He, who with a small kingdom accommodates a large one, is vigilant about the mandate of Heaven. He who is grateful of the mandate of Heaven will protect the whole world. He who is vigilant about the mandate of Heaven will keep his own kingdom.'¹⁹

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ABOUT THE AUTHORS

Paulo Roberto de Almeida holds a Ph.D. in Social Sciences (University of Brussels, 1984) and a Master in International Economy (University of Antwerp, 1977). He is also a career diplomat since 1977. Besides his professional duties, he has engaged in academic activities, in Brazil and abroad. Presently he is professor of International Political Economy at Uniceub-Brasilia, and associate professor at the Instituto Rio Branco, the Brazilian diplomatic academy. Prior to his current position, he was Minister-Counsellor at the Brazilian Embassy in Washington (1999-2003). Back to Brasilia, he worked for the Strategic Affairs Unit of the Brazilian Presidency (2003-2007). He is also a researcher in economic history and international economic relations of Brazil and has published numerous books in those areas.

Denise Gregory is the Executive-Director of the Brazilian Center for International Relations (CEBRI), in Rio de Janeiro, Brazil. She is a specialist in foreign trade, integration and international trade negotiations issues. She worked as Institutional Relations Director of Investe Brasil, the official Brazilian Investment Promotion Agency; as Chief of Staff to the President of the Brazilian National Development Bank (BNDES); as special assistant to the Executive Secretariat of the Foreign Trade Chamber (CAMEX); Director and Coordinator of International Relations at the Department of Foreign Trade Policy within the Foreign Trade Secretariat (SECEX/MDIC). Gregory holds an MBA from the Union College, New York, and an MA in International Relations with concentration in International Economics and Latin America from The Johns Hopkins University School of Advanced International Studies, Washington, D.C.

He Fan is the assistant director of the Institute of World Economics and Politics of the Chinese Academy of Social Sciences (CASS) in Beijing. He is also the deputy director of the Research Center for International Finance (CASS) and the editor-in-chief of the World Economy Journal, a leading academic journal in China. His fields of interest include international finance, Chinese macro-economy and international political economy. He has worked on a broad range of issues like RMB exchange rate policy, China's foreign trade and FDI policy, financial system reform as well as Asian monetary cooperation. He Fan received his doctor's degree (2000) and master's degree (1996) in economics from the Graduate School of the Chinese Academy of Social Sciences. From 1998 to 2000 he was a visiting fellow at Harvard University.

Mathew Joseph is Senior Consultant at the Indian Council for Research on International Economic Relations (ICRIER), New Delhi. He had worked earlier in an USAID India State Fiscal Reform Project as Deputy Chief and Senior Adviser (2005-2007) and as Head of Research at ICICI Bank (1995-2002). He also worked for the Government of India in the Ministry of Finance as Deputy Economic Adviser (1990-1995). He holds a Ph.D. in Economics from the University of Glasgow, UK. His research interests include open-economy macroeconomics, public debt management, financial sector, industry, regional development, retail and global governance.

Leaza Kolkenbeck-Ruh is an Associate Lecturer in the Department of International Relations at the University of the Witwatersrand (WITS). Prior to that she was the Corporate Research and Media Liaison Officer at the South African Institute of International Affairs. Her areas of interest include the Emerging Powers, particularly India, the geopolitical implications of shifting power dynamics and the regulation of private military companies (PMCs) as well as private security companies (PSCs). She holds an MPhil in International Relations from the University of Cambridge.

Rajiv Kumar is currently the Director and Chief Executive of the Indian Council for Research on International Economic Relations (ICRIER), a Delhi-based Economic Policy Think Tank. He is also a member of the Central Board of Directors for State Bank of India, the largest Indian commercial bank, and part time Member of the Telecom Regulatory Authority of India. He was a member of the National Security Advisory Board for two years until October 2008. Rajiv Kumar was Professor at the Indian Institute of Foreign Trade (1987-1989). He worked in the Government of India from 1989 to 1995, first as Senior Consultant in the Bureau of Industrial Costs and Projects, Ministry of Industry (1989-1991), and then as Economic Adviser in the Department of Economic Affairs (1991-1995), Ministry of Finance. He worked at the Asian Development Bank, Manila for nearly ten years (1995-2005) and was the Chief Economist at the Confederation of Indian Industries, New Delhi, during 2004-2006. Kumar completed his D.Phil. in Economics in 1982 from Oxford University and holds a Ph.D. from Lucknow University. He has several books and publications to his credit and is an active columnist.

Susan Minushkin is the Deputy Director of The Pew Hispanic Center, in Washington, D.C. Previous to this appointment she worked at the Centro de Investigación y Docencia Económicas (CIDE) in Mexico City, where she was a professor of international studies and director of the first ongoing public and elite survey in Mexico on foreign policy and Mexican attitudes towards international issues. Her research expertise includes Mexican public opinion and foreign policy, economic globalisation, as well as trade and investment policy in developing countries. She holds a Ph.D. in political science from Columbia University.

Elizabeth Sidiropoulos is the National Director of the South African Institute of International Affairs (SAIIA), based in Johannesburg. She holds an MA in International Relations from the University of the Witwatersrand, Johannesburg. She is the editor of the South African Journal of International Affairs, and of the South African Yearbook of International Affairs, the only such yearbook of its kind in Africa. Her

current research focus is South Africa's foreign policy. Before her current appointment she was director of studies at SAIIA. Prior to this position she was the research director at the South African Institute of Race Relations and editor of the acclaimed Race Relations Survey (now the South Africa Survey), an annual publication documenting political and constitutional developments, and socio-economic disparities in South Africa.

Arturo Sotomayor is Assistant Professor in the Department of National Security Affairs at the Naval Postgraduate School, in Monterey, California. Previous to this position Sotomayor was a postdoctoral fellow at Tulane University and professor of international politics at the Centro de Investigación y Docencia Económicas (CIDE) in Mexico City. His areas of interest include Mexican foreign policy, civil-military relations in Latin America, and peacekeeping participation by Latin American countries. He holds a Ph.D. in political science from Columbia University.

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