EUROPEAN CENTRE FOR INTERNATIONAL POLITICAL ECONOMY
ECIPE

POLICY BRIEFS

No. 02/2007
ISSN 1653-8994

Germany and the G-8 Presidency

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THE GERMAN AGENDA

On January 1, Germany assumed the Presidency of both the European Union and the Group of Eight (G-8). The first six months of 2007 – the duration of its EU Presidency and the run-up to the G-8 summit in Heiligendamm – will thus be a period for Germany to substantively demonstrate to its European partners and the outside world what future role it wants to tailor for itself in international and European economic policy. The quality of its leadership and economic diplomacy will be an indication of what to expect in the realm of foreign economic policy from the coalition government and, more importantly, what sort of policies that are about to emerge from Germany as it incrementally steps out of the post-Berlin Wall context that has framed policy and politics since the early 1990s.

This double presidency occurs in a formative period for German foreign policy. Its overall objectives ensuing the fall of the Berlin Wall were the peaceful transition to democracy and market economy for the former Communist countries in Eastern and Central Europe and, particularly, the reunification of Germany. These two missions were the bread and butter of all German

SUMMARY

Germany's G-8 Presidency occurs in a formative period for German foreign economic policy. It is about to step out of the post-Cold War order, but has not yet found a comprehensive strategy for global engagement. Hitherto Germany has had a flexible approach to its G-8 Presidency and neglected to form a decisive agenda that fits the G-8 structure of a limited membership.

Furthermore, Germany has not been inclined to use its Presidency to link its foreign economic policy to a domestic reform agenda. Its tradition of *Ordnungspolitik* – the yin of domestic economic policy and the yang of foreign economic policy – has been lost, but Germany is again in a position to demonstrate the vigour of a comprehensive economic policy that binds together foreign and domestic economic policy.

Germany has an opportunity to use its G-8 Presidency to revive the Doha Round and to demonstrate a new German role in global economic policy that corresponds with its position as a top-league trading nation.

policies, and any observer wishing to understand German politics had to view it through the post-Cold War lenses. As such they were natural corollaries of its post-war strategy pillared on a unified Europe that constrained predatory ambitions by economic integration and an "ever closer union."

But today, as Konrad Adenauer's and Helmut Kohl's agendas have largely been achieved, indeed successfully so, what is Germany's long-term strategy for its foreign economic policy? Will Chancellor Merkel use the G-8 Presidency to signal strategic priorities and a leadership role for Germany in international economic policy? How can Germany avoid the claptraps and windy rhetoric that often encircles summit meetings and rather develop a sober, balanced, and decisive agenda that achieves results? On what issues can Germany as G-8 President "add value" – either by leadership or by adroit policy-coordinating diplomacy?

This policy brief discusses Germany's foreign economic policy and structures an agenda for its G-8 Presidency.

GERMANY STEPS OUT OF THE POST-COLD WAR CLIMATE

European affairs have been central to nearly all German foreign economic policy. The integration of the former Communist states into Western economies, crowned by the accession of EU-10 in May 2004 and EU-2 in January 2007, has been the mission sui generis since the fall of the Iron Curtain. This successful transition demonstrated the important role of the EU as a vehicle for economic and political reforms in accession countries; the "soft-policy model" of the EU. But to Germany it was also associated with hefty fiscal costs as it transferred vast resources to the former Communist region, and also agreed to lavish spending programmes in the European Union on the pretence of buying comprehensive European support for its overall objective of East-West integration. The last agreement for the Common Agricultural Policy (CAP) in the EU, a vast subsidy from German consumers and taxpayers to farmers in the Mediterranean countries, is just one example of Germany's assiduous patience with European spending sprees. To safe-guard the East European integration into the EU, and to enhance European economic integration generally (in particular through the Economic and Monetary Union), the bedrock of German post-war foreign policy, Germany employed a submissive but expedient approach and agreed to be the checkbook for other European countries. Germany's net contribution to the EU budget 2000-2005 was nearly as big as the sum of the net contributions from France, Italy, the Netherlands, Sweden, and Austria. In the newly agreed long-term budget for the EU, only the Netherlands will have a higher net-contribution to the EU when measured as the share of Gross National Income (GNI).

Germany has been remarkably silent on the scene of international economic policy. In contrast to other key member states, notably France and the United Kingdom, both major and active players in international economic policy, Germany has not developed a distinct agenda of its own but rather channelled its interests through the European Union and subjected it to negotiations and compromises. Apart from a temporary interest in the leadership of the International Monetary Fund, Germany has kept a low profile in intergovernmental economic-policy organizations, such as the World Bank, UNCTAD, and the OECD, and essentially not initiated any major policy changes. Its interest in international trade policy has not been on par, far from it, with its solid trade performance. Similarly, its interest in multilateral economic-policy initiatives has oscillated from weak to unrecognizable. There has essentially been only one major exception: Russia. Russian affairs have invariably been placed high up on Germany's agenda – inter alia due to its proximity, energy resources, and the debris after the collapse of the Soviet Union – and it has made many efforts in various organizations to shape policies with respect to Russia.

Germany's deliberate neglect of international economic-policy issues is about to change. Affairs of the European Union will still be at the centre of German policy, both in terms of substance and form, but its policy will not be as narrowly focused on Europe as before, and its methods of conducting foreign economic policy will stretch beyond the options offered by the EU.

The grand idea of European unification between East and West has largely been achieved, at least in the field of economic policy. Admittedly there are unfinished businesses, some of them are also most important, but the remaining agenda for economic integration is not entirely straightforward and does not rest on traditional border-liberalization issues. Nor do they appear to be natural issues for German leadership. The interplay between German interest and capability, on the one hand, and the contours of possible common EU policies, on the other hand, are not as strong as before. Remaining issues are also of the low-level kind and need to be framed in a grander strategy. Furthermore, there are also doubts about reform leverage: on these issues the EU is not offering Germany or any other reform-minded country a method to circumvent domestic reform resistance and has largely failed as a lever of economic reform. Equally important, and central to economic policy, some of the remaining issues have global dimensions of such relevance that an entrenched European focus will be short-sighted.

Possibly there is a larger trend involved. In a broader context it might be warranted to discuss German foreign economic policies in terms of a soft disintegration between Germany and the EU; not deterioration but a dispersion of the traditional Germany-EU Ordnung. The dynamics involved are subtle and do not lend themselves to grand international relations theorizing. But, to be properly understood, and to underpin an effective set of policies, the challenges to German foreign economic policy should be viewed in the nexus of "national and global" rather than "national and regional." Or to put it differently: there are no longer prima facie arguments speaking for an encompassing European primacy. What are the dynamics involved?

Firstly, the marginal return to alternative policy strategies suggests a global outlook. European economic integration has been pillared on "Smithian" and "Ricardian" trade. Growth, jobs, and welfare in Europe has greatly benefited by increased regional trade along these lines, and they continues to be immensely important, particularly in the context of EU enlargement. But the grand pattern of Smithian and Ricardian trade is increasingly a reflection of trade with countries outside Europe, and there are a lot more trade reforms to be achieved externally than internally. An increased interest in facilitating external trade will also affect other policies. Trade is embedded in an overall policy infrastructure and, as German trade with non-European countries grows, so will its interest for trade-related issues (exchange-rate policy, investment policy, enforcement of intellectual property rights, a s f) in these countries.

Secondly, as Germany needs to climb up the value-added chain it is more of a knowledge-based and investment-led growth – "Schumpeterian" growth – that should occupy the centre ground of economic policy. Trade is instrumental to that sort of growth, as it transmits new technology and new innovations; thus specialization-based trade along the lines of Adam Smith has for a long time facilitated knowledge-based growth. Nevertheless, viewed in the context of future reforms to provide for improved Schumpeterian growth, it is possible to distinguish these factors of growth. To put it simply, the policy encouraging knowledge-based growth is much less associated with common policies in the EU than Smithian or Ricardian growth that both essentially rest on trade policy. Neither is it correct to say that Schumpeterian policy is subject to any form of global or international policy-making; what now distinguishes Schumpeterian growth policy, for better or for worse, is its strong connection to domestic policy-making. There probably will be an expanded role for the EU in future policy-making for knowledge-based growth, but it will not be as distinct as it is for integration policy based on border liberalization.

Thirdly, the traditional model of economic integration in Europe facilitated a method to deregulate and open up national markets, and as such worked as a lever for market economy reforms. There is a demand for such a reform strategy in the realm of Schumpeterian growth as well, but the EU's role in these affairs is either weak or a non-existent. It is neither a policy initiator nor a policy coordinator of distinction, as demonstrated by the scant fortunes of the Lisbon agenda, and nothing to date suggests that the EU will be allotted a wider jurisdictional competence enabling it to initiate growth-enhancing reforms.

Germany is of particular interest in this context. In the post-war period Ludwig Erhard, Walter Eucken, and Wilhelm Röpke marshalled an economic policy model for Germany that combined internal and external liberalization. In this respect, the model was consistent; it was a comprehensive Ordnung. The domestic economic agenda corresponded with foreign economic policy. But this distinct interplay between its internal and external strategies is not present any longer; Germany's agenda for domestic policy is not happily married to its foreign economic policy. This separation of yin and yang can also be viewed in the context of fundamental economic texture;

the global reorientation of German businesses has not yet been comprehensively accommodated in Germany's external economic policies.

This erosion of the traditional Ordnungspolitik suggests that new efforts should be made to blend together its foreign and domestic economic policies. This would not only have desirable effects on its external policy, but would also make foreign economic policy of more use domestically. But this sort of external influence to domestic policy is rarely associated with common European policies.

Again, these are subtle dynamics that do not lend themselves to grand international relations theorizing. The EU will foreseeably remain a method and objective in itself for German foreign economic policy. But it has an increased interest to look beyond the boundaries of the EU and develop a foreign economic policy that accommodates the restructuring of German business and encourages Germany's climb up the value-added chain. The German economy is essentially about to step out of the Cold War context. Soon its priorities for international economic policy will have to follow course.

THE GERMAN AGENDA

The Group of Eight has not been a static body. What started in the 1970s as a rather informal economic-policy club for the leaders of the then seven largest economies in the world (the European Commission and the EU presidency was added as 'members' in 1977 and Russia gained membership twenty years later in 1997 at the Denver summit) has today become a more bureaucratic forum with a far broader set of topics on the agenda. The agendas for the two last summits – in Gleneagles 2005 (United Kingdom presidency) and St Petersburg 2006 (Russian presidency) – have extended over foreign aid and debt relief to climate change and energy security as well as the Middle East and the Israel-Lebanon war that coincided with the 2006 summit.

Economic policy remains at the centre of the G-8 agenda – and still is its raison d'être – and amply supplies concerns for G-8 consideration. The Doha agenda for world trade is still stalemated. Global imbalances are still a central concern for the world economy, although less a concern than many doomsday alarmists in the financial punditry assume. Nevertheless the imbalances constitute economic and political risks as they rest on an unsatisfactory, let alone unsustainable, pattern of savings and foreign-reserves growth in Asia (especially China), a now slow-growing but yet substantial current-account deficit in the US, and sluggish growth in Europe, particularly in the Eurozone. Energy policy (and energy security) is the most immediate concern for the European countries and the United States as energy prices remain at extraordinary levels and as the energy supply is marred by various geopolitical concerns, as demonstrated by the latest energy row, this time between Russia and Belarus.

Hitherto Germany has not outlined a fully structured and detailed agenda for its G-8 Presidency and the Heiligendamm summit in early June. Angela Merkel, the Chancellor, and other government representatives have given indications and publicly drafted ideas, particularly in mid-October last year when a tentative agenda was submitted to the Cabinet. But the strategic policy agenda, logistically pillared on the G-8 summit in June, the main event, will fully mature in the first quarter and will be subjected to consultation and discussion with other G-8 countries.

Maturity is also what Germany's tentative agenda needs. Since its presentation in mid-October 2006 the number of themes and issues for G-8 consideration and discussion has grown considerably. The autumn should have been a period for slimming down the agenda to a few concise topics, but it has rather been a period for supersizing the agenda. Such inflation is an all too common phenomenon and, in the case of the German G-8 leadership, it has been given an extra flavour as the G-8 priorities have often been discussed in the same breath as priorities for the EU Presidency. In many instances it has been difficult for uninitiated observers to understand if drafted ideas should be regarded in a G-8 or EU context. For sure there are overlapping issues, but the German government has also made a point of not mixing the two agendas. One can understand such a strategy: broad multi-tasked and multi-focused agendas run the risk of blurring core strategy. But it is understandable only to a point. The current separation is a product of the excessive compartmentalization of German bureaucracy. By not connecting yin and yang in this year of Presidencies, Germany has neglected an opportunity of building a strong agenda where one element could underpin the other and vice versa.

TRADE	INNOVATION AND INVESTMENT	INTELLECTUAL PROPERTY RIGHTS	REGULATION	ENERGY	ECONOMIC POLICY	MIDDLE EAST	AFRICA	SOCIAL DIMENSION OF GLOBALIZATION	HIV/AIDS	CLIMATE CHANGE
STABILITY IN GLOBAL TRADE	FREEDOM OF INVESTMENT	PROTECTION OF IP IN DEVELOPING COUNTRIES	US-EU HARMIONISATION	ENERGY SECURITY	US TWIN DEFICITS	IRAN	G-8 PARTNERSHIP AGREEMENTS WITH AFRICA	SOCIAL SECURITY IN DEVELOPING COUNTRIES	IMPROVING AFRICA'S HEALTH CARE SYSTEMS	INCREASED USE OF SUSTAINABLE RESOURCES
DOHA (?)	POLICY TO PROMOTE INNOVATION	NEW AGREEMENTS TO DETER TRADE IN PIRACY GOODS	CONTROL OF HEDGE FUNDS	ENERGY EFFICIENCY	GROWTH IN EU AND JAPAN	MIDDLE EAST CONFLICTS	GOOD GOVERNANCE	INVESTMENT IN WORKER EFFICIENCY		OVERALL REDUCED USE OF ENERGY
TRANS-ATLANTIC TRADE	INVESTMENT CONDITIONS	STRENGTHEN EXISTING RULES (NATIONALLY AND INTERNATIONALLY)	MERGERS AND ACQUISITIONS POLICY	RUSSIA	ASIAN FOREIGN RESERVES		GLENEAGLES AFRICA ACTION PLAN	RULES FOR WORKING CONDITIONS		THE FUTURE OF THE KYOTO PROTOCOL (POST 2012)
RUSSIA			ENVIRONMENTAL STANDARDS		RENMINBI FLEXIBILITY		REDUCED VIOLENCE	INVESTMENT IN HUMAN CAPITAL		ACCESS TO RAW MATERIALS
					GROWTH OF THE WORLD ECONOMY			COMMON STANDARDS FOR GLOBALIZATION		

Table 1: German G-8 priorities

Explanation: Themes (in bold) and topical sub-categories proposed by representatives of the German government. Some aspects of an issue might be covered by more than one sub-category, as it is not always clear what every objective proposed by the German government refers to. Clearly overlapping issues have not been listed.

Sources: G-8 Information Centre, University of Toronto; Germany's G-8 website; newspaper articles; various posts at the German Federal Government's website

Table 1 presents themes and particular topics that have been presented by Chancellor Merkel or German government officials as part of its G-8 agenda. It is an extensive list of priorities and reads like the Periodic Table rather than a strategy for foreign economic policy. In all fairness it should be emphasized that the German government has underlined some themes as more important than others – particularly in the context of items on the summit agenda. Judging from the tentative agenda and statements by Angela Merkel the key themes will be transatlantic relations, innovation and investment, reducing the global imbalances, and, lastly, forming a new sort of partnership agreements between every G-8 country and Africa to promote investments to African countries that undertake governance reforms.

This is a feasible agenda in terms of issues to be discussed at the Heiligendamm summit and during the entire Presidency. But it is not yet an agenda for "adding value" – neither to already ongoing policy initiatives related to this agenda nor to a larger, German interest-based foreign-policy strategy. This is not necessarily to say that these issues should be exempted from a tighter agenda, but that they must all be slimmed down to relevant and feasible policy propositions before they can be items of an agenda aiming at achieving results. In other words, Germany needs to find formulas, which will allow it to lead by new initiatives or coordinate already existing individual policies on these particular issues.

But the desirability of the prioritised themes should also be considered. All of them are already subject to various policy initiatives in different intergovernmental organizations. There are plenty of special initiatives on Africa, and particular programmes that strive to achieve policy reforms on the continent by tying reforms to foreign aid, loans, debt relief, and rich-country trade reforms. The IMF, the World Bank, the United Nations, the EU, the US, the UK, France and several other countries already exercise such policies. These initiatives aim partly at inspiring reforms, partly to get recipient countries to honour agreements signed with donors. But these "cash for honours" programmes have overall been a dismal failure and have not by far achieved what they were set out to do. Furthermore – and a note on procedure – there are many ongoing efforts to coordinate individual countries' policies. The key challenge for Germany, if the Africa initiative is to be prominently featured, is therefore to find a particular formula, which enables it to add value to initiatives already under way.

The same conclusion applies to the set of issues today usually labelled global imbalances. These issues are tied to strategic German interests – a sharp deterioration of the dollar (a dollar crash), for instance, would have serious consequences for German export since the price of its export would rise – but what can Germany achieve in addition to discussions already taking place under the auspices of the IMF and in bilateral discussions between individual countries? Restated commitments by particularly the Americans not to use trade protectionism as a tool for correcting bilateral current account imbalances would indeed be a desirable result of the Heiligendamm summit. But global imbalances are much wider than that and cut to the core of issues where Germany is not in a position to lead. The risk of focusing on global imbalances is that this will only be a repetition of other G-8 attempts to solve macro-economic concerns that did not lead anywhere except to talking-shop exercises.

Discussions on investment and innovation also run the risk of leading nowhere, as these are broad areas involving various issues that are subject to a hotchpotch of international agreements. Investment freedoms and better guarantees against investment protectionism, for example, are addressed in various organizations and in 2 265 bilateral investment treaties. The most recent efforts (in the IMF and the OECD) to form a multilateral agreement for investments – which is the sensible strategy – ended in downright failure. The other alternative, to start from the "couscous bowl" of bilateral treatments, is a non-starter. So, what is Germany's strategy for playing this game?

It is too early to tell if Germany's hitherto flexible approach to its G-8 agenda will affect its Presidency adversely. There is still time to lay down a concise and decisive agenda. However, the lack of an overarching theme that binds together all the issues that have so far been mentioned should be a matter for concern. It signals a "do-everything" approach with too much of an appetite for pea-soup fog details. It indicates that Germany acts in an unexplored terrain, still unprepared for taking up a new role in international economic policy.

TAKING TRADE POLICY SERIOUSLY

What should be German priorities for its G-8 Presidency? Given Germany's declared interest in a world-economy agenda the most sensible strategy would be to concentrate on adding value to the current efforts to revive the Doha Round and take up a leadership role and use the G-8 logistics for providing a headline agreement.

A trade-policy centred agenda fits Germany like hand in glove. Despite its overall sluggish economic performance in the last 10-15 years, Germany remains one of the leading countries in the global economy. Its strong export performance in the last few years has made Germany the world's largest exporter of goods (see Table 2). With merchandise exports at nearly 970 billion US dollars in 2005, German export will most certainly exceed one trillion in 2006, as this was an exceptionally strong year for German trade. Since the world economy is predicted to slow down in 2007, German export is estimated to grow slower than in 2006, but the forecasts still hover around an impressive 8-10 percent growth.

Germany's trade performance reflects its tradition of being the industrial locomotive of Europe, which dates back to the "second industrial revolution", when many German companies – in sectors such as electrical machinery, chemicals, metals, automotive – furnished the globalization (or internationalisation) of that era. Its position in the world economy sharply deteriorated in the dark times from the early 1930s to the end of the Second World War, but German industries picked up at a remarkable pace in the post-war decades and soon became a hub for industrial globalization.

According to an UNCTAD ranking of foreign assets held by companies, eleven of the world's top 100 non-financial transnational corporations (TNC) in 2004 were German. Volkswagen, the car maker, was the highest ranked German firm (ranked as the eleventh largest firm) followed by Deutsche Telekom AG, RWE Group (an energy and water supplier), E.on, and Siemens, all among the top 20 non-financial TNCs in the world. Similarly, when the transnationality of financial firms is measured many German firms score high.

			GOODS		SERVICES		INVESTMENTS		
COUNTRY	TOTAL GDP*	POPULATION (MN)	EXPORT*	RANK	EXPORT*	RANK	FDI* and **	RANK	TRADE SECTOR***
UNITED STATES	12 500	296,5	904,4	(2)	354,0	(1)	2051,3	(1)	24
JAPAN	4 506	128	594,9	(4)	107,9	(5)	386,6	(9)	22
GERMANY	2 782	82,5	969,9	(1)	148,5	(3)	967,3	(3)	71
CHINA	2 229	1 304,5	762,0	(3)	73,9	(9)	46,3	(-)	65
UNITED KINGDOM	2 193	60,2	382,8	(7)	188,7	(2)	1 238,0	(2)	53
FRANCE	2 110	60,7	460,2	(5)	115,0	(4)	853,2	(4)	52
ITALY	1 723	57,5	367,2	(8)	93,5	(6)	293,5	(12)	52
SPAIN	1 124	43,4	187,2	(17)	92,7	(7)	381,3	(11)	55
CANADA	1 115	32,3	359,4	(9)	52,2	(15)	399,4	(7)	71
BRAZIL	794	186,4	118,3	(23)	14,9	(35)	71,6	(-)	38
KOREA, REP	788	48,3	284,4	(12)	43,9	(18)	36,5	(-)	84
INDIA	785	1095	95,1	(29)	56,1	(11)	9,6	(-)	40
MEXICO	768	103,1	213,7	(15)	16,0	(32)	28,0	(-)	61
RUSSIA	764	143,2	243,6	(13)	24,3	(27)	120,4	(-)	56

Table 2: Leading globalisers and contenders for G-8 membership (2005)

* BILLIONS OF US DOLLARS
** OUTWARD (STOCK)
*** PERCENT OF GDP

Sources: World Trade Organization (2006); World Bank, World Development Indicators Database Online; UNCTAD (2006).

This is also reflected in Germany's profile for Foreign Direct Investments (FDI). Its stock of outward FDI in 2005 amounted to 967 billion US dollars and only two countries – one of them (the US) with a considerably larger population and one (the UK) with a global financial centre (which, to some degree, inflates the volume of FDI) and a colonial heritage still providing a significant value of FDI stock – have a larger stock of outward FDI. Germany has substantial interests, and income from, abroad. German affiliates only in the United States yielded earnings of 7,8 billion US dollars in 2005.

This all boils down to a simple statement of facts: the German economy considerably depends on the world economy, German business generally has a great interest in incremental openings of new markets, and its long-term strategy for growth should be centred on reaping the benefits from globalization.

The main themes of Germany's priorities for the G-8 reflect its interest for a freer world economy, but it does not contain any strategic choices how to achieve its objectives. Innovation, enforcement of intellectual property rights, and freedom of investment are all relevant areas, but the key challenge for Germany is not how to write a topical wish list but how to tailor a feasible agenda.

Hitherto the only strategic priority regarding the particulars and the dynamics – the "how" issues – seems to be a disregard for making a serious effort to push the Doha agenda. Admittedly, Chancellor Merkel endorsed efforts to revive the Doha Round in her talk at the World Economic Forum in late January 2007, but this must be seen against a backdrop of repeated signals from the German government of WTO affairs not being on its agenda. Two weeks in advance of the Davos meeting the German disregard for the Doha Round was displayed when Chancellor Merkel had talks with President Bush in Washington about transatlantic trade initiatives only days before the European Commission met with the same President Bush in Washington to talk about reviving the Doha Round. This lack of coordination between the EU President and the European Commission was embarrassing and demonstrated yet again Germany's inability to explore its role as a top-league trade performer in matters of trade policy.

There are plenty of reasons for Germany to take up the leadership in order to finish the Doha Round.

First and foremost, the German economy at large stands to benefit from a Doha agreement.

Second, time is part of the essence. The Doha Round is in great need of a deus ex machina – or an "intervention from above" – if it is to be seriously advanced. The Davos meeting between 30 trade ministers progressed the negotiations and hopefully provided a positive climate for continued efforts, but the Davos agreement to restart the round, and the preceding bilateral talks, have only pushed the negotiations an inch. All the main players need to move and improve their offers before a headline deal can be achieved. But this must happen soon, not to say immediately. If the negotiations do not make substantial progress before the US Trade Promotion Authority (TPA) expires at the end of June, the Doha Round is essentially dead. Hoping for resumed negotiations after the French and US presidential elections (2007 and 2008) is tantamount to believing in the second resurrection; it has to be prayed for rather than believed in. So far, Germany has had a low-key role in the Doha Round but Providence has now placed Germany in a context where it can practically take on leadership.

Third, a renewed effort to conclude the Doha Round is the best response to Germany's quest for a formula to deliver results on its G-8 priorities. The German G-8 agenda needs an overture – a superstructure – as well as a feasible formula for how its policy interests could be achieved. The Doha Round would attend to both concerns. The Doha agenda covers many parts of Germany's G-8 priorities: investment, IPRs, growth of the world economy, increased stability in global trade, a s f. Admittedly there are aspects where the Doha Round is not offering anything – aspects of investment policy, for instance – but the likelihood of achieving something is better in the Doha context than in a non-Doha context.

This proposition demands a longer explanation. The Doha Round offers a mechanism for reciprocating benefits and "concessions" (an odd term with a distinct mercantilist twist), which the G-8 does not. Germany's agenda is far too concentrated on what developing and emerging countries should do and offers few distinct reform prescriptions for the G-8 countries themselves. Investment liberalization, enforcement of IPRs and actions against piracy, social dimensions of globalization, reform in Africa, and other parts of the agenda are essentially about developing-country policy reforms. They may all be worthy objectives, but it is difficult to see how they could be achieved in an orthodox G-8 context. Major developing countries are invited to the summit, but they are not equal members and thus not part of the preparatory discussions. As long as the membership of the G-8 remains in its current form, a feasible agenda needs to concentrate on policy in member countries or coordination of policy in member countries with a broader multilateral agenda.

Fourth, Germany is in a unique position, substantively as well as procedurally, to lead this round to a deal. It is quite obvious that only big-power leadership (the US and leading EU countries) can offer the needed impetus for the round and for making the necessary adjustments of EU and US policies, primarily in agricultural policy. That is of course easier said than done, but Germany has a clear interest in such adjustments. Germany is now also presiding over the European Union and can use its position as chair to push for arrangements for intra-EU deals that enables the EU to give a better WTO offer on agriculture, in terms of tariffs and overall subsidies (items the EU now has improved) as well as a reduction of the list of sensitive products the EU wants to exempt from the general formulas or tariff and subsidy cuts. This is not to say that EU is the only part that has to move in the Doha Round; the US and many other countries should equally share the blame with the EU for all the problems this round have encountered. But great political leadership has never rested on accepting an equal distribution of blame for opportunities lost. If the EU has an opportunity to improve its overall offer, it should take it. It is too late for willy-nilly excuses.

Lastly, Chancellor Merkel should also consider her unique position in Europe. She is one of few heads of government in the big member countries that will be around to take care of the mess emerging from the evaporation of the Doha Round. President Chirac and Prime Minister Blair will soon leave office. The Spanish Prime Minister Zapatero will stand for re-election next year. Chancellor Merkel therefore has an additional incentive to twist arms in key member states to get their leaders to make last-minute sacrifices.

The G-8 can play a decisive role for a multilateral round of trade negotiations. Today some argue that the G-8 should not interfere in trade negotiations and that earlier efforts in that field bear witness of the risks involved. This is not true. There are earlier occasions in G-8 (or G-7) history when it played a key role for getting a round to the finishing line. Nearly 30 years ago, when Germany was also in the G-8 chair, a G-8 summit was instrumental to the conclusion of the Tokyo Round. Its deadline had expired and a headline agreement was overdue. G-7 leaders then made efforts to prepare for an overall deal in advance of the Bonn summit. The summit got leaders to "concentrate minds", and negotiations during the summit provided enough progress to get heads to agree, at the summit, on a final deadline later that same year.

RECOMMENDATIONS FOR POLICY

Germany has an opportunity to use its G-8 Presidency to revive the Doha Round and to demonstrate a new German role in global economic policy that corresponds with its position as a top-league trading nation. Economic development clearly points to a global outlook for German foreign economic policy rather than a retrenched European focus.

Germany has had the tradition of a consistent economic order – the yin of domestic economic policy and the yang of foreign economic policy – and is, therefore, a natural candidate to yet again demonstrate the vigour of such an order in a time when the demand is great but the supply small. Much of its foreign economic policy today is dissociated with its domestic economic policy and it does not provide a lever of economic reforms. Internal and external policy is not happily married. Germany's future economic policy should therefore aim at binding together foreign and domestic economic policy and again accommodate the substantial changes that have occurred in German business and in the world economy at large.

As Germany is about to step out of the post-Cold War order, its first priority should be to take on leadership in order to finish the Doha Round.

- Germany should tailor its G-8 agenda (substance and logistics) in accordance with Doha Round negotiations.
- Germany needs to demonstrate intra-European leadership and shortcut attempts by other member states to block improvements of the EU position in agriculture.
- Germany needs to push for a high level of ambition in liberalisation of trade in goods and services.

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G-8 Information Centre, University of Toronto
www.g7.utoronto.ca.

NOTES

1. These transfers were not only costly in fiscal terms, but can also be regarded as a substitute to substantial and sustainable economic policy reforms.

2. Our own calculations based on figures from the European Commission.

3. After Adam Smith and David Ricardo. Smithian trade refers to trade based on specialization and division of labour. Ricardian trade refers to trade along the lines of countries' comparative advantages.

4. There are, as earlier mentioned, still policy reforms of magnitude to be achieved within the European Union. A single market for services is one substantial policy reform that would greatly enhance welfare. Furthermore, this is not to say that Europe or other high-income countries are marginally less interesting for a German export company than low or middle-income countries with high growth rates. Actually they are not. World Bank (2006) estimates suggest that the global economy will expand from 35 trillion US dollars today to 72 trillion in 2030. The low and middle-income countries' share of the global economy will increase substantially, but their growth starts from low levels. Although their share will rise, the value-growth will be much higher in high-income countries – in fact the high-income economies will, measured in absolute terms, expand nearly 30 percent more than the expansion in low and middle-income countries. This is a reflection of fundamental changes in the economy, not an assessment of the return to economic policy reforms. But it is of interest as German export to EU members is above average for intra-EU exports; German export to other EU countries is nearly 60 percent of its total export while the rest of the EU-25 sends on average 55 percent of its exports to other EU members (see World Trade Organization 2004 and 2006 for data of German trade). This is partly due to the profile of Germany's export. Its exports of consumer goods, for instance, is higher than other European countries' targeted for middle-to-high income earners, and German export will thus benefit more from the rapidly rising middle class in many middle-income countries than simple arithmetic would suggest.

5. After economist Joseph Schumpeter and defined as knowledge and investment-led growth.

6. Russia's first participation in a G-8 summit was the Naples summit in 1994.

7. See Freytag and Pehnelt (2006) for a research overview and a study of the links between debt relief and policy change.

8. According to the WTO (2006) China is the fastest growing trade partner as German export to China increased by 15 percent and German import from China by 26 percent in 2005. Trade with India and EU-10 is also rising well above average.

9. *UNCTAD* (2006).

10. *Hamilton & Quinlan* (2006).

11. But Doha negotiations can continue if the White House can get the Congress to agree to an extension of the TPA. This is possible but will require a conceivable deal to be within the possible reach of current negotiations. However, the end-June expiry will come sooner than June. If an extension should be at all possible, the US Congress needs to start its procedures much sooner than June.

12. *Bayne* (2003). *Bayne* (2000) points to the Tokyo summit in Japan 1993, when G-8 broke the deadlock in the Uruguay Round, as another example of successful G-8 intervention in trade-policy affairs.

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