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Full Length Research Paper

The future of international financial business: Global regulatory framework

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Like other cross-border businesses, international financial business heavily depends on the predictability and stability of its business environments. The current crisis has focused on the national and world political processes around the issues of new international financial architecture and regulation. Despite numerous intergovernmental organizations' plans, many national support packages have been implemented. Similarly, norms to regulate international finance have been developed but only within the realm of national hard law. Bearing in mind the reality of the Westphalian system, the soft-law approach is probably the only feasible possibility to commence the process of redesigning international financial regulation. Even though the concept of international agreements, based on soft law, might be a framework to deliver certain results in the future, the present level of discrepancy among national political agendas is still too significant for the general goals of international financial regulation to be agreed upon.

Key words: International finance, crisis, regulation, soft law.

INTRODUCTION

In March 2010, Anton Valukas, appointed by a US court to examine the Lehman Brothers' failure in September 2008, made his report available to the general public. One of the key findings was that significant regulatory differences between the US and the UK system, in the area of repo operations, presented then (and still do) excellent opportunities to be used for financial malversations (Valukas, 2010). This was an extreme case with catastrophic consequences but most illustrative for the issue of international financial law and its impact on cross-border financial business. Since the onset of transnational banking, and definitely since the beginning of the current crisis, the issue of international financial regulation has been among the most contentious ones on the global agenda. At the first glance, major actors on the scene seem united in their efforts to stabilize the financial world and design new mechanisms which could prevent future turbulences on the global scale. Nevertheless, declarations produced at intergovernmental fora do not in any way point out to regulatory/legal framework through which such global actions would or could be implemented.

The concept of soft law, implying international agreements based on jointly defined goals to be achieved, might be an option. This is even more realistic if one keeps in mind that financial regulation belongs to the 'core' regulatory powers of a sovereign state; but the development and improvement of national hard-law norms to regulate modern finance might not be (depending on national political consensus) as sensitive as their harmonization at the international level, or even their subordination to a higher-than-national regulatory body. Therefore, it is first necessary to present the basic concept of soft law and its advantages over the hard law. It is followed by the overview of global political interplay which should result in a set of commonly accepted goals, as the main input into the process of soft-law building. As the overview will illustrate, various national agendas are still too far apart, so three alternative hypothesis of soft- and hard-law interaction in the domain of global financial regulation are presented in this paper.

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INTERNATIONAL FINANCIAL FRAMEWORK

Despite wide researches, no appropriate or comprehensive theoretical approach to international financial law (IFL) has been singled out in legal theory so far (Sebestianutti, 2009; Dalhuisen, 2007). Whenever an attempt is made to define the notion of IFL, the problem of approximation of the existing, national legal systems arises. According to Philip Wood, there are currently 193 sovereign states that apply almost 320 jurisdictions (Wood, 2007). Despite the existing differences, legal operations (financial transactions, contracts between banks, etc.) are carried out on a daily basis. Those operations are known under the term, cross-border business transactions, and contracts with international elements or with international characteristics are contrary to international treaties that are concluded between the states as entities. The basic legal dispute regarding the transactions with international characteristics is the issue of the applicable law. The main problem that occurs in those situations is the complicated system of collision norms that the aforementioned legal rules could be built on. In addition, one has take into the account, aside the norms of private law, the rules agreed upon in international treaties between the states (which represent a part of public law).

Ratified (confirmed) international treaties become integral parts of the national legal order, which means that they produce the same legal action as if they had been enacted by national parliaments. In case of regulatory discrepancies between national laws and ratified international treaties, provisions of the treaties will prevail. Globalization of business operations on financial markets creates a new trend, namely the approximation and unavoidable changing of the current division of legal circles. The work on creation of new global framework (as a new form of International Financial Law) requires significant efforts towards the creation of new meeting points and gradual removal of strict borders between national legal circles. IFL can be defined as a specific legal discipline that includes different, special subjects (as compared to agents operating strictly within national economy), as well as operations and legal relations that result from such supranational operations and contacts.

At present, several theoretical approaches to future financial regulation can be identified (Helleiner, 2009). Firstly, some authors emphasize the need to fill in the loopholes, such as innovative products, securitization, regulators' powers and duties, etc. Others point out that a reform of international financial regulation cannot include only its widening, but also the changing of its main principles. The third group of authors, contrary to the others, underscores a 'natural' inefficiency of governmental regulation due to information asymmetry; hence, there is no need to invest efforts in building a new global framework. Yet others suggest that a stricter control regime for cross-border capital flows should be the centerpiece of new global regulation. Finally, a group of authors claim that a new, decentralized system of regulation, based on regional and actors' differences should be devised in order to allow further expansion, but also prevent future crisis.

THE G20 AND NEW FINANCIAL LEGISLATION

The forthcoming task of G20 (to devise a global regulatory framework and define new financial legislation) leads us to the area of public law in the field of financial markets. When we talk about public law, we think of legislation (in different forms, such as agreements, treaties, conventions, decisions) enacted by the states or public bodies they had jointly created, but not by informal bodies that had been created at the international scene (for example G7, G8 and G20). Taking into account the focus of this study, which is directed towards the role of G20 in creating new world financial regulations, the mere status of the G20 as an informal group is very important in understanding possibilities to accomplish financial stability, set as the priority.

At the London Summit, the G20 leaders established the financial stability board (FSB) with an expanded membership and a broadened mandate to promote financial stability, since the London Summit, the FSB and its members has advanced a major program of financial reforms designed to ensure that a crisis on this scale never happens again.

The newly established FSB delivered three reports on the accomplished level of progress towards creating new legislation/regulation. This is certainly the first step in efforts to resolve the problems of the world financial crisis. However, new dilemmas have inevitably emerge, which are the establishment of a new body (FSB) and undertaking of a number of measures by the G20 actual steps toward creating a new theoretical approach/model in development of a new international financial legislation /regulation, or just the signs of reconstruction of the existing practice.

In order to decide whether this is a new model or just a reconstruction of the existing system, there is need to wait for the results to be yielded. Until then, the possibility of achieving an agreement on international financial regulation can be investigated through the analysis of previous policies and enacted documents. There is no doubt that the mechanisms for enacting legislation/ regulation in the field of international public law are relatively limited. In addition, the existence of different national financial legislations/regulations, and interests protected by them, make even stronger obstacles for plans to devise a globally-accepted regulatory framework for international finance. Nevertheless, a feasible option for building a new framework might open if the study gives up a classical legal approach and turn to the concept of soft law.

Soft law

During the 20th century, the existing legal theories and practice within the international law were under constant pressures to adjust to fast economic and political changes. The transfiguration of the world political map, accompanied with or arising from the changing world economic landscape, resulted in corresponding modifications of international relations regulation. There was a basic shift regarding the sources of law and methods of norms codification at the international level. International agreements were replaced with international treaties. Soon, this has become a new trend where international organizations and other informal governmental organizations took over an active role in managing international relations using a new method of enacting and implementing legal norms. This was an environment within which the notion of "soft law" has started to gain importance in the western legal doctrine (D'Amato, 2008). Nowadays, in the 21st century, the implementation of soft law represents a system of principles of modern international law that differs from previous practice. The western schools of legal thought differentiate between hard and soft law primarily as to their implementation. This is most often the starting point for defining hard and soft law. Most authors believe that hard law generally refers to legally binding obligations. Soft law is usually understood as not being formally binding, but may nonetheless exercise significant influence on behavior.

In order to achieve their regulatory aims, 'states' have diversified the range of used instruments. As to the instruments of legal nature, they have at their disposal those closer to hard-law concept and those closer to that of soft-law. The choice, including the combination of two types, depends on various domestic or international factors. This inevitably leads to the formation of a complex, hybrid system of instruments that are used by both hard and soft law in their legal nature. Abbot and Snidal (2000) propounded three criteria in distinguishing legal norms from the soft- to the hard-end: Precision, obligation and delegation.

Hard-law instruments allow states to add credibility to their commitments to international agreements. Such an increase of credibility is based on considerable costs of renouncing the legal commitment that is derived either from pending legal sanctions or compromised international reputation (Shaffer and Pollack, 2008). As to its disadvantages, it affects states behavior as it limits their sovereignty in the areas regulated by intergovernmental agreements. Therefore, the probability of the rules violation increases, as well as the costs of keeping the agreement in force. Contrary to that, soft law as a new form of regulating international relations offers much more flexibility. Soft-law instruments are easier and less costly to negotiate, in that they induce lower "sovereignty costs" in sensitive areas, and provide greater flexibility for states to cope with uncertainty and learn over time. Soft-law instruments allow states to engage in "deeper" co-operation as they would be less concerned with the enforcement. Soft-law instruments are also available to non-governmental actors, including international organizations' secretariats, administrative agencies and business associations. Although, a soft-law document is not legally binding for the states that subscribe to it, it is widely accepted that such documents contain norms that should be followed on the good-faith basis even without the legal obligation.

The main disadvantage of soft law is the absence of legal obligation, hence different results of soft-law treaties implementation. The results are relatively unclear and unpredictable because the parties may take different commitments in that respect. Some parties will implement the recommendations to a soft-law agreement in full, while others will resort only to certain parts of the recommendations in accordance with their own needs and agendas. The study can conclude that as long as non-treaty agreements are not recognized in international law as a source of legal obligations, and as they are not provided with a set of rules regulating their coming into existence, their functioning and effects, they remain closed. Outside the regime created by the non-treaty agreement, rules of international law presently take account of such agreements only as a factor and not as a source of law (Hillgenberrg, 1999).

THE G20 AND POLITICS OF INTERNATIONAL REGULATION

The severity and outreach of the present crisis has not only seriously affected most of the national economies, but has also proved to be an opportunity to question/test/change basic principles of the dominant neo-liberalism and even capitalism itself. Is this crisis just a final touch to 'destroy' the neoliberal economic order that dominates today, or are we witnessing a time frame wherein the level of world 'fluidness' requires its total remake (Ruggie, 1993)? What certainly is beyond doubt is the fact that global capital today presents one of the major areas of concern for the world economy as a whole, and there is a pressing demand for new/updated regulatory arrangements to be made (Sorensen, 2006). Nevertheless, as the G-20 Toronto Summit pointed out, it is not enough to create new controls over the global financial market only, but it is equally important to curb spending especially governments' deficits. Since September 2008, governments in developed market economies have implemented actions aimed at supporting individual institutions and programs directed to the system as a whole, and to the banking systems, deposit insurance schemes and money supply. However, more recently, they focused on the fiscal policy. Inter-national financial institutions have also stepped in with more favorable lending, especially to developing countries

(Panetta et al., 2009). At the same time, a plethora of diverse political ideas, plans, statements and declaration were made on the causes, effects and prospects of the current crisis.

Regardless of their differences, the intensity of national and international political debates, particularly around the issues of interdependence and global linkages, might point out that a new global/transnational social space is coming into being and all social, political and economic activities are becoming affected by its logic. Such a supraterritorial social space seems not to be bound by territory, distance or legal systems, and structural change occurs independently of agency, frequently used by political leaders to justify their decisions as inevitable (Scholte, 2002). Furthermore, structural changes of today's globalized world allow for potential different, multiple equilibria because actors' strategic and tactical choices interact with such changes; thus, creating a number of potential outcomes. In the present world, numerous and interlinked processes design the global scene, and this is even truer for the global capital: Internationalization, transnationalisation, translocation etc.

In addition, a multitude of actors emerge on the supranational scene which had previously been strictly reserved for governmental actors. This is what Cerny (2007) calls multinodal politics and Underhill and Zhang (2006) describe as a relative disarmament of public authorities. Even though non-governmental actors have gained importance, the extent and consequences of the current crisis have proved to be an excellent opportunity for the authorities to invest in regaining the strength of their 'arms'. The processes of global political deliberations were directed towards three culminating points:

The G20 meetings in London, Pittsburgh and Toronto.

The Toronto Summit of 2010 was meant to be an occasion to discuss and adopt more concrete measures, but eventually, it did not turn out so. What had been planned to be a show-room for a united and orchestrated action, actually resulted in a serious compromise between the different agendas of the Anglo-Saxon axe and the continental-European 'league', while only a few of the developing countries' proposals were adopted. Once again, their overlapping but different agendas have pointed out that contemporary politics is one of the detachments (Kratochwil, 2007) of 'cool loyalties' and 'thin' patterns of solidarity. The first joint declaration and a plan for action - the London G20 communiqué - came out as a result of an ongoing political process, lasting for many months and encompassing a variety of issues, standing points, interlinked and conflicting values, as well as diverse proposals on how to structure new (regulatory) arrangements. Some of the most important inputs into the politics of new financial regulation are presented as follows:

Agenda and values

The European Union has certainly been among the most important players in the political deliberations to devise new financial regulation. Regardless of different perspectives of its members, the EU's view on those issues highlighted the need for an improved economic efficiency and transparency, as well as for an enhanced state control over the financial markets. For the EU, the current crisis poses an excellent opportunity for achieving a two-fold goal: (1) Improving the endangered EU competitiveness (especially in relation to the US and the far East), and (2) Fortifying the Union and increasing state control (European Union, 2008).

The latter has indeed become one of the stumbling stones in reaching the compromise over proposals for a new global financial architecture. In March 2009, the EU included two additional components in its proposal: Changing of the IMF's role and plans to adopt a global charter for sustainable economic activity, as a first step towards a set of global governance standards (European Union, 2009).

Since the beginning of 2008, the G7 finance ministers have been very active in deliberating ways and means to cope with the crisis. Two particular features of the G7 responses differ from the majority of other (inter) governmental responses. Firstly, they always manage to link issues of wider (or greater) importance to their own markets' development, such as the value of Chinese currency, Japan's rising fiscal imbalance, etc. Secondly, the G7 has been among the very few to underscore the significance of co-operation with the private sector, for instance, in developing mutually recognized securities regimes. The transition of the leading role (from G7 to G20), the ever wider issue-linkages in dealing with the crisis, and the involvement of private actors might well serve to illustrate that traditional approaches to international regimes are gaining significance.

The role of G8 in the political processes leading to G20 summits has also been underscored for a wider political and economic perspective. Specifically, by calling upon a range of international (intergovernmental) organizations to immediately provide their own inputs to (national) measures, they implicitly recognized the need for more structural changes. In other words (Underhill and Zhang, 2006), the group acknowledged the need for steering various multi-level entities towards shared rules. The list of institutions and issues included:

Financial Stability Board (cross-border cooperation in crisis management, sound compensation principles and sound financial systems), International Accounting Standards Board (off-balance sheet items and valuation in illiquid markets), International Organization of Securities Commissions (code of conduct for credit rating agencies, improved disclosure by financial institutions), the Basel Committee (sound practice guidance on

liquidity risk management), the OECD (best practices for open investment regimes), the World Trade Organization (successful conclusion of the Doha Round), International Energy Agency (volatility and level of oil and commodity prices) and the Financial Action Task Force (survey of financial system abuses).

It is particularly illustrative to present the position and views of the United Kingdom with regard to new financial regulation. In January 2009, it was admitted that one of the problems was the absence of a global 'map' to deal with the crisis. Again, globalization was taken as something that happened in the outer sphere and governments could do nothing than to react to such a process (Garrett, 2000). Governments were to decide on how to set the border between the positive and negative effects of globalization as 'everything can not be left to the market.' The UK's view underscores that financial protectionism is a greater danger than trade protectionism. In April 2009, the UK (together with the US) pressed hardly for a wide, internationally coordinated fiscal stimulus that could help the real economy and, inter alia the seriously affected British economy, but with no success. At the same time, the alliance managed to resist the Franco-German efforts to introduce strict and comprehensive supervision rules for the global finance. This supports the arguments of Underhill and Zhang that governments are becoming more inclined to actively participate in international arrangements for the purpose of enhancing their capacity to deal effectively with the denationalized economic structure. Although, the financial sectors of France and Germany have experienced different levels of stress under the current crisis (the former being less affected in relative terms), two governments seem to share very similar positions.

Both countries believe that classical liberal principles hold no more in the contemporary economy and that States should have a more decisive role in economic processes, particularly at the international level. New regulation for the international financial markets was urgently needed, in addition to a sort of UN economic council (a world government). More than any other developing country, China sees the crisis as a significant opportunity to improve her growth, as her economy has not suffered a decline comparable to that of developed countries. Beijing wants further strengthening of global financial markets and a strong but reciprocal fight against protectionism (Setser, 2008), in addition to a substantial reform of international financial institutions and maybe a new global reserve currency to replace the US dollar. One must bear in mind that the rules of global governance, which is particularly true for international financial regulation, can be maintained (held legitimate), only if widely accepted and obeyed voluntarily. If however, such a major player as China is strongly questioning the legitimacy of the present order and institutions, the success of current global politics, in terms of yielding new regulatory results, raises serious doubts.

Since the new US administration has entered the office, it was explicitly recognized that America was to reconsider free-market principles, introduce more governmental oversight, reorganize its society towards achieving more equality and less uncertainty, but at the same time continue to pursue its role as the world leader.

In accordance with the tradition (and its position), the US has so far been reluctant to proposals for 'submitting' its economy to supranational rules and regulation. Nevertheless, G20 has adopted President Obama's framework for an improved economic cooperation and coordination, with three dimensions: strength, sustainability and balance. Furthermore, the US openly admitted that in the world of shared security and prosperity, its own interests depend on other countries' actions. A declining economic power of the US and a deteriorated political coherence at home, on the one hand, as well as an increasing transnationalisation of economic issues, on the other, resulted in a change of the US agenda. For the US, the international community does exist, interdependence cannot be overlooked anymore, common values have been developed and, most importantly, (all) members of the international community have the obligation to work towards realizing those common values.

The G20: A minimal common denominator

The G20's current status as a discursive organization is contrasted with the more strongly decisional types of other intergovernmental actors, such as the IMF (Higgott, 2004), and might shed more light on the future of multilateralism. Following the arguments of Muller and Lederer (2003), the power and activities of the G20 might point to a new developing form of managing global affairs, with specific actors, instruments and practices. Hence, this organization might be the centre point from which new, soft-law instruments of international financial regulation would appear. Following numerous formal and informal meetings within and outside the group, and in conjunction with other streams of political actions described earlier, the G20 summit in April 2009 resulted to three declarations on the recovery plan, the financial system and resources to implement the plan. Issues that were covered included inter alia, fairness/equality in enjoying indivisible growth, sustainability, effective regulation of the market economy, strong, supranational institutions, promotion of global trade, etc. A commitment was made to implement a $1.1 trillion program in the support of credit markets, growth and employment in the world economy. Without the need to go into much detail, one must pay particular attention to different levels of norms planned to guide further actions.

Four different types (or levels) of norms can be identified in the documents:

1) Global standards (most binding ones, applicable to all countries- related to accounting standards and principles).

(2) Internationally-agreed norms (subject to separate agreements – financial system regulation).
(3) Good practice (desirable, recommended – activities of credit rating agencies).
(4) A consistent approach (most flexible – basic principles of national financial regulation, for example, coverage and boundaries).

The core part of the documents focuses on strengthening of financial supervision and regulation. In order to secure a much greater consistency and systematic co-operation, a new international body (Financial Stability Board) should be established. It would encompass a wider membership and work closely with the IMF to provide early warning of macroeconomic and financial risks.

Referring to the previous parts of this paper, the aforementioned pyramid of international financial norms, as well the other related measures, might lead to a conclusion that conditions for a new, soft-law regime for international finance have been created. The G20 Summit in Pittsburgh proved that leaders have decided to keep the spotlight on their actions, at least in the short term. Although it did not yield many results in terms of structural transformations (output side) as the London Summit did, this event brought forward two major changes:

(1) Its role as the centre forum for the creation of new international economic architecture.
(2) The reform of leading intergovernmental financial institutions in terms of fairer distribution of voting powers.

In addition, it was agreed that macro-prudential concerns about the system's wide risks should be incorporated into international financial regulation; but maybe most importantly, the Pittsburgh Summit has initiated 'a regulatory race to the top' for reaching international agreement and then for implementing new standards nationally. At the Toronto Summit in 2010, three sets of guidelines were adopted: The first focused on balanced economic growth, the second aimed at the financial sector reform, and the third targeted the development of international financial institutions.

While praising the achievements brought forward by the Pittsburgh Summit (particularly in area of risk control), the Toronto documents seem to depart even further from the original idea to design a new global financial architecture. Two main 'digressions' have to be under-scored in this regard. Firstly, contrary to the emergency packages in 2008 and 2009, governments now have to focus more on the fiscal policy than on the monetary one. Secondly, it has been agreed upon that support packages should be primarily designed in accordance with national objectives, agenda and priorities – this pushing 'international-community dimension' further behind.

SOFT LAW AND NEW FINANCIAL FRAMEWORK

Let us return to legal issues and possibilities for the G20 to build a road towards hard financial regulation on a global scale. The purpose of portraying the political processes within the G20 is to assess how close (or how far) the main actors are from reaching an agreement on new international financial regulation. As the analysis of the London Summit documents shows, the participating states have basically agreed to have binding norms only in the field of accounting principles. Other important aspects of international financial regulation are left out, waiting for future, separate agreements to be negotiated and designed. This clearly reflects that beyond joint pictures taken and statements made, the G20 leaders have set a particular 'scale' of submitting their own policies and principles to global harmonization. Unless the norms and the policies in which they manifest themselves are perceived by the community as authoritative, and that they can be justified in terms of shared beliefs, there is still a long way for new, global governance in the field of finance to emerge. Nevertheless, despite many different and sometimes conflicting values that the states of the G20 pursue, one can think of essentially three paths towards new global regulation of finance.

The accomplishment of the G20's main objectives, in the present Westphalian world, may seem possible mainly with soft-law instruments. However, that is not completely true. In order to accomplish such complex tasks at the international scene, there must certainly be a level of interaction between hard and soft instruments The internationalization, since the mid-1970s, required fresh approach to regulating cross-border businesses, and this has often included various combinations of hard- and soft-law instruments (for example, international payments, rules devised by the International Chamber of Commerce, etc). Nevertheless, an approach that is used more frequently is based on specific interactions/ relationships between hard and soft law, and not just their simple combination over time. For delineating paths towards new financial regulation, there is a need to put together three building blocks defined earlier: The reality of the current state system, the prospects of achieving a wide, international consensus over political values, and the existence of a dual, hard/soft structure of international law.

Having put this forward, it is possible to set three hypotheses in accomplishment of the G20 objectives.

Hardening of the soft-law regime

The advantages of a soft law regime in creating future financial regulation are indisputable. The constellation of international economic and political relations does not allow the use of instruments with strong binding elements. There are several arguments in support of the hypothesis that the soft-law regime will be hardened and this will result from the process of accomplishment of the G20 objectives. The evidence of the soft-law regime hardening can be found in agreements reached among

the G20 dominant states over some of the aspects /objectives of financial regulation. After the governments reached a consensus over the ranking of values, it was not difficult to set the goals of regulation, for example in the field of accounting. In a similar way, the path of a soft-law regime hardening was previously used in creating joint objectives, while unified objectives of the European Union, exemplified by the establishment of the European Payment Union, were later used (Schafer, 2006).

The analysis of the mentioned FSB reports on efforts to build new financial regulation could lead to a conclusion that hardening of the soft-law regime is the way towards a future international hard regulation. The readiness to fortify the soft law regime with hard-law instruments can be seen from the documents presented at the Pittsburgh Summit. The overview of progress in implementing the London Summit recommendations emphasizes that the US and EU are willing to take further steps. Both sides were ready to implement the proposed measures as binding in certain fields (macro prudential policy, hedge funds, regulatory reform, etc.). For example, the US Treasury has proposed, among other important measures, the Financial Services Oversight Council Act of 2009 and the Restoring American Financial Stability Act of 2010, to be passed by the Congress. In this way, the values underneath the soft-law regime will be integrated into the national/EU legislation. The hypothesis could thus be sustainable if the US and EU had an absolutely dominant role in creating new financial regulation to prevent a new crisis. However, the reality of the global capital flows does not fit this picture.

The aforementioned reports do not contain a single note on the intentions of other G20 members, in particular China and Russia, to resort to this method of hardening of soft-law instruments. Furthermore, the G20 countries have emphasized a number of other important issues related to their own agendas, for example, the dissatisfaction with the dollar as the world reserve currency, changing of the IMF voting structure, multilateral surveillance of national economies, redesigning of capitalism itself, etc. Having this in mind, strong reservations must be put on the sustainability of this hypothesis, at least in the short run.

Softening of the hard-law regimes

Before the commencement of the analysis of this hypothesis, it should be said that in cases when social/ international relations are still not mature enough for formal regulation, the advantage is given to soft-law instruments. They are fairly efficient to direct the development of relations towards formal regulation without making it a risk for the states that potential problems will be resolved by legal means. Since an overall comprehensive agreement of the G20 member states has not yet been reached, one cannot expect that the future step towards financial stability will be the signing of any legally binding instrument (treaty). However, if it is assumed that the G20 members will not reach such an agreement soon, it could also be assumed that a few of them, 'allied' in the economic, political and even legal sense, could decide in favour of even closer linking through hard-law regime instruments. In order to extend the existing legislation/regulation and one's own impact on new areas/markets, the legislation will have to be made soft through the concept of soft law. Essentially, this would mean granting certain 'privileges' for the purpose of establishment of global financial stability and/or for the purpose of increasing the benefits of globalization – both inwards and outwards. Such a process could involve a certain degree of lowering of the enacted national standards, simplifying of the procedures with regard to certain transactions or actors originating from the 'allied' countries, passing of legislative changes in accordance with the foreign regulation, etc. However, such a process of forming groups of linked, softened regimes would definitely result in building new barriers for outsiders and a rise of financial protectionism.

Despite the differences among the G20 countries, they have indeed presented themselves as unified objectives, with regard (at least) to the main objective – reinstating financial stability of the global market. As there are no indices showing that certain countries are forming alliances in order to create their 'own', separate legal circles, the hypothesis is also not sustainable at this point in time. Nevertheless, the probability of such a path towards a global financial regulation could rise in the future if the G20 efforts in this domain become futile.

Interaction of soft and hard law as alternatives or complements

There is no doubt that the process of regulating inter-states relations is always burdened with the need to protect national interests. At the same time, the selection or ranking of such interests may not always facilitate internationalization or even maintenance of the country's position in the intertwined world economy. As a retreat to the higher or lesser isolation that is not an option, certain 'adjustments', compromises or rearrangements need to be made. In order to facilitate approximation of different interests, the use of both hard and soft law instruments in their interaction might be the most efficient option. Frequently, hard and soft law instruments are used as an interaction of those two systems. The interaction can involve them as alternatives or complements. The two types of instruments are considered as alternatives when the strengths and weaknesses are compared.

Hard and soft laws are complements in interaction because soft law contributes to easier overcoming of disagreements between states. Soft law can contribute to socialization and normative convergence, paving the way for hard law (Shaffer and Pollack, 2008). Consequently, states will then use both soft and hard instruments to

advance their aims in the international arena.

Conclusion

The global financial market of today has not come into existence suddenly – it has evolved as a result of a multitude of trends and actors' strategies (including the state ones) to capture the benefits of globalization, in terms of rising efficiency, maximizing profit and developing flexibility to market changes. As with other cross-border businesses, international finance depends on stability and predictability of the environments it operates in. The current crisis and governmental responses have emphasized a need for a new global regulatory framework. Most of the world leaders/groups/organizations felt obliged to point out that in the present world, co-operation and joint efforts are unavoidable if the global economy is to resume its 'normal' functioning. What lies ahead, once support packages are spent, is maybe a long process of building a set of shared values that might create a basis for legitimate and efficient governance, that is, a foundation for a new governing regime.

As new regulation on the international level desires another (or a new) framework, the issue of international financial law is becoming ever more critical. It is realistic to expect that a new/changed IFL will rely on both soft and hard instruments. Furthermore, in order to facilitate approximation of different interests, the use of both hard and soft-law instruments in their interaction might be the most efficient option. The level, mode or intensity of the interaction will be derived from a broader context of international cooperation, including the power of key players and the distinct implementation politics. Nevertheless, as financial markets are extremely dynamic, they constantly adjust to changing environments (including the regulatory one); however, other modes of hard and soft law interaction in the future may also be developed. The evolution of the relationship between hard and soft law will primarily depend on the efforts of the international community to reach an overall agreement on the basic aims of international financial markets' development.

Years ago, Kenneth (1979) wrote that it was not possible to understand an economy or explain its functioning without consideration of the rules that were politically laid down. Future research related to the international financial governance should focus on three major areas: political processes to allow a convergence of various agendas, implementation of the agreed norms and structures, and the developments in global financial flows. The G20 might have a unique opportunity to use the prerogatives of an officialdom it strives to become, and create conditions for a new IFL to emerge. Bearing in mind that an order's legitimacy strongly depends on the body of shared beliefs, what remains to be seen is today's multiple agendas (input side) and the new or adapted global rules and norms (output side) that are closer.

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