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Re-Thinking Global Economic Governance: Promoting Development and Managing Crises

This Briefing Paper addresses three key and inter-related questions regarding the reform of global economic governance: What are the basic contours of current global economic governance with regard to trade, finance, investment, and migration? What major developments have necessitated the reform? And, what can be a pragmatic way forward to deal with some urgent reform issues? The paper emphasises the need for global economic governance reform to deal with the current lack of representativeness and coherence. In this regard, it also points out the role that appropriate national policies and institutions, and their coordination among countries can play. Finally, it advocates the establishment of a Platform for Global Economic Governance Dialogue (PGEGD).

Global economic governance is the set of norms and institutions along which rules are generated to manage the global economy.[1] These are needed to manage international economic relations and transactions in a predictable and stable manner that should lead to shared development and prosperity of all countries. The current system of global economic governance was mostly developed towards the end of the first half of the last century to rebuild a world devastated by two World Wars. Admittedly, this system has made important contributions to the unprecedented progress and economic growth that many countries have enjoyed since the end of the Second World War. But, the challenges of growing global interdependence – both in scope and complexity – cannot be handled by this system that was based on the economic, political, social and environmental realities of more than half a century ago. Water under this bridge has risen and so has the traffic over it and the need for major revamping cannot be denied.

Global economic governance covers a number of issues reflecting the growing and complex nature of global economic inter-dependence. While all aspects of global economic governance are important, this piece is focussed on four: trade, investment, finance and money, and migration.

Current System of Global Economic Governance: International Trade, Finance and Monetary Issues, Migration, and Investment

The WTO replaced the General Agreement on Tariffs and Trade (GATT) on January 01, 1995 to provide a comprehensive set of agreements as well as an institutional setting with binding dispute settlement mechanism to govern international trade relations. The WTO also has the distinction of being a member-driven organisation where all Members have at least theoretically the power to veto as all decisions are taken by consensus among all members. On the other hand, WTO members have failed to conclude the Doha Round even after nine years and hence some of the required substantive adjustments in various agreements for further reform and better reflection of development dimension has not taken place. This continued stalemate in the Doha Round threatens to render the multilateral trading system irrelevant[2].

A number of institutions and arrangements attempt to deal with international finance and monetary issues. The International Monetary Fund (IMF) can be regarded at the centre of these. However, the mandate, governance structure, and functioning of IMF has been severely criticised. It does not have any mandate to regulate private financial flows and deal with exchange rate manipulations. The governance structure is based on voting rights determined on share holder contributions. Moreover, it has often taken an ideological position regarding liberalisation and enforced its stringent prescriptions on hapless developing countries through loan conditionalities. At the same time, it has little influence over policies of major developed countries[3].

Major developed countries also attempt to coordinate their financial and monetary policies through their groupings such as QUAD (Canada, EU, Japan and US), G-7 (Canada, France, Germany, Italy, Japan, UK, and US) and G-8 (G-7 plus Russia). With the decline in their share of global economic power, these groupings have lost their relevance and effectiveness. In recognition of the greater economic contribution of emerging economies, G-20 – consisting of major developed and emerging economies – has now assumed its role as the main global forum to discuss and deal with global economic issues, including in particular the financial and monetary issues, and attempt to provide solutions and leadership.

Finally, private financial flows are being governed by domestic policy regime of countries. Many countries have very effective policy regime to address shocks emanating from capital inflows and outflows (for example, the Swedish system). But most other countries lack such systems and the capacity to implement them.

Global arrangements for migration and investment are even more rudimentary. International Organisation for Migration (IOM) deals with migration issues as an inter-governmental agency with 127 states as members. But this role is limited to monitoring only and no efforts are made to develop norms due to the very sensitive nature of the issue.[4] Similarly, there is no global agreement for investment except through "commercial presence" as per the WTO General Agreement on Trade in Services (GATS). The Organisation for Economic Cooperation and Development (OECD) countries had tried to put a system in place OECD Multilateral Agreement on Investment (MAI). But this would have made the power equation between the state and the business much more complicated and imbalanced. Similarly, the WTO discussions, again spearheaded by major developed countries, on a possible Multilateral Framework for Investment (MFI) mainly failed due to the concerns of developing countries[5].

Need for Reform to Address Growing Global Interdependence, Changing Geometry of Economic Power, and Multiple Global Crises

The last quarter of a century or so has witnessed some spectacular technological and political developments leading to ever-increasing global interdependence. The volumes of international flows of goods and services, investment, finance, and people have increased at a fast pace. For example, the value of total merchandise trade increased fivefold, and value of inward foreign direct investment (FDI) stock sevenfold, between 1990 and 2008[6]. Global merchandise trade and the stock of inward FDI measured as percentages of global gross domestic product (GDP) jumped from about 15 percent to about 27 percent and from about 9 percent to about 25 percent between 1990 and 2008 respectively. Despite

Box 1: G-20

Originally established in 1999 in the wake of the 1997 Asian Financial Crisis, G-20 brought together major developed and emerging economies to stabilise the global financial market. However, with the end of the financial crisis, the G-20 lost some of its relevance though it continued to hold annual Finance Ministers and Central Bank Governors Meetings. It took another and more severe financial and economic crisis of 2008 to revive the G-20 whose members were called upon to further strengthen international cooperation. Accordingly, the G-20 Summits have been held in Washington DC in 2008, and in London and Pittsburgh in 2009 with two more planned this year in Canada and Republic of Korea respectively. It includes 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, UK, and US.

It has been noted that the G20 – which includes the traditional economic heavyweights as well as the emerging economies – is a "broader, more inclusive, diverse, representative and effective" than "previous arrangements." *(Communiqué issued after the Second BRIC Summit held in Brasilia, Brazil on April 15, 2010.)* On the other hand, G-20 lack of action to implement its Declarations regarding the early conclusion of the Doha Round has demonstrated a failure to "walk the talk". *(See Mehta, Pradeep S. 'Doha Round failure not an option for economic recovery', Shanghai Daily, China, April 06, 2010)*

Table 1: Current Global Economic Governance – Institutional Mandates and Performance				
Issue	**Responsible Global Institution**	**Representativeness and Accountability**	**Quality of Regulation including Breadth and Depth of Coverage**	**Effectiveness**
Trade	WTO	Inter-governmental, member-driven, consensus-based	Comprehensive but agreements need updating through Doha Round	Binding dispute settlement
Finance and monetary issues	IMF	Inter-governmental, based on share-holder power	Limited coverage, e.g. exchange rates, debt, and private financial flows not comprehensively addressed	Power through conditionalities attached with loans that mostly target developing countries
	G-7, G-8, G-20	Intergovernmental but non-institutional	Coordination of economic policies, particularly to deal with crises	Peer pressure and enlightened self-interest
Investment	None (except through GATS and TRIMs agreement under WTO)	-	Incomplete	-
Migration	IOM	Inter-governmental, majority voting	Limited role	-

wide spread constraints on movement of people, the number of international migrants is expected to increase from about 155 million in 1990 to an estimated 213 million in 2010[7].

The growing global interdependence is accompanied by fundamental changes in the distribution of global economic power among regions and countries. The share of developing countries in global merchandise trade has increased from 24 to 35 percent, and in the global stock of outward FDI from 8-15 percent from 1990 to 2008 whereas the share of developing countries' population in world population increased only from about 77 percent to about 80 percent during the same period. Even more dramatic is the increase in the share of developing countries in outward FDI flows that increased from 5-16 percent during the same period. Asia, and not Europe and North America, is now the growth pole with Africa and Latin America promising to be close behind with their vast untapped potential.

Emerging economies such as Brazil, China, India, Russia, and South Africa are playing a much greater role in global demand and growth. BRIC countries (Brazil, Russia, India and China) account for 42 percent of the world population, a quarter of the Earth's total land area, and are expected to account for 60 percent of global growth between now and 2014. They rightly demand a greater role in global economic governance.

At the same time and viewed in an historical perspective, the number, complexity, spread, and severity of global crises has also increased. Two significant global financial crises hit the world within almost a decade (the financial crisis of 1997 that started from East Asia, and the financial crisis of 2008 that originated in the US). The second of these led to a global economic crisis that has been likened to the Great Depression of 1930s. In between the two happened the food and fuel crises of 2007-08. And the gathering clouds of climate change on the horizon threaten even a bigger crisis.

Greater and deeper global integration is not directly responsible for the crises. The world economy seems to have become more integrated and unstable at the same time but these two features are not linked. Growing interdependence, characterising the world economy, does not lead to greater instability *per se*. In fact, the right forms of interdependence, e.g. international trade and foreign direct investment can allow countries to build their productive capacities to maximise their comparative and competitive advantages. However, certain other forms, for example, unfettered financial transactions, speculative flows and unsustainable foreign debts can lead to crises and wipe away the hard-earned development gains.

The picture that emerges is rather sobering: we do not have a system of global economic governance that can provide a coordinated and collective response to the multiple crises or deal effectively and comprehensively with global economic issues.[8]

Towards a Better System of Global Economic Governance

The world needs a better system of global economic governance to capitalise on the opportunities and deal with the challenges of global interdependence in the 21st century. Many ideas have been presented for the reform of the current system through more, better and representative institutional arrangements[9]. Now political will is needed to take some of the ideas forward. An agreement on the objectives and key elements of reform should be the essential first step.

The objective of reform should be to have a global economic governance system that promotes shared global development, with particular focus on the development of developing countries and least developed countries (LDCs). The system should also be able to effectively manage global economic crises. Hence, the emphasis should not be on having more international institutions and agreements but rather on identifying the critical areas needing reform and addressing them through most appropriate means. The following three elements can be a key in this regard.

Representativeness

The distribution of global economic power has changed fundamentally and must be reflected in the structure and functioning of all institutions of global economic governance. Hence, the need for urgent reforms in the governance structures of Bretton Woods Institutions, a greater role for G-20, and equal representation by all countries in all global economic governance fora. Moreover, while states remain at the centre of global economic relations, other groups of actors including businesses and civil society organisations (CSOs) need to be engaged[10].

Coherence

Coherence and coordination among various regimes to deal with various aspects of global economic governance – whether international or domestic – is more important than aiming to achieve a complete set of global institutions to deal with all aspects of global economic governance. Better coherence and coordination among the existing institutions and processes, including relevant domestic policies and institutions, can address some of the shortcomings of the current system of global economic governance without requiring major political decisions[11].

Strengthening National Policies and Institutions

Negotiating new global agreements where none exists right now and providing appropriate institutional housing for these agreements for implementation may not be possible or even desirable under current conditions. For example, at present, there is no international mechanism to govern private financial flows. In the absence of a political consensus for giving this mandate to a particular international institution, it may be better in the short term to conduct global governance of private financial flows through strengthening of domestic policy regimes (and associated institutions) and most importantly, by devising a mechanism for better coordination among them.

CUTS experience has shown that one does not need to wait for a global agreement to start working at the national level and to create regional synergies that can be the precursor of global cooperation. Work on competition law and policy, and more recently on economic regulations, are clear examples[12]. Effective competition laws and authorities and regulatory reforms in developing countries have the potential to help them better deal with global crises. Sharing of experiences among them, as well as coordination on selected issues too will be helpful and in turn may prompt coordinated global actions.

Way Forward: A Platform for Global Economic Governance Dialogue (PGEGD)

While the urgent need for the reform of global economic governance is recognised, reaching agreement on the contours of reform is a formidable task. Ideas abound but constructive engagement is not always there. This may also be due to the inertia of the existing institutions and arrangements. At the same time, the response to the latest global economic crisis, from political leaders to businesses, CSOs and academia, has presented an unprecedented opportunity. Given their flexibility, CSOs maybe in a unique position to seize this opportunity and launch a platform for constructive and engaged dialogue among all stakeholders. This PGEGD can aim to develop an agreed agenda for the reform of global economic governance based on the objective of 'development for all' and three-pronged action on improving representativeness, building coherence, and strengthening national actions and institutions.

Endnotes

1 Jacobs, Didier, Democratizing Global Economic Governance' 2002

2 Fung, Victor K. 'Deliberations for the G-20 Seoul Summit: The Costs of Non-Doha', Message for Evian Group Meeting, March 2010 at http://www.eviangroup.org/p/1966.pdf.

3 There is an abundance of critical literature on IMF. For example, see Stiglitz, Joseph 'Globalization and Its Discontents' 2002, UNCTAD 'Financial crisis highlights need for adequate national policy space' 2008.

4 IOM web site states that "IOM works to help ensure the orderly and humane management of migration, to promote international cooperation on migration issues, to assist in the search for practical solutions to migration problems and to provide humanitarian assistance to migrants in need, including refugees and internally displaced people." (http://www.iom.int/jahia/Jahia/about-iom/lang/en)

5 CUTS work on this issue showed that an international investment agreement, if at all to be negotiated, must include the following: a degree of flexibility with a development dimension that considers developing country's national policy objectives keeping in view their level of development; a balanced reflection of the interests of home and host countries; the right of the host country to regulate in public interest; and the special development, trade and financial needs of developing countries (http://www.cuts-international.org/iwogda.htm#I.%20Investment%20Issues).

6 Based on UNCTAD and UNDP figures viewed at http://stats.unctad.org/Handbook/TableViewer/tableView.aspx?ReportId=2079 and http://hdr.undp.org/en/media/HDR_2009_EN_Table_A.pdf

7 Based on IOM figures viewed at http://www.iom.int/jahia/webdav/site/myjahiasite/shared/shared/mainsite/published_docs/studies_and_reports/WMR_2000_pdf.pdf.

8 See 'the Geneva Scenarios on Global Economic Governance' FES, 2009 for multiple paths to different global economic governance systems.

9 For example, see Global Economic Governance Programme of the Oxford University (http://www.globaleconomicgovernance.org/) and the work by the Yale Centre for Globalization (http://www.ycsg.yale.edu/core/economic_governance.html), UNCTAD (http://www.unctad.org/Templates/Page.asp?intItemID=3920&lang=1), South Centre (http://www.southcentre.org/index.php?option=com_content&view=article&id=202&Itemid=311&lang=en), etc.

10 For example, Woods, Ngaire (2010) 'Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers', and Jacobs, Didier, 'Democratizing Global Economic Governance' 2002.

11 Mehta, Pradeep S. 'Lessons from Copenhagen for Doha' The Economic Times, March 15, 2010.

12 CUTS has undertaken work to develop competition law and policies in 27 developing countries through its famous 7-Up model (see http://www.cuts-ccier.org/7UpWorldWide.htm) and on regulatory issues through its Centre on Competition, Investment and Economic Regulation (http://www.cuts-ccier.org/).

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