

Perspectives on Global Governance

Challenges in the Governance of Globalisation

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This article discusses some major challenges in the economic, social and political governance of globalisation. The author highlights the growing inequities of income and power and emphasises the role played by the US in emerging systems of global governance. The article illustrates the current situation with the recent UN Conference on Finance for Development and concludes by suggesting some feasible means of improving global democracy and equity.

The evolution of international political and economic institutions lags well behind the deepening of global interdependence. This holds true in particular for the institutions needed to make globalisation work for all. Today, the industrial countries are the main beneficiaries. There is little compensating action to offset the losses that many developing countries are experiencing.

The international community has made a few episodic forays into the growing – and increasingly explosive – inequities globalisation entails. At the major international United Nations conferences of the 1990s, such as the World Summit for Social Development, proposals for a more balanced and equitable approach to development were articulated and agreed by world political leaders. The Millennium Declaration articulates clear

goals and a framework for action. The Monterrey Conference on Finance for Development held in Mexico made some further progress.

However, improvement in global governance is essential. New policies and institutions are required. The economic and social forums of the UN must be strengthened and the international economic and financial institutions reformed. Extension of the range and depth of global public goods is necessary, as are rapid increases in finance for development.

The article begins with a few contextual issues; second, it considers one central feature, the dominance of the US; third, it reviews one recent attempt to reduce inequities by increasing resources available to developing countries through the Conference on Finance for Development; and finally the article discusses several possibilities that have been proposed for improving the efficacy and equity of international governance. The goal is to seek to contribute to the long search for greater global peace and justice.

The context and structures of globalisation

It is worth remembering four features of our times that make this subject of crucial importance:

1. Global interdependence is growing strongly. While the old model of sovereign states remains powerful, it does not adequately express the new reality “of a decentralised, heterogeneous and networked world,”² with one dominant superpower.
2. After a half century of uneven but often rapid and widespread economic growth, the world is richer than ever before in human history and has unprecedented technological capacity.
3. Complex trends are underway. For example, the report prepared for the Special Session of the UN General Assembly on Children in New York in May 2002 demonstrates that there have been significant improvements in their well-being during the last decade: average infant mortality rates have fallen and health status, nutrition and access to basic education have all improved. Yet, despite the opportunity of

unprecedented global wealth to achieve security for all, half of humankind lives on less than \$2 a day, in or close to poverty. They are certainly suffering from deprivation of many kinds, often severe, and insecurity is widespread in poor and rich countries alike.

4. Inequality of income, wealth, assets and power between and within most countries is high and commonly growing. One simple statistic is enough to illustrate this: the 20% of people with the highest incomes receive 86% of total global income.³

Despite the general recognition that globalisation has benefits and costs and that these are inequitably distributed, neither the *extent* of these inequalities nor the *strength* of the structures underlying them receive sufficient attention. For example:

- Developing countries account for 85% of the world's population and that proportion is rising, but they are *politically* seriously under-represented in most international institutions. Whereas at the UN, where each member state has a single vote and *developed* countries have 17% of the voting power, at the World Bank and the IMF (International Monetary Fund) they have 61-62%. At the IMF the US has an effective veto.⁴ Membership of the G8 is exclusively limited to the largest developed countries and Russia. People everywhere feel remote and powerless from even these institutions, let alone from powerful, unaccountable corporations.
- Developing countries are usually more severely damaged by financial instability than developed countries. The 1997-8 Asian financial crisis had repercussions for Russia and other countries, recently followed by the economic and financial disaster in Argentina effecting neighbouring countries. These are only the most recent examples of the growth of multi-country financial volatility. There have been 100 episodes of financial crises over the last two decades, with fiscal burdens often exceeding 20-30% of GDP.⁵
- Income from intellectual property accrues disproportionately to the developed countries. It is estimated that industrialised countries hold 97% of all patents and that global corporations, overwhelmingly based in developed countries, hold 90% of all technology and product patents.⁶
- The most obvious way of enabling developing countries to

help themselves is to ensure they have access to markets in developed countries. Yet even there, despite the recent “everything but arms” reduction in protection announced by the EU, they still face severe discrimination from agricultural and manufacturing protection. The World Bank estimates that total subsidies to farmers in developed countries amount to over \$350 billion, around seven times the level of their aid. Recent decisions by the US to increase protection for steel, timber, some textiles and agricultural subsidies, have increased suspicion that the appearance of agreement at Doha about a new development round of protection reduction may have been posturing.

- Despite the benefits received by the rich countries, they have generally reduced compensating flows of aid during the 1990s and debt reduction has been very limited. The average ratio of aid to national income in donor countries fell to 0.39% in 2000.⁷ The biggest beneficiary of globalisation, the US, is also the smallest donor relative to national income, contributing only 0.1% of GNP in 2000.

An accurate recognition of the international economic environment faced by developing countries commonly involves acknowledging as well that they receive little foreign capital and what they do receive is often short term and volatile; potential foreign investors normally have several location options, putting them in a powerful position to negotiate major tax concessions and infrastructure assistance; and capital flight is a continuing drain on their savings. Globalisation is like a runaway horse: only the strong can hang on, the weak are thrown and left.

US power

Another of the central features of the contemporary structure of global relations is the dominance of the US. The bombing of the World Trade Centre and the Pentagon evoked worldwide sympathy for America. Not only was there widespread horror at what had happened, but also the sharply increased sense of vulnerability was not confined to the US. There was an immediate response of support to President Bush’s call for an alliance to fight terrorism. Many countries gave military support for war against the Taliban and those and many others are co-operating in

recovery programmes in Afghanistan. These terrible and dramatic events have tended to deflect discussion about the underlying structure of international relations. Yet these deserve attention because the world is faced with a situation without precedent since the Roman Empire, of one dominant country with hegemonic power.

During the first nine months of 2001 before 11 September the Bush administration was widely perceived to be implementing a unilateral foreign policy. This stance was so pronounced that the *New York Times* editorialised on 29 July 2001 that the Bush administration's "hostile attitude communicates a sense of arrogance and contempt for international cooperation". Examples included the withdrawal from or opposition to arms control, environmental and criminal accountability treaties, including declining to ratify even the International Convention for the Suppression of Terrorist Bombings; preparing for a missile defence that would protect only Americans; diluting a UN agreement to contain illegal trafficking in small arms; and scuttling efforts to enforce the global ban on biological weapons.

For a few weeks after 11 September the rhetoric about a global alliance against terrorism raised hope that there had been a shift within the administration towards multilateralism. What has happened in fact is that the commitment to attacking terrorism has become a cloak for even more assertive unilateralism. More and more of the rules underlying the international system are being undermined.

One recent decision of this kind was to renounce involvement in the International Criminal Court. This means that the US will also cease to recognise the jurisdiction of the Vienna Convention on the Law of Treaties that requires signatory countries to take no action that would undermine treaties they have signed. The US is now dominating rather than leading the world. This suggests the question of how the rest of the world can contain American power more effectively.

The International Conference on Finance for Development

An important but inadequately reported example of both US domination and yet of modestly effective international action was

the International Conference on Finance for Development held in Monterrey in March 2002. Preparation for the Conference included extensive intergovernmental consultation and unusually close cooperation between the UN, the World Bank and the IMF over two years. This culminated in a draft outcome document presented to a preparatory session in October 2001.

Responses to the draft differed widely. While the EU was critical, it said that the “draft can serve as a starting point for our discussions”. In contrast the US, Japan and Australia completely condemned the draft. The US delegate rejected even the process of negotiation and said that the conference should produce a “one page political declaration”. “We are not going to negotiate changes” in the international system, he said. “It serves too many countries too well”! He also argued that the fundamental requirements for development are simply peace, the rule of law and capitalism. The meeting was shocked because this was barely five weeks after 11 September and in the context of the US campaign to enlist international support to establish a global alliance against terrorism. The G8 said that the developed countries had carefully considered the text “and believe that it is a good basis for beginning negotiations though some new concepts and themes needed to be added and some deleted”.

At a subsequent round of negotiations in January 2002 a weaker draft of the outcome document was presented and, after two weeks of long and late discussions the bland Monterrey Consensus was agreed. The agreed text is expressed in general terms and there are few concrete initiatives.⁸ Despite the weakness of the Monterrey Consensus, a sense of modest hope grew during the Conference itself. Fifty-one heads of state and government attended, including Presidents Bush, Chirac, Fox, Mbeki and Obasanjo and Prime Ministers Aznar and Chretien and about 300 finance, foreign, development cooperation or other ministers.

The principal significance of the Conference is that it was the first time for two decades that the US and other powerful developed countries have allowed substantive discussion of economic and financial policy issues outside the exclusive international meetings like the G8, IMF or World Bank and in the more representative and transparent UN.

Another benefit is that there has been growing cooperation between countries, business and civil society organisations, and strengthened coherence within the UN system, between the UN Secretariat, the funds and agencies and the IMF and the World Bank, around the commitment to the millennium development

goals for poverty reduction.

At the Conference quite a number of delegates said that the Monterrey Consensus is imprecise and fails to address systemic issues. However many systemic issues are still mentioned, suggesting willingness in some countries to keep talking about them, and many delegations explicitly said this. Subjects mentioned but not discussed include not only many aspects of domestic resource mobilisation, foreign direct investment, trade, aid and debt reduction, but also international financial stability, improving the representation of developing countries in the governance of international financial institutions, cooperation about domestic tax matters between countries, and new and innovative sources of financing. The EU said that the Union will explore innovative sources of financing and will “strengthen the voice of developing countries in international economic decision-making”. So foundations were laid for future discourse.

The conference provoked many donor countries to announce increases in overseas development assistance (ODA). The EU announced the decision to increase average ODA to 0.39% by 2006, with all member countries aiming for a minimum of 0.33% by the same year. This will increase the Union's annual aid by \$7 billion by 2006, in addition to the current \$25 billion. Ireland announced that it would reach 0.7% by 2007, Belgium by 2010. France has undertaken to keep ODA above the EU average. The Canadian prime minister said that his country would increase aid by 8% a year in the coming years. Strongly pressed by both the EU and by developing countries, the US announced plans to increase current ODA to \$15 billion by 2006 and to maintain that level. President Bush also emphasised, though, that the aid will be linked with very tight conditionality. This will still leave the US as the lowest per capita donor.

Another significant benefit of the Conference was that it provided a forum for presentation and discussion of proposals for institutional reform and additional sources of funding for development proposed earlier during the preparatory process but which had been deleted under pressure from the US and other developed countries. There was much interesting advocacy of innovative proposals in speeches at the plenary sessions, at the ministerial roundtables and at side events. Governments made some proposals, and civil society, business and scholars made others.

Amongst many issues, two of central importance are: how can the efficacy and equity of global institutions be improved so that they contribute more effectively to the ultimate goals of

international peace and justice? And how can additional finance for development be generated? The UN Millennium Assembly, attended by 147 heads of state and government, agreed on eight millennium development goals. The first of these is the halving of the number of people living in severe poverty by 2015. The World Bank estimates that achievement of this target will require additional funds totalling in the order of \$50 billion a year – to increase access to basic education and health services and to essential infrastructure of water and waste disposal as well as access to markets. Announcements were made at Monterrey that will provide a quarter of those essential funds. Where can the rest be found?

Possibilities for innovation

The evolution of international political and economic institutions lags well behind the deepening of global interdependence. The good news is that the international community has begun to focus on the growing – and increasingly explosive – inequities globalisation entails. Interest in reducing the global democratic deficit and improving the political effectiveness of international institutions in achieving goals such as those articulated by the Millennium Summit is growing. For example, there have been many proposals for expansion and reform of the Security Council. There have recently been calls for a Global Peoples' Assembly and for a Global Parliament to strengthen accountability.⁹ The focus of this article is on economic and social governance.

Strengthening international economic and social governance

During the first half of the 1990s the UN Development Programme's *Human Development Report* and the *Report of the Commission on Global Governance* suggested the establishment of an Economic and Social Security Council; this proposal is receiving increasing attention. President Chirac, the German Development Minister Wieczorek-Zeul and a number of other national spokespeople at Monterrey supported the establishment of an economic and social security council.

A major gap exists in the structure of international economic institutions through the absence of an open, representative, accountable forum with political legitimacy for discussion of the

central issues of global political economy. This is a dangerous situation, for economic issues have become pre-eminent in international relations. The existing institutions are either exclusive - such as the G8 and the Organisation for Economic Co-operation and Development (OECD) - or insufficiently decisive, such as the current working arrangements of the UN Economic and Social Council.

This issue was discussed by the UN Secretary-General's high level Panel on Finance for Development. Members of the Panel included not only the chair Ernesto Zedillo, immediate past president of Mexico, but also Jacques Delors, President of the EU for ten years, Robert Rubin, Secretary of the US Treasury for six years and Manmohan Singh, the former Indian Minister of Finance and other eminent experts. The Zedillo Panel argued that "Despite recent worthy efforts, the world has no fully satisfactory mechanism to anticipate and counter global economic shocks." Further: "...global economic decision-making has become increasingly concentrated in a few countries. Tensions have worsened as a result. For a range of common problems, the world has no formal institutional mechanism to ensure that voices representing all relevant parts are heard in the discussion".¹⁰ The Panel describes several vacuums in global governance, such as the lack of any agency to provide some global public goods and the struggle of some existing agencies "to respond to problems for which they are ill-equipped or lack a precise mandate".

The Zedillo Panel proposed creation of a global council "at the highest political level to provide leadership on issues of global governance. ... through its political leadership it would provide a long-term strategic policy framework to promote development, secure consistency in the policy goals of the major international organizations and promote consensus building among governments on possible solutions for issues of global economic and social governance".

Establishment of a permanent global council within the structure of the UN would involve changing the Charter, an especially difficult political task. An alternative, which is immediately possible, suggested by Inge Kaul, would be for the President of the General Assembly to invite members of its General Committee to attend a meeting at the beginning of the Assembly session each September. The General Committee has 28 members, is regionally representative and each of the permanent five members of the Security Council is a member. It is therefore small enough to have decisive discussions. Such a

meeting of the GA General Committee would have the capacity to be exactly the type of global, representative summit council proposed by the Zedillo Panel.

The effectiveness of the existing Economic and Social Council (ECOSOC) could also be readily upgraded. ECOSOC could meet more regularly, for two or three days, whenever economic or social circumstances suggested that would be useful. If there were another financial crisis, ECOSOC should meet immediately to discuss responses. ECOSOC is the obvious forum for reviewing implementation of decisions made at Monterrey, and for continuing the discussion of issues raised there.

Forums are required to explore these issues, and to identify possibilities, impediments and credible compromises. The aim must be to narrow the differences and attempt to identify feasible next steps. For example, the ILO (International Labour Office) has established a World Commission on the Social Dimension of Globalization that will certainly address these as well as other issues. The Commission is chaired by President Halonen of Finland and President Mkapa of Tanzania and is due to report towards the end of 2003.

One important aspect of the feasibility of moving forward is whether the US will be willing to cooperate. When America is so powerful, is co-operation with the rest of the world actually in its interest? A recent book by Harvard professor Joseph Nye, *The Paradox of American Power*, argues that there are net advantages for the US in international co-operation. This not only allows sharing of costs for global security and development, but also reduces motivation for the formation of alliances of opposition or competition. In any case both sentiment and the values of the majority of Americans favour democratic interdependence within a principled legal and institutional international structure.

Other countries can encourage continued multilateral engagement by emphasis on the framework of global rules and norms, global public goods and on the institutions that bind the world together. There is a globally shared interest in preventing violence, environmental destruction, the spread of disease and financial volatility. Efficient action for these globally shared goals must be collective: national isolation is impossible and unilateral action is ineffective. The joint and inclusive search to find effective expression for shared values offers the best hope of constraining unilateral, hegemonic action.

The international financial institutions (IFIs)

Reform of the structures of governance of the IFIs is also being widely proposed. Governance of both the IMF and the World Bank is asymmetrical and unequal. The lenders are the principal shareholders and the borrowers provide the income. A large proportion of the voting rights are vested in a small number of developed countries.¹¹

Effective implementation of recent decisions by several UN conferences to seek more equitable representation of developing countries in the governance of the IFIs would mean that Fund and Bank quotas and voting rights should be changed. Increasing the representation of developing countries could be expected to contribute to both better informed and more pragmatic policy advising and also to more rigorous scrutiny of the effectiveness of Bank and Fund policies.

Global public goods

An intellectually powerful paradigm through which to evaluate and consider reform of the international system is that of global public goods. Public goods are freely available to all - roads, basic health services, and public open space - generally without competition or exclusion.¹² Global public goods may sound unfamiliar but they are not at all strange in practice. The importance of the framework for international infrastructure such as the International Civil Aviation Organisation, the International Telecommunications Union and the World Meteorological Organisation is clear. The most recently negotiated global public good was the International Criminal Court.

There was general interest at Monterrey in more discussion about strengthening and extending global public goods. Despite earlier US scepticism, the EU announced at Monterrey that it "will promote setting up of an international task force on global public goods". Planning for this task force is underway.

One advantage of focussing on global public goods is that the debate is immediately concrete and specific. Gaps and weaknesses can be identified and means of filling them discussed. Strengthening of existing global public goods and extension of their range is essential in many areas such as: control of diseases like malaria and AIDS; protecting the environment; reducing international crime; reducing financial volatility; and to manage or resolve international conflicts more effectively.

There is a clear distinction between aid and global public

goods. The aim of aid is more equitable distribution through improvement in the capacity of countries to develop. The aim of global public goods is improvements in the efficiency of allocation of the means of production. Donors provide grants through their aid ministries; global public goods should be financed through the responsible functional ministry. They are of just as much benefit to rich as to poor countries.

Additional financial resources

As well as institutional reform, an effective strategy for international development and social justice requires major new financial resources: to fund economic and social programmes to reach the millennium development goals, for peacemaking and peacekeeping, protection of the environment and other international common purposes.

Increases in *domestic revenue* collections are quite feasible for most countries. Increased collections could commonly be achieved simply by improving the efficiency, comprehensiveness and honesty of tax administrations. Technical assistance to improve tax administration is a particularly cost effective form of development cooperation.

An example of a gap in the framework of global public goods relates to the inadequacy of *international cooperation about tax issues*. Governments are limited by international competition in both the forms of tax and the tax rates they can apply. There is an urgent need to reduce opportunities for evasion and avoidance and to minimise the danger of countries striving to increase their revenue in ways that deplete the global commons.¹³ There is a growing imperative to improve arrangements for cooperation between national tax authorities. An international taxation organisation would facilitate such cooperation.¹⁴

The most immediately feasible additional source of external funding would be a new issue of *special drawing rights*, allocated to developing countries. Countries with about 70% of the votes at the IMF support such an issue. An attempt was made by the EU during the Monterrey Conference to persuade the US administration to seek Congressional support for a new issue, as the US has 17 % of votes, which would have taken the support over the 85% required to authorise an issue. The US has not yet agreed, but advocacy of the proposal will certainly continue.

The issue of a new and innovative source of financing is within the category of domestic revenue since only national governments have the power to tax. Many possibilities are

available for new and innovative sources, including a *carbon tax* and a currency transaction tax. It is clear that carbon emissions are raising global temperatures and should therefore be discouraged. An international agreement to impose a tax on the consumption of fossil fuels would contribute to combating global warming. However the negotiation of such an agreement would be complex.

An equally politically difficult but technically simpler proposal is for a *currency transaction tax* (CTT) or Tobin tax. Quite a number of countries expressed support for a currency transaction tax and/or a carbon tax at Monterrey. Germany organised presentation of a supportive report on a CTT commissioned by its Development Cooperation Ministry. A rigorous analysis of the possibility of recommending introduction of a CTT was mandated by the special session of the UN General Assembly in Geneva and that is now underway. Leading figures in several developing countries have also spoken in favour of such a tax including Brazil, Venezuela, India and Malaysia.

Governments at international currency trading settlement sites could collect a tiny levy from all foreign exchange transactions. Applying the levy to wholesale trades at the point of bank settlement at a uniform rate would make it possible to collect (without the hazard of avoidance through diversion from taxed to untaxed jurisdictions), provided only that the authorities issuing those currencies acting for the time being as vehicle-currencies (five or six at present) would cooperate.¹⁵ Such a tax would discourage very short term financial movements while making little impact on foreign direct investment or trade. A large portion of the funds would have to be distributed to other countries and the international institutions for the proposal to make a contribution to greater equity and to be widely acceptable.

Conclusion

Several relatively simple ways of achieving major improvement in the representativeness of global decision-making about economic and social issues have been suggested. An additional \$50 billion a year is required to achieve the goals for provision of basic education and health services and the other global goals by 2015. This could be achieved through such measures as improved national tax administration, ODA increases in line with agreed

targets and introduction of currency transaction or carbon taxes.

In a generation we can expect that at least some of these proposed reforms will have been implemented and the debates about them will seem anachronistic. The task for those concerned about equitable global development is to articulate simple visions, design the complex policies necessary to implement them and to ensure competent implementation. Advocates, networks and parties who do that will be basing their work on fundamental moral and political values and responding to the felt needs of the majority of the people.

Footnotes

- 1 Views in this article do not necessarily reflect those of the organisation where the author is employed. His e-mail address is langmore@att.net.
- 2 Richard Cooper, quoting Nye and Robert Koehane in a review of Joseph Nye and John Donahue (eds), *Governance in a Globalizing World*, Brookings, 2000
- 3 Secretary-General's Millennium Report. For much more information see the chapter on "Globalization and equity" in the United Nations *2001 Report on the World Social Situation*, ESA/DSPD/CRP.1
- 4 Quoted by Gerald Karl Helleiner, "Can the global economy be civilized?", Tenth Raul Prebisch Lecture, UNCTAD, 11 December 2000, from Ngaire Woods, "Governance in international organisations" *International Monetary and Financial Issues for the 1990s*, Vol. IX, United Nations
- 5 Gerard Caprio and Daniela Klingebiel, "Episodes of systemic and borderline financial crises," *World Bank Discussion Paper*, 1999
- 6 *Human Rights and Human Development: Human Development Report 2000*, UNDP, New York, p.84
- 7 DAC, *Development Co-operation*, 1999 and 2001 editions
- 8 The Monterrey Consensus is available on the web at www.un.org/esa/ffd
- 9 See for example recent publications by Richard Falk including in Deepak Nayyar (ed.), *Governance of Globalization*, Clarendon Press, Oxford, 2002
- 10 United Nations General Assembly, *Report of the High-level Panel on Financing for Development*, (the Zedillo Report), A/55/1000, 26 June 2001, p.23
- 11 Charles Calomiris suggests in a paper delivered to the American Economic Association in January 2001 that "the (unstated) policy goal [of the US] is to maintain multilateral institutions capable of imposing their will on emerging market countries and willing to do so at the behest of the US Treasury and other G7 governments based on whatever political objectives guide them at any moment, ..."
- 12 More technically they are defined through non-rivalry in consumption, or indivisibility of their benefits, and non-excludability. Non-rivalry in consumption means that the consumption of a public good by one person does not detract anything from its consumption by other, additional persons. And non-excludability refers to the fact that it is impossible, or at least extremely difficult to exclude people from the good's consumption. Inge Kaul *et al.* (eds) *Global Public Goods*, Oxford University Press, Oxford, 2000
- 13 The global commons are generally regarded as those parts of the world that are not owned by any country, the oceans, the Arctic and Antarctic and space.

- 14 The functions of an international taxation organisation could include: provision of a forum for discussion of tax matters including sharing of national taxation experience; the development of definitions, standards and norms for tax policy and administration; identification of international tax trends and problems; gathering and publication of statistical information; production of a periodical world tax report; and technical assistance to national tax authorities. Such an organisation would typically have: a governing body representative of the members and responsible for drawing up broad objectives and major issues of policy; a highly competent staff; hold regular meetings and issue technical publications. The Conference on Financing for Development to be held in Mexico in March 2003 is the perfect opportunity to start the process of establishing an international tax cooperation agency.
- 15 R. Schmidt, 2001, "Efficient capital controls", *Journal of Economic Studies*, 28, 3, pp.199-212