

**Global governance innovations to stabilize globalisation:  
The G20 summit must initiate a political breakthrough to fight against global systemic risks.**

*The following text has been authored by scholars from Europe and emerging economies. The German Development Institute / Deutsches Institut fuer Entwicklungspolitik (DIE) brought the authors together to explore common ground on reform needs of the global economy. The positions articulated here could be jointly supported by the established G8 countries as well as by emerging powers participating in the London G20.*

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The world today is confronted with multiple, interrelated threats of unprecedented scope. The collapse of the global financial system and the worldwide synchronized economic downturn, the growing divide between poor and rich within and between countries, the risk of unabated global warming as well as the energy and food crises weave all nations into a global risk community. Globalisation has come to a critical point. It can fail and lead to a fragmented, protectionist global economy. To shape globalisation, to manage global systemic risks and to strengthen international stability and prosperity requires new cooperative frameworks. 2009 must be the year of bold decisions. Stabilizing financial markets and domestic economies are urgent tasks, but much more is at stake. Rapid progress in the Doha trade round is urgently needed this year, in order to avoid a new wave of protectionism. Policy responses must also include the many millions in developing countries who are unwitting victims of the crisis. The climate conference in Copenhagen at the end of 2009 is of paramount importance for the future of human development, global security and the stability of the earth ecosystems. A stable climate is of systemic relevance for human existence. Fair and cooperative global governance reforms are essential if globalisation is to have a future.

Transnational threats of a new quality coupled with tectonic power shifts have lifted the post-World War II order off its hinges. The G8 of industrialised countries can no longer claim to represent a global steering group lacking both legitimacy and effectiveness in addressing systemic challenges. The rising powers of the global South must now join – on an equal footing - the core of global policy coordination and assume joint responsibility. The G8 world has come to an end and will be replaced by a summit architecture built on and developed out of the G20. The G20's remit in the future should not be confined to financial and economic issues but should cover key global governance challenges. The G8 would be well advised to accept the historic turning of the tide as quickly as possible.

The current crisis management in stabilizing the world economy must be tied together with systemic reform efforts of global economic governance. Reform initiatives in four policy

areas are key to the creation of an effective order for the globalized economy of the 21<sup>st</sup> century: The G20, the United Nations, the Bretton Woods Institutions and the World Trade Organisation (WTO) are in need of a profound reorientation.

Global governance should be focused on sustainable development and universal prosperity and should build on the following principles:

- Democracy and the rule of law, domestically and in international relations, as frame of reference for legitimate policy-making;
- Human rights as normative foundation;
- Realisation of human capabilities as goal of economic development;
- Limitation of social inequalities as correction to market dynamics;
- Protection of the environment and of the earth system as indispensable precondition of human existence, through the establishment of a low-carbon, resource efficient world economy;
- Effective, transparent and accountable modes of governance at local, national and global levels;
- Equitable participation of nation-states in global decision-making irrespective of their individual economic and political power resources and mechanisms which commit rich and poor countries to a rules-based global order;
- Modern concept of sovereignty which balances the rights of states to self-determination with internationally agreed obligations.

### **The future G20 summit architecture**

The establishment of a new global order and the effective provision of global public goods depend on strong leadership by major nation-states. The world needs and deserves a global governance structure which genuinely reflects its regional, cultural and income diversity. The G20 is a base on which global leaders could build to define the responsibilities of major powers in the context of global concerns. However, the new body should not lay claim to unaltered existence over the next decades since the world will experience rapid change. The G20 could open ways for regional membership, analogous to the present inclusion of the European Union. Alternatively, a constituency approach as in the Bretton Woods Institutions could be considered where most countries on the boards represent, and are accountable to, voluntary groupings of countries. The UN Secretary-General, the ECOSOC chair and heads of relevant international organisations should also be included in the proceedings as permanent observers.

Legitimacy, effectiveness and representativeness would need to be carefully balanced since a modified, more inclusive G20 structure could easily become unwieldy. The functionality of the new body should be protected by the following steps: a) Members of the European Union should consolidate their voices and try to speak with one voice, thereby reducing the number of participants. b) Similarly, collective representation could be considered by other world regions. c) A model of variable geometry on specific issues should include G20 members according to their relevance or their special engagement for practical solutions (“groups of responsibility”, e.g. on financial market stabilization, climate change, food and energy security).

The main functions of the G20 would be:

- Crisis management for the stabilisation of the world economy and definition of joint global responsibilities;
- Support of the UN and other multilateral organizations to make them more effective in their respective areas of responsibility.

- Building trust, generating common knowledge and searching for patterns of cooperative behaviour among the participating states.
- Coordination of policies of member states that are of relevance to key global governance processes;
- Pre-negotiating international agreements before seeking legitimacy through broader endorsement.

Whatever the final shape of the new summit architecture, it should provide a stable environment for continuous dialogue and policy coordination. The new body would benefit from a lean, effective secretariat in charge of logistical and technical support. The support office should be hosted by an important UN agency to allow for a close communication with the United Nations and non-member states.

In order to underline the auxiliary function of the G20 it should faithfully practice demanding principles of transparency and accountability towards the international community. The effectiveness but especially the legitimacy of the G20 will particularly depend on its interaction with the United Nations because the G20 suffers from the fact that over 170 nation states are not represented. In order to pro-actively address this lack of legitimacy, the G20 should, at the London Summit, become a major driver of UN reform to strengthen the effectiveness of the world organization; a San Francisco II is essential. G20 and the UN must not become antagonists. They must complement each other and jointly contribute to effective and legitimate global economic governance.

### **How to rejuvenate the United Nations**

Setting up an equitable global governance system must include a reassessment of the role played by the United Nations in an interdependent world. However, as with other multilateral institutions, the UN's internal governance was established on the basis of power relations that existed at the moment of its creation and that no longer adequately represent today's conditions (for example, the Security Council and its permanent members with veto power). The most obvious missing link is a more effective role in overseeing global economic and social affairs. Although ECOSOC, the UN Economic and Social Council, has been charged with this task, its lack of effectiveness has given rise to calls for major changes. We support the recent proposal by the Stiglitz Commission to establish an effective "Global Economic Council" in the medium term which would deal with international economic, social and environmental issues. The Council should constitute an umbrella for all UN economic, social and environmental organisations, eventually including the Bretton Woods Institutions. The Council would be responsible for the division of labour between the organisations, the appointment of key management positions as well as the determination of common objectives and the monitoring of implementation efforts.

In a parallel move, the General Assembly should adopt a "Charter for Sustainable Economic and Social Development" as the overall normative framework of global governance which would establish principles for the world economy and for mechanisms of international cooperation in response to mutual economic vulnerabilities. The Charter should take leave of the paradigm of an unregulated, shareholder value oriented market economy which has turned out to be irresponsible and self-destructive. Following the successful model of the IPCC (Intergovernmental Panel on Climate Change), the General Assembly should establish an "International Panel on Global Systemic Risks in the 21st Century" which will provide ongoing evidenced-based research and advice to the UN and other multilateral bodies on a wide range of interconnected transnational threats. Thus it will provide incentives for policy makers and the private sector to recognise threats at an early stage and to act in a preventive

mode.

Numerous reports have proposed profound reforms of the UN system but follow up has been disappointing and insufficient. We now expect signals from the forthcoming G20 meeting in London that time has come to adjust the antiquated UN structures to new realities.

### **Reform of the Bretton Woods Institutions**

The Bretton Woods Institutions presently suffer from a severe credibility crisis. They must be re-positioned as truly global institutions, credible and legitimate in the eyes of all their members and shielded from narrow national interests. Urgent decisions are needed on new governance modalities for the International Monetary Fund (IMF) and the World Bank which would strengthen the voice of low-income developing countries and rising powers. Abolishment of the US veto and a reduction of European voting rights would open the door to a meaningful redistribution of decision making power. It is important that leaders of both institutions will be selected exclusively on the basis of merit instead of nationality, as agreed by the Finance Ministers of the G20 at their March 14, 2009 meeting. In the face of the present comprehensive economic crisis, both institutions need to react to the loss of conceptual, strategic and cognitive credibility. This is due to the fact that they did not satisfactorily fulfil their mandates with regard to early warning and intellectual innovations on the development of market economies under the conditions of globalisation and the limitations of ecosystems.

### **Reform of the International Monetary Fund**

In the current environment of a world recession amidst global financial instability the IMF should play a paramount role in providing balance of payments and budgetary support to stabilise national economies and reassure financial markets. The recent decision to double the IMF's resources is an important step in this direction. The credibility of the Fund urgently needs to be restored by strengthening its independence. From today's vantage point, the flawed policy recommendations during the Asian crisis of the 1990s can easily be identified. It makes sense to strengthen regional organisations with macro-economic competencies and knowledge of the global financial system in order to establish a competitive set-up and to complement the mandate of the Fund, as is presently happening in East Asia.

As the call for stricter and better coordinated regulations of national financial markets increases, the eyes are primarily directed towards the Bank for International Settlements (BIS) as the institution more in tune with the behaviours of markets than the IMF. But, there is no substitute for the IMF in the area of macroeconomic surveillance and monitoring of internationally agreed rules on global capital flows, a crucial function that should be strengthened and for which the Fund should become accountable to all its members, rich and poor alike. This would demand greater public transparency of its country assessments, which should be mandatory for all IMF members. Only if this happens will the Fund be able to act as a credible, fair and independent global organisation. As recently suggested, the Fund could play a pivotal role in an early warning system based on a regular analysis of systemic risks.

### **World Bank**

The recently announced High Level Governance Commission led by Ernesto Zedillo has the mandate to focus on the "modernization of World Bank Group governance". And such reform is needed to make the Bank more effective in the future. In the integrated world of today, the World Bank must take on a global agenda and focus more strongly on the provision of global public goods (health, knowledge, protection of global ecosystems) which are becoming ever more important for sustainable economic growth in developing countries. The proliferation of

trust funds, an ever increasing source of funding for the World Bank Group, which threaten the coherence of its programmes and erode the oversight function of Executive Boards must be contained and generally examined.

### **Further development of the WTO**

Rejuvenating and concluding the Doha Round of the World Trade Organisation (WTO) can inject confidence into the world economy and avoid a new wave of protectionism. However, a fairer and more equitable global trading system demands that any final Doha package must take into account the specific needs and interests of developing countries. In particular, developed countries – and those developing countries in a position to do so – should immediately extend duty-free and quota-free market access to the exports of the least-developed countries (LDCs). A failure to meaningfully rebalance and reform the world trading system more in favour of developing countries will simply entrench and amplify the historical imbalances in global trade regulation and further erode the system's legitimacy.

In particular, the negotiation process should be more inclusive, transparent and legitimate to ensure ownership of outcomes by all WTO members. In reforming the governance and organisation of the WTO, serious consideration should be given to the recommendations of the 2007 Warwick Commission and the earlier Sutherland Report. For the future, it will also be important to avoid heavily loaded and omnibus trade rounds. One possibility is to decouple sectoral negotiations from the single undertaking principle and to allow a critical mass of WTO members to negotiate plurilateral agreements that are not prejudicial to the collective. The proposed agreements such as trade facilitation offer the prospect of an early harvest agreement and should be provisionally concluded and implemented. There is an urgent need to discipline the continuous proliferation of discriminatory regional trade agreements which pose a serious risk of trade diversion and deprive the developing countries of achievements of multilateral trading system. There is need for balancing regional, bilateral and multilateral trading arrangements.

In response to the financial crisis, many developed and developing countries have raised tariff protection to bound levels and adopted various fiscal stimulus packages, including subsidies for agriculture and bailouts for car industries. In a recessionary world, the WTO should strengthen multilateral surveillance of members' trade and trade-related policies. This would also create peer pressure on the WTO membership to reconcile domestic politics with their international trade commitments. Finally, it is important to ensure that Aid for Trade allocations are not negatively affected by the financial crisis. Trade finance constraints such as export credits and export insurance should also be addressed to mitigate the effects of recession on developing countries.

### **A call to action**

The innovations of global economic governance outlined in this text must be initiated at the upcoming G20 summit in London. If this happens, the crisis can be turned into an opportunity and lead to the development of a more stable and fair global economic order. If such reform efforts fail, the world will enter a period of turbulent and confrontational global politics. And this could mean the end of globalisation as we know it.