REFLECTIONS ON GLOBAL ECONOMIC GOVERNANCE

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The emergence of a global economy implies the need for some form of global economic governance. The same functions that governments perform at the national level will somehow have to be performed at the global level - the supply of "public goods" that markets do not supply,e.g. macroeconomic management for global economic stability (now imperfectly performed by the IMF, BIS and G7 Finance Ministers); the formulation and policing of rules for economic exchange, both internationally and, to some degree, domestically (now imperfectly performed in the World Trade Organization (WTO); and the setting of a floor below which levels of human living must not sink (now imperfectly sought in the various agencies of the United Nations). Whatever may be positions on the role of government at national levels there is now virtually universal agreement that the global economy is under-governed; more and better governance is required, not less. Institutions, customs, rules systems, and dispute settlement systems to perform these functions for the global economy have begun to appear; but satisfactory global economic governance arrangements are still only a distant prospect.

Anti-poverty and developmental objectives are essential components of any ethically and politically sustainable approach to a globalised economy. Unlike such objectives as universal market liberalisation or the harmonisation of global market rules, global poverty eradication and development for the poorest countries are already universally accepted global objectives, accepted at the highest political levels. There is agreement, at the level of official rhetoric, as found at the Millennium Summit, the Children's Summit, the Monterrey draft declaration, G7/8 pronouncements and the like, on humanitarian and developmental objectives that are often quite detailed in their specifics. When one asks "what are international organisations for?" the answer is, in large part, then, to pursue the latter objectives. Yet the concrete reality of national and international policies does not square well with these ostensibly agreed, but still only

rhetorical, objectives. There remains a huge gap between political rhetoric and policy practice.

There should be no illusion as to where the real power in decision-making relating to the global economy will, for the present, continue to rest - that is, with the economically strongest countries, firms and organizations. Money still talks. Even within "democracies", power and interest usually prevails over social objectives. At present, the most powerful country of all, the U.S., isn't very interested either in strengthened multilateral organisations or in developmental objectives in the poorest corners of the globe (unless they can be shown to threaten U.S. security).

Still, most of the world recognizes democratic principles and the universal validity of certain basic human rights, again at least at the level of political rhetoric. One must therefore begin, through appropriately democratic and universalistic processes, to build global economic (and other) global governance arrangements that are not so fundamentally at odds with agreed democratic principles as those currently practiced in the key international financial institutions (the IMF and World Bank) and, to some degree, in the young WTO. If new processes and governance arrangements for the global economy are to carry worldwide credibility and legitimacy they must provide greater voice, collective influence and power for the developing countries and their peoples. Financial crises in "emerging market economies" have forced some (still fairly marginal) rethinking and rearrangement, in the interest of systemic stability, of the role of crisis-prone and potentially systemically-significant developing countries in international financial governance. The poorest and smallest countries remain, however, on the margins of all global governance arrangements, without much prospect of significant voice or influence. Their situation is particularly stark in the WTO where many are not yet members and even more have zero or extremely limited representation in Geneva, where this supposedly member-driven and consensus-based organisation does its work.

Global governance should be thought of, not in terms of the creation of new global institutions, but, above all, as a communicative and consultative process - a process through which genuine (not forced) consensus is gradually built, rules and customs are mutually understood and often even agreed, and performance is continually reviewed. The key existing multilateral economic institutions, it is now widely agreed, will

eventually have to move toward greater transparency, increased democracy and accountability to the global citizenry, increased provision for independent evaluation, and effective ombudsman-like and/or legal-aid mechanisms to protect the weak against the strong. The objective of "coherence" can be overemphasized; often there may be increased productivity from a degree of constructive overlap.

Existing WTO decision-making processes are severely flawed, especially in terms of the limits upon effective participation on the part of the smaller and poorer developing countries. Developing countries are deeply disaffected with the WTO and the legitimacy of its decision-making is being subjected to serious question. At Doha, although these countries were better prepared for the Ministerial meetings than ever before, they eventually had only marginal impact upon their outcome. "Consensus" was achieved, as before, through bilateral, behind-the-scenes pressure, dealing and bullying. The WTO simply must find a more credible and effective decision-making system than the impossibly awkward, and abuse-prone, 140-country "consensus"-based system it now employs; and the need for such reform of its internal governance is urgent. Far from constituting an excuse for inaction, as some would have it, the WTO's youth should be seen as an opportunity for change before the encrustations of age set in, as they have done in the international financial institutions. In such internal governance reform, the GATT's "bicycle theory" should be recognised as dead and irrelevant in the new world of the WTO. With a new organisation, while it is bound to have its ups and downs (just like the IMF and World Bank) there is no reason to assume that progress is best achieved therein through feverish bursts ("rounds") of mercantilist, lobby-driven negotiations. It is time for these urgent and breathless rounds to be replaced by careful, steady, step-by-step efforts, aimed at agreed long-run global objectives, to bring purpose, order and credibility to the global trade regime and poverty eradication around the world.

As long as there is deep political and professional disagreement as to how national policies are best deployed in pursuit of anti-poverty and developmental objectives, there is only one approach to global rule-making in the WTO and elsewhere that is sustainable. That is a flexible and pragmatic one. Efforts at harmonisation should not be pushed too far. In particular, those pursuing development from the most disadvantageous starting conditions must have the freedom to develop their own policies in their own interest in

their own ways. They must be free to learn through trial-and-error, as others have done, what works best in their own unique and everchanging circumstances. Universal rules systems, totally harmonised laws, completely "level playing fields" and irreversible "undertakings" are inconsistent with the need for local ownership of development policies and the learning-by-doing that is the essence of development. Nor is a tightly time-limited provision for "special and differential treatment" for the poorest countries sufficient to the purpose.

Locally-owned policies are likely to include variations from "standard" Northern-model and Northern-pushed approaches to investment policies, trade policies and intellectual property policies, among others. Within broad limits, the global rules system should permit the poorer developing countries greater latitude for innovation and experimentation in the development of laws, institutions and other development-friendly arrangements that their own understanding of their own situations leads them to believe may encourage sustainable growth and poverty reduction. If there is to be expanded trade-related technical assistance for these countries it should not, as now, consist primarily of instruction as to how to translate Northern interpretations of existing WTO rules into reformed local legislation, or how to liberalise markets more quickly. Rather, it should comprise sensitive response, with legal and economic expertise, to requests for help from countries struggling to develop their own institutional arrangements and systems, in their own way, for "dealing with" or "integrating into" the global economy. In this vision, as Dani Rodrik puts it, "the WTO would serve no longer as an instrument for the harmonisation of economic policies and practices across countries, but as an organisation that manages the interface between different national practices and institutions....The trade regime has to accept institutional diversity, rather than seek to eliminate it, and.... it must accept the right of countries to 'protect' their institutional arrangements." This is the pragmatic and constructive way of the WTO's future.

In the end, there is no escape from the fact that poverty eradication and developmental objectives will require more finance. At present, the U.S. lacks the political will to increase significantly its official development assistance, except to those countries in which it has a security interest. But other countries, even some G7 members, do. Any Kananaskis consensus will have to incorporate U.S. foot dragging on foreign aid.

More progress in global poverty eradication and development objectives is therefore likely to be made in other forums and through other co-operative arrangements than the G7. If the Government of Canada is serious about its stated objectives in Africa it would do better aligning itself with the G-0.7(%) in Europe and the U.K.

Among the reasons why the UN Conference on Finance for Development (March 2002 in Monterrey) is potentially significant is that it marks the first time that the more representative procedures of the UN have been permitted at all to "intrude upon" the procedures and practices of the international financial institutions. Because of U.S. and others' pressure this "intrusion" has not been permitted to travel very far. Some would even argue that the UN has been co-opted into the world of the Bretton Woods institutions. Yet Finance Ministers are forced, by this event, to talk about major financial issues with their "more political" counterparts in Ministries of Foreign Affairs, not only in international circles but also at home. Despite the best efforts of the IMF, World Bank and G7 officials to keep such matters off the agenda, global governance issues cannot help but surface in this UN conference. Little of significance is likely to be achieved at this UN conference, either on international financial policies or international financial governance, or even on development finance. This event nevertheless marks a small step towards more appropriate and legitimate, because slightly more representative processes for the discussion of global economic governance. However small a step it may appear, its long-run significance, as a precedent, may prove to be profound.