A political agenda for the Reform of Global Governance

A background policy paper

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Introduction

Chapter I : Shortcomings of the current global governance system

Over the past decade, the most important developments in the global macroeconomic environment have been increasing liberalization of trade and of international financial markets, the growing dominance of transnational corporations (TNCs) through foreign direct investment, and the increasingly central role of the Bretton Woods Institutions (BWIs) and more recently the World Trade Organization (WTO), in ensuring that the macro-economic, structural and trade policies of developing and transition countries comply with the underlying paradigm. There are, however, glaring gaps in this global governance framework, dominated as it is by the BWIs, the WTO and the TNCs. It is prone to systemic crises with potentially devastating social costs, and it is failing to deliver robust economic growth with a fair and just distribution of that growth to developing nations, and to needy, excluded communities in rich and poor nations. It fails to acknowledge accountability to the body of social and environmental policy guidelines, norms and standards of the UN, which ought to be providing the tools necessary to redress the imbalances inherent in the current global governance arrangements.

The prevailing global governance paradigm asserts the primacy of deregulated, market-led growth. It facilitates capital accumulation without a fair distribution of the profits derived from production and trade, and ultimately serves the corporate interests of the rich industrialized countries. It is not surprising, then, that the governance structures and arrangements of the BWIs, the WTO, and norm-setting bodies such as the Financial Stability Forum and the Bank for International Settlements all reflect the dominance of the industrialized countries (especially the G-7).

The search for a different model of global governance is of critical importance, because the current model is not sustainable. The fault lines in the system are becoming increasingly evident. There is an explosive growth of international finance with an increasing gap between the volume traded on financial markets, most of which is highly speculative in nature, and the real world of productive investments which could be of benefit to national economies. Many economies have been and continue to be vulnerable to the resulting crises in their economic, financial and banking sectors. The Spring 2003 issue of the IMF's World Economic Outlook states that vulnerability to renewed economic crisis remains high in some Latin American countries and in Turkey. Unsustainable debt burdens continue to plague some emerging market economies reeling under the pressure of financial crisis, while the debt relief mechanisms put in place under the HIPC initiative for the poorer countries have proven inadequate to relieve countries of their debt and put them on a path to achieving the MDGs.

The BWIs-led pressure on countries to liberalize their capital accounts to facilitate financial market liberalization only serves to increase their vulnerability. Many aspects of the policy-based lending of the BWIs, hedged around with conditionalities, serve to undermine rather than enhance the growth prospects of developing countries, and to increase poverty. These include the pressure to privatize public services such as health and education, tight controls on public spending, policy-based lending for import-liberalization and the development of an export sector. These policies have led, in many cases, to the destruction of the productive base of local economies and to economic contraction. Argentina's GDP contracted by 11 % in 2002, while growth has been

the quota formula—the BWIs continue to use the original formula for determining members' quotas today.

Quotas are important not just because they confer decision-making power, but also because they determine access to financing. For instance at the IMF member countries record of deliberations and votes makes it impossible for the EDs ultimate

2. The constituencies represented by each ED should be reshaped to ensure a more even distribution of countries among EDs. A ceiling of no more than ten countries per constituency should be established.

3. Board members should express their positions with formal votes. Agendas, transcripts and minutes of World Bank and IMF Board meetings should be made publicly available to parliamentarians, civil society groups, academics, etc. except when strictly required to avoid harm that could result from such disclosure.

4. The heads of the BWIs should be selected through a transparent process that involves all member countries and the candidates should be assessed on merit, regardless of their nationality. Geographical and gender diversity in top positions should be widely encouraged, and the IFIs should further incorporate local knowledge from developing countries into their programs and projects.

Chapter III The World Trade Organization

The rapid growth in the range and reach of global trade and investment agreements has sparked burgeoning concern with regard to the challenge they pose to democracy, equity, human rights, and those as basic as the right to life and the right to health. These are reflected in the new and evolving accords that are negotiated within the WTO. At the Cancun WTO Ministerial (September, 2003), as at the Seattle Ministerial (1999) it became clear that these concerns are shared by many country representatives as well as by world-wide networks of civil society organizations (CSOs). Given the failure of the WTOs rules and procedures both formal and informal, to produce a consensual framework for advancing global trade accords, it is clear that the time for reform is overdue. Achieving a fair and just multilateral trading system requires an open, transparent discussion on governance reforms within the WTO. In this regard, civil society organizations have raised a number of concerns.

The policy framework of the WTO

Firstly, with respect to the trade and investment-led growth model, it should be said that CSOs are not anti-trade or anti-investment per se, but are raising probing questions about the extent to which a 'one size fits all' approach (encouraging foreign investment, de-regulation and export-led growth over domestically-set priorities such as domestic savings, ownership and democratic regulation) has become an intellectual and policy "monoculture" in global institutions such as the WTO. CSOs are emphasizing the importance of special and differential treatment, diversity and democracy as important elements of a strategy to overcome the shortcomings of the current multilateral trade regime.

Secondly, an important area of concern is that trade ministries through the WTO are attempting to assert a legal priority for trade and investment agreements over all others. They force environmental, labor and human rights agreements to so-called "necessity" tests or tests of being the least harmful to trade and investment accords. In other words, while the enforceability of trade and investment accords has been upheld through the WTO, agreements on enforcement of environmental, labor and human rights agreements have lagged far behind, leading to a chronic imbalance of priorities.

Thirdly, the WTO, with complementary actions by the World Bank and the IMF, encourages and frequently coerces small and weaker governments to adopt policies leading to progressive liberalization, privatization and special protections for foreign investors. This leads to the institutionalization by the WTO and IFIs of a for-profit model of service delivery and the privatization of key public goods, not least of which are water and water services. This strategy conflicts with the objectives of access, equity and inclusive provision of public goods.

Fourthly, the WTO and agreements associated with it have become an overarching policy framework causing a democratic deficit, limiting extensively what citizens can decide through their own governments and enforcing essentially a "one-size fits all" model of economic management.

<u>Internal governance deficits</u>

Even though the formal structures of the WTO have a number of positive attributes (including the principle of consensus decision-of furagirWTO andprot equity and

As an overall response to challenge the current policy priorities and to tackle the internal governance deficit of the WTO, CSOs are proposing, the following key elements of reform:

1. Normative Requirements

The legal priority of human rights, gender equality, labor and environmental accords must be recognized, and trade and investment agreements made compatible with them. This implies a preliminary process, prior to negotiations, involving an assessment of potential impacts on human rights, women's rights, labor and environmental agreements. These impact assessments should be made at the multilateral and at the national level in an open, transparent and participatory fashion. They should adopt a multi-sectoral approach, involving representatives of all sectors likely to be affected by the trade and investment agreements under discussion. Further, those areas of policy that are critical to sustainable development should clearly be "carved out" of the WTO jurisdiction: for example, an international agreement on cultural diversity, public health, and the provision of essential public goods.

2. Structural Reform

The WTO should cease to be a house apart and be brought within the UN family, reporting through the ECOSOC or a new Economic and Social Security Council. This would also imply that at the national level, international trade and investment policy should be evaluated and reviewed within an inter-departmental or cross-governmental frame, in light of social, environmental, human and labor rights priorities, the policies of national governments and the concerns of their parliaments.

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3. Internal Governance Proposals

Non-Governmental Organizations and social movements have persistently supported reform suggestions from country representatives, and proposed a number of conditions

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<u>Recommendations:</u>

1. Current opportunities for interaction between the UN system, the BWIs and the WTO, including the participation of NGOs, trade unions and other stakeholders should be reinforced and extended, including the model of hearings and roundtables initiated in the FFD follow-

specialized agencies of the UN. [8] A similar status was foreseen for the International Trade Organization (ITO), an agency that was supposed to be established shortly thereafter and that would be in charge of trade cooperation. Coordination of UN activities concerned with economic, social, and ecological affairs was entrusted to the Economic and Social Council (ECOSOC), one of the UN system's main organs, acting under the authority of the General Assembly.

The UN went further to codify and provide greater content to norms and standards in areas such as development, human and labor rights, social and environmental policy, through various inter-governmental processes over the years. The 1948 Universal Declaration of Human Rights would see its principles further defined in Conventions on civil and political rights, economic, social and cultural rights, women's rights, and the rights of the child. Specialized agencies also played a role in standard-setting in their areas of competence. Notably, the International Labour Organisation has established a body of Conventions to regulate the world of work, and has codified a set of indivisible core labor standards in the 1998 ILO Declaration on Fundamental Principles and Rights at Work.

During the 1990s, UN Conferences became important vehicles for agreement among the broad community of Nations with respect to standards and goals requiring international cooperation. The conferences on environment and development, population, social development, gender, and the rights of the child, are all examples of this, leading to agreement on what is broadly referred to as the internationally agreed development goals. The Millennium Development Goals, endorsed in the Millennium Declaration are a "distillation" of monitorable, quantifiable goals, extracted from the outcomes of those conferences.

However, as far as economic policies are concerned, the UN never really got to play its coordinating role. The first reason for this must be sought in the reluctance of the industrial countries to strip the Bretton Woods institutions – in which their capital-share-weighted votes assure them pre-eminence – of some of their powers and to transfer them to ECOSOC. This failure to invest the UN with coordinating authority became even more pronounced as a large number of new independent countries joined the UN in the 1960s and 70s, thereby increasing the weight of developing countries under the one-country-one-vote system prevailing in the UN. The leading industrialized countries sought to exercise decisive influence elsewhere, often side-stepping the UN. These underlying power dynamics in the system of global governance found some expression in the lax language of the Relationship Agreements that linked the Bretton Woods institutions to the UN, which ensured that the World Bank and the IMF would have, vis-à-vis the UN, a greater degree of independence than other specialized agencies. For reasons that exceed the scope of this paper, what should have been the specialized agency in charge of coordinating trade relations, the International Trade Organization, was simply never established.

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[8] See Hans Singer, Rethinking Bretton Woods: from a historical perspective; In Promoting Development-Effective Global Institutions for the 21st century (Griesgraber/ Gunter ed.)

The UN’s weakened role in the area of international economic policy also served to undermine its ability to provide effective normative leadership even in the non-economic areas. In fact, starting in the early 1980s, and facilitated by the eruption of the debt crisis, the Bretton Woods Institutions dramatically increased the reach of their interventions into

WTO for consulting with the IMF and the World Bank on priority areas for cooperation."[10]

Given the status of the WTO as a forum for the continued negotiation of rules of a legal nature, it may be said that the basis for the emergence of an alternative pole for coherence outside the realm of the human and social values of the UN Charter now seems to be clearly in place.

However, several proposals have sought to engineer an alternative structure for international economic institutions that would address this problem. For example, during the 1990s Commission on Global Governance[11] suggested the establishment of an Economic and Social Security Council (ESSC) within the UN, a proposal that is once again receiving increasing attention. The ESSC would be a coordinating forum at high level, with the political legitimacy for discussion of the central issues of global political economy. The increased attention being paid to the proposal comes from a recognition that existing institutions are inadequate to address in a decisive way the most pressing problems of global governance, and that exclusive, limited membership bodies such as the G7/8 lack the legitimacy to take on the attendant challenges.[12] This paper contends that the time has come to give serious consideration once again to the proposal for the establishment of an ESSC.

Chapter V Towards greater coherence

An overarching theme of the UN Financing for Development (FFD) conference and the resulting Monterrey Consensus was the need to enhance the coherence and consistency of the international monetary, financial and trading systems, to ensure that they support the internationally agreed development goals.[13] Thus, the FFD follow-up process has been effectively empowered to propose systemic reforms to ensure that multilateral financial, trade and monetary rules work together to achieve the internationally agreed development goals.

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[10] WTO Secretariat "Coherence in Global Economic Policymaking and Cooperation between the WTO, the IMF and the World Bank", WT/TF/COH/S/7, 28 April 2003" Furthermore, the proposal was justified upon the alleged "absence of a forum at the international level for regular contacts between trade officials and their counterparts in finance and development ministries."

[11] See Report of the Commission on Global Governance (1995)

[12] France invited 12 heads of states of developing countries to meet with the G8 leaders at the occasion of the **G8 Summit at Evian** end of May: Algeria, Egypt, Nigeria, Senegal, South Africa (all of them NEPAD countries), then India, Saudi Arabia, Brazil, Mexico, Malaysia, Morocco and China. Also the directors of IMF, World Bank, WTO and the UN Secretary General participated. NGOs criticised this initiative as there is no representation nor rotation system. They miss transparency and accountability. NGOs expressed also severe concerns, if this process would lead to an empowerment of the G8 and might be used to legitimise the G8 Summits as a global institution and to the creation of parallel structures outside the UN.

[13] These goals include not only those contained in the Millennium Declaration, but also the agreed outcomes of the past decade's UN Conferences on gender, social development, environment, and so forth.

As shown in the previous chapter, coherence is not a new concept in the arena of international relations, as the original UN model provided, in theory, for the coherent design of policies towards the achievement of internationally agreed goals. Although the model has never worked the way it was originally envisioned, its internal logic remains compelling and unquestioned.

The 2002 Financing for Development (FFD) Conference and its follow-up process provided the framework for the implementation of concrete mechanisms that could enhance coherence of BWIs and WTO activities with UN policies and normative standards. The Conference was the result of an agreement whereby, for the first time in the history of UN processes, the BWIs and the WTO were active players. Its call for coherence attests to the recognized and continuing need for such an approach, in face of the challenges of managing an increasingly globalized economy.

With its emphasis on the achievement of coherence and consistency among trade, financial and monetary policies to support development, the Conference sought to reframe the debate on coherence in a way that would contemplate the necessary role of the UN as the guardian of fundamental human and social standards and values. The FfD follow-up process is therefore strategically positioned at the heart of the global governance policy debate, and should become the locus of the search for effective and enduring solutions to the challenges of global governance.

Essential to the success of a system of democratic global governance is institutionalizing the participation of CSOs in the policy-making processes of the multilateral institutions and the UN. Consultative mechanisms for broad-based participation should be established, making use of best practices from past intergovernmental processes, such as interactive round-tables, civil society hearings and dialogues with governments, and multi-

1. Over the short term, efforts within the UN to upgrade and reform the ECOSOC should be strongly supported. In-depth discussions and decision-making are difficult to achieve in such a large body as currently con

view to decision-making and effective follow-up. Member States should commit to making better and more effective use of the Council as a forum for dialogue, especially regarding issues of policy coherence and coordination. This should help obviate the tendency for states to "gravitate" towards more limited-membership, ad-hoc bodies and groups that normally fall outside the purview of the United Nations.[16]

6. The Annual high-level meetings of ECOSOC with the Bretton Woods Institutions and the WTO should then become the major forum for ensuring the consistency and coherence of the monetary, financial and trading systems in support of development.[17] Coordination and coherence on global governance issues will be further enhanced by the establishment of substantive engagement with the other specialized agencies in the context of the Annual high-level meetings : UNCTAD, ILO, UNDP, UNIFEM and through multi-stakeholder processes involving civil society and the business sector.

7. Over the medium-term, the proposal to establish a permanent global Economic and Social Security Council within the structure of the UN should be vigorously pursued. This would involve changing the Charter, but this should be entirely feasible. One possible scenario that has been suggested is that the Council could have a limited number of seats – e.g. 25 – in a well balanced rotation system, whereby no seat would be permanent or carry veto power. 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 to issues of global economic and social governance.

8. Over the longer term, the General Committee of the General Assembly which is hardly functional at the present time, could be re-activated to become an annual summit-level decision-making body on global economic and social governance. Activating the General Committee in this way does not involve a change in the UN Charter. The President of the General Assembly could simply invite member states of the General Committee at the appropriate level, ministerial or Heads of State, to attend a meeting at the beginning of the Assembly session. The General Committee is regionally representative, each of the permanent five members of the Security Council is a member, and it has only 28 members. It is proposed to make the President of the ECOSOC a member of the Committee, making it a G-29. It is therefore small enough to hold in-depth discussions, and to have effective decision-making capacity. Such a meeting of the GA General Committee would have the capacity to be effective and representative, without the need to change the UN Charter or to operate outside of it.

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[16] See UNSG Report para 171

[17] See UN Secretary General Report on Implementation of Financing for Development, 5 August 2003, paras 170, 179.

9. The Relationship Agreements that currently link the World Bank and the

<u>Appendix</u>

FRIEDRICH EBERT FOUNDATION
and
IFG Global Governance Working Group

Expert meeting on the theme:

A political agenda for the Reform of Global Governance

Date: July 21-22, 2003
Friedrich Ebert Foundation, New York Office
823 UN Plaza, Suite 711 (entrance at 46th Street and 1st Avenue)

Agenda

Monday, July 21, 2003

9.30 a.m. – 11.00 a.m. 1st Morning Panel
<u>A changed world- Growing Economic Interdependence but insufficient institutional arrangements for global economic governance</u>

- Emerging gaps or problem areas: Global macroeconomic management, International Financial Architecture (Capital Flows and FDI), Transnational Corporations (Corporate Accountability) Cross-border movements of people (Rights of Migrant Workers)
- The logic (original mandates, institutional developments, legitimacy etc.) of inter-national organizations: United Nations, IMF, World Bank, WTO, The role of G7/ 8

11.30 a.m. – 1.00 p.m.   2nd Morning Panel

New Rules for the World Economy through a Global Council or an Economic and Social Security Council (ESSC) within the UN system

- Rationale, Functions, Composition and Procedures for and

Lunch Break

1.30 p.m.- 5.00 p.m. *Afternoon Panel*

Strategy Session:

- **How can we effectively use the FfD process to influence the official debate on Global Governance?**
- **Lay out guidelines for a background policy paper on Global Governance for the FfD High Level Dialogue in October**

End of Meeting

List of participants
Global Governance Expert Meeting, July 21-22, New York

Gemma Adaba, International Confederation of Free Trade Unions (ICFTU), UN Office

Manfred Bardeleben, FES New York

Ariel Buira, Group of 24

Aldo Caliari, Center of Concern, Washington D.C.

John D. Clark, High Level Panel on UN-Civil Society Relations

Oscar de Rojas, UN Financing for Development Office

Hazem Fahmy, UN Financing for Development Office

John Foster, North-South Institute Canada, Social Watch

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