

UNITED NATIONS DEVELOPMENT PROGRAMME

Governance Arrangements for Global Economic Challenges: Where Do we Stand? A Political Science Perspective

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Note: The views expressed in this paper are those of the author and do not necessarily reflect those of UNDP. The author thanks Pedro Conceição for helpful comments. Please send comments and suggestions to the following e-mail address: thierry.soret@undp.org

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Introduction

The debate on the reform of governance arrangements for global economic challenges is not recent but has been heightened by the global economic crisis. It brings to the fore challenges of enhancing international cooperation, key to addressing other global challenges, most prominently climate change.

International cooperation depends on decisions of governments to cooperate. The governance arrangements underlying international cooperation to enhance economic policy coordination on cross border issues have been based, for the most part, either on informal intergovernmental groupings bringing together key players (like the G7 or G20) or on treaty-based international institutions. Each type of arrangement for international cooperation has advantages and shortcomings. The legitimacy of treaty-based organizations and the effectiveness of informal groupings are typically seen as the main characteristics of each of these two types of arrangements in the international system.

In the face of the global economic crisis, informal arrangements through the G20 summits have emerged to mobilize action. Despite real progresses in terms of inclusiveness and representation of different kinds of countries (developed and emerging economies), this type of *ad hoc* grouping still faces problems.

Especially in a context when arrangements for global governance need to adapt to the growing assertion of the south. The United Nations conference on the economic crisis and its impact on development, convened late June, provided a unique opportunity to many developing countries to voice their concern and their aspirations with regard to the international economic and financial architecture. Most developing countries are proponents of radical reform of the IFIs in order to increase their voice and representation, and urge what they call the “G192” and the United Nations Development System to take a stronger role in global economic governance.

However the global economic crisis and the first international responses, along with the negotiation process on climate change, tend to show up that not all southern interests are in fact uniform. Depending on their economic power and on their strategic interests these countries may be grouped into at least three different categories: large emerging economies that claim to be part of the major economic powers grouping; emerging economies that wish to play a role in global governance and to continue taking advantage of the economic integration; and other developing countries, including the least developed countries that are not part of the G20 and support a stronger role for the UN. The plurality of the South, especially the assertiveness of numerous emerging countries, brings to light a complex and changing global order: The multipolar tendency is growing, and interdependences are reinforcing.

Global economic governance has been put at the center of international debates over the last few months. The remainder of this paper summarizes the state of the debate regarding the leading institutional arrangements for economic governance from a political science viewpoint, considers

the various proposals being put forward, and attempts to identify some of the major issues remaining at stake.

Part 1 presents evidence suggesting the growing assertion of the south and the usefulness of distinguishing between different groups of developing countries. Part 2 considers major trends that are leading to a more multipolar and interdependent world, and the consequences this entails in terms of governance from a political science perspective. Part 3 discusses formal arrangements and treaty-based multilateral institutions that base their legitimacy on their inclusiveness, but have been slow to reform towards better representing new realities, and, as a result, perhaps not as able to deliver as effectively as those new realities call for. Part 4 looks at the informal arrangements that have been effective in mobilizing action and in giving new impetus to international cooperation but still face major problems of inclusiveness in spite of true progress in inclusiveness made with the series of G20 Summits. Part 5 lastly considers two of the issues that could be addressed to underpin a more effective and representative set of governance arrangements for global economic challenges:

- The coordination and articulations between the two types of arrangement;
- The potential of the “responsible sovereignty” principle in international cooperation and decision-making processes, which suggests specific rights and duties to countries according to their means or responsibility in the face of global challenges;

1. Growing Assertion of the South

At the recent United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development, all 192 UN Member States had a forum to speak about the impact the crisis has had on their countries' development path, to express their concerns about the current international economic and financial order, and to assert their demands. This meeting provided an opportunity and space to initiate a needed dialogue on the transformation of the international financial architecture, taking into account the needs and concerns of all Member States¹.

A) Impact of the Crisis on the South

Although the crisis began in the financial centers of the developed world, its global reach has devastated the economies of emerging and developing countries and has placed their national development objectives in jeopardy. Southern countries, who played no role in causing the sub-prime crisis in the United States which triggered the financial crisis which then spread to Europe and escalated into a wider global economic crisis, are bearing the brunt.

Some policymakers even asserted the difficulties that this implies in terms of making progress towards the MDGs. According to the Prime Minister of Belize Dean O. Barrow, *"it goes without saying that there is no prospect of countries achieving the time-bound Millennium Development Goals"*.²

B) The South's Call for Additional Financial Resources

Many developing countries lack in macroeconomic space and policy capacities to enact responses that may mitigate the impact of the crisis. Many Southern countries used the conference as a platform to ask for additional financial resources, in the form of both aid and lending. Both developing and developed countries called upon all developed countries to meet their UN official development assistance (ODA) target of .7% of Gross National Income (GNI) which was pledged at the 2002 UN Conference on Financing for Development in Monterrey. To date, only five countries have met the target (Denmark, Luxembourg, Netherlands, Norway, and Sweden).

In addition to demanding that developed countries meet their existing aid commitments, there is call for additional ODA in response to the crisis. An idea raised by the UN Secretary General before the G20 summit in London, taken over by the Commission of Experts chaired by Joseph Stiglitz, and reiterated by Southern countries at the Conference is for developed countries to contribute a percentage share, namely 1%, of any stimulus package that they enact in their home

¹ This section benefits from the contribution of Sanaz Memarsadeghi, intern at ODS in summer 2009, who worked on the follow-up of the UN Conference on the Crisis and analyzed member states' political stances on global governance issues.

² Statement by Hon. Dean O. Barrow, Prime Minister of Belize, on behalf of CARICOM, at the UN Conference on the World Financial and Economic Crisis and Its Impact on Development, 24 June 2009.

countries to direct expenditures in developing countries. Robert Zoellick, the President of the World Bank Group, has specifically called for developed countries to dedicate 0.7% of their economic stimulus packages to a “Vulnerability Fund” for developing countries which may be used to finance investments in key areas such as infrastructure, safety nets, and small and medium enterprises.³

C) The South’s Demands for Global Governance Reform

Southern countries also used the Conference to reiterate their calls for immediate reform and democratization of the international economic and financial architecture.

Developing countries dispute the real inconsistency between the weight of developing countries in the world economy, their role as recipients of World Bank and IMF funds, and their level of representation in these institutions. The distribution of capital shares and proportional voting weights of the IFIs are indeed a remnant of the global economic power structure which existed immediately after the Second World War. It is for this reason that Bangladesh’s Foreign Minister Dipu Moni, speaking on behalf of Least Developed Countries (LDC) at the Conference, called the structure of the Bretton Woods institutions “*anachronistic and anomalous*” and insisted that the overarching objective of the reform process should be “*significant redistribution of voting power in favor of developing countries.*”⁴

A chief grievance of the South with the IMF is its lack of surveillance of developed countries’ financial and economic systems. Had this not been the case, the scale of the crisis would have been less severe. Consequently, Southern countries are calling for “even-handed” surveillance by the IMF so that IMF will “*be as measured, and as public, in its consultation dialogues with developed countries as it is with developing countries.*”⁵ The representative of China also calls for the fair, balanced, and just supervision on macroeconomic policies and asserts that “*the practice of focusing only on developing countries while forgetting or overlooking the major reserve currency-issuing economies must be changed.*”⁶

The South is also calling for a review of the mandates of the BWIs and for making them more oriented toward development. Because the IMF’s quota-based lending system makes the amount of resources available to developing countries “*trivial*” in comparison to their development needs and because commercial lending is not always available, the CARICOM’s representative proposes that the IMF link credit volumes to capacity and needs rather than to quotas.⁷ Under this proposal, the role of the IMF is more than simply serving as a lender of last resort and providing liquidity when a member is facing a balance of payments problem.

³ “Zoellick Calls for ‘Vulnerability Fund’ Ahead of Davos Forum.” 30 January 2009.
<http://go.worldbank.org/76E1GRKBN0>

⁴ Statement by Dr. Dipu Moni, Foreign Minister of Bangladesh, on behalf of the Least Developed Countries, at the UN Conference on the World Financial and Economic Crisis and Its Impact on Development, 24 June 2009.

⁵ Statement by Hon. Dean O. Barrow, Op. cit.

⁶ Statement by H.E. Yang Jiechi, Minister of Foreign Affairs of the People’s Republic of China, at the UN Conference on the World Financial and Economic Crisis and Its Impact on Development, 24 June 2009.

⁷ Statement by Hon. Dean O. Barrow, Op.cit.

While calling for greater access to liquidity, Southern countries are also adamant that new credit lines be flexible. They claim policy space and seek reform of IMF lending practices. Several developing countries such as Argentina, Bolivia, Brazil, Costa Rica, Ghana, Indonesia, Lebanon, Sri Lanka, Syria, Venezuela, and Zimbabwe insist repeatedly that lending must come to developing countries with minimum to no conditionality. The Foreign Minister of Bangladesh, speaking on behalf of all LDCs at the Conference, demanded that “*LDCs must enjoy full flexibility and space in determining their own macroeconomic policies that can create jobs, reduce poverty, and meet health and education goals. Such flexibility would enable them to effectively manage their domestic economic policy in light of their national development strategies.*”⁸

In conjunction with their calls for reform of the BWIs, Southern countries are also calling for a strengthened role for the UN in global economic governance and for improved coordination between the UN and the BWIs. Bangladesh (on behalf of all LDCs), China, Egypt, India, Indonesia, and Libya are just a few of the many countries which called for a more central role of the UN in the post-crisis international economic and financial architecture. This stronger role includes calls for a more robust ECOSOC, for the creation of an Intergovernmental Panel of experts to assess systemic risks in the global economy, for the establishment of a Global Economic Coordination Council within the UN, and for the UN to play a determining role in the evaluation, monitoring, and restructuring of the BWIs. The creation of the Intergovernmental Panel and the Global Economic Coordination Council were both specific recommendations from the Commission of Experts’ Report, but were removed from the outcome document of the Conference adopted by the General Assembly after an intense negotiation process.

D) The Plurality of the South

It should be stressed that although one may speak of the “South” or of “Southern countries” and of their common desire in achieving the aforementioned reforms, not all Southern interests are in fact uniform. Depending on their economic power in the world and on their strategic interests, Southern countries may be categorized into two different groupings.

BRIC countries and other emerging economies

Brazil, Russia, India, and China, known as the BRIC countries, are large emerging economies and emerging powers, all members of the G-20 and consequently not subject to the same level of exclusion from the institutional arrangements underpinning global governance as others. Furthermore, these countries are at the forefront of the push for greater representation in the BWIs. Currently, the BRIC countries’ abundant foreign reserves and IMF needs for liquidity have granted them bargaining power: By increasing their contribution to the Bretton Woods institutions the BRIC countries, and also other emerging economies, would be able to increase substantially their voting share and influence the Board of Governors toward more balanced governance.

⁸ Statement by Dr. Dipu Moni, Op.cit.

In parallel, the BRIC countries - particularly China and Russia - are also behind the impetus for reform of the international monetary system. They have argued that a change from having the dollar as the dominant world reserve currency would be useful, perhaps to be replaced with a supra-national reserve currency. Leading up to the G20 summit in London, both Russia and China made calls for such a reform, with Zhou Xiaochuan, the Governor of the Bank of China, issuing a statement on March 23 formalizing the proposal. During the actual London summit, Russian President Dmitri Medvedev used his speech as a platform to appeal for the creation of a new international reserve currency. Later at the first BRIC summit in Yekaterinburg, Russia on June 16, the four leaders reiterated the “strong need for a stable, predictable, and more diversified international monetary system.”⁹ The Chinese proposal suggests that the IMF’s SDR has the potential to fill this role, but they would like the basket of currencies forming the basis of SDR valuation to be expanded to include the currencies from all major economies. So that the SDR can effectively serve as a reserve currency, Zhou (2009) calls for the establishment of a settlement system between the SDR and other currencies, the active promotion of SDR use in international trade and investment, and the creation of SDR-denominated financial assets.

Other emerging economies, such as Indonesia, Turkey, and South Africa, have similar preferences to the BRIC countries. They also seek reform of the IFIs to “*better reflect the current global economic landscape.*”¹⁰ Such a reform would increase their voting power and voice in the IFIs.

Other Developing Countries and Least Developed Countries

With regard to governance reforms of the IFIs to affect voice and representation, the perspective of other developing countries and Least Developed Countries (LDCs) is slightly different than that of emerging powers and economies.

With regard to the IMF, while making voting shares more reflective of the current distribution of global economic power will serve in the interest of the BRIC countries and other emerging economies, this would still have minor impact on the representation of developing countries and particularly LDCs. For this reason additional reforms such as increasing the weight of basic votes and a wider application of double majority voting would effectively increase the voice of developing countries in IMF decision-making (Birsdall 2008, Woods, 2008, Stiglitz 2009).

Given the fact that the World Bank has a distinct mandate as a development bank, developing countries would benefit if criteria other than each member state’s economic weight is used to determine the allocation of quotas during the second stage of the Bank’s reform process. Numerous developing would like to take into account member states contribution to the development mandate of the Bank and the significance of borrowing levels from the Bank, in order to make the weighting system more balanced. The first stage of the Bank’s reform process, which is doubling basic votes and adding a third African seat on the Board, is setting the stage for increased influence of developing countries.

⁹ Joint Statement of the BRIC Countries Leaders. Yekaterinburg, Russia. 16 June 2009

¹⁰ Statement by Memduh Akcay, Director General for Foreign Economic Relations of Turkey, at the UN Conference on the World Financial and Economic Crisis and Its Impact on Development, 24-26 June 2009.

While those emerging countries that are incorporated into the G-20 (Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Africa, and Turkey) are silent on the legitimacy of the G-20 as a decision-making body for solving world problems, many developing countries are not. To them, the G-20 marginalizes developing countries, especially those from the African continent. Consequently, they call for either inclusion in the G-20 (i.e. Bangladesh on behalf of all LDCs.) or assert that it is the UN and not the G-20 which is the most appropriate platform for addressing the world financial crisis. To these countries, the future shape of global economic governance format must ensure inclusiveness and adequate representation of developing countries, including LDCs. From this viewpoint, the United Nations development system is the body which is most universal, legitimate and accountable to the people of the World. This is the so-called G-192!

It should be noted that while all Southern countries support a stronger role for the UN in resolution of the crisis and IFI reform, developing countries and particularly LDCs tend to be more emphatic regarding the centrality of the UN in global economic governance. Furthermore, there is a subset of developing countries which approach the crisis as a political divide. Countries such as Bolivia, Cuba, Iran, North Korea, and Venezuela may be grouped into this category. They view the BWIs and the G-20 as illegitimate and call for “*convening an International Conference under the aegis of the United Nations, aimed at refounding the monetary and financial system.*”¹¹

¹¹ Statement by H.E. Rodrigo Malmierca Diaz, Minister of Foreign Trade and Foreign Investment of Cuba, at the UN Conference on the World Financial and Economic Crisis and Its Impact on Development, 24 June 2009.

2. Analytical Perspectives on and Trends Underpinning Governance Arrangements for Global Economic Challenges

This growing assertion of southern countries, the plurality of south that leads to distinguish between different types of countries (developed, BRICs emerging powers, emerging economies, other developing countries, LDCs) brings to light a complex and evolving global context. While interdependence is deepening and reinforcing, states remain key-players in the international system representing various interests. Developed countries have called upon emerging economies to participate in the global governance system in the aftermath of the global economic crisis, while conversely emerging powers try to maximize their influence in the process. The tendency toward multipolarity is accelerating. Some analytical perspectives on international relations might be helpful to understand these dynamics. This section considers the trends towards multipolarity and increased interdependence in light of some of these perspectives.

A) International Relations Theories on Multipolarity

The multipolar trends could influence dramatically international relations in the coming years. Considered from a political science viewpoint, a multipolar balance of economic powers in a context of growing interdependences represents a complex challenge to the multilateral institutions system. One way of understanding challenges over global governance is to invoke the “*equivalence principle*”, that is, how to ensure that the match between the span of a good’s benefit and costs and the span of the jurisdiction in which decisions are taken about that good is maximized (Kaul, Conceição, Le Goulven and Mendoza, 2003).

International relations theorists, especially from the realist school, are generally skeptical about the possibility of major governance reform in a context of an emerging multipolar world order. Proponents of “*hegemonic stability*” (Waltz, 1979) argue that leadership by a dominant power is always necessary for sustaining the global governance architecture and an open world economy. According to the neorealist theory, the tendency toward multipolarity would intensify rivalries in the system, conflicts and protectionism. Indeed, the growing number of economic powers triggers uncertainty on respective intentions and cooperation is not eased. States are constantly looking for opportunities to increase their power and the context of growing interdependence reinforces this demand for maximizing relative power. On the other hand, Mearsheimer, (2001) distinguishes between balanced and unbalanced multipolarity: big trouble comes when multipolar systems contain one especially powerful state which attempts to maintain its supremacy within the current system while the other poles will seek to review the system. Then multipolarity per se does not entail cooperative policies and international stability, on the contrary.

The emerging perception is that the current global economic order, created after the World War II, steadily and lightly adjusted with the creation of the G7 in 1975 is coming to an end. Whether or not the power-transition is managed with confidence and diplomacy, the move to a new global order might be somewhat different: ill or well-managed, this political process could lead to

power politics and bitter rivalry between ‘old’ and ‘new’ powers or to a more inclusive system and international cooperation.

States remain the primary units of the international system, and they remain key decision-makers even though it is no longer even a reasonable simplification to think of world politics simply as politics among states. A larger variety of other organizations, from international institutions (Keohane, 1984), nongovernmental organizations and civil society movements (Held 2002, Ruggie 1993) or networks (Slaughter 2004), exercise authority and engage in political action across state boundaries. However “*the arrangements and mechanisms of cooperation we should try to build in this first part of the 21st century will still have to rely on nation-states as the legitimate “building blocks” of the global system*” (Dervis 2009b). Over the past few months, the global financial and economic crisis shows up that states are still the key players in the decision making process, especially in order to enhance global governance and renew the set of multilateral institutions in the economic and development field.

Even scholars emphasizing the role of international networks in the current global governance system (Slaughter 2004) recognize that the fiction of the conception of the unitary State helping to reduce the complexity of the international system to a relatively simple map of political, economic, and military powers interacting with one another both directly and through international organizations is still useful. In particular, for some critical activities such as decision to go to war, to engage in a new round of trade or negotiation, or to establish new international agreement and institutions to tackle specific global issues such as climate change, states in general, and powers in particular remain the primary units and the key players.

Proponents of cosmopolitanism consider that the centrality of states hamper the establishment of global governance, especially in a context of a sharpened multipolarity. A cosmopolitan order where “*the moral and political outlook which builds upon the strengths of the post-1945 multilateral order, particularly its commitment to universal standards, human rights and democratic values, and which seeks to specify general principles upon which we could act*” (Held, 2009, p. 538) could form the basis of global governance arrangements beyond sovereign states. However this approach remains far from reaching an agreement in the current international system. One problem encountered by cosmopolitanism is less the desire to build a global order than the assumption that all political communities share the ethical, cultural and legal background necessary to building a “*cosmopolitan legal community*” at the global scale between and across political communities.

The liberal-institutionalist approach tries to solve this problem with the notion of consensus building at the global level that is supposed to function the same way as at the national level. Applied to global economic governance (Nye 2001 Ikenberry 2007) this theory is based on the deliberative model of democracy where communication and the rational consensus building (Habermas 1996) or personal rights and justice (Rawls 1971) are the building blocks of democratic polity and institutional systems at the national level. Consequently international institutions are underpinned by the same kind of liberal assumptions, and produce a “socialization” effect upon their membership and stakeholders that tend to advance their interests through trade-off and comprehensive agreements with their counterparts. Deliberation on common

issues and mutual understanding represent the drivers of the consensus building and help global governance move forward.

Even though the current multilateral order is inadequate, and the underpinning principles are inappropriate in order to address effectively global challenges at the onset of the 21st century, these approaches, consisting basically in reproducing the deliberative and liberal model of democracy at the international level, underestimates the various and sometimes conflicting interpretations and collective preferences (Lamy 2004) with regard to the building of global governance architecture. Indeed, numerous countries are clearly “revisionist” (e.g. disputing the order according to the realist thought), in challenging the old balance of power embodied by the current set of international institutions. Even though the overwhelm majority of countries do not put into question the absolute necessity of an international order per se, many of them express strong case in making the current one more representative and balanced.

A longer paper would be needed in order to point out the presence of passions and collective identities in politics at local and national level, exerting their influence on world politics and bringing about important constraints to the decision-making processes of the global economic governance. The Rodrik’s inescapable trilemma of the world economy (2007) emphasizes that democracy; national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full.

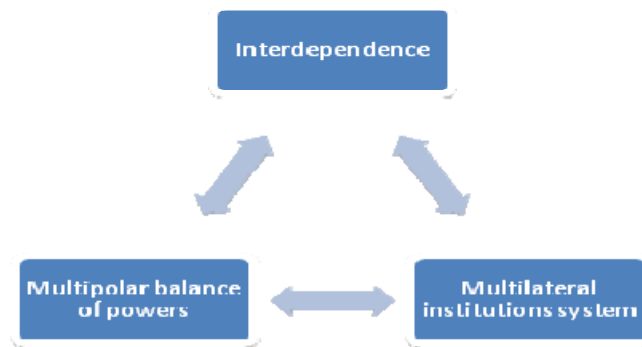
Collective preferences with respect to trade and openness are specific and need to be taken into account in global governance. They are based on social and cultural identities and trigger passions in local politics especially with regard to economic and foreign policies (example: the increasing reluctance of developing countries in seeking the IMF assistance over the last decade). The agonistic model of democracy (Mouffe 2009) might be somehow helpful in an international perspective: due to interdependences there are huge constraints to cooperate (Barrett, 2007), no country challenges the need to enhance global economic governance, but numerous powers and groups of countries as a plurality of hegemonic blocs challenged the legitimacy of the current global architecture and its policy making.

In fact, the international system is the contingent and temporary expression of a particular configuration of power relations that bring about a certain hegemonic order. Nowadays, this system is challenged by developing and emerging countries which want to make the existing set of multilateral institutions more representative in order to advance their own interests.

B) What Governance of a Multipolar Order in an Interdependent World?

The shifts in the balance of economic powers might play a guiding role in designing the future international institutions. In fact, the growing assertion of the South, the increasing share of developing economies in the world output, their trading weight and the development of south-south cooperation are all part of a trend toward a more interconnected and interdependent world, where many countries becoming real economic powers seek to increase their influence in regional and global decision-making processes.

Humanity now lives under conditions of high global interdependence. Interdependence is actually deepening and heightening, and countries use all the means at their disposal to take advantages of globalization. Therefore, as a hypothesis, one could consider the relationships between the three corners of the triangle below as the major factors shaping the global governance system at the onset of the 21st century:



Accepting this triangle suggests that an agenda for global governance would need to consider each of the links between the vertices of the triangle:

- Interdependence and Multipolar balance of Powers: This link suggests that old and emerging powers try to strike a new balance in addressing common challenges through intergovernmental cooperation processes. These *ad hoc* arrangements or clubs bringing together the Major Powers are set up to tackle issues caused by interdependence. However this G-n like configuration excluding the overwhelm majority of countries lacks in legitimacy, and would resume the old era of concert of powers and influence areas.
- Interdependence and Multilateral institutions: This relationship is the one that occurs at the United Nations General Assembly or at the World Trade Organization. Those institutions are to be open and inclusive and dedicated to address global challenges. They are representative of the entire world, but they often lack in effectiveness and responsiveness. Based on the “sovereign equality” principle, the wide diversity of preferences often represents an obstacle to the effective decision-making.
- Multipolar balance of Powers and Multilateral institutions: This link highlights international institutions that are designed along a representation of world dominated by Major Powers. Like in the Bretton-Woods institutions, decision-making processes and governance mechanisms take into account the relative weight and contribution of each member states. This shareholder logic might lead to introduce veto rights for major powers in the decision making and to focus exclusively on issues related to Major Powers interests. The challenge is to adopt decision-making processes based on an adequate weighting that increases the voice and the representation of developing countries and enables the institutions to deliver legitimately and effectively on global issues.

A sustainable agenda for global economic governance in the global order as described schematically above needs to be both legitimate and effective. It must take equally into account these three features of the global economic order that influence world politics: issues related to a deepened interdependence, a multipolarization of balance of powers, and a multilateral institutions system. The coordination among those three dimensions is precisely at stake of global economic governance.

3. A Set of Multilateral Institutions: Legitimate but Created under a Different Global Context, Slow to Reform and often Unable to Deliver Effectively

Multilateral and treaty-based institutions in the financial and economic realm are suffering from several flaws that need to be tackled, especially in the face of the current global economic crisis and climate change. Existing formal governance structures in the international system are in many cases ill-adapted to the political and economic realities of the 21st century.

A) A Burgeoning Debate on the International Economic and Financial Institutions Reform

International institutions used to base their legitimacy on their inclusiveness and supposed representation of world realities, but most of them were created under a very different context from the current global environment. For instance, the UN Security Council has always been made up of the “permanent five” since its creation after World War II, and at the IMF Belgium still holds more quotas than Brazil (2.12% vs. 1.41%).

Despite this kind of discrepancy with realities, international financial and economic institutions, including the Bretton Woods institutions, still use their inclusiveness feature to underpin their legitimacy. Indeed, they bring together all (or almost all) sovereign states on a voluntary basis. *De jure*, their legitimacy is based on their inclusiveness, but *de facto*, they do not represent the changing balance of powers and economic structure. One may consider this an “unrepresentative inclusiveness”. Either their decision-making processes remain unbalanced and do not reflect the new world realities (for example the under-representation and lack of voice of emerging and developing countries in the weighted system of Bretton Woods institutions); or in institutions where the voting system is based on the sovereign equality principle (UN, WTO), the diversity of their membership and its preferences diminish the institutions’ ability to take decisive and effective action.

The world realities need to be better represented in these (quasi) universal bodies in order to enhance their legitimacy and thus their effectiveness. The failure to adapt decision-making processes to fit the changing power relationships has already begun to erode the vitality and legitimacy of current institutions, and the debate on reform of the multilateral system is vibrant.

There is a burgeoning global discussion on the need to establish treaty-based and effective mechanisms for international policy cooperation. This may require either enhancing existing processes, such as comprehensive reform of the Bretton Woods institutions and a revitalized and proactive Economic and Social Council in the United Nations system, or creating new representative world bodies to assume leadership for global financial and economic stability, such as the proposed “Global Economic Council” which will identify, debate and provide policy

guidance on critical and emerging global issues¹². Although whatever the upheld option (reforming the existing bodies or creating new ones) the same issues of legitimacy and effectiveness in international policy cooperation are still at stake. Any inclusive international institution needs to be based on an appropriate representation of world realities, and there is a great need to establish the appropriate mechanisms for coordination among the various institutions and their member states in the policy-making process.

What should be the role of the United Nations development system, in particular funds and programs, especially in the face of the crisis? What kind of coordination between the UN, IFIs, and the WTO are required for making the whole set of multilateral institutions more responsive and effective? What kind of internal reform is needed in each of these organizations to make them more representative of the state of the world and hence legitimate? These issues are posed in the face of the economic crisis, but go beyond it.

IFIs, the WTO, and the UN system are attempting to reform and to make the adjustments needed in their governance, decision-making processes and operations to better reflect today's realities and challenges and to deliver more effectively. Voice, representation and decision-making are the main issues at stake. Similarly coordination among these institutions that have their specific mandate in their respective economic and financial field needs to be improved (e.g. Chief Executive Board for coordination, *Delivering as One* report proposals...), in order to deliver through a coherent manner in the development sphere.

B) Can Multilateral Institutions Deliver Effectively?

Because of their “unrepresentative inclusiveness”, multilateral institutions in the economic and financial area lack in effectiveness. The Bretton Woods institutions have been boosted over the last few months by major economic powers while they were perceived as being almost irrelevant just a couple of years ago. Others like the WTO and the UN development system still face challenges that may prevent them to fully meet their potential in advancing their respective goals. In each case power-sharing among members and decision-making processes are at the core of disputes.

Is the IMF resurging?

The IMF's role in maintaining global macroeconomic stability and in providing a forum for effective global governance is crucial. However there is no denying that the IMF's has been subject of criticism in most developing and emerging economies. Before the global crisis it seemed to be sliding toward irrelevance. Demands on its financial assistance became increasingly rare from developing countries. Facing income reductions, the IMF was moving to cut dramatically costs, including by encouraging some of its staff members to leave. Furthermore many countries perceived the IMF as an institution dedicated to the export of values and standards of a small group of rich countries to the exclusion of alternative approaches and

¹² As pointed out in Part 1, this debate has been at the center of the UN High level Conference on the financial and economic crisis and its impact on development.

national development priorities. The IMF continued to press members with a fairly undifferentiated prescription for liberalization, trade-openness and governance reforms.

Yet the global economic crisis perhaps appeared like a “game-changer”, and the so-called “IMF irrelevance” seems to be history. Responding to G-20 London summit’s call the IMF’s decides to approve wide ranging modifications to upgrade its concessional financial facilities for low income countries in order to help them overcome the impact of the crisis. These facilities are part of a new Poverty Reduction and Growth Trust, and provide financing and support policies aimed at supporting a stable macroeconomic environment and promoting growth and poverty alleviation. Making the conditionality attached to these loans to Low income countries more flexible and streamlined, this decision reforming the IMF’s assistance to poor countries should provide a total of up \$17 billion over the period through 2014

In addition, the IMF has injected \$283 billion in Special Drawing Rights (SDRs) into the stock of global reserves, increasing by nearly tenfold the stock of SDRs. This injection should help meet balance of payment difficulties. While many emerging economies accumulated over the last decade large reserves, this new allocation of SDRs following the G20’s call¹³, will provide the least developed countries with an additional method to obtain hard currencies. About \$110 billion will go to emerging market and developing countries, including over \$20 billion to low income countries, giving them potential access to unconditional financial resources. In addition to the on-going reform of the IMF’s articles of agreement (e.g. fourth amendment enabling all member states to participate in the SDR system on an equitable basis) more than 35 countries that have joined the IMF’s since 1981 are benefitting from this SDR allocation for the first time.

However, developing countries, including the poorest, remain focused on enhancing their voice and call for their representation to be dramatically improved in the decision making processes of the Fund. Aware of these stakes, the Managing Director urges member states to improve the representation of developing countries in the IMF governance: « *les institutions multilatérales doivent devenir plus représentatives, c'est-à-dire donner plus de place aux pays aujourd'hui sous-représentés dont beaucoup - mais pas tous - sont des pays émergents, (...) et il faudra aussi améliorer la représentation des plus pauvres - dont les pays africains* »¹⁴.

The World Bank: evolving enough?

The World Bank Group is at the center of an international development assistance regime that is deeply fragmented. The Group has experience and expertise across a large number of countries and sectors, which gives it a powerful position in providing resources, guidance and assistance to developing countries. In fact, over time and with difficulty the bank has had to cope with an important trade-off: choosing between accountability to donors-shareholders and country ownership in the design and the implementation of development strategies. Some consider (Woods 2008) that the World Bank should more directly address international constraints on developing countries such as vulnerabilities caused by integration to global markets while pursuing sustainable development strategies. The sudden destabilizing shifts in commodity and energy price and the reversal of capital flows in 2008 have highlighted these developing

¹³ London summit of the G20 Communiqué, “The Global Plan for Recovery and Reform”, article 17, 2 April 2009.

¹⁴ Interview in *Le Monde*, September 12th 2009.

countries' vulnerabilities, and since the outset of the global economic crisis, the Bank has reviewed and retooled its approach, offering new solutions to developing countries.

Its commitments for fiscal year 2009 (July 1, 2008 – June 30, 2009) were \$58.8 billion, which represented a 54% increase over the previous year.¹⁵ The bank's crisis response measures have included a new Infrastructure Recovery and Assets Program (INFRA), which provides \$45 billion in infrastructure lending over the next three years, marking a 50% increase over the three years preceding the crisis.¹⁶ The bank is also tripling its support for safety net programs.¹⁷ The World Bank has launched the Vulnerability Financing Facility (VFF). The VFF brings the Global Food Crisis Response Program and the new Rapid Social Response Program under one structure in order to streamline crisis assistance to the poor and vulnerable.

Recent efforts have been made towards decentralization of the Bank's governance, granting more authority to the country offices and bringing the Bank's development lending and advisory work closer to country priorities. As with the IMF, the underrepresentation and the lack of voice of developing countries in the decision making is in the process of being addressed by the members.

Deadlocks at the World Trade Organization

The WTO is currently at a deadlock despite developed and developing countries' repeatedly asserted commitments¹⁸ and the call for a rapid conclusion of the Doha round. Many countries in the global trading system do not seem to consider that the current trade round reflects their interests. Agriculture is still the nodal point, and emerging and developing countries gathered in trading blocs have made it clear that the multilateral trade system needs to move forward in including their interests. There are large disagreements among WTO membership regarding what global trade agreements should cover and what kind of trade policies best advance economic growth. This stalemate harms obviously all countries, but developing countries are bearing the brunt. First they hold a weaker position in bilateral trade agreements negotiated with economic powers, Second, developing countries are the most eager to see the unblocking of the multilateral trading system in order to take advantage of exports as a key growth factor. . In addition the growing patchwork of bilateral agreements adds layers of complexity which turns the international trade system into a "spaghetti plate" increasing transactions costs and inefficiency. To move forward, fair rules should recognize the very different starting points of countries, particularly the least developed countries (Woods 2008), and permit LDCs to use of a more nuanced application of rules. Agriculture remains the key issue.

A Fragmented United Nations Development System

Despite attempts to strengthen system coherence over the last few years, the UN System remains very fragmented. Funds and Programmes, specialized agencies, ECOSOC Committees, and Secretariat General entities represent a large institutional framework dedicated to development.

¹⁵ "World Bank Group Support to Crisis-Hit Countries at Record High." Press Release No. 2010/002/EXC. 1 July 2009.

¹⁶ "World Bank to Invest \$45 billion in Infrastructure to Help Create Jobs and Speed Crisis Recovery." Press Release No. 2009/. 23 April 2009.

¹⁷ "Investments in safety nets, infrastructure needed to support poor in crisis, Zoellick says." Press Release No. 2009/322/EXC. 23 April 2009.

¹⁸ G20 Communiqué, London Summit; G8 Communiqué, L'Aquila Summit; Outcome of the UN Conference on the Crisis and its impact on Development.

This setting does not have the resources of other international financial institutions. ECOSOC and UNDP (and UNDG) are the key developmental bodies of the UN family.

One proposal among the latest aiming to strengthen the UN Development System has been put forward in the “*Delivering as one*” report. The report suggests reducing the ECOSOC composition to 27 members, convening an annual “*Global Leaders Forum of the Economic and Social Council*”, and establishing a *Strategic Sustainable Development Board* made up of all UN specialized agencies and chaired by the UNDP Administrator who would be responsible for reporting before the ECOSOC. These proposals are still to be adopted by the GA, but many countries especially developing remain hostile to set up new governance structures within the UN system that would follow a centralization approach. Their position is mostly based on their “*no one size fits all*” approach to development. In fact most of the proposals of the “*Delivering as one*” agenda regarding governance at headquarters are still encountering resistance, and should not be implemented in a near future.

C) Beginning the Reform of Multilateral Institutions: Recent Proposals

The diagnostic on this institutional setting is well known. Many proposals have been put forward for reforming these institutions in order to make them more legitimate and more effective. Solving governance problems in shareholders organizations and in institutions based on the “One-State-One-Vote” principle supposes different decision-making systems, but the bottom-line remains that states’ consent to international cooperation through treaty-based organizations is based on the states’ calculations that they will weigh sufficiently within these formal arrangements, that in turn will increase their influence.

The Bretton Woods Institutions Reform

Given the importance of these institutions in the context of the current financial and economic crisis, and the widely shared views on the current limitations of their governance, International Monetary Fund and the World Bank are attempting to undertake reforms

Reforming the IMF. Part of the reform entails substantive policy issues, in which the current role of the IMF’s policy advice needs to be strengthened and improved to ensure that it is effective¹⁹. Equally critical is reforming the governance of and decision-making at the IMF, to enhance both legitimacy and effectiveness of the institution. The Committee on IMF Governance Report, chaired by Trevor Manuel (2009), has suggested important proposals:

- Transforming the International Monetary and Financial Committee into a Council of Ministers and Governors led by a rotating troika that would be responsible for taking strategic decisions critical to global stability and elevating the Executive Board from day-to-day operational decisions to providing strategic advice to the new Council and

¹⁹ The decisions of the G20 London Summit are going along these lines: a stronger role in macroeconomic surveillance, a review of existing lending facilities and an expansion of resources available for a more rapid and less constraining process for providing liquidity to countries facing balance-of-payments problems due to external shocks, an expansion in the allocation of SDRs and an enhanced role for the SDR in the global reserve system should also be part of the reform.

performing a critical supervisory function. The Board would retain responsibility over lending and financial decisions;

- Accelerating the quota revision process to be concluded by April 2010. The seats accorded on the Council and the weighting should be adjusted to reflect the new economic realities.
- Lowering the voting threshold on critical decisions from 85percent to 70-75 percent, and giving consideration to extending double majorities (quota and members) to a wider range of decisions;
- Introducing an open, transparent, and merit-based selection process for the managing directors.

Most of these proposals have been taken up by the G20 Communiqué where developed and emerging countries pledge “*to reform and modernize the international financial institutions*”, especially “*their mandate, scope and governance to reflect changes in the world economy and the new challenges of globalization and that emerging and developing economies, including the poorest, must have greater voice and representation*”.²⁰

The key issue for both IMF and WB governance reform is the quota revision process where an appropriate balance must be kept between the requirements of inclusion and legitimacy, on the one hand; and the need for the governance of the Bretton Woods sisters as shareholders’ institutions to function decisively, on the other.

At the G-20 finance ministers meeting early September in London, BRIC countries proposed a quota shift of 7 percent in the IMF and 6 percent in the World Bank Group to reach what they view as a more equitable distribution of voting power between advanced and developing countries. Preparing the G20 Pittsburgh summit to be held late September, the US administration formally put forward a quota shares reallocation of 5 percent and the reduction of the size of the IMF Executive Board in order to preserve the chairs held by emerging economies and developing countries. The negotiation is ongoing, but this issue remains highly controversial even though at the London Summit, G-20 countries agreed upon to complete the next IMF quota review by January 2011.

The World Bank is facing similar challenges. As in the case of the IMF, the expanded mandate (e.g. new lending facilities) and increased funding of the World Bank have to be accompanied by far-reaching changes in the governance of the Bank to ensure greater legitimacy and operational effectiveness. The weighted voting system in both the IMF and IBRD is calculated using similar formulae, and the implementation of reforms agreed upon in October 2008, in particular the doubling of “basic votes”, which are the number of votes every member country has got as member, would raise the total share of voting power for developing countries from 42.6 percent to 43.8 percent. Similarly, one new chair for Africa at the World Bank is another step in the right direction. These changes however will not change the dynamic of the decision-making process both at the IBRD and the IDA, unless a forceful and comprehensive quota revision is undertaken.

²⁰ London Summit G20 Communiqué, *The global Plan for Recovery*, article 20, 2 April 2009.

According to Birsdall (2008), a shift to a greater use of double majority voting (majority of weighted votes according to the country's share, plus a majority of countries – an innovation for both of these institutions) on selected issues, such the recruitment of the heads of the Bretton Woods institutions would protect the interest of developed countries by making the decision-making process more inclusive.. Furthermore, such voting rule would encourage some political coalition buildings beyond geography, thus enhancing the political legitimacy of the policy-making. In London. the G-20 countries called for a complete World Bank reforms by spring 2010.

The WTO is based on the sovereign equality of its member states

Each member state of the WTO has one vote in the most important decision-making bodies (Ministerial Conference and General Council), and no country has veto power. Trade agreements therefore are only reached by consensus of all WTO member states. Nevertheless, large number of WTO members (currently 153) often makes reaching consensus problematic, and the need to build a quasi-universal consensus to reach multilateral agreements may also lead to blockages in progress. In practice however, negotiations (and agreements) are often determined by the most important players on each of the relevant issues being negotiated (trading blocs). The G-20, the UN Conference on the crisis, and the G-8 have recently called for the formulation of a multilateral trade agreement to conclude the Doha Development Agenda, resist protectionism, and promote global trade investment, but no real advance has occurred in this process over the last few months. Realistically a consideration of possible WTO governance reform is unlikely to emerge until the Doha round is either concluded or abandoned. Although the sovereign equality principle and consensus ensure broad inclusiveness in the decision making, the international trade system can be stalemated by only one member state using an actual veto right, whatever its weight or dependency in trade.

The United Nations System

The UN development system is also contemplating reforms. The Monterrey Consensus, signed by member states in 2002 and reasserted in the Doha Declaration (November 2008), has called for a reinvigorated UN system, including a strengthened ECOSOC aiming to promote a more inclusive, stable and prosperous global economic system for all. Made up of 54 member states selected among the regional groups, the ECOSOC is supposed to be responsible for coordinating the activities of all the specialized UN agencies through consultation with and recommendations to these agencies. Development could be the sphere in which the UN system may engage in “the division of labour” between international institutions being part of the Global Economic Governance system. Indeed, the mission statement of the ECOSOC is to assist the General Assembly in promoting international economic and social cooperation and development. Several reforms occurred throughout its history, including after the 2005 World Summit, with the objective of strengthening UN coherence and effectiveness in the economic, social and development realm, but the decision-making of the General Assembly, based on inclusiveness and the principle of the sovereign equality of all its members (UN Charter, article 2.1), makes it slow to reach consensus given the need to take into account all the preferences.

In a recent discussion note (2009) the UN Secretariat put forward the reform of the policy guidance process with a strengthened legislative role for the ECOSOC (the General Assembly providing strategic and policy guidance to UN operational activities for development, and the

ECOSOC providing operational guidance to the UN system) and a transformation of the ECOSOC into “*a dynamic forum for strategic and focused policy discussions on major UN operational issues, with the participation of both national policy-makers and Chief Executives of UN entities*” (Para 73). A previous proposal put forward by the *Delivering as one* Report to reduce the ECOSOC membership to 27 states meeting once a year at the leader level has also failed to attain general agreement among the international community.

4. The informal Arrangements Mobilize Action but still Face Problems of Legitimacy in spite of Progress in Inclusiveness

In the international relations system, countries may choose to form informal arrangements in order to address common challenges. In response to the global crisis, this type of cooperation has emerged to mobilize action, and the series of G20 meetings at the leader level have been convened to this end. Despite real progresses in terms of greater inclusiveness and representation of different kinds of countries (developed and developing), this type of *ad hoc* grouping still faces problems of legitimacy in policy-making.

A) The G-N Processes and the Effectiveness-Exclusiveness Dilemma

As a possible response to the lack of effectiveness of many international institutions, several countries can try to build *ad hoc* cooperation groupings for dealing with issues of common interest. This kind of gathering, which brings together countries sharing some characteristics (e.g. the debate on the league of democracies, Daalder and Lindsay 2007), common interests or a willingness to tackle cross border challenges, is perceived to be more effective than using the fully-fledged machinery of more inclusive international meetings. It is supposed to be more effective precisely due to its exclusive nature. But this potential effectiveness may come at the cost of exacerbating legitimacy concerns: decisions aimed at addressing global challenges and providing global public goods are taken by a few countries thanks to their ability and willingness to face common problems.

This underlying logic has underpinned the establishment of the G7 at its outset, the G20 and more recently the BRIC Summit convened in Russia²¹. What is interesting regarding the latter is its asserted goal to have “*a substantial impact on the international discussion about the ways to contain the consequences of the global economic crisis*”²². In other words, this informal arrangement of emerging countries that account for more than 40 percent of the world’s population and 15 percent of the world output is benefiting from a common interest in promoting change in the global landscape. This grouping is based on the need for developing countries to have a forum where they may advance common agenda, particularly in global economic governance. Indeed, the BRIC summit communiqué states that “*emerging and developing economies must have greater voice and representation in international financial institutions*” and reaffirms “*the need for a comprehensive reform of the UN*”.

Whatever the grouping - G7-8, G8+G5, BRIC summit, etc.- the underlying logic is the establishment of cohesive groups that are better able to advance the common agenda and shared goals of their membership. In this approach, an informal arrangement needs to be somewhat exclusive in order to be effective.

21 Summit of Brazil, China, India and Russia, Yekaterinburg, 16 June 2009.

22 Statement of the Russian Foreign Ministry, Financial Times, 16 June 2009.

Nonetheless, the G20 has brought a certain amount of impetus to international cooperation by taking important steps in the right direction: It has organized a series of meetings at the leader level of both developed and emerging countries, which have also included the participation of leaders of international institutions and regional organizations. These facts represent important improvements in terms of representation, coordination with treaty-based institutions, and multilevel governance.

B) The G20: New impetus in International Cooperation

The informal arrangements have emerged to mobilize action but face problems of legitimacy since they exclude many countries from participation in the decision-making. Nevertheless, the fact that the G20 remains at the center of efforts to address the on-going financial and economic crisis is certainly a step in the right direction in terms of representation and legitimacy.

The series of Summits from Washington to Pittsburgh introduce a new manner of managing the world economy. What began at the 2003 Evian Summit with the G-8 leaders reaching out to leaders of emerging countries with invitations “*for the tea time*” according to the famous expression of the Brazilian minister for foreign affairs, Celso Amorim, and then evolved into the Heilegendamm and then L’Aquila Dialogue Processes which institutionalized the G8+5 forum has now evolved into the G20 presence at the leader’s level. Indeed, for Bradford, Linn and Martin (2008), this format puts an end to the debate among experts about what is the optimal size for such informal arrangements: “*by accepting the format of the already existing G20 of finance ministers which has functioned well since, the Pandora’s Box of country selection remained mercifully closed.*”

From an economic perspective the number of key players in world politics is multiplying, and the nature of power is transforming. A larger number of countries are likely to wield major power in the years to come. According to the former Prime Minister of Canada Martin (2007), even if a partial transition to multipolarity occurs, the trend is here to stay, and the need for more effective global governance poses a significant challenge. The fundamental rationale behind the L20 proposal is that “*the world needs a body that can form the consensus required to deal on a timely basis with issues of all kinds that have global repercussions*” (2007, p. 302). This proposal was precisely underlying the Washington summit convened in November 2008, and the “L” for leader is key because “*only leaders can take the leap of faith, the calculated risk and the reversal of an established precedent that are needed to achieve real progress*” (2007, p.303). The leader element is crucial particularly in a context of divergence of interests in such groupings where members are not necessary like-minded, in order to generate progress on global governance issues that otherwise would remain deadlocked; thus, the L20 would provide political leadership in making the framework for international decision-making more effective, and would represent the coordinating forum for global affairs.

In short, the major improvements in the informal cooperation brought by the G20 process are the following:

- Convening a series of meeting at the leader level for addressing the global crisis: The L20 (“L” for Leader) is going to be convened three times in 10 months;

- Expanding the attendance to numerous emerging countries to account for more than 85 percent of the world output and making clear that the G7-8 platform can no longer function as a credible steering group for finding internationally concerted solutions to the crisis;
- Inviting representatives of international organizations (IMF, World Bank, UN in Washington, plus WTO and OECD at the London Summit) in order to benefit from their respective expertise and to coordinate policy-making agenda;
- Expanding the participation of regional organizations in the G20 beyond solely EU membership, represented by the President of the European Commission, to other regional organizations (NEPAD, Commission of the African Union, and ASEAN) at the London Summit, thus enlarging the representation of developing countries and giving opportunity to better articulate different levels of governance (state, regions, and global).

In London, this G20 has become a L20+ grouping, bringing together about 30 people around the table, what remains a quite manageable number enabling an effective policy-making process. Even though this new *informal* economic diplomacy format presents several improvements compared to the pre-crisis period, it still remains an “exclusive-club” and falls short in terms of inclusiveness and legitimacy in the decision-making.

C) A competition with the G8 and the HAP Process?

The L20 process has gained political strength over the last 10 months giving this grouping the ability for addressing global challenges in response to the economic crisis. While the G20 appears to be ascending, the L’Aquila G8 Summit in early July appeared to be under stress because of its perceived double gap in legitimacy and efficiency:

- No longer is the G8 a small intimate gathering where declarations are made by only a few leaders acting on an exclusive basis
- The notion of the G8 as a “likeminded” group of representative and liberal democracies is complicated by the presence of Russia.

The Italian Presidency has convened various meetings in different formats in order to enhance the international cooperation. The meeting of the G8 + the G5, namely China, India, Brazil, South Africa, and Mexico, was an attempt to reopen the space of structured political dialogue between developed and emerging countries which took place for the first time at the 2007 G8+G5 Summit in Germany. The 2009 L’Aquila summit confirmed the importance of taking the Heiligendamm Dialogue Process (HDP) seriously and transformed it into the “Heiligendamm L’Aquila Process” (HAP). The proponents of such a process present it as a forum for structured dialogue between pivotal countries from the North and the global South. Rather than fading away, the HDP has been extended for another two-year period via the endorsement of this new process as “a dialogue among equals”. The HAP agenda is to produce a concluding report on this policy dialogue by the French presidency in 2011. In the first ever G8+G5 joint declaration, member states declared that the goal is to “*focus on areas of common interest to partners, be forward-looking and produce tangible results*” (HAP Communiqué). The aim is to address emerging and/or cross-cutting issues which have an impact on global development. To this end a

steering committee co-chaired by a G8 and a G5 country will be set up. The OECD will continue to provide a platform and technical support for this process.

This dialogue among equals is an important breakthrough concept in terms of transition from a G8 dominated world into a world where the G8 needs to share ideas and decision-making with others (Cooper 2009), but challenges lie ahead, including producing common responses in sensitive areas such as “*a strategic approach to development and its social dimension*”, or “*food security and reform of relevant organizations*” (HAP Communiqué)

In fact the G20 ascendancy depends on the Pittsburgh Summit and the ability to improve both its legitimacy and delivery in the face of the economic crisis while at the same time acting for development and coordinating the agendas of multilateral development institutions.

D) How to Improve the L20 Legitimacy and Effectiveness ?

Whether the G20 ‘institutionalization’ to the leader level remains a critical decision-maker in the Global Economic Governance architecture, or other groupings like the BRIC become increasingly important, it remains the case that the overwhelming majority of small and developing countries are not invited to take part in the negotiation and decision-making process. Consequently, major improvements in these arrangements are still needed to gain legitimacy.

The debate about the “right” composition continues, and the G20’s very legitimacy can be put into question (Stiglitz, 2009). The G20 is an exclusive ad hoc structure leaving about 160 countries unrepresented. Even though this grouping constitutes roughly 90 percent of world GDP, 80 percent of world trade, and two-thirds of world population, these facts do not award it full legitimacy in terms of representation, particularly of the poor. It should be acknowledged however that the G20 does bring positive change in terms of representing the poor. Based on the figure of the less than USD 1 per day measure at purchasing power parity of the World Development indicators 2007, 54 percent of the world’s poor live within the borders of developing countries part of the G20²³. Nevertheless conversely, almost half of the poor living in more than 160 countries would remain without voice and representation at the global scale.

Two kinds of further improvements to the G20 could be put forward:

- Making the G20 more inclusive in terms of country representation by enlarging the attendance in order to include representatives, perhaps rotating, of smaller developing countries, perhaps three. According to Dervis (2009b) each of the three additional countries could represent one of three regional groupings: Africa, Asia, and Latin America and the Caribbean. The choice of these additional countries among the 170 unrepresented and the introduction of a rotating principle which infers formal arrangements raise other obstacles which may prevent these transformations in the near future.

²³ India alone accounts for 36.5 per cent of the global poor which is more than that of the whole of Sub-Saharan Africa.

- Better coordinating this grouping to the set of existing international institutions. The UN Secretary General as the senior most leader of the system of multilateral organizations, as well as the Director of the WTO, the Managing Director of the IMF, and the World Bank President should always be invited. Solutions to the crisis also require the participation of the Director of the ILO for his insights on labor and social policies.

As a consequence, even a revamped and enhanced “G20” type of arrangement cannot replace the set of formal international organizations. The major multilateral institutions represent constituencies with universal or near universal memberships and have legal mandates that are critical to addressing a range of global issues, yet each needs strong reforms in order to better reflect today’s realities and challenges.

Even though the L20+ remains a valuable process but unfinished product in building consensus towards a reformed system of global governance, it serves for the moment as the forum of a new concert of powers, including both the major economic powers and the emerging economies that have been called to the rescue at the outset of the global economic crisis. As such it represents a transitional form of arrangement that shall evolve in terms of both representation and ability to deliver effectively.

While the L20 process appears to show great potential, there can be unrealistic expectations for the agenda of a G20 grouping, given the prospects for actual delivery and implementation. Experience has indicated that the grouping can be highly functional at the summit but becomes dysfunctional when participating countries fail to implement their summit commitments. Many past G8 communiqué decisions have not been implemented, and the Gleneagles commitments to increase official development assistance remain a forceful case. L20 follow-up and implementation will be a tremendous challenge, and there is a long way to go to implement the London Summit communiqué. Individual heads of governments may be in a weak domestic political position, and national legislators may have different positions than their executive leaders. Convened for the third time in roughly ten months, leaders will have to demonstrate their ability to respond to the crisis by enforcing their previous commitments; otherwise the L20 process credibility might be challenged.

5. Issues at Stake for Enhancing Global Economic Governance

Both of these arrangements need to be improved and articulated in order to deliver legitimately and effectively in the overall development sphere. One must think of the best way to coordinate these two forms of international cooperation. A pragmatic approach might consist in advocating and implementing a responsible manner from states to exercise their sovereignty, and this responsible sovereignty principle might very helpful shortly in order to advance decisively the current negotiation on climate change.

A) Improving Coordination and Articulations between the Two Types of Arrangements

The emergence of the L20 process suggests a change in the research field, and more work is needed on options for filling the gaps in the international network of institutions and arrangements. An enhanced coordination between these informal groupings and the setting of international institutions in the economic and development arena supposes constructive dialogue and a clear division of labor. If the L20 succeeds in deciding and implementing effective international cooperation it will need to surround its decision-making with broad and intensive consultation with other governments, and to establish complementarity and coordination with treaty-based and institutionalized organizations.

The main argument of informal groupings proponents is the G20 was never intended to supplant discussions that need to occur in the set of international institutions. Rather, the G20 could be a useful mechanism to break deadlocks with multi-sector dimensions, such as climate change, and to also trigger new momentum towards UN Reform. Giving priority to effectiveness does not necessarily set aside any claim of legitimacy. Thus, the G20 process would give decisive impetus to international cooperation to the benefit to 192 countries at the finishing point of effective global economic governance. The challenge facing the developing countries excluded from the G20 process would be to come up with an effective entry point into the G20 debates.

Nevertheless, the coordination with universal and quasi-universal institutions is necessary at one point or another in order to add the necessary legitimacy to this supposed efficient decision making process.

The Zoellick's proposal: a new Steering Group on the global economy

Robert Zoellick (2008), president of the World Bank, puts forward a “*new steering group*” where the participation of international institutions chief executives would improve coordination with these informal groupings. He suggests inventing a new type of multilateral economic cooperation, through a new steering group made up of developed and emerging countries (G8+G5) with the assistance of BW institutions, the WTO and UN Agencies. The international institutions could usefully contribute to this “*plurilateral*” economic diplomacy by identifying emerging problems, supplying analysis, suggesting solutions, and coordinating agenda. In other words, those leading countries could take effective and coordinated decisions, and would benefit from the expertise of international institutions and their ability to transform decisions into

international norms and policies. Such a proposal formally coordinating the two types of arrangement does however raises questions about the task and mission of international organization representatives in the grouping, with respect to other constituencies and member states to which they are accountable and which do not take part in the decision-making.

Transforming the ECOSOC into the focal point for Global Economic Governance?

Informal arrangements have been succeeding in mobilizing action and in giving impetus to the overhaul of global economic governance. Building on this momentum might be very useful in order to move forward in the short run. However, one must deal with the complexity of sustaining an international economic system where power is more diffuse and interests are more various. Formal institutions need to keep pace with the global economy and must be reshaped to address systemic risks. The creation of a focal point could be helpful for providing a sustained and coherent agenda in order to enhance leadership and coherence in the economic and development arena. The transformation of the ECOSOC into this focal point would give developing countries the opportunity to play a guiding role in the IFIs reform process and to build an international architecture that represents world realities. The UN Development system would play a vital role at the centre of the international architecture. However, this proposal encounters strong opposition from both sides: Developed countries do not support the ECOSOC as the preeminent body, as from developing countries that are concerned in changing the only one body where they have a voice, however negligible its influence.

Creating a global economic body in charge of expertise and coordination?

The Stiglitz commission put forward the proposal of an expert group advising the General Assembly and the ECOSOC on global economic issues, and some governments (Germany) recently suggest establishing a Global Economic Council that would provide coordination in addressing the broader range of global challenges. Along these lines, a “*Center of Excellence for Economic Prosperity*” (Jones, Pascual and Stedman 2009) could be a central body for consolidating the multiple efforts to promote development and economic stability and to reduce poverty. All these proposals are based on the need to coordinate and give wide coherence to the policies and actions of key formal organizations (Bretton Woods, UN system, OECD, and WTO). Helping to forge consensus on global economy, as the IPCC does on climate change, this body could identify trends in the global economy and provide specific guidance in development policies which specialized institutions should enforce. Nonetheless the gap between scientific diagnosis and policy-making remains to be filled, and the local politics driving government positions remains an obstacle. Furthermore scientific knowledge in economics does not provide enough leverage in international relations and cannot compel economic powers to one type of arrangement or another, neither to coordinate policy agendas.

From leaders’ perspectives to international binding agreements ?

Informal arrangements along with meetings convened on a regular basis at the leader level (so-called L-N) could inspire and influence the set of international institutions if their executive heads were invited every time to this leaders’ table. Like at the London G20 summit, it can bring “*a more truly global and inclusive dimension to the meetings and can constitute a link between the informal L-N setting and the discussions taking place within the framework of the treaty based organizations themselves*” (Dervis 2009b). In such an approach, these leaders meetings would deal with broad agenda, give the opportunity to share a wholistic perspective on world

affairs, and head executives of specialized institutions would have to channel and to translate this global agenda into specific binding agreements and effective decision-making processes. Thus, informal arrangements would reinforce the reform dynamic in the international institutions. Such a proposal is not new. Similarly, the international task force on global public goods (2006), following the UN High-Level Panel on Threats, Challenges, and Change report put forward as well to transform the G20 into “*a Global 25 Forum*”.

These proposals for a leaders forum, enough wide to play a catalytic role in generating international cooperation on global public goods, can be compelling. Nonetheless, the participation of the chief executive of international institutions in this Forum, aiming at enhancing the necessary coordination the kind of arrangements, cannot by itself remove the political resistance of the excluded countries. In addition to the mandate and task problem raised by the participation of International institutions chief executive in the Leaders forum mentioned above, political coordination is absolutely needed; otherwise deadlocks are the most likely. Diplomacy and cautiousness are required. For example, the next G20 summit convened at the same time as the United Nations General Assembly is maybe not the best coordination signal to convey. In the aftermath of the UN conference on the Crisis where Southern countries showed up their willingness to overhaul the system, how cannot be a way that does not insult those from countries that aren't included?

B) Implementing the ‘Responsible Sovereignty’ Principle in International Cooperation?

The international system, since the Westphalia treaties²⁴, has been primarily based on the principle of state sovereignty, which enables countries to lead international cooperation either in the framework of treaty-based institutions or through ad hoc and informal arrangements. Along these lines, the UN organization “*is based on the principle of the sovereign equality of all its Members*” (Charter, article 2.1), and from this membership results, rights, benefits and “*obligations assumed by them in accordance with the Charter*” (article 2.2). These membership principles apply in any treaty-based organization or informal arrangement.

One possible way of considering how to reform the institutional arrangements underpinning global governance would be based on the responsible sovereignty principle (Deng 1996, Jones, Pascual, Stedman 2009) which differs from the traditional interpretation of sovereignty. In a context of deepened interdependence, sovereignty entails obligations to one's own citizens as well as beyond national borders: “*Responsible sovereignty requires all states to be accountable for their actions that have impacts beyond their borders and makes such reciprocity a core principle in restoring international order and for providing for the welfare of one's own citizens*” (Jones, Pascual, Stedman, 2009, p. 9)

24 After almost 30 years of war, the Westphalia treaties founding in 1648 the supremacy of the sovereign authority of the State was established within a system of independent and equals units, as a way of establishing peace and order in Europe.

Treaty-based organizations would represent the world realities according to the responsibility of each member state in the face of common challenges, and would grant various rights and duties accordingly. The responsible sovereignty principle could be grasped as the global dimension of sovereignty, an additional level of sovereignty which is exercised by member states within international organizations through, for example, weighted decision-making processes (Dervis 2005) and the differentiation of assignments and tasks under a common goal.

The major issues of this approach is to delineate the scope of each state's responsibility, rights, and duties in addressing a specific global challenge and to lead a negotiation process toward a consensus since there is no supranational authority being entitled to do so. The rules of this new order must be negotiated, not imposed, and major powers must be convinced to exercise their sovereignty responsibly. As such responsible sovereignty could be used as a foundational principle for international cooperation against transnational threats and enable the identification and design of the institutional arrangements to best align players and their capabilities.

In this perspective Jones, Pascual and Stedman (2009, p.47) suggest 9 lessons of institutional innovations that would help design effective institutional arrangements to meet global challenges:

- i. Engaging with Major powers which involvement is critical for reaching agreements;
- ii. Aligning Major powers is a necessary condition for making effective any new international cooperation;
- iii. Articulating and channeling the arrangements. Major powers agreement is necessary but not sufficient: rough agreements on the basic parameters of solution are forged in their small groupings in order to impede free riding, but more inclusive processes enabling their broad implementation. Processes from informal groupings to treaty-based multilateral institutions need to be articulated and channeled;
- iv. Aligning institutions and informal groupings to the shifting power balances among major powers in order to better reflect the world realities.
- v. Making institutions flexible and responsive to changes in global economy to be effective.
- vi. Building multi-level governance architecture between regional and global bodies that is based on the subsidiary principle.
- vii. Engaging with the private and civic sector actors in order to manage problems at the issue-specific level and to build large and effective coalitions;
- viii. Building cross-institution collaboration and coordination for dealing with complex and cross-issues (ex: climate change and nuclear proliferation), where decisions in one domain can have substantial impact on the others. Actually, the CEB represents one of the first attempts in setting cross-cutting capacity through which to anticipate or monitor cross-sector effects of policies : "Fluid mechanisms for bringing different institutions to bear on linked problems will be a central part of challenge ahead" (2009, p. 50);
- ix. Developing mechanisms that can better generate compliance with agreements.

According to this approach, great powers have to assume the main responsibility by leading pre-negotiation processes within informal arrangements and to then build on these bases for reaching broader agreements with small and developing countries. The great powers must also adapt the set of international institutions so that they deliver effectively. Responsibility is not equally shared among countries.

To summarize the responsible sovereignty principle: All states would remain legally equal in the international system, but some of them, bearing greater responsibilities for leading international cooperation through informal arrangements, would trigger impetus with multilateral institutions in order to craft broader consensus among the international community and to develop appropriate policies to address global challenges. The requisite of such an approach is that responsibility needs to be part of the major powers interests and strategic calculations.

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