

BREAKING GLOBAL DEADLOCKS:

The Future of International Governance Architecture

March 10-11, 2008

Mexico City



The Conference was held at the Tlatelolco Building, under the auspices of the Ministry of Foreign Affairs of Mexico. Discussions were divided among three topics, first Global Economic Issues; second, Development, Political and Security Issues; and third, Informal Global Governance Structures. The third session focused on the interaction between the G5 and the G8.

Global Economic Issues

This session addressed 21st century challenges to governance architecture for international finance. There appeared to be a crisis—the West thinks its values and formulae are universal, whereas many do not accept them. There was a bad start to the 21st century—cooperation and multilateralism were the goals, but confrontation and unilateralism prevailed. Our global institutions are sixty years old and are outdated. In the finance area, they include the IMF, the World Bank, the BIS, the Financial Stability Forum, the OECD's Working Party 3, and the Regional Development Banks.

In 30 years China, India, Brazil, Indonesia, and Korea (if unified) will be amongst the 10 most influential countries. Pakistan, Bangladesh and Nigeria will each have a population greater than 200 million. The world will be more complex and there will be new demands to address emerging issues. We will need more structures and more international arrangements. It would be nice if a 16 to 20 country steering committee would work together, but only if the members themselves were to be bound by its decisions and rules. The reality is that the decisions of such a steering group will affect other countries.

The IMF is being marginalized. Discussion of governance reform must go beyond votes, shares and executive board seats. The important factors are institutional memory and the weight and influence of good people. We were reminded that Keynes wanted to abolish the BIS—he wanted a legal rather than an informal body. Accounting standards, codes and debt restructuring approaches are all informal and not enforceable. There was a failure of regulatory agencies to monitor and supervise; they ignored off balance-sheet activity. Leaders could push standards bodies to be more inclusive.

Moments of crisis can lead to institutional innovation. The one-size-fits-all prescription tendered to Asian countries emerging from financial crises cannot be applied to the US. We are facing a decentralizing trend, moving to a multi currency order. This leads to the prescription that Leaders should push the IMF to accept decentralization and become a central node of networks, rather than an institution. The IMF should accept regional arrangements and look to the Regional Development Banks as models.

One view was that there must be a Leaders' "Steering Committee" and that it should not be based on variable geometry¹. The question is not whether, but what kind. Powers from each region must be included, because the lack of representativeness will decrease legitimacy, and hence effectiveness.

The discussion turned to the practical questions of the emerging new financial mechanisms for climate change. It may be that climate change should drive developmental policies; without a hospitable climate, development investments will be in vain. Unprecedented amounts of money are being committed to climate change, much of it about to be entrusted to the World Bank and RDBs. The OECD's Paris Declaration on Aid Effectiveness—calling for recipient partner countries to exercise genuine ownership over the process—seems to have had little influence. The Bali conference's decision on the governance structure of the Climate Change Adaptation Fund has had no impact. The World Bank will produce another top down mechanism where outreach will be for information, not consultation. We should be concerned because we cannot afford business as usual practices which have plagued ODA; these approaches have generally led to failure. Instead, we should devise multi-faceted approaches rather than a single delivery mechanism. We should build in redundancies to ensure local buy-in, local engagement and local decision-making. We need an analogue to the G8 Okinawa Task Force in ICT to devise optional financial mechanisms and governance structures.

We were urged to start anew rather than try to reform the World Bank. We need to find a new paradigm and new governance mechanisms. Questions were raised concerning potential revenues flows from carbon trading schemes. Who will regulate the system? What new mechanisms can be developed based on a more generalized system of property rights for forests? Future financial flows will be the key element of any deal.

Today, China and India will not join the G8; they will not compromise their G77 membership. If the G8 will not accept expansion, a parallel institution could be established; the G20 is an example. The G8's arrogance and obtuseness has created the possibility of a rival bloc—the G5. At Leaders' level, there are several ways to get to a Leaders' "Steering Committee". Perhaps the Five (and Indonesia) should convene their own summit meeting in 2009 and invite the G8 (first having secured the acceptance of the next US president).

Discussion continued on composition. The G5—the Gleneagles 5—was created with little reflection. Probably Indonesia should be added. But ultimately the subjects to be discussed, climate change or deterioration in the global economy, are more important than composition. We were advised not to build the case for a Leaders' steering group based on legitimacy criteria; instead, we should focus on the case for effectiveness. The question should be who are the key players needed to solve the problem, emphasizing

¹ There was contention on this point - with some arguing that, the composition should vary to ensure the presence of the most appropriate countries, which varies depending on the problem at issue. The rejoinder was that personal relations and institutional memory trump the argument. A consistent group will build empathy and understanding.

that this was a pre-negotiation steering group that would send any matters decided on to a larger and universal forum.

Recent financial turbulence is centered in the US and the developed world. The IMF has been relegated to the sidelines; both institutions have negative financial flows, receiving more payments than they disburse. Sovereign wealth funds have become major players. There is a crisis of economic policy ideas—the Washington consensus is discredited. Reform of global governance has not kept pace; witness the selection of the World Bank President and the scandalous provision of IMF Board seats for Africa

The current financial crisis occurred despite the IMF, the BIS, and the Financial Stability Forum. Transparency codes, early warning systems and the rating agencies failed.

The nature of the next crisis cannot be anticipated. In 1999 we could not anticipate the current global financial imbalances. The format of crises is always different. This argues for a fairly permanent steering committee with wide membership.

To be less abstract, we should ask what issues are susceptible to progress in a single effective steering committee. A steering committee might be fine for ODA, but inappropriate for the Doha Round. Where would we find common ground: migration or food and water shortages? We do need an umbrella, with an institutional memory, an “archive”. There was no consensus as to whether the steering committee should have fixed membership or participation varying with the subject matter. The facts are: what we have does not work; we need something new, and the “perfect is the enemy of the good”.

Development, Political and Security Issues

Climate change

We reviewed the history of the UNFCCC, the Kyoto Protocol, and lessons from the Montreal Protocol. These lessons included the importance of scientific assessments simplifying issues for decision-makers; development of safe alternatives; availability of funding to assist developing countries; collaboration among industry, academics, NGOs and government institutions; and monitoring and follow up. The Montreal Protocol evolved over a period of years from a weak agreement with few countries to a robust and effective agreement, with manageable mechanisms and with global adherence.

We reviewed the need to price carbon emissions, to increase investment in RD&D and to expand international cooperation on deploying alternative technologies. To prevent a “tragedy of the commons”, the like-minded must pursue a new post-Kyoto agreement.

Prospects for nuclear energy were fraught with uncertainty with respect to costs. We need R&D and more investment directed to nuclear safety.

Security

Views vary on what constitutes threats to international security – from HIV/AIDS to poverty to catastrophic terrorism. Some would say that unilateral exercise of US power is a threat to security. Others would define the absence of a system of collective security as a threat. Advances in bio-technology lead to security questions. Threats should be defined as any event that leads to large scale loss of life and undermines nation states.

Security institutions require strengthening—we must revisit and extend the underlying global bargains. The list of needs include:

- Universal adoption of the nuclear protocols and incentives regarding the nuclear fuel cycle;
- An IPCC type mechanism to create consensus, to overcome the divisions within science concerning the extent of the potential problem in the field of bio-security;
- Resources to increase the capacity of the UN, the AU, and the Peacebuilding Commission;
- A Mid-East regional mechanism to foster negotiations;
- A new treaty based institution for cooperation in counter-terrorism; a High Commissioner for Terrorism

UN Security Council Reform

We explored the impact of UN Security Council reform on global governance. One view was that delaying tactics would not work anymore, that the Security Council will be expanded, and that this was not good for governance. The next US President will want to stop the free-fall in popularity and trust of the US.

We may see a new category of “castrated” (veto-less) permanent members. The net result will be negative in the medium term because the new permanent seats will be balanced by more elected members. This will result in three tiers of membership, the bottom two permanently unhappy. The P5 will remain the Security Council’s Executive Committee.

There is a lesson for those hoping to create a Leaders’ “Steering Committee” from the G8 and G5 (or the L20 from G20 Finance Ministers). One must be very sensitive to the imperatives of legitimacy and universality. We should not expect the world to be grateful and appreciative if any Leaders’ “Steering Committee” is established. It will need some kind of structured and formal universal blessing. The General Assembly must confer legitimacy, for the creation of a very specific leadership group, for a very specific and well-defined purpose. There will have to be much ground preparation with all stakeholders. It cannot be an open ended management committee for “homeless” global issues.

Informal Global Governance Structures

The “accidental” outcome of the Gleneagles 5 was reviewed. The Gleneagles experience with climate change led to follow-up sessions and the Heiligendamm process. There was recognition that ad hoc G8 outreach was not a substitute for the more inclusive structures needed to achieve a significant agreement on climate change. The G5 are now more

proactive regarding priorities – they propose topics and agenda. The G5 face similar challenges – diversity, income inequality, and poverty. They are now in permanent communication with each other, with Mexico serving as coordinator. They do not want to talk about “joining” the G8 to form an “elite” club. On the other hand there is a willingness to assume more responsibility of leadership, to adopt further commitments and to have meaningful discussions seeking solutions on topics of common interest. Meaningful discussion is possible only with preparations; these must be calibrated to allow informality in the Leaders’ discussions.

Preparations for the Hokkaido G8 summit were reviewed. More leaders than ever (23) are invited. There is an event with the G8 meeting African leaders (the NEPAD 5, the AU and Ghana). The G8, meeting alone, will discuss the economic environment, climate change, Africa, and openness to markets. There is a subsequent event where the G8 will meet with eight other major emitters (President Bush’s major economies initiative). Japan, apparently for reasons of regional rivalry, wants to maintain the integrity of the G8. It has sent several signals it will not help make the Gleneagles 5 automatic participants.

We discussed the pros and cons for moving quickly to a G13. The pros include the fact that it is easy to build on an existing body, with an agenda and an institutional base. The Five have been participants in the past three G8 summits and have established internal structures for summitry. Dealing with the global financial instability requires the involvement of the developing world—the financial issue is less controversial than climate change. The cons include the fact that the G8 do not feel illegitimate or irrelevant. There is no “G5” institution. The “G5” are not representative of the rest of the world, and do not have common goals or agenda. The G5 believe the G8 is irrelevant. It is easier to start a new process rather than building on an old one.

One thought was that G5 Leaders, rather than go to Hokkaido, should meet at Leaders level to legitimize the G5 and talk amongst themselves. It was observed that China has no interest in discussing climate change with the G8. The challenge then posed was to name one problem that the G5 would resolve alone – the response was progress in actions of non Annex 1 countries.

We reviewed the situation in China. The Chinese leadership’s main preoccupation is the tremendous challenge of economic development within China. China will not take a leading role on the global stage. There is sentiment within China that it must respond to climate change, but there is frustration with the international process, given others’ position on technology transfer. China will not push on cuts but could accept an approach on intensity. China is unlikely to sign on to binding commitments.

We touched on the role of civil society. We noted the powerful impact in several instances—debt relief, ODA, HIV/AIDS. Civil society now has excellent analytical capacity, or has alliances with groups that do. They have moved far beyond ODA. The question will be how do they participate: through Sherpas, parliaments, and/or blue ribbon panels and wise persons groups?

We asked whether our network should be selling an idea. The consensus was we are already selling an idea, the G13. But the impetus will not come from G8 outreach. It must come from the Five. The Chinese will not join a G8. The G5 will not be a second class add-on. Nevertheless, the G8 will remain.

With respect to untangling issues and reforming structures in the UN, the G5 must first decide what they want, and should then prepare a common view on important issues to present to the G8. They want discussions rooted in mutual respect, equality and participation on the same basis. The current economic crisis merits discussion among Leaders. There is a need for a shared assessment by the thirteen countries to address robust cooperation on trans-border problems.

Conclusions

There appeared to be consensus on several points:

- There was a lack of confidence that existing institutions, and specifically the United Nations, could address the challenges arising from global interdependence;
- There is a particular role that leaders can play, given the mismatch between the dimensions of global challenges and boundaries of ministerial portfolio and the mandates of international organizations;
- A Leaders' "Steering Committee" is needed for major issues, but preparations for the meeting is key, with officials eliminating "lesser issues", boiling down major issues and framing matters of contention for decision;
- Some argued that the legitimacy of such a steering group is a red herring; the group would not act as a "directoire" or a "World Decisions Inc.". It would only bind itself and agree to work together towards specific ends. The group would not bind or bully others. Kofi Annan had supported an "L20" raising the G20 Finance Ministers to Leaders level. The group would crunch long-festering issues and then bring the deals to the UN to ratify them;
- There was faint hope for the American (16 member) Major Economies initiative, if the meetings are prepared by officials from Environment Ministries;
- The Japanese have stalled the idea of the G8 inviting the Gleneagles Five to meet for substantive discussion (G8+5 succeeded the idea of the L20);
- Climate change is a problem looking for a forum; it cannot be resolved in the G8;
- Future work in the climate change area must demonstrate cogently that mitigation and prevention policies are cheaper than dealing with future consequences of inaction.