

At a stage in history in which the political mechanisms of democracy principally continue to function on the national level, how can the global trends of the environment, commerce, finance, etc. be managed?

# The world is in need of global governance

WORLD

by Donato Speroni

Many citizens feel helpless before the vastness and complexity of phenomena that seem out of their control. Yet, in the midst of a thousand difficulties, global governance is showing signs of progress

**T**he early years of the new millennium saw two global possibilities go up in smoke. The failure of United Nations reform quashed the even tenuous hope that the U.N. might evolve into a kind of worldwide government. Likewise, the theory that the American superpower might become, for better or for worse, the arbiter of mankind's destiny has also proved to have been unfounded.

Thus the world seems to be headed for a dramatic clash of regional powers: United States and China, for the most part, but also India, Russia, united (perhaps) Europe, each committed to the defense of its respective interests. Is there room for hope that in coming decades the conflict will not explode with devastating results for the planet? Maybe yes, if globalization shows it can self regulate and correct its principal shortcomings through a complex mechanism called "global governance".

With regards to the environment, where the hard won Bali accords showed that by now no one can "count himself out", but also in other fields, a network of agreements is connecting Countries on issues essential for their progress, sometimes creating regulatory agencies, and at others mere reciprocal

commitments. Even where this network has no formal standing, the momentum toward joint management is on the rise. This is an example of the "global governance" also discussed in the following article by James M. Boughton and Colin I. Bradford, Jr., and that two other scholars, Thomas G. Weiss and Ramesh Thakur, have defined as "the totality of formal and informal institutions, mechanisms, relationships and bilateral and multilateral processes among States, markets, citizens and governmental and non governmental organizations, through which collective interests are declared, rights and obligations are defined, and differences are mediated on the global scale".

It is obvious that global governance ranges over innumerable fields, from cultural exchanges to the battle against terrorism: just take a look at the dozens and dozens of websites of U.N. agencies (which however are only a part of the international organizations we are referring to) and their thematic sub-sites to understand the vastness of the networks of covenants and institutions that cover the world. The following is a necessarily incomplete overview.

Without Kyoto there would not be a post-Kyoto.





In the past the most important steps forward in international cooperation have been taken after global catastrophes: the League of Nations after the First World War, and the United Nations and its interrelated system of international agencies after the Second. This time it is to be hoped that the fear of another catastrophe can strengthen the ties among States before and not after it happens. Climate change is producing effects that are perceived by a large share of world public opinion that is urging even the most reluctant governments to act, starting with Australia, where the greenhouse effect was a contributing factor in bring about change in the governing majority, and including the United States, where all observers take for granted that a change in policy is forthcoming after the next presidential elections. Even today the White House's attitude has changed with respect to just a few years ago, when George W. Bush went so far as to deny that human behavior had an effect on global warming.

This increased awareness, which forced governments not to come out of the meeting empty-handed, is responsible for the partially positive results of the most recent Bali conference held last November. In reality, Bali's result was merely a "decision to decide": by the time of the Copenhagen conference of 2009, more stringent accords will have to define the follow-up measures to the Kyoto Protocol expiring in 2012.

But what course will the decision take? At the risk of boring the reader, it would be useful to examine in more detail the mechanism that has been adopted against climate change, because it provides a good illustration of the processes of international governance. It all started with a convention approved in 1992, the United Nations Framework Convention on climate Change (UNFCCC), which went into effect on March 21, 1994 and has already been ratified by 192 countries. The UNFCCC represents the first awareness of man's global responsibility for the climate, which is affected by industrial emissions and other sources that emit carbon dioxide and other gases responsible for the greenhouse effect. All environmental negotiations now take place within the context of the UNFCCC. The latter is administered by a secretary (at present the Dutch Yvo de Boer) who has had offices in Bonn since 1996, but its guiding

mechanism is the Conference of the Parties, COP, which convenes all of the member countries and normally meets annually. The COP3 (the third meeting of the Conference of the Parties held on December 11, 1997) approved the Kyoto Protocol containing more rigorous commitments than those of the UNFCCC. The protocol became more detailed with the signing of the Marrakesh accords during the COP7 in 2001, but it only went into effect on February 16, 2005, when, thanks to Russia's ratification, the stipulated quorum was reached that rendered it operational. In its turn, the Kyoto Protocol also has a supreme governing mechanism: the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP) which meets as the same time as the COP, but includes only Countries which have ratified the Protocol.

But the structure of international governance is still more complicated. The UNFCCC has created two subsidiary permanent organs that function as consultants for the COP and the CMP: the Subsidiary Body for Scientific and Technological Advice (SBSTA) and the Subsidiary Body for Implementation (SBI), which meet twice a year. The SBSTA provides technical support while the SBI evaluates national policies applied within the framework of the Convention.

This is not all. Since 2006, the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol



(AWG) has been meeting at the same time as the SBSTA and the SBI. This organ convenes the Countries listed in the first attachment to the Protocol, that is, the industrialized Countries belonging to OCSE and a number of European Countries created after the breakup of the USSR, including Russia itself. Not all of these countries have signed the Protocol, but it is thought that they have a major responsibility for the battle against climate change. Consequently the Protocol provides that seven years before its expiration, these countries should meet in a working group to consider the commitments to be undertaken after 2012. And thus we have the AWG, which intends to prepare the groundwork to avoid a vacuum between the present and future Protocols. Please be patient a moment longer. Before entering on the merits of the usefulness of this complex and glacially moving mechanism, let us take a moment to see what happened in Bali: the UNFCCC conference which met from December 3 to 15 with 11,000 participants (15,000 if you include reporters and representatives of private organizations) also included meetings of the other organs: the COP13, the CMP3,

the AWG 4, the SBSTA and SBI sessions, as well as the meeting of government Ministers and Heads of State (High-level segment). Each of the organs voted on separate resolutions, but the "roadmap" approved in Indonesia essentially calls for the creation of yet another working group: the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, which will bring its work to a close in 2009 and will hold its first meeting no later than April 2008. In contrast with the AWG, the new working group will also include China and India. Its goal is to create a two year process of negotiations to finalize a post 2012 accord at the COP15/CMP5 in Copenhagen (December 2009).

Not dependent on the UNFCCC, but essential to its work, is the Intergovernmental Panel on Climate Change (IPCC) which this year shared the Nobel Peace Prize with Al Gore. With the support of the World Meteorological Organization and of the United Nations Environment Program, the IPCC relies on contributions from thousands of scientists and has this year issued its fourth report.

We have simplified the description of a decision making process which in reality is even more complex: those interested can find further details on the labyrinthine, but well thought-out UNFCCC website. Now, however, with our awareness of the complexity of the mechanism, we can discuss

\_\_Oxfam Activists in Polar Bear costumes demonstrated to raise awareness of climate change, while the United Nations Framework Convention on Climate Change was being held in Bali, last December





the merits of the present and future commitments constituting governance in environmental matters. As we have seen, the UNFCCC brought together a series of good intentions so vague as to have won the approval of all governments, which merely undertook to:

- collect and make commonly available information regarding Greenhouse gas emissions, GHG, the gases responsible for the greenhouse effect, national policies and best practices;
- deploy national strategies to combat the phenomenon and for adaptation to its impacts, including the provision of financial support for developing countries;
- cooperate mutually to prepare to face the impact of climatic changes.

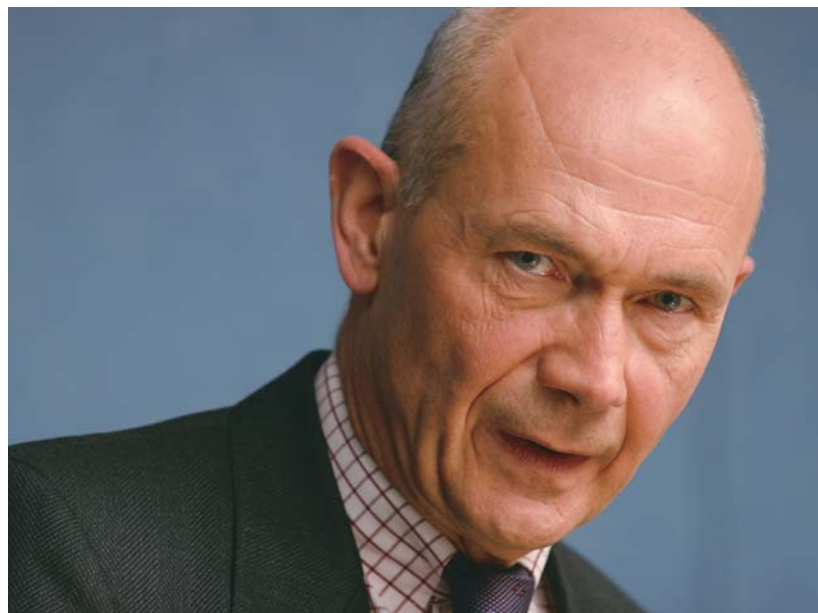
In comparison, the Kyoto Protocol is much more rigorous, with severe measures in effect as of 2008. It will impose on developed countries, responsible for most of the pollution as of 1990 and endowed with greater financial resources to combat the problem, GHG reductions under pre-established levels, with a goal to reduce them by at least 5% with respect to 1990 levels. It has only been halfway effective. The glass is half-empty because Kyoto was late in getting started and was hampered by the refusal of participation on the part of the United States, responsible for the lion's share of GHG emissions. In the meantime, the prodigious growth of China and India has made it clear that there can be no future commitment which excludes the developing economies, even taking into account the different situation of the countries which still have a great need to increase internal consumption and who have little responsibility for the present state of the Planet.

But the glass is also half-full because Kyoto was able to set in motion a number of important mechanisms. One of these is the Clean Development Mechanism (CDM) which calls for industrialized countries to initiate projects which reduce emissions in under-developed countries, in exchange for CER, certificates of emissions reductions. CERs (which cannot include the promotion of nuclear energy in developing countries) have been issued, for example, in connection with reforestation projects. At the end of 2007 the CDM website listed 885 projects that were financed through the use of well defined

procedures for obtaining CERs: most have benefited Asian countries, which were quicker to understand the possibilities of the mechanism, while Japan, Denmark and Great Britain seem to be the most active of the industrialized countries in the financing and transfer of technologies to acquire CERs, at least on the basis of the most recently approved projects.

Joint Implementation, instead, is based on the exchange of emissions among countries. It creates a CO<sub>2</sub> market among countries that have excessive emissions and those which are closer to achieving their goals. The latter can sell ERUs (Emission Reduction Units) to those which have not yet reached their goals. A

...The No-Globals believe that the world would be a better place without the WTO (under Director General Pascal Lamy), but the World Trade Organization is an essential hub of the process of global governance



complicated mechanism provides for control over the entire system, which has been useful above all in transferring emission rights from European countries to those in transition, whose controls are rather loose, also in consideration of the crisis their economies are going through.

Finally, with its definition of maximum limits for carbon dioxide emissions for the most polluting industries and the possibility of acquiring lower cost emission rights for those “violations” on the part of those who have already renewed their technologies, the Emissions trading scheme has made possible the creation of a CO<sub>2</sub> Exchange, which, in spite of its slow

beginning, is now growing in importance. But all of these measures have certainly not been adequate in significantly cutting GHG emissions. If we may be permitted a tautology, without Kyoto there would never be a post-Kyoto: the experimentation of recent years has been useful in the approach to more far-reaching and rigorous commitments. The will of a part of the world, beginning with the European Union, to seriously commit to limiting emissions has also served to stimulate changes in the attitudes of other continents, starting with the United States, where the individual states, cities and corporations are independently adopting limits.

What will happen in coming months? While it is taken for granted that no important decision can be reached before the American presidential elections, the grand game in 2009 will involve the principle of the quantification of emissions. It will be played among parties which, like the present American administration, but including Canada as well, merely want incentives for cleaner technologies and those who are proposing the imposition of strict limits. Many experts believe, however, that there is only one fair solution to truly achieve a change in policies: the application of a “carbon tax” on all goods and services with respect to the amount of CO<sub>2</sub> released in their production. This would provide substantial incentives for energy savings and innovation aimed at cleaner technologies, while proceeds from the tax would be used both to encourage the development of sources of alternative energy, CO<sub>2</sub> absorption measures like reforestation, and to assist those countries most vulnerable to the impacts of climate change.

It would be a wonderful, but impossible, enterprise for this tax to be adopted throughout the world; but it could also be decided solely by the world’s greatest consumers, like Europe and the United States. It would probably produce a temporary slowdown of the most advanced economies, but there are also those who consider the carbon tax an instrument of protection against the invasion of merchandise from Asia. The question is highly controversial and the Bali conference preferred to let it slide. As the Economist has reported “a global carbon price remains a distant hope and the planet is getting warmer”. However, given the non-

\_Rajendra K. Pachauri, president of the Intergovernmental Panel on Climate Change, the organization that shared the Nobel Peace Prize with Al Gore in 2007



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linear nature of the effects of global warming (it was thought that the total winter melting of the North Pole ice cap would not come before 2050, yet now it is forecast to take place before 2015), it is possible that the fear of imminent catastrophe may accelerate the commitment to environmental governance.

### **Goods and services: saving the WTO**

It is also likely that with Kyoto 2 the UNFCCC would become a true Agency for the environment; much like the administrative offices of GATT (General Agreement on Tariffs and Trade) became the WTO (World Trade Organization), to manage the commitments undertaken by the respective countries in the field of international commerce. The precedent has not proven to have been very fortunate, in light of the WTO's very serious difficulties at present. Would the world be a better place without the World Trade Organization? The No-Global movement seems to have no doubts in the matter, but in reality globalization has brought advantages to billions of persons and the WTO is an essential governance hub of the global process. As the BBC's Evan Davis has written, "the WTO is the only venue where Costa Rica can sue the United States – and win". It really did happen, with respect to the quotas imposed by the USA on the importation of underwear, and dropped after the international organization's negative verdict. The case of Costa Rican underwear is certainly not enough to prove that governance of global commerce is functioning; however, it is a sign of the necessity of maintaining a network of global commitments; and to prevent international trade from being conducted on the basis of an intricate tangle of murky bilateral accords.

The OCSE's "Making the most of globalization" is proof that globalization, over all, has had positive effects. The internationalization of economic activity, made possible by the reduction in transportation costs (today transport by air costs a mere 25% of what it did 50 years ago), the reduction in communications costs (in 1950 a three minute telephone call from New York to London cost 80 dollars in 2005 terms and today costs 23 cents) and by progress in information technology which has lowered the cost of many goods and services without creating more unemployment; rather, it has

resulted in an overall reduction in the unemployment rate. It may however have increased the perception of job insecurity because along with jobs of indeterminate duration (which have not diminished globally), there has been a growth of employer demand for temporary workers, thus creating a dual labor market in many countries.

But the system should be regulated to avoid a dangerous form of anarchy that would inevitably lead to protectionism: "At the present day", writes Davis, "more than half of international trade is conducted within the context of bilateral or regional accords, which makes life more difficult for small countries with less negotiating power. Given these conditions, many countries are increasing their protectionist policies, by means of instruments such as antidumping regulations or hidden subsidies to national industries. This results in nightmarish scenarios for economists, who are taught the advantages of free trade from the first weeks of university, as children in elementary school are taught their multiplication tables".

However, governance in the trade sector is very near to global failure. The Doha Round, which began in 2001, scheduled a series of meetings which turned out not to be very constructive, thus failing to meet the goal of winding up the negotiations by 2006. June 2007 saw the failure at Potsdam, in Germany, of the meeting of the so-called G4 (European Union, USA, Brazil and India) which aimed at restarting negotiations. The representatives of India and Brazil walked out on the talks on account of a strong contrast with the United States and the European Union with respect to the topic of agricultural subsidies, the main, though not sole, knotty problem of the negotiations.

In the post-war period, 23 countries were members of the GATT, the WTO's predecessor. WTO members today number 151 and it is obvious that the management of new framework agreements is becoming ever more difficult. But the real crux of the problem in this sector, beyond the much talked about agricultural protectionism, is the effective desire of the larger countries to proceed along the road of multilateral liberalization. In the United States the temptation toward protectionism no longer involves mere minorities anxious to protect





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jobs threatened by international competition: respected economists have begun to theorize that the conditions of production in Asia are so different as to punch holes in the theory of the opportuneness of international trade, the metaphorical multiplication tables invoked by Davis. On this point the candidates for the White House seem to be more open minded. If, for example, the U.S. should abide by stringent environmental limits, their production will not be competitive with that of countries which do not respect the same standards. As we have called to mind, this is where the idea of the use of a “carbon tax” comes in, as a protectionist measure with respect to imported goods. But the problems are not only coming from the West. Many have suspected that China, a WTO member since 2001, really has no interest in defining more stringent limits with respect to its exports.

One thing however is certain: if in the final analysis the WTO is paralyzed by the failure of the Doha Round, it is mostly the smaller Countries which will suffer, because they are less able to defend themselves against the commercial expansionism of the larger Countries. Another victim of the failure to remove barriers to international commerce would be the battle against poverty. As Uganda President Yoweri Museveni has said, “assistance without trade is just a lullaby, a song for children to help them fall asleep”.

### **Finance: the lesson of the most recent crisis**

The coordinated intervention of the Federal Reserve and the BCE, the central Banks of the United States and of the European Union, have limited the harmful effects of the upheaval that has shaken the financial markets as a result of the sub prime mortgage crisis in the United States. But it has also underscored the need of the global financial system for clearer regulations to manage the prodigious increase in the flows of money among the various Countries and to introduce transparency in the dealings of financial operators. Contrarily, there is an elevated risk that the entire system will seize up from the fears that the effective liquidity of the intermediaries will drive up the price or risk and consequently reduce the funding of financial growth.

As a consequence, there is increased attention

\_ The focus is growing on needed reforms of the global financial markets, which are claiming the attention of the Bank of Italy's Governor Draghi and of Minister of the Economy Padoa Schioppa. Above, Fed president Bernanke



being paid to the reform of global financial markets, a branch of governance that has the commitment of two highly prestigious Italians: the Governor of the Bank of Italy, Mario Draghi, who chairs the Financial Stability Forum (FSF) and the Italian Finance Minister, Tommaso Padoa Schioppa, who heads the IMFC, the committee of the World Monetary Fund charged with the study of how institutional reform.

As in the case of the environmental sector, the processes defining governance in the financial field are in reality extremely complex. The initial input came from Hans Tietmeyer in October 1998. At the time Tietmeyer was president of the Bundesbank, and had been charged by the G7 (ministers of Finance and governors of the central banks of the seven most industrialized countries) with studying ways to strengthen international financial cooperation. His proposal led to the birth of the FSF, with the participation of the national financial authorities, of international institutions of the sector and of central bank experts charged with research regarding market structures and functions.

In Draghi's report to the Monetary Fund on October 20, 2007, the activity of the Forum appeared to be principally concentrated on the necessity of making markets more "resilient", more able to absorb external shocks. Consequently Draghi has announced the formation of a working group to conduct an in-depth study of the 2007 crisis and the measures necessary to counteract it. The FSF will report on the results at the G7 in April. The FSF also cooperates with the G20, the group of finance ministers and governors of the central banks in the industrialized and major developing countries formed in 1999 to facilitate exchanges among the industrialized and major developing countries, which should not be confused (please excuse the complication) with the G20 formed in 2003, on the sidelines of the Doha negotiations, to make it possible for developing countries to present a united front with respect to agricultural issues. Working alongside the financial G20, is the G24, a group of developing countries (PVS) formed in 1971 to coordinate positions on monetary policy, at present chaired by the governor of the Central Bank of Congo. While the G24 operates mostly within the

Assembly at the UN as an organ of the larger G77 which makes up the PVS lobby there, the G20 interacts with the FSF and other financial institutions. In 2008 the G20 presidency switched over to Brazil; at its most recent meeting in Cape Town on November 17-18, 2007, a great deal of attention was concentrated on the reform of international institutions created at Bretton Woods, particularly Central Banks and the Monetary Fund.

In substance, emerging countries are claiming greater weight in the two institutions, especially now that studies aimed at reforming them are underway. Particularly with regard to the IMF, there are those who are questioning its usefulness. The Fund was created in the period following the War to manage the stability of currencies and to provide capital (for reconstruction commitments) to countries affected with temporary financial crises. In actuality, the system of currencies is now sufficiently flexible all over the world, while the availability of private capital is so overwhelming as to render the Fund's contribution unnecessary.

In his first address as president of the IMFC on October 20, 2007, Padoa Schioppa



presented the issue of the Fund's future and proposed a brain storming session next April to redefine strategy priorities for the mid-term. But he reaffirmed his conviction of the usefulness of the Fund: "Its mission is stability, as efficiency in the allocation of resources is that of the WTO, and solidarity and fairness are those of the World Bank. This was the founding intuition in the early Forties, and with the increase of interdependence I believe these objectives must be pursued jointly and cooperatively with even greater tenacity".

The World Bank, the other great institution created by the Bretton Woods accords in 1944, is also coming in for a pause for reflection, but the issues here are framed in different terms. There is no risk here that it may have served its purpose, which is that of assisting developing countries to combat poverty; here the discussion centers on the strategies and powers within the institution, among countries who provide financing and

the recipients of the aid. As economists Alessandro Magnoli Bocchi and Matteo Piazza write in their book *The World Bank – its Successes, its Mistakes and the Future* recently published by Il Mulino, "Five out of six persons alive today live in developing countries. In less than 50 years they will become eight out of nine. Sustainable growth and poverty reduction are the inescapable priorities of this new century. The World Bank can play a pivoting role in these challenges". However the authors underscore the importance of a reform of governance: "The future legitimacy, as well as the efficiency, of the bank depend on a reform of its decision making processes and on a new institutional architecture, better able to regulate with clarity the dynamics between the president and the shareholding states, of conciliating the interests of rich countries and the aspirations of the poorer countries, and, lastly, of defining the extent of the institution's field of operations and guarantee their effectiveness".

\_Romano Prodi is convinced that the great international markets are in need of some kind of regulation; he has also often insisted on measures to limit speculation in the crude oil market

**Energy: Opec is not enough**

Other international markets in need of some form of regulation include the oil market. One firm believer is Italian Prime





Minister Romano Prodi, who has frequently confirmed the need to “limit speculation”: though causes for the increase in the price of crude are structural, it is certain that the high points in fluctuation are influenced by short-term operations in the markets. But the goal is difficult to reach, because the crude oil market is essentially private and Opec, the largest sector organization, is exclusively made up of exporting countries who certainly do not have safeguarding the interest of the end user high on their list of priorities.

Petroleum governance, however, already has a reference point: the International Energy Agency (IEA) headquartered in Paris. Its objectives include responding to emergencies in crude oil supplies through coordinated management of the strategic oil reserves held by member countries. The IEA however only intervenes during great emergencies: in 1978, during the Iranian revolution, in 1991 during the Gulf War, in 2003 on account of the combined effects of the Iraq War and the strikes in Venezuela and Nigeria, and in 2005 due to the devastations of the Gulf of Mexico petroleum installations caused by Hurricane Katrina. It can do little (unless there is a change in its mission) about the short-term speculations that magnify the effects of structural instability between supply and demand.

The world of energy also has its global Forum: every three years the World Energy Council convenes the representatives of producers of every type of energy, as well as experts and corporations operating in related fields. In 2007 it was held in Rome, from November 11-15, with four thousand participants (each had paid at least EUR 2,000 for registration: we mention it because it is indicative of the importance placed on this meeting) and the watchword was “interdependence”.

The prospects in fact reinforce the need for a commitment on the part of States to global governance. The growth of the gas duct networks, for example, is another sign of this need: the use of gas supplies from Russia to Ukraine for political ends has demonstrated the need for new regulations to guarantee investments and gas supplies. New rules would also be called for should the prospect pointed out by Nobel Prize Winner Carlo Rubbia at the June Venice forum become

reality: the creation of large solar energy stations in the Sahara desert: an area of mirrors of some dozen square kilometers would be enough to meet total electrical needs for the whole of Europe. The project would require gigantic investments which can only be realized within a secure political framework involving all of the respective States.

Lastly, another great topic of governance is the nuclear issue, where the world is debating the choice between new nuclear facilities, which are less polluting than those using fossil fuels, and the fear that the production processes may also be put to military use. Many developing countries are ready to invest massively in nuclear power, but it is clear that without more rigorous global governance than wielded by the present day Atomic Energy Agency, which has not been able to prevent the explosion of the case of Iran, nuclear power will become a source of further serious political conflicts. In conclusion, the processes of governance (we have only described those related to the economy) overall are not very “sexy”. The processes of international diplomacy are difficult to understand, their glacial pace creates impatience, and they are often personified by the No-Global ideology as the enemy to be defeated. It is also difficult to follow the development of such complex procedures, only infrequently reported on by the media, often at the moment of major conflict or failure, without consideration for the great international effort underlying them.

The ordinary citizen feels frustrated by the remoteness of decision making and by the impossibility of influencing its results. If it is difficult to have a sense that one is having an influence in the politics of a city or of a nation, how much more difficult it is to feel that one has some control within the institutions of a system of over six billion inhabitants. And yet, in the absence of international negotiations and institutions what are we left with but the egoism of nations, leading to a world which will certainly be worse off. For citizens of Europe, a delicate vase among the great blocks of the future, global governance offers the only hope to count for something.