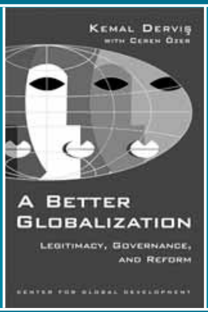
Center for Global Development

CGD Brief



A Better Globalization: Legitimacy, Reform, and Governance

By Kemal Derviş *

Despite the tremendous opportunities for growth and human welfare presented by advances in knowledge, technology, and globalization in recent years, insecurity and fear remain defining characteristics of globalization today. Many expected that the fall of the Berlin Wall and the end of the cold war would mark the beginning of a new era of peace and equitable global development. Instead economic, environmental, social, and political problems undermine security and prosperity, and violent conflict, terrorism, state failure, and deep new political divisions fuel new types of threats.

The international system, designed for the post–World War II period, needs radical reform, in both the economic and security domains. Globalization increasingly constrains public policy at the level of the nation-state, often provoking reaction within. Yet the solutions for the problems we face lie not in rejection of globalization or retreat into autarky, but in an improved institutional framework that takes into account the increasing interdependence and integration among the countries, regions, and people of the world.

At the heart of the governance challenge lies the irrepressible need for legitimacy, the lack of which will lead to chronic or acute conflict, an inability to implement policies, and wasted resources. A better globalization in the political and economic domains must therefore be driven by an unrelenting effort to establish and enhance legitimacy.

A Better Globalization: Legitimacy, Reform, and Governance is a reformist manifesto that argues that gradual institutional change can produce beneficial results if it is driven by an ambitious long-term vision and by a determination to continually widen the limits of the possible. It presses for reform on a broad front with a renewed, more legitimate, and more effective United Nations as the overarching framework for global governance based on global consent.

The key dimensions of the renewal are:

1. **Reform of the UN Security Council** to allow universal participation through a system of constituencies and weighted voting that balances continuity and change.
2. **A new UN Economic and Social Security Council** as an "equal partner" of the Security Council to replace the G-7 at the top of the global economic governance architecture.
3. **A Stability and Growth Facility** to help middle-income, emerging market economies reduce debt burdens without having to sacrifice the fight against poverty and macroeconomic stabilization.
4. **Meeting poor countries' special challenges** with a "big push" in additional development resources coupled with conditions that address the governance failures that threaten their effective use.
5. **A truly development-oriented, WTO-led trade liberalization,** able to win the hearts and minds of world citizens by spreading the benefits of trade and by compensating those who lose in the short run.

*This brief summarizes five key recommendations in the CGD book A Better Globalization: Legitimacy, Governance, and Reform by Kemal Derviş. Derviş is a non-resident fellow at CGD, a member of the Turkish Parliament, and former Minister for Economic Affairs of Turkey.

Recommendation 1:
Reform the UN Security Council (UNSC)

Reform the UN Security Council (UNSC) to allow the United Nations to reflect and deal effectively with the needs of the 21st century. The UNSC is at the center of global governance, yet it was designed for the postwar realities of a half century ago. Without restructuring to reflect today's world, the UNSC cannot provide effective and legitimate governance.

Key Elements

- **Composition.** The new UNSC would still have permanent and non-permanent members, but it would represent all countries of the world and use weighted voting. A possible arrangement would have the United States, the European Union, Russia, China, India, and Japan as the six permanent members. Eight non-permanent members would represent five regional constituencies: Other Europe; Other Asia; Africa; the Arab League; and Latin America, the Caribbean, and Canada. Each constituency would have elected seats on the UNSC; the number would depend on the total weight and the number of countries the constituency represents. These seats would rotate every two years, as in the current practice. What would be different, however, is that each member of the UNSC would be allotted a share of the weighted regional vote determined by the votes received during the biannual elections in that constituency—for example, if Brazil and Chile were elected to represent the Latin American constituency, their votes would represent all Latin American countries, in proportion to the share of the votes they received in the constituency elections.

- **Voting rules.** Features of the voting rules in the reformed UNSC would include:

  - Weighted votes: For each country, voting power would be based on four factors: population, GDP, financial contributions to the provision of global public goods, and military-peacekeeping capability. These weights would be updated every five years.

  - Supermajorities: Instead of individual veto rights, supermajorities would be required for the most important decisions. For cross-border military interventions, for example, the supermajority required could be four-fifths of the weighted votes. For other matters, such as the application of sanctions, dispute settlement, and recognition of a new state as a UN member, the required majority might be three-fifths.

  - US interests: The United States would have about 23 percent of the overall vote, reflecting its current economic and military capabilities and population. Thus, the United States could block any decision requiring a four-fifths majority but would have to seek support from others if it wanted to block other decisions. The proposed reform would be compatible with long-term US security concerns and allow the US a leading role in an international system that had greater legitimacy.

- **Transition.** Transition formulas would be needed to get the UNSC from where it is today to where it should be in the long run. The veto rights of the existing permanent members could remain in place during the transition period, at least for the most critical decisions. Adjustment mechanisms would allow the new structure to evolve over time.

Rationale for UNSC Reform

The proposal for restructuring the UNSC contained in the December 2004 Report of the UN Secretary-General's High-Level Panel on Threats, Challenges, and Change suggests increasing the number of countries in the UNSC in different ways. However, merely enlarging the Council would make it more unwieldy. Adding new members with veto power could increase the risk of paralysis. Adding countries without veto power could further undermine the UNSC's legitimacy, for the Council would consist of countries of roughly equal size or economic and military importance but unequal voting power.

This recommendation for UNSC reform runs in the same direction as the Panel's proposals but goes further. Its aim is to enhance the legitimacy of the United Nations while taking into account existing economic and military relationships and distribution of power. To that end, it envisages a UNSC that can promote and balance three elements:

- Greater global democracy that recognizes the equal value of all nations and their citizens

- The ability to work with existing nation-states that have legal status as sovereigns and remain fundamental units of the international system

- The need to take into account the divergent economic and peacekeeping capabilities of these nation-states

Table 1 outlines a possible restructuring of the UNSC, including transition features.

Table 1 : Key Differences between Existing and Proposed UNSC and UNESC Membership

	Existing UNSC Structure	Proposed UNSC Structure	Proposed UNESC Structure
Permanent members	5 – UK, France, US, China, Russian Federation	6 – EU, US, Japan, China, India, Russian Federation	6 – EU, US, Japan, China, India, Russian Federation
Veto power for permanent members	Yes, on any and all decisions	No. Supermajorities required instead. Veto could be retained for the most important decisions during a transition period	No. Supermajorities required instead
Non-permanent members	10–Asia (2), Latin America (2), Africa (3), Western Europe (2), Eastern Europe (1)	8–Other Asia (2), LAC and , Canada (2), Arab League (1), Africa (2), Other Europe (1)	8–Other Asia (2), LAC and Canada (2),Arab League (1), Africa (2), and other Other Europe (1)
Representation of non-permanent members	Rotating regional allocation. Each member represents itself	Regional constituencies. Members elected by regional constituency and represent a share of a regional vote	Regional constituencies. Members elected by regional constituency and represent a share of a regional vote
Voting weights	One country/one vote, but with veto of the 5 permanent members	Weighted voting based on population, GDP, financial contributions to the provision of global public goods, and military-peacekeeping capability	Weighted voting based on population, GDP, and financial contributions to the provision of global public goods

Recommendation 2: A New Economic and Social Security Council (UNESC)

Bring the top governance of international economic institutions under the broad legitimizing umbrella of a reformed and more effective United Nations through a new United Nations Economic and Social Security Council (UNESC). While the reformed UNSC would oversee political and security issues, its new partner, the UNESC, would oversee global governance in the economic and social spheres. The two councils would function as a pair allowing for different importance or "weights" different nations have in the two spheres.

Key Elements

- **UNESC mandate.** The UNESC would be constituted at a much higher level and with a stronger mandate than the existing ECOSOC, and it would be designed to increase coherence and efficiency in the economic (including environmental and social) spheres of the international system. For example, the UNESC would:
  - Provide a governance umbrella: The UNESC would be the strategic governance umbrella for the IMF, World Bank, and WTO as well as for all the specialized economic and social agencies in the UN system, such as the ILO, UNDP, and UNCTAD. It would provide strategic guidance, promote cooperation, and evaluate performance. It would have no executive function and no role in the management of the institutions themselves.
  - Appoint leadership: The UNESC would appoint all heads of institutions, using rigorous, transparent search procedures and criteria, which would include experience, proven leadership, and overall gender, race, and geographical balance. The current de facto requirement that the head of a particular institution should come from a specific country or region would no longer apply.
  - Mobilize resources: The UNESC would help raise the resources needed to improve the international system in the economic sphere. It could play a key role in advancing the Millennium Development Goals and ensuring the required linkages between the UN, the World Bank, and other major actors.
- **Voting structure.** Like the UNSC, the UNESC would function with permanent and non-permanent members and with a system of weighted votes and constituencies. A key difference is that military capability would not enter into the weighting. Voting

strength would be decided by three factors: population, GDP, and contributions to the financing of global goods.

Rationale for a UNESC

Given the dominance of the G-7 nations in global economic governance, many in the world believe that the processes of global economic integration and trade are managed in a narrow and undemocratic way by the richest, most powerful nations. More inclusive groups, such as the G-20, broaden international deliberations but do not have significant decision-making power and fail to represent the smallest, poorest countries.

The legitimacy of governance is critical for the effectiveness of international institutions. Despite the central role the Bretton Woods institutions have played in the world economy, and their resilience and adaptability to changing circumstances, fundamental doubts persist about their legitimacy and the impartiality of their advice, and therefore the effectiveness of their programs. In the case of the WTO, despite a formal governance structure in which the developing countries have a much greater weight, the perception of overall G-7 dominance in global economic governance distracts from deliberation of important policy issues.

If the governance were considered more legitimate, conditionality would become more acceptable and debate could focus on the nature of policies and conditions without being derailed by apprehension about motives and intentions. Hence, reforming governance structures is as critical as reforming the strategies and policies implemented by the international institutions.

The creation of a UNESC, long advocated in some form by progressive groups, would allow for increased legitimacy of the Bretton Woods institutions and the WTO through more inclusive and democratic governance of global economic issues. The evaluation and research role of the UNESC would also be perceived as more impartial and credible than current evaluation procedures, which are still tied to the institutions themselves. Table 1 outlines a possible structure for the UNESC.

Recommendation 3:
A Stability and Growth Facility (SGF) for Emerging Market Economies

The Stability and Growth Facility (SGF) would help indebted emerging market economies attain sustainable growth and viable public finances while allowing them to continue fighting poverty and progressing toward the Millennium Development Goals. Under the SGF the IMF, in close cooperation with the World Bank, would work with participating middle-income emerging market economies on a medium-term program with the explicit aim of reducing their chronic vulnerability to debt-related problems and setting a path for the growth of real income. Both Bretton Woods institutions could then work within a longer-term perspective.

Key Elements

- **Qualification.** Qualifying countries would be those that have a high debt burden and chronic vulnerability but are not currently in crisis such as Brazil, Ecuador, Indonesia, the Philippines, Turkey, and Uruguay. To qualify, a participating country would have to be certified as having appropriate policies in place, including a medium-term growth program combining responsible fiscal policy with an adequate public investment program and structural policies leading to a substantial reduction in the debt indicators as well as progress on social problems and poverty reduction.

- **Eligibility.** The conditions attached to lending from the Bretton Woods institutions would be formulated such that the likelihood of outright disqualification would be low. The starting point would be reasonably sound existing policies, which would then be modified gradually to further strengthen the growth program. Fiscal policy, for example, would become more growth oriented, with a gradual change in the structure of revenues and expenditures, and aggregate fiscal targets would be determined every year as a function of the progress made toward the desired debt indicators.

- **Phase-in.** Once a robust program is agreed upon, SGF financing would be phased in over the program period. Moral hazard would thus be limited by avoiding any large up-front disbursement. A participating country could count on a stable core source of medium-term financing that would not be subject to the ebb and flow of private financing.

- **Financial resources.** SGF resources would have to be provided at a cost low enough, and in amounts sufficient, for the debt reduction dynamic to work and for stabilization to occur—but not at the expense of poverty reduction and broad-based growth. Hence, additional resources would be required from the international community to allow the IMF or World Bank to extend the loans at a relatively low cost. Allowance would have to be made for these resources when considering the proposals for global resource mobilization that have been made, such as development-focused issues of Special Drawing Rights or some forms of global taxation.

Rationale for an SGF

The public debt levels of emerging market economies have undergone a steady rise, from about 30 percent of GDP in the late 1960s to about 70 percent at the end of the 1990s. When crises occur, the burden of adjustment falls disproportionately on the poor and middle-income groups.

The proposal for an SGF offers middle-income countries a companion to the Poverty Reduction Growth Facility that exists for poor countries, providing more regular long-term financing at a moderate cost. The SGF would help countries grow out of their debt traps and protect them from future financial crisis. It would complement existing IMF facilities that provide financing to countries in crisis, and it would benefit from ongoing efforts to create mechanisms for orderly debt reduction and restructuring for heavily indebted emerging market economies. Decisive implementation of an SGF-type approach, incorporating a modest interest cost reduction, could gradually reduce the number of countries that remain vulnerable to financial crises and help eliminate the repeated need for crisis management.

Recommendation 4:
Make a "Big Push" to Meet the Special Challenge of the Poorest Countries

Meet the poorest countries' challenges with a "big push" in the form of significant new resources from donor countries—an extra $30 billion annually of additional aid resources for the poorest countries only, to be mobilized by the UNESC—coupled with rules that recognize the need for tough policy and governance conditions.

Key Elements

- **New resources.** No single initiative is likely to mobilize the required resources—$30 billion annually above the existing post-Monterrey commitments—and repeated exhortations to raise aid budgets have not worked. Instead a comprehensive package could include a modest international taxation (for example, a carbon tax, a tax on armaments, a corporate tax surcharge, and so on); a development-oriented issue of Special Drawing Rights; and other innovative methods of development finance, such as the International Finance Facility proposed by the UK.

- **Conditionality.** For a big push of this sort to succeed, there will have to be more conditionality rather than less, including sufficiently high standards in domestic governance, education, health, government budget composition, and political institutions. Conditions must be tough and comprehensive, but they must also support local reform efforts and reflect local conditions and priorities. For a broader conditionality to be acceptable in the international arena, international processes related to the poorest countries will have to be perceived as much more legitimate. The proposed UNESC would provide enhanced legitimacy and coordination and would spearhead the resource mobilization effort.

- **Participation.** To promote greater effectiveness and support of programs financed by the IMF and the World Bank, these institutions could use a "peer participation" system that recruits professionals directly from the poorest countries to serve in fixed terms. For this effort to have a significant impact both on the nature of programs and on their local perception, these professionals would have to constitute at least 20 percent of all Bank and Fund staff working in the poorest countries. The UNESC could also create a special Policy Board made up of 20 to 25 senior members, with equal numbers of currently active policymakers in the poorest countries, eminent personalities from these countries (including representatives from the private sector), policymakers from middle- and higher-income countries, and representatives from international nongovernmental organizations and academia. This board would conduct an annual review of conditionality and policy advice contained in IMF and World Bank programs, including evaluation of the recent past and recommendations for the future.

Rationale for a "Big Push" to Meet Poor Countries' Challenges

Over the past three decades, a large number of poor countries have been essentially excluded from global growth. Many of them are failed states or are in imminent danger of becoming failed states. Varying degrees of state failure have been evident in countries such as Afghanistan, Angola, Burundi, Haiti, Liberia, Rwanda, Sudan, and Tajikistan. Countries as diverse as Chad, Côte d'Ivoire, Georgia, and Sri Lanka have come dangerously close to becoming failed states, and others, such as the Balkan states of Albania, Bosnia, Macedonia, and Serbia, are still recovering from war or internal turmoil.

This exclusion from the growing global economy of countries that have been marginalized by history, geography, civil war, governance failures, or foreign power struggles on their soil poses both a tremendous ethical challenge—hundreds of millions of human beings trapped in extreme poverty—and a significant global security challenge, as was demonstrated in the case of Afghanistan. Given the magnitude and persistence of the challenges facing the poorest countries, a big push with significant resources and effective, legitimate governance is needed.

Recommendation 5: More Development-Oriented Trade

Reform the WTO process by focusing it on global development and giving a strategic oversight role to the UN Economic and Social Security Council (UNESC). The aim should be to win hearts and minds and to give the WTO greater legitimacy and capacity to manage the difficult economic and social trade-offs created by trade liberalization, to balance trade and non-trade issues, and to streamline and formalize WTO decision-making processes.

Key Elements

- **UNESC oversight.** The UNESC would not manage the WTO secretariat or the multilateral trade negotiations any more than it would run the IMF, the World Bank, or UNDP. But on the difficult judgments required between trade and non-trade objectives, the UNESC would have several roles:
  - Help negotiate global standards: The UNESC could work with the ILO and other organizations to devise frameworks for worldwide strengthening of labor, environmental, and other standards, reasonably differentiated according to country circumstances and initial conditions, and with specific targets to be revised every five years. This would relieve trade negotiators of the additional burden of negotiating such standards during trade talks.
  - Mobilize resources: Working with the World Bank, the regional development banks, and UNDP, the UNESC could help mobilize and support the deployment of resources to compensate relatively low-income groups that stand to lose from liberalization or that face substantial adjustment costs, and thereby facilitate acceptance of compromise solutions to critical trade issues.
  - Appoint leadership: The UNESC would also appoint the WTO's Director-General according to transparent criteria, as it appoints all other heads of agencies.
- **Improvements in WTO governance.** Without giving up the WTO's consensus rule for actual decision making, it would be beneficial to introduce more transparency and formality into the more restrictive ("green room") process by which countries currently reach informal agreements. This could be accomplished by requiring some objective criteria to determine participation in "green room" sessions, based on comprehensive geographic representation, volume of trade, and the relevance of a particular issue under discussion to a specific group of countries.

Rationale for WTO Process Reform

To unleash the great potential benefits of trade in the fight against poverty worldwide, three issues need to be addressed.

The first concerns the possible negative impacts of liberalization. Although the rapid change associated with trade liberalization generates long-term benefits for most countries as a whole, it also creates casualties, especially in the short run. The threat of economic loss fuels anxiety about globalization, even in prosperous economies, which in turn fuels antiglobalization political pressures. If the potential benefits from trade liberalization are to be realized, ways to compensate groups that stand to lose from it must be found and integrated into global policy.

Second, the interaction between trade and non-trade objectives must be sorted out. Some key policy issues are directly related to trade or to its composition and direction, such as customs procedures, public procurement rules and regulations, labor standards, and environmental regulations. In a world of sovereign nation-states, trade negotiations are often the only venue in which one country can influence another's policies. But if the trade negotiation process is burdened by all the important problems of the world, it will collapse. Hence, there is a need for a reasonable allocation of tasks and responsibilities.

Third, governance of the WTO itself has become unwieldy. Decision making has become difficult because of the size, complexity, and all-encompassing nature of negotiations. Agreements are stalled because everyone involved in a comprehensive round of multilateral negotiations is required to subscribe to policies in their entirety, regardless of ability or appropriateness for some countries. Moreover, with almost 150 members, the WTO's one-nation, one-vote principle is cumbersome and confers only a very restricted legitimacy. Hence it is not surprising that informal procedures have taken over, with the biggest countries taking the lead in the "green room" process, and with various forms of pressure brought to bear on the smaller countries to conform.

The advantage of a strategic role for the proposed UNESC would be twofold. First, the Council would have a global, comprehensive, and bureaucratically impartial perspective, which would help it fill gaps, organize possible synergies, and promote efficiency between organizations such as the WTO, ILO, WHO, and World Bank. Second, the UNESC's system of weighted voting would have sufficient legitimacy to gain broad-based support for realistic proposals that take into account the interests and concerns of different countries and country groupings without the threat of being stalled by one country.

Advance Praise for A Better Globalization: Legitimacy, Reform, and Governance

"Kemal Derviş has the perspective needed to consider deep reforms in global governance."
—Montek Singh Ahluwalia, Deputy Chairman, Planning Commission for India

"The author's proposals are both idealistic and practicable. Decision makers have no excuse, they cannot ignore this book."
—Giuliano Amato, Former Prime Minister of Italy

"One of the most imaginative solutions to the problem of reorganizing the United Nations."
—Francis Fukuyama, Professor of International Political Economy, Johns Hopkins University

"Derviş addresses the key challenges of our time with imagination and determination."
—Abdullah Gül, Deputy Prime Minister and Minister of Foreign Affairs to Turkey

"Concrete proposals for introducing the human and social elements into the mechanical processes of globalization."
—Erdal Inönü, Former Deputy Prime Minister to Turkey

"Derviş brings unique insight into improving the effectiveness and legitimacy of global institutions."
—Paul Martin, Prime Minister of Canada

"The author, demonstrates reassuring belief in the power of good public policy to shape a better society and in the power of ideas to change the world."
—George Papandreou, former Foreign Minister of Greece

"Derviş weighs in on the greatest debate of our time. Washington and Brussels better stand up and take notice!"
—Dani Rodrik, Professor of International Political Economy, Harvard University

"In this book Derviş skillfully uses his extensive national and international experience to discuss some of the difficult global issues of our time."
—General Brent Scowcroft, former US National Security Advisor

"For out-of-the-box ideas on global governance, this is certainly the book to read."
—Ernesto Zedillo, former President of Mexico

The **Center** for **Global Development** is an independent, non-partisan, non-profit think tank dedicated to reducing global poverty and inequality through policy oriented research and active engagement on development issues with the policy community and the public. A principal focus of the Center's work is the policies of the United States and other industrialized countries that affect development prospects in poor countries. The Center's **research** assesses the impact on poor people of globalization and of the policies of governments and multilateral institutions. In collaboration with civil society groups, the Center seeks to identify **policy alternatives** that will promote equitable growth and participatory development in low-income and transitional economies. The Center works with other institutions to improve **public understanding** in industrialized countries of the economic, political, and strategic benefits of promoting improved living standards and governance in developing countries.

Center for Global Development

1776 Massachusetts Ave., NW
Third Floor
Washington, D.C. 20036

www.cgdev.org

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