

Distinguished Speaker Seminar: Johannes F. Linn – Global Governance Reform: The Imperatives of a New Global Economic Reality

Post-event Statement

Johannes F. Linn, formerly World Bank Vice President for Europe and Central Asia and currently Senior Fellow, Global Economy and Development and the Executive Director, Wolfensohn Center for Development at The Brookings Institution discussed issues of global governance reform by looking into the imperatives of a new global economic reality at a distinguished speaker seminar on 5 March 2008.

He started his lecture by noting three major points. First, the world now faces dramatic shifts in distribution of global powers and pressing global challenges. Second, international institutions established after World War II are fragile and lack legitimacy in responding to these challenges and shifts. Third, far-reaching reforms based on a new set of values are needed to create architecture of legitimate global institutions, which will be representative, relevant, and effective. Then, he raised a key question: Do we have the collective capacity and will to change or can only a global crisis bring about change?

Mr. Linn pointed out that there are significant changes that are happening in the world, but four global changes are most prominent. First, there are significant changes in national demographic and economic balances in the 21st century as seen in the rise of key dynamic emerging market economies, resurgence of Asia, the integration of the Eurasian super-continent, rapidly growing African population and the existence of a large number of small, weak and stagnant countries. It is projected that the world population will increase rapidly from 6 billion at the present to 9 billion in 2050/2060 and most of the incremental population will be in developing countries. By the year 2050 the People's Republic of China's (PRC) economic size is projected to be the largest in the world, followed by North America, India, Western Europe, Japan, and Russia. Second, growing global interdependencies have expanded considerably with the rapidly growing trade and capital flows, as well as in the energy markets, environment, migration, illicit drugs, and security. Third, there are growing links among these global issues. Fourth, growing global risks are emerging, including financial imbalances and risks, the recent sub-prime loan crisis in the US, energy security, global warming, and threats of epidemic. These changes point to the need for effective global institutions that can survive and manage the world facing the

inter-dependent changes. Unfortunately, however, existing global institutions such as the United Nations (UN), UN agencies, international financial institutions (IFIs), and summits are not functioning well. They are fragmented, unrepresentative, ineffective, and outdated, and therefore have low and fragile legitimacy. There is a stalemate on many issues, including, among others, the Doha trade round, global financial imbalances, global warming, and epidemics. There is also a stalemate on reform of individual agencies (UN, IFIs, and agencies dedicated to environment, energy, and health). These agencies have been trying to adopt and react to the changes, but so far there has been no or slow progress in some cases.

Mr. Linn identified a number of key challenges of global governance reform. The creation or preservation of legitimate global institutions involves multiple goals. First, it must be representative; that is, it should include major actors and at the same time could give voice to the small countries. Second, the institutions must be relevant and effective, which means that they must be responsive to changing global needs, accountable and transparent, and show results within the areas of their mandates. Third, there must be an effective architecture of institutions, which can support consolidation and harmonization of institutions, and can apply the principle of subsidiarity. Fourth, the global system of institutions needs to engage the top leadership of countries in the world, who can discuss and play a big role in addressing pressing global issues.

Mr. Linn admitted that there have been some movements/opportunities for reforming the global governance system in the past few years. Then, he asked the question: "Will we see deliberate incremental changes or response to crisis?" To answer this question, he reviewed the progress in reforming individual institutions such as the International Monetary Fund (IMF), the World Bank (WB), regional development banks (RDBs), the UN, and the G8 Summit.

Looking at the IMF, Mr Linn stressed the point that it is needed for surveillance, crisis management, and macro financial sector reform in its member countries. At the IMF/WB annual meetings in 2006 in Singapore, some initial progress was made in rebalancing shares and votes by giving small increases to some emerging economies such as the PRC, Republic of Korea, Mexico and Turkey. The key areas under discussion are rebalancing shares/votes for big emerging economies, raising "basic" shares/votes for small countries, restoring the IMF's financial viability, and strengthening surveillance. While the IMF needs to ensure that progress is made in these areas in 2008, it must also pay attention to other areas for reform such as increasing quotas substantially, consolidating chairs (proposed by the US), double majority voting on key decisions, merit-based selection of the Managing Director, and strengthening focus on core mandates and member services. However, the IMF

would be constrained from making such reforms if Europeans do not go along with such reforms due to significant loss in their voice. Mr. Linn therefore proposes a “grand bargain” that may include merit-based selection of the WB president, the US giving up on its veto right at the IMF and WB in exchange for the Europeans giving up shares, votes and chairs, and de-linking the IMF and the WB shares/chairs reform.

Turning to the World Bank, he said that poverty reduction, development and provision of global public goods remain key challenges, and therefore there is a clear need for a global development institution like the WB. However, the WB’s role in global development aid has been threatened by erosion. It faces issues, such as representation (in terms of shares and chairs), relevance (lack of loan demand in middle-income countries (MICs), competing finance sources/mechanisms, competing sources of development knowledge), effectiveness (lack of focus, depth, proven development impact), and leadership crisis undermining legitimacy. The WB must therefore address these issues. In terms of representation, there is a need for rebalancing shares and chairs in the International Bank for Reconstruction and Development (IBRD) and/or the International Development Association (IDA) and for separating shares/chairs for IBRD/IDA. More specifically, the IBRD should follow the IMF reforms discussed above while the IDA should introduce a double majority voting system. In terms of relevance, the WB can learn a lesson from the European Investment Bank (EIB) in providing services to MICs. It also needs to set up a new fund for global public goods patterned after the IDA. And in the knowledge area, it needs to reinforce operational and policy relevance. With regard to effectiveness, it needs to put a narrower focus on key lines of business by having a more sustained engagement for long-term and scaled up interventions, rather than short-lived, one-time fixes and by pursuing more aggressively partnerships with other donors. Also, the WB needs to move to merit-based leadership selection in order to make it a credible and effective global institution.

He emphasized that regional development banks (RDBs), which are dynamic parts of global architecture and provide a bridge between national and global institutions need to reaffirm their missions. Recently, the strategic reviews of the Asian Development Bank (ADB) and the African Development Bank (AfDB) by eminent persons groups have confirmed the importance of RDBs; laid out key development mandates (inclusive, pro-poor growth, regional integration, importance of infrastructure); posed sharper focus, greater efficiency and results orientation as key challenges; and called for renewed support by shareholders. However, they did not consider governance issues (such as share and chairs, leadership selection and so on). The governance reforms should be less pressing but they face possible “knock-on effects” from the IFI reforms mentioned previously. The reforms need to seriously consider balance in chairs/shares of regional-non-regional and borrower-non-borrower members, voting

rules, leadership selection, addition of new members, and role, accountability, transparency of executive boards. Referring to the G24 report, he mentioned some challenges related to mandates and modalities of RDBs. Again, a lesson learnt from EIB is “less is more”; in other words, these RDBs should focus less on policy and more on finance, especially regional and cross-border infrastructure, financial intermediation, and so on. The mandates are also associated with the role of RDBs in regional monetary integration and financial instrumentalities such as supporting public-private partnership (PPP) models). Mr. Linn warned that there are also risks associated with increasing fragmentation of global governance architecture into regional blocks and further fragmentation of aid channels with new RDBs and other new donors.

In Mr. Linn’s assessment, the UN reform is quite a sad story. There was a major effort to launch a reform of the UN in preparation for the “Millennium+5” Summit in 2005 which included initiatives to broaden the Security Council membership, turn the dormant Economic and Social Council (ECOSOC) into an effective global economic and social policy coordinating body and streamline the many fragmented UN agencies, but none of these was attained at the Summit. A more limited agenda of reform of the development, humanitarian and environmental activities of the UN was subsequently developed by a high-level panel which was reported to the Secretary General in November 2006. The “One UN” concept to push for the millennium development goals (MDGs) at the country level, unified evaluation across agencies and establishment of G27 Leader’s Forum (ECOSOC) were among the recommendations. Though there has been some progress at the country level, stalemates occur on Security Council and ECOSOC reforms and consolidation/harmonization of agencies remain the big challenges.

Looking into the G8 Summit, Mr Linn has observed that since G8 has focused increasingly on global economic and political issues and less on internal coordination issues of the group, there is a need for a global steering group. However, G8 is facing many challenges, such as, increasingly formalized and lacking impact (Doha trade round, energy security, climate change, MDGs, reform of international institutions) and increasingly unrepresentative of global population and economic weights. There were some movements though under the German presidency such as the “Heligendamm Process”, under which five non-member countries (Brazil, PRC, India, Mexico and South Africa) will be permanently associated with G8, but this is clearly insufficient to push global reform agenda. There is, therefore, a need for summit reform by creating an effective global apex forum which connects the international institutions to each other and ensures that they effectively address the interconnected challenges they face.

Mr. Linn introduced an alternative summit model - the G20. This group of 20 countries has developed into a representative and effective forum, which is geographically and culturally diverse and broadly representative of global population distribution, economic weights and geographically. Also, emerging market economies are fully engaged in this forum. However, it has limited functional scope. Though moving from the G8 to the G20 Summit would be a pragmatic and effective step, there are alternatives. He listed down the following options: (i) making the Heligendamm Process work (Incremental 1); (ii) adding Brazil, PRC, India, Mexico, South Africa to introduce G13 (Incremental 2); (iii) introducing G20 Summit (Incremental 3); (iv) variable geometry of summits (GN+X) which would include different country groupings over and above a smaller group, with the additional members depending on the subject matter under consideration; and (v) the ECOSOC Leader's Forum. He stressed the point that any of these options would represent progress, which is the key to move ahead.

Mr. Linn concluded his presentation by introducing a new set of "global values" for better global governance, which is thought to be important to make a paradigm shift. He suggested that the old order global values that focus on nation-states and national power politics and promotes singular economic models and political values should shift to the new order of global values that focus on global society and new multilateralism and accept the coexistence of diverse models of market economy and political systems.