



8<sup>th</sup> FES-SWP North-South Dialogue

## Global Governance for Global Markets - Moving Beyond G8?

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## THE FES-SWP NORTH-SOUTH DIALOGUE

The FES-SWP North South Dialogue invites policy makers and scholars from think tanks and academia in industrialized and developing countries to discuss key global governance issues. In this format, since 2000 various issues have been addressed, including security, climate change, global trade and financial questions.

\*The program of this year's Dialogue is available at [www.fes-globalization.org](http://www.fes-globalization.org)

### 1 Background

Since its inception the FES-SWP North-South Dialogue has addressed the most pertinent questions of global governance by bringing together distinguished scholars and policy makers from industrialized and developing countries. This year's North-South Dialogue revisited established formats of global governance and discussed the problem-solving capacity of alternative governance forums such as the G20, particularly in the realm of market governance. Specifically, opportunities and limits of new multilateral governance architectures were discussed for the cases of financial and energy markets, both of which have obviously experienced major turbulences in recent years.

The emergence of new economic and political powers such as the BRIC countries has led to fundamental changes in the international balance of power. New modes of multilateral cooperation involve these new players and thus have the potential to remedy existing institutions' deficits in the areas of inclusiveness and equitable representation. At the same time, however, increased inclusiveness risks undermining the manageability and problem-solving capacity of governance institutions. Consequently, the question of possible trade-offs between input and output legitimacy informed much of the debate during this year's North-South Dialogue.

### 2 Governance à la carte?

In their welcome addresses Günther Maihold and Jürgen Stetten pointed out that in light of the proliferation of governance formats one must inquire into the efficacy of summitry and explore to what extent summit decisions are being complied with and implemented. Maihold also posed the question of the relationship between existing global governance institutions and new modes of club governance such as the G20. Are these new formats merely replicating existing institutions, do they complement them, or are they even undermining established forms of global governance, to the effect that the latter would be downgraded to "stamping agencies" which would merely provide post hoc approval of decisions that have already been made elsewhere?

Ulrich Schneckener, in his introductory remarks to the first session on "Multilateralism in crisis: causes and consequences" provided further clarification regarding the relationship between old and new forms of governance by proposing a threefold distinction: *formalized multilateralism*, i.e. cooperation that occurs in the context of established international organizations such as the United Nations or regional organizations; *selective multilateralism*, which designates cooperation in ad hoc coalitions as well as cooperation in the context of bi- or trilateral arrangements, informal networks, etc.; and finally, *club governance* which takes place in institutions such as the G8, the G20, or the Financial Action Task Force, to name a few.

The discussion then focused on the future relationship between the G7/G8 and the G20, with Andy Cooper elaborating two possible scenarios: either the G20 will exhaust itself and some of the G20 countries will be brought into the G8, or the G20 will prove that it can effectively tackle global challenges and thus increase its legitimacy as an alternative forum for global governance. Cooper conjectured that a decision about the future of the G20 would be made roughly within the next year and a half. The G20, however - even though designed as a more inclusive institution than the G7 - faced legitimacy problems of its own, both in terms of input and output legitimacy. Not only were African and Middle Eastern countries still underrepresented in this new institution, but the G20 also suffered from what Cooper called a "technical bias", i.e. they tended to privilege the declaratory, "excitatory" approach over working out detailed technical measures designed to address global challenges. The problem-solving capacity of the G20 was again the subject of much debate during the second session on financial markets.

### 3 North-South debates

In the remainder of the first session the focus of the discussion shifted away from policy issues to the more general theoretical and normative questions underlying the debate over global governance institutions, i.e. the relationship between ideational and material factors, between international norms and hegemonic influence.

Ummu Salma Bava emphasized that existing visions of international order and global governance are deeply rooted in liberal capitalist ideas spread by powerful Western countries. The latter had launched hegemonic discourses in which a particular set of ideas about governance was offered as a template for solving global problems. Alternative visions and ideas were consequently being marginalized. Bava criticized that by shifting governance from nation-states to international bodies, the *demos* which had hitherto legitimized governmental decision-making was being removed and replaced by an elite structure with manifest accountability and legitimacy deficits. This theme recurred in later sessions, when the opportunities and limits of 'global clubs' were discussed on a broader scale. From an Indonesian perspective, Yulius Hermawan criticized both the G8 and G20's exclusive character. "To be considered legitimate", he said, "global governance cannot merely reflect an American, Western, or liberal project." He stressed that the developing countries must be enabled to influence *de facto* decision-making.

Replying to Hermawan, German MoP Ulrich Kelber cautioned that the increase in legitimacy gained through enlargement, for example, was often paid for with a decrease in effectiveness. He praised the role of the United Nations as an organization providing important benchmarks on global challenges. Yet, citing the creation of the International Renewable Energy Agency (IRENA) as a point in case, he underscored the particular value of club formats from a policy-maker's perspective: "We have waited for 30 years for the UN to go ahead on renewables and maybe IRENA will turn out to be a formal UN institution one day. Still, it was brought to live, if you will, by 'a coalition of the willing'."

#### 4 Financial market governance

International finance is an issue-area which vividly illustrates how the problems of global governance institutions identified during earlier sessions crucially affect the stability of the international system. At the outset of the debate, Thomas Manz observed that international finance belongs to the issue-areas in which regime density is lowest, despite the obvious need for regulation. In the current form "the IFI's governance has become outdated", he said. According to Manz, the challenge lies in reconciling the interests of nation-states who behave as egoistic utility-maximizers with the need for supplying the global public good of international financial stability in the long-run. What is the contribution of the G20 to delivering this public good? According to Paola Subacchi,

the G20's problem-solving capacity is considerable. The London summit, which, despite a number of outstanding issues, Subacchi considered a great success, revolved around two themes: crisis resolution and crisis prevention. Subacchi noted successes in the area of crisis resolution but highlighted that the more general question of reforming the international financial architecture – in particular the IMF – was neglected at the summit. Representatives from the Global South, Jason Milton and Wang Haifeng among them, therefore called upon the G20 to present initiatives for new regulatory mechanisms. Wang's assessment of the G20's problem-solving capacity was slightly more pessimistic than Subacchi's, however. Wang pointed out that the G20's role and function are still somewhat opaque, that no working mechanism has been put into place, and that the G20 still depend on existing governance institutions such as the IFIs. Regarding the G20's role, Milton pointed to the making of the forum. According to Milton, Non G7-members had been quite sceptical about the process at first, but became "increasingly enthusiastic", when the G20 proved to be useful in pushing their own agendas, first and foremost the reform of the IMF's governance structure.

Wang's presentation also touched upon another fundamental issue in international finance – that of the incentive structure facing the various players and how this incentive structure enables or possibly impedes the provision of the public good of global financial stability. Wang pointed out that financial markets are characterized by a complex interaction of various actors who each pursue their own agenda and face a particular incentive structure which not necessarily induces action directed towards the common good. The need to alter existing incentive structures to deter irresponsible behavior and thus prevent future crises from happening was echoed by another participant who raised the nexus of money liquidity and poverty eradication. Instead of enabling the rich to further enrich themselves, the participant demanded that monetary liquidity instead be used to produce goods and services that would help the poor to ameliorate their situation.

Apart from the defective incentive structure, panelists and discussants identified a second important destabilizing factor, namely the existence of global financial imbalances. In his presentation, Ariel Buira highlighted the emergence of global imbalances both on the surplus and deficit sides, citing China and the United States as prominent examples. The latter, Buira noted, had a great share in bringing the

current crisis about, criticizing that the Federal Reserve doggedly clung to the ideology of free markets at a time when supervision and regulation was desperately needed. “Even the most sophisticated systems make major mistakes”, he concluded. Risk is obviously inherent in financial markets – the challenge therefore lies in devising a regulatory system that best hedges against these risks.

## 5 Energy market governance

In the third session, participants discussed the qualities of the current governance structure of energy markets. In his introduction, Dietmar Dirmoser pointed to the particularly *imperfect* state of these markets, which were characterized by monopolistic and oligopolistic structures as well as by alliances of governments and large companies. He added that energy issues were increasingly intertwined with security issues, since governments had started using their growing control of energy production and energy flows as a political weapon – a development exacerbated by the finite nature of fossil fuel supply. On the other hand, attempts to develop a comprehensive governance structure for energy markets had failed at large. Existing regulations and agreements had in fact become more and more fragmented due to bilateral engagements, resource nationalism and distribution conflicts between producers and consumers.

Kirsten Westphal and Mesut Casin seconded Dirmoser in that energy policy had indeed become a “strategic game”; Westphal held a slightly more optimistic view on the prospects of governance mechanisms in energy markets though, arguing that vulnerability and *inter-vulnerability* had moved to the center of the debate. In support, she cited the cases of energy security and the volatility of oil and gas prices, the latter of which hurted both consumers and producers, thus providing an opportunity to reconcile interests multilaterally. Conceding that “the UN might not be the right place to start”, club governance, however, had indeed provided some stepping stones: bringing together consumer and producer countries, the G8 outreach process in particular had contributed considerable political will and financial resources to initiatives like the International Partnership for Energy Efficiency Cooperation (IPEEC). Westphal also appraised organizations like the International Energy Forum (IEF) and IRENA as notable steps towards better regulation in energy markets.

Sergey Afontsev addressed the matter from a Russian perspective noting that, in contrast to global trade and development issues, “conflicting energy interests clashed not *within*

but *between* governance structures”, namely between OPEC and the IEA. Being both a producer and a consumer of energy resources, Russia was not likely to join any “cartel”. While dismissing the EU-proposed Energy Charter as “unacceptable in its present form”, he added that Russia was open-minded about creating global governance structures intended to balance interests of producers, consumers, and transit countries. According to Afontsev, such a global energy governance forum should convene nation states, private business, and global civil society in order to negotiate an agreement on basic principles of energy trade, using certain provisions from the Energy Charter as a “conceptual basis”.

## 6 Perspectives for global market governance

As Ulrich Schneckener observed in his concluding remarks, compared to previous North-South-Dialogues the overall acceptance of club fora seemed to have changed for the better. He identified a consensus among participants in that global markets need governance structures, even if neither their scope nor membership are universal. In light of the G20 taking up all political attention, he further predicted the G7/G8 to evolve from a club governance forum to a means of selective multilateralism. Along the way, the issue of G8 enlargement might fall off the table entirely. The shifts in the global balance of power had effected that no global problem could be solved without China, the US and India. Manz observed that this year’s North-South Dialogue once more testified to the tension between formal and informal cooperation and the trade-off between legitimacy and effectiveness. In conclusion, the discussants expressed the hope that the realization of mutual vulnerabilities in the course of current crises may facilitate a more cooperative approach to bridging North-South divides in the future.

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