



EUROPEAN COMMISSION

FORWARD STUDIES UNIT

A global strategy for the promotion of
sustainable economic and social
development

L.R. Pench

CEE: 1/24



Forward Studies Unit

A409

061.3 628. 337.97 304. 341.6 330.191.6 330.2 342.33
(1.) (25.)

EUROPEAN COMMISSION

FORWARD STUDIES UNIT

A global strategy for the promotion of sustainable
economic and social development

International Seminar "Globalisation: A Challenge for Peace.
Solidarity or Exclusion?" Milan, 29-31 October 1998.

Organized By International Institute Jacques Maritain

Lucio R. Pench

European Commission Delegation
Library
2300 M Street, NW
Washington, DC 20037

WORKING PAPER, 1999

The contents of this publication do not necessarily reflect the opinion or position of the
European Commission.

C55:J/24

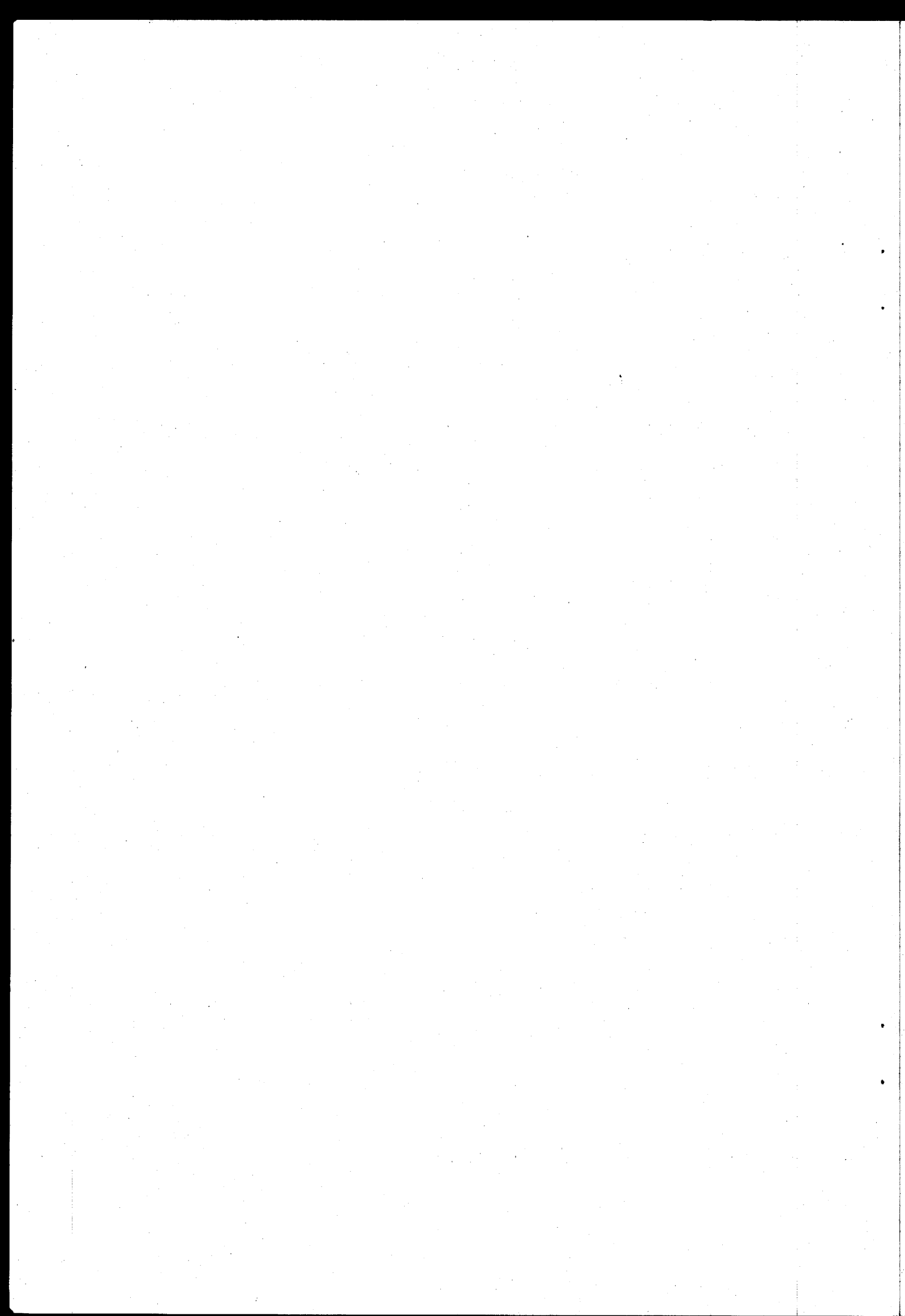
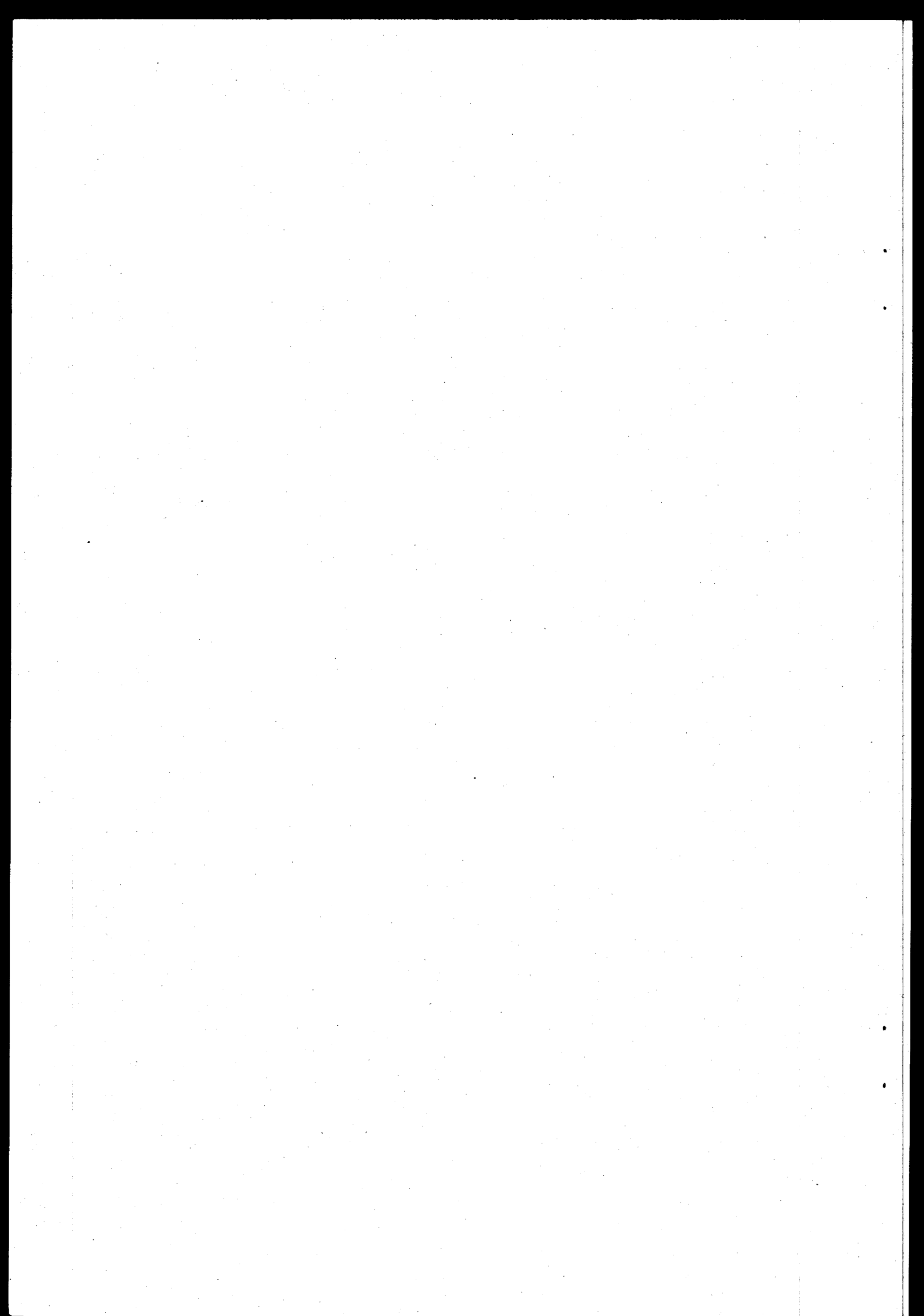


Table of Contents

| | |
|--|-----------|
| 1.The pressure for change in international economic order | 7 |
| <i>The end of the Cold War and the emergence of a multipolar world</i> | <i>7</i> |
| <i>Economic globalisation and interdependence</i> | <i>8</i> |
| <i>Deep trends in demography, poverty and the environment</i> | <i>9</i> |
| 2.The goal of change: sustainable development | 10 |
| 3.Strategic orientations for the promotion of sustainable social and economic development | 11 |
| <i>Promoting economic integration</i> | <i>11</i> |
| <i>Toward a comprehensive regulatory framework for trade and investment</i> | <i>13</i> |
| <i>Strengthening financial mechanisms</i> | <i>14</i> |
| <i>Stimulating sustainable economic growth</i> | <i>16</i> |
| <i>Reorienting development towards environmental sustainability</i> | <i>17</i> |
| <i>Supporting sustainable development through development contracts</i> | <i>20</i> |
| 4.Transformation of international institutions to provide global governance | 21 |
| <i>Improving legitimacy and effectiveness</i> | <i>22</i> |
| <i>Institutions for global governance</i> | <i>23</i> |
| Références | 27 |



Globalization : A challenge for peace. Solidarity or exclusion

The following contribution was presented at an International seminar in Milan, Italy, from 29 - 31 October 1998, organised by International Jacques Maritain Institute¹, Rome. This event was the first public manifestation of the International research Project "What kind of globalization for peace?".

The basic idea of the seminar - and for the research project as a whole - was to obtain an overall vision of the process of globalization from one-view point: that of peace. A peace that is no longer simply a state of non-war between nations - the traditional geopolitical definition - but a human right to the settlement and negociation of interests and conflicts between peoples according to rules, ethos and institutions , in order to avoid a recourse to arms and not just denounce it when it is too late

1. The pressures for change in international economic order

"The world is only ten years old". So ran a recent advertisement, in which a financial institution sought to allay the fears raised by the recent turbulence in financial markets. Beyond the hyperbole typical of advertising language, the message captures some features of the present world situation. The rules of the game are still largely the result of the major exercise in international constitution-making that took place at the end of World War II. However, the reality on the ground has changed, sometimes beyond recognition, and the last decade has seen an acceleration of that change. Three major forces of change stand out: the end of the Cold War and the emergence of a multipolar world; economic globalisation; and deep trends in demography, poverty and the environment.

The end of the Cold War and the emergence of a multipolar world

The collapse of the Soviet Union and the end of the East-West conflict has brought about a drastic upheaval in international relations and the world economy. International relations are no longer conducted against the backdrop of an overarching threat to the security of market economies and centrally planned economies no longer represent a barrier to the extension of competition worldwide. In principle, the

¹ The International Jacques Maritain Institute was established in 1974 on the initiative of a group of intellectuals and representatives of the cultural, artistic, academic, ecclesiastical and political world, ideally bound together by the reflexions of the French philosopher, and convinced of the relevance of the personalist-communitarian thought before the challenges of today's world.

convergence of thinking about the conditions for growth and development opens the door to more effective forms of international cooperation. But the end of East-West conflict also means that there is a reduced incentive to subordinate differences in national economic interest to a broader political design. The decoupling of North-South relations from Cold War alignments also carries the risk of a loss of attention for large but economically marginalised areas of the world.

The end of the Cold War represents an abrupt shift in the global balance of power. A gradual but ultimately more important shift has been gathering momentum over the past three decades as new economic powers rise to prominence, propelled by trends in productivity and demography, and the United States and ultimately the "industrial" countries taken together, experience a relative decline. The emergence, at least in economic terms, of a multipolar world including regional actors, could favour the elaboration and implementation of globally beneficial longer terms strategies. However, it also carries new risks of conflict and the unwillingness by any of the main players to bear a fair share of the costs of enforcing cooperation. If relative economic decline is accompanied by military superiority, the declining hegemonic power may be tempted by the exercise of what has been called "global leadership on the cheap".

Economic globalisation and interdependence

The term globalisation seems to have been originally used in the business world, from where it moved to journalism and academia. This seems appropriate as the main aspects of globalisation refer to market developments and enterprise strategies, namely, the transformation of the world in a single production and trade area and the appearance of firms pursuing world strategies. From the point of view of national economies and societies globalisation appears as a centrifugal process, driven by the action of economic operators. Economic liberalisation, both internal and external, has undoubtedly been a key permissive condition of globalisation. In this sense, globalisation has been the result of states' choice, as the protectionism in the first part of the 20th century had been. The degree of interdependence, both in terms of economic structures and policy choices, that characterises the present world situation,

makes it extremely costly, if not impossible for one country to insulate itself from globalisation. Globalisation is also powered by developments in technology, especially in information and communication technologies, which add to the sense of irreversibility of the process.

National governments, which are still the focus of democratic decision-making and political debate, are seen as the losers in a threefold shift of power: upwards, towards international regimes and supranational institutions; downwards, towards regions, and, possibly most important, laterally, toward market agents. Global governance, which is not and cannot be the same as global government, is perceived to lag behind the global economy, and the global problems that it carries with it. The claim that "nobody is in the driver's seat", while reflecting a simplistic view of the possible solutions, reflects a widespread feeling of unease in society. Recent events in the world economy have deepened this unease.

Deep trends in demography, poverty and the environment

Global problems are not only the problems of economic interdependence in increasingly global markets. Deep underlying trends in population growth, poverty and the environment highlight another type of interdependence, vulnerability interdependence, which relates and influences the future of both the North and the South. An extrapolation of present trends reveals that the chances of a major part of the world population catching up in terms of human development will become more remote unless there is fundamental change. Out of a world population of about 5.5 billion, 4.4 billion or 4/5 of the total live in developing countries. Of these, 1.2 billion cannot meet the most basic needs (as defined by the United Nations Development Programme). As developing countries account for 9/10 of future population growth, even if the proportion of those in absolute poverty continues to fall due to rising productivity, their actual numbers will not. The combined effects of population growth and poverty are likely to intensify cross-border shocks linked to migration, or even spread of disease. Most important of all, these trends will put heavy and possibly unsustainable pressure on the "global commons": globally, atmospheric and water

pollution are expected to increase, degradation of the marine environment and the soil to continue, biodiversity to be substantially reduced.

2. The goal of change: sustainable development

Faced with multiple challenges that require action going beyond the capabilities of any single state, and even those of ad-hoc co-operation between them, it is important to have a comprehensive concept of the goal of change so as to orientate the search for global governance in its different domains. This concept should cover economic, social, environmental and cultural developments, which interact, in an increasing but often unbalanced manner, in the process of globalisation. The reflection on these problems, conducted at different levels, scientific, institutional and through public opinion, has shown a convergence toward the notion of sustainable development.

Differences in the definitions of sustainable development that exist are mainly of emphasis, as definitions complement rather than substitute each other. The 1987 Brundtland Commission Report "Our Common Future" defines sustainable development as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs". The emphasis here is on environmental sustainability in the interest of intergenerational equity. The UNDP uses the concept of sustainable human development defined as "the process of enlarging the range of people's choice - increasing their opportunities for education, health care, income and employment, and covering the full range of human choices from a sound physical environment to economic and political freedoms". This definition focuses on the social aspects of development in the spirit of intragenerational equity. The World Bank, in a series of reports on poverty (1990), development strategies (1991) and development and environment (1992) has attempted to combine the various elements under the heading of sustained and equitable development.

From the political point of view and the perspective of Europe, a particularly important progress in the above direction is represented by the Amsterdam Treaty. This gives constitutional quality to the concept of sustainable development, which is explicitly included in the objectives of the European Union (amended Art. B of the

Treaty on European Union) and the European Community (amended Art. 2 of the Treaty establishing the European Community). This develops and completes the work begun with the Maastricht Treaty, which had first included the notion of sustainable economic and social development as the main objective of development cooperation.

Divergences of view as to particular approaches and policies will always exist. In part they reflect the tension between the different dimensions encompassed by the concept of sustainable development. The importance of the concept of sustainable social and economic development does not so much lie in the provision of a blueprint for social, economic, environmental and cooperation policies. It lies rather in its contribution to the clarification of the full range of issues, conflicts of interest, trade-offs and options. It serves to focus attention on the conditions and the process for making rational choices with respect to the formulation and implementation of coherent long-term development strategies at the domestic as well as the regional and multilateral levels.

3. Strategic orientations for the promotion of sustainable social and economic development

It would be futile to attempt to spell out in detail the global strategies that need to be pursued to manage economic interdependence so that globalisation serves the interests of all and to reverse the unsustainable deep trends that threaten the survival of mankind. They can only result from a convergence of vision between the major players and a complex process of negotiation. However, the reflection on past experience and prospective evolution of the global system suggests a number of conclusions regarding the strategic orientations that should be followed if a serious effort to deal with medium-term and long-term global problems is to be undertaken.

Promoting economic integration

While increasing economic interdependence is widely recognised, there is no such general agreement on the shape that the international economic order is to take in response to the pressures that interdependence generates. From a conceptual point of

view, two different broad approaches to deal with increasing economic interdependence can be identified, as follows.

- Shallow integration, involving increasing market access consistent with the maintenance of national sovereignty regarding non-border policies. In such a world, countries tend to refrain from discrimination of foreign products or producers, but retain their freedom of action in other areas and compete on the basis of their natural endowments *and* regulatory regimes ("competition among rules").
- Deep integration, in which governments are willing not only to further integrate their economies through liberalisation but also to increasingly treat domestic regulatory policies and international interactions between policy areas as matters for international coordination and to provide for corresponding delegation of powers.

Overall the international economic order remains closer to the first than to the second model, that is, shallow integration predominates, though not without significant gaps, and the most binding international disciplines are those seeking to improve market access and reduce discrimination.

The case for shallow integration rests essentially on the same argument as the general case for free markets: competition, including between regulatory regimes, results in the most efficient allocation of resources and thus in the maximisation of global welfare. However, there are also limits to the effectiveness of market mechanisms in achieving global welfare objectives, which also apply to shallow integration as a means of managing international economic relations. The experience of the European Union, that is, the area of the world where economic integration has proceeded the most, provides a useful lesson concerning the respective roles of shallow and deep integration. Every step toward the opening of markets has been accompanied by further harmonisation of rules at supranational level as well as by inter-regional redistributive mechanisms. When it comes to participation in the benefits of international economic integration, the developing countries suffer difficulties, which depend not only on domestic weaknesses but also on systemic features of the international economy. In particular, developing countries are adversely affected by

the instability of the global macro-economic environment and systemic barriers to participation. Approaching a solution to these problems calls for enhanced international coordination going beyond traditional forms of liberalisation of foreign trade regimes.

Towards a comprehensive regulatory framework for trade and investment

In view of the large and growing number of countries involved in the multilateral context and the differences between them, the method and scope of liberalisation, cooperation and integration would obviously be different from that of the European Union. The EU experience can, however, provide some guidance as to the orientations to be pursued in the global context.

First, market access should be more based on objective criteria and liberalisation formula ensuring that economically strong and weak countries alike enjoy the benefits of their comparative advantages and that overly protected countries progressively integrate into the world economy. Specific conditions of particular sectors within countries need to be taken into account. However, no sector should be excluded and preferential treatment in favour of poor countries should be differentiated according to simple criteria and limited in time. The recent EU position on the future Lomé convention between the EU and African Pacific and Caribbean (ACP) countries provides an illustration of this approach. One of its key objectives is to foster the opening of ACP countries to international trade in accordance with the general rules of the WTO. To achieve its objective, while taking into account the differences in the level of development and the economic structure between countries, the EU envisages the establishment of five WTO-conform (that is, extended to all sectors) free-trade areas with regional subsets of the ACP group. It also includes provisions for special access for the products of the least developed countries.

Second, there should be more emphasis on regulatory convergence, i.e. the approximation if not harmonisation of essential public policy requirements at the multilateral level in order to enhance the efficiency of policies protecting common goods, reduce distortions in competition and permit market access on the basis of mutual recognition. The emergence of conflicts between trade and environment

policies and the difficulties of liberalising trade in services both illustrate the orientation of this proposition. The WTO is the best-suited agency for achieving compatibility between the rules in different policy areas and the trade regime. An important step in this direction would be amending the GATT (Art. XX) to make WTO rules and the Multilateral Environment Agreement mutually compatible.

Third, a multilateral framework for investment should establish disciplines for domestic investment policies and encourage investment flows and the diffusion of technological know-how. Of particular importance for the stimulation of foreign investment would be the harmonisation of prudential, fiscal and accounting regulations in banking and other financial sectors. The standards should be multilaterally agreed, rather than unilaterally imposed. This argues for negotiation of a multilateral investment agreement in the WTO context.

Fourth, the behaviour of private companies operating in international markets should be subject to minimum rules and enforcement mechanisms. For example, important differences in domestic competition policies or the absence of such policies in many regions of the South entail serious trade distortions, often to the disadvantage of developing economies. An important step in remedying this situation would be for WTO members to commit themselves to introducing effective competition laws, covering mergers, monopolies and restrictive business practices.

On a more general level, it should be more clearly recognised that free trade is by no means sufficient to achieve sustainable economic and social development. It contributes to an efficient allocation of resources but is of unequal importance for solving the structural problems of the different regions and does not of itself provide the solutions for the common goods. Therefore, it will be necessary to interconnect the multilateral trading regime with global financial, macro-economic and environmental mechanisms in order to ensure policy coherence.

Strengthening financial mechanisms

The erratic cycles and disorder that exist in the financial system often result in a misallocation of resources which jeopardises economic prospects in both North and

South, with developing countries being particularly penalised by the volatility of capital flows and the instability of asset prices. A more effective control of world liquidity is a key to greater stability in the financial system. This in turn presupposes a far-reaching degree of macroeconomic coordination, involving primarily the monetary authorities of the Triad. On a more limited basis, a number of measures could be taken to mitigate financial instability and ensure a stable transfer of financial resources to low and middle income developing countries.

First, the debt servicing repayments (principal and interest) should be stabilised and limited to a level compatible with the economic growth of the developing countries concerned. In particular, the debt stock for the heavily indebted low-income countries should be drastically reduced. To this effect, the Highly Indebted Poor Countries Initiative needs to be upgraded well beyond its present targets.

Secondly, prudential, accounting and fiscal rules affecting financial operators would need to be substantially improved. Recent turbulence in the financial markets highlights the grave consequences of the general lack of information on the extent of international lending and investment and on the creditworthiness of borrowers. Beyond the strengthening and the extension of existing regimes (agreements reached in the framework of the Bank for International Settlement), closing the information gap may require the creation of a new international institution with supervisory and regulatory responsibilities over major financial institutions and markets.

Third, international mechanisms should be put in place to mitigate the inefficiencies arising from lack of coordination on the creditors' side in the event of country debt crisis. Options include sharing and majority-voting clauses in debt contract to the power for the International Monetary Fund to endorse a standstill of debt service repayment, according to rigorously defined criteria.

Finally, the World Bank system, and in particular International Development Agency (IDA) and the regional development banks should be provided with the additional resources needed to enable it to channel more effectively concessional aid. The World Bank itself should give higher priority to its coordinating and advisory role with respect to long-term development strategies and re-orient its resources towards

investment in the provision of global public goods, such as research on tropical diseases, tropical agriculture and the oceans.

Stimulating sustainable economic growth

Improved market access and strengthened financial institutions, and the further reforms of the trading and financial systems suggested above, will not be enough for economic integration to benefit all. Greater access to the markets of the industrialised countries may be difficult to realise in case of general economic slow-down. Sound national economic policies may not be sufficient to achieve adequate rates of growth and global stability, if account is not taken of the spillovers of macroeconomic stabilisation. The lack of a "nominal anchor" regulating the world supply of liquidity has repeatedly led to cycles of worldwide monetary expansion and contraction, exacerbating the adjustment problem and the instability of financial markets.

Therefore, additional reforms that could promote sustainable growth in both industrialised and developing countries should be explored.

The major responsibility for global stability and growth lies with the industrialised countries of the Triad. In terms of enhanced international cooperation and coordination, there is a need for improved surveillance within the Triad to identify early enough potential policy inconsistencies and reach more persuasive advice on how to avoid or correct the problems. The EU experience of common macroeconomic policy guidelines backed by extensive sharing of information, peer pressure and other leverage instruments could possibly offer some lessons. Macroeconomic policy coordination would be a longer term and more ambitious option. It presupposes the willingness of the authorities to use macro-economic policy instruments in support of objectives agreed at the international level (which could involve more effective control of world liquidity). Coordination could be based on a single instrumental target (exchange rate or monetary aggregates) or on an agreed list of economic indicators ("monitoring zones"). Whatever the instrumental target used, economic and monetary policies would have at least have to be put in question, or even modified, if strong inconsistencies emerge between target and actual values.

As far as the developing countries are concerned a source of additional economic growth could lie in exploiting the economic relationships between them. The decline and even collapse of inter-regional trade of many of these countries stems, apart from the obvious political factors, from excessive vertical integration of their economies with industrialised countries and the lack of financial resources that would enable settlement of the trade balances between countries whose currencies are not convertible.

A number of measures could help to strengthen the economic South/South, South/East and East/East links, provided there is a political will for regional cooperation and integration between such countries which is still lacking in many regions, in particular in Africa:

- support for viable regional integration schemes at a political level as well as through economic incentives;
- the facilitation of triangular technological cooperation and, more generally, the promotion of inter-regional technological networking;
- the financing of triangular trade transactions involving two of these countries and an industrialised country.

The international community could also help to overcome some of the major obstacles to private investments in developing countries, in particular by small and medium sized companies, by reinforcing reinsurance schemes to cover foreign investments against political and legal uncertainties at the multilateral level.

Reorienting development towards environmental sustainability

Compared to the trade, financial and economic areas, the "rules of the game" in the environment area are still in embryonic form, as public awareness tends to follow the development of the problems. At the same time the deep trends in this area probably pose the most serious of the global threats to mankind in the 21st century.

The parameters of a global strategy for the promotion of environmentally sustainable development have been established with the United Nations Conference on Environment and Development (UNCED) and its main results. Specifically, adoption of an action programme to cover the full range of environment and development issues (Agenda 21); the establishment of the Commission on Sustainable Development (CSD) to monitor its implementation; Rio Declaration on Environment and Development; Statement of Forest Principles, Climate Change and the Biodiversity Conventions.

The Kyoto Protocol to the Convention on Climate Change represents a major advance, in that for the first time industrial countries have committed themselves to wide-ranging emission targets that are legally binding, which implies changes in policies across all sectors.

Progress on the post-Kyoto agenda and, more generally, the proper implementation of the range of policies outlined in the UNCED will probably require institution building at international level. The environmental area lacks an institution that would effectively stimulate and monitor international cooperation and norm setting. UNEP, in particular, would need to be strengthened institutionally and in terms of its resources to become a true environmental pillar of the international economic order on a par with other key institutions. This may ultimately require the establishment of a World Environment Organisation, possibly as an umbrella organisation for strengthened specialised institutions (e.g. an enhanced International Maritime Organisation for the oceans, a World Atmosphere Organisation, etc.). In general, effective international mechanisms for the integration of the environmental dimension into all areas of policy-making are needed. For example, concerning developing countries, if development projects are routinely screened to avoid environmental damage, macro-economic stabilisation and structural adjustment policies do not take proper account of the objective of environmental sustainability. The European Union should be able to provide valuable lessons on how to improve international policy coordination across different areas in order to achieve environmental objectives, given the shared responsibility of the Member States and the Community for meeting the countries' combined targets under the Kyoto Protocol.

More fundamentally, the challenge of re-orienting development toward environmental sustainability means convincing recalcitrant countries and societies in the North and the South that attaching permanent value to and protecting the environment makes economic sense in the medium and long term, besides being imperative for security reasons.

Convincing policy-makers and public opinion of the benefits of environmental sustainability in turn requires a sound knowledge of the ecological costs and benefits of various development patterns and policies. To this effect comprehensive inventories of natural capital stocks should be established and their evolution systematically monitored. Data on environmentally important flows and stocks should be presented alongside conventional economic accounts, with the ultimate objective of providing a comprehensive measure of the environmental consequences of economic activity. International action in this area can draw useful experience from the EU programme for the integration of economic and environmental information systems.

Better knowledge of the environmental consequences of economic activities should lead to the progressive integration of environmental externalities into the price system via taxation, thereby, reflecting in the scarcity, resilience and non-substitutability of natural resources used. Another promising application of the price mechanism at the service of environmental objectives lies in the introduction of tradable emissions reductions certificates at the international level. The Kyoto Protocol provisions on flexible mechanisms, including in particular "emission" trading, represent an important reform, the implementation of which needs considerable strengthening of the monitoring capabilities of all the participants.

A comprehensive sustainability strategy must finally contain important redistributive elements. In view of the discrepancies of consumption patterns and technological capabilities between the North and the South this is not only a question of fairness but global sustainability and risk prevention. In order to induce developing countries to follow different development patterns in terms of the consumption of non-renewable natural resources, significant transfers of resources combined with technological know-how will be necessary in economic transition phases. In the absence of such

transfers, it would be unrealistic to expect environmental obligations that currently apply to industrial countries to be extended to the developing world.

Supporting sustainable development through development contracts

Experience shows that, in order to be effective, cooperation and assistance presuppose a supportive domestic environment and policies that are credible in terms of orientation, political backing and capacity of implementation. In the longer term success depends on whether domestic (local, national, regional) authorities establish development strategies corresponding to socio-economic realities and make them work. Donors, rather than imposing solutions unilaterally, should concentrate on giving adequate policy advice and reaching agreement on a coherent policy framework with the recipient country. This in turn requires more structured efforts of coordination and consensus building among donors at the source and on the ground than has happened in the past.

This process could lead towards quasi-contractual long-term relations of partnership between, on the one hand, individual or regional groupings of developing countries involving also non-governmental organisations in these countries; and, on the other hand, the major donors including governments, international agencies and non-governmental organisations. The reward for such a cumbersome process of establishing "development contracts" should be more predictability and increased confidence in development strategies that actually work in a sustainable manner.

The development contracts should contain flexible policy frameworks adjusted to the particular situation of the individual countries. They should avoid imposing a particular model of society and fully respect cultural diversity. However, these contractual agreements would need to contain certain conditions concerning the respect of basic human rights, fundamental liberties, the rule of law, participatory political structures and social, economic, environmental and administrative reform programmes (including for instance the orientation of budgetary expenditures towards human development priorities). They should also contain commitments by donor countries with respect to specific policy instruments affecting the receiving countries, such as market access, debt alleviation and concessional aid. Their aim would be to

ensure secure financial and technical support for policies ranging from family planning, development of human resources and capacity building to the stabilisation of the macro-economic foundation, structural adjustment, rural development and the protection of natural resources. The chief priority should be the reduction of poverty, which in turn presupposes the integration into the world economy and the stabilisation of democratic societies.

The recent EU position on the future Lomé convention between the EU and the ACP countries goes a long way toward putting in practice the principles behind the idea of development contracts. Besides continuing to provide financial assistance on a largely concessional basis, the reform of the Lomé convention aims at establishing a closer cooperation in all the areas linked to international trade, notably through the establishment of a number of free trade areas with relatively homogeneous subsets of the ACP group. As indicated above, integration in the world economy is seen as a key condition for the reduction of poverty, which is the chief objective. Yet democratic stabilisation is equally important, not least to assure a wide constituency for economic reform. It is for this reason that the EU position insists on the commitment to put in place participatory political structures. These include mechanisms for the effective involvement of civil society and the private sector.

If credible and broadly agreed cooperation frameworks of the kind described above do not get off the ground, the future of development policies will be essentially limited to humanitarian aid and the prevention of common security risks.

4. Transforming the international institutions to provide global governance

To achieve sustainable economic and social development, existing international institutions and regimes will have to be gradually transformed. Their number and scope of activities has increased tremendously over time, but they still largely reflect power structures and a concept of sovereignty predominant at the end of World War II. Moreover, they lack effective mechanisms to ensure policy coherence. The result has been a perception of a lack of legitimacy and effectiveness in global economic policy making. Moreover, there is no instance capable of reflecting the interest of the system as a whole and ensuring policy coherence.

Improving legitimacy and effectiveness

Legitimacy is bound to be an increasingly sensitive issue at international level as every move toward "deep" integration means that previously domestic policies become the subject of international action. Effectiveness has always been recognised as one of the crucial problems of international regimes.

There is a substantial complementarity between legitimacy and effectiveness, as institutions that lack legitimacy are unlikely to be effective in the long run. Similarly, a regime that is not effective in achieving its objectives will lose support and thus lose legitimacy. At the level of decision-making procedures, however, the two are often seen as conflicting, as reaching decisions is made difficult or sometimes impossible by excessive interpretations of consensus or use of veto powers presented as requirements of legitimacy. Among the requirements of legitimacy is that all members or groups of members should have a say in decisions; the relative weight of the players should also in some way be reflected if decisions are to be sustained by effective implementation. However, this does not mean unanimity. Nonetheless, the need to include more players in the decision-making process and achieve broad consensus inevitably makes effective decision-making more challenging.

A central conclusion is, therefore, that giving more players a say in decision-making must be accompanied by changes in decision-making arrangements that will increase effectiveness. There is a parallel here with the process of EU integration, where the main institutional challenge is that of achieving more effective decision-making in a Union with more members.

In addition, the need to give all a say in decision-making has to be balanced against the need to reflect the reality of the distribution of economic power and changes in it, otherwise decisions will not get implemented.

A number of changes can be envisaged to achieve both greater effectiveness and legitimacy in decision-making. Possible approaches include the following.

- Favours open-ended regimes as opposed to closed clubs to avoid risk of abuse of power by self-selecting "elite" states. Universal membership is a requirement for bodies with global responsibilities, especially in areas in which the risks of "free-riding" are substantial.
- Greater recourse to rule-based international regimes. The underlying argument is that it is more efficient to negotiate a set of rules, which can be applied to individual situations, than undertake negotiations each time a specific problem comes up.
- Progressivity, that is, linking the structure of decision-making to the degree of involvement in the international economy, and changes in it (and, perhaps, involving some conditionality in respect of democracy). There is a particular need to look again at the way this principle is applied to the voting arrangements of the Bretton Woods financial institutions.
- The balance of representation of countries should be improved. This would be achieved efficiently through regional constituencies (for example, the Global Environment Facility, or the IMF and World Bank Executive Boards). This would also provide an incentive for regional cooperation, provided the representative of a regional constituency speaks on behalf of all its members.
- Exploring ways to overcome blockages (particularly in the negotiation of new rules) by resorting to more flexible interpretations of consensus allowing decision-making by a qualified majority of participants.

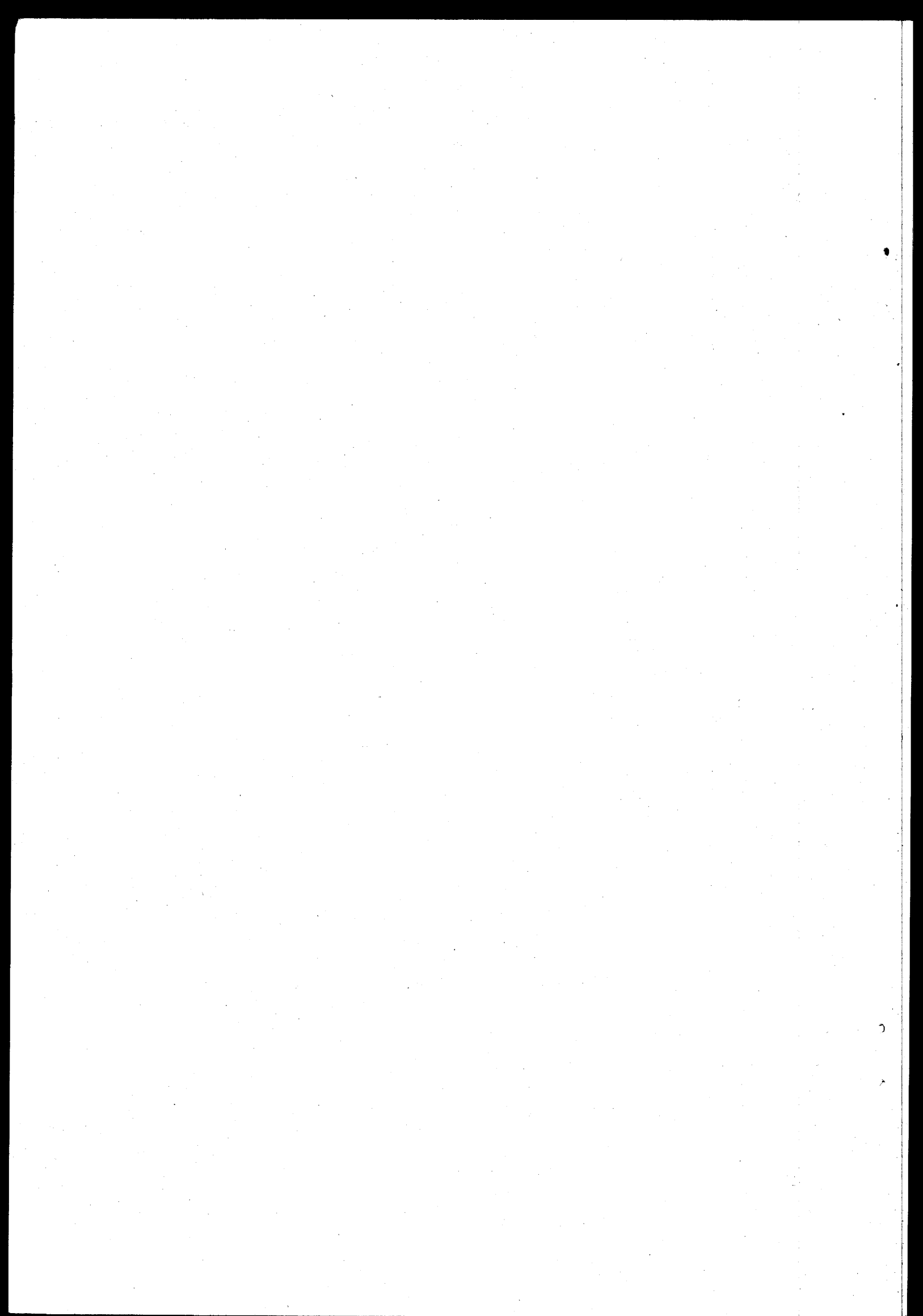
Institutions for global governance

Actions to improve legitimacy and effectiveness along the lines discussed above could also lay the basis for the development of some form of overarching structure, capable of reflecting the interests of the system as a whole and resolving conflicts across different policy areas and institutional mandates. Rather than advocating an all-embracing institutional solution one can envisage a progressive approach to managing interdependence.

- Strengthening the weaker pillars of the system (environment, UN economic-social bodies, macro-economic policy) in their own right, and reducing asymmetries in decision-making.
- Making more serious efforts to deal with key existing interfaces, focusing initially on the priorities identified in the specific issue-areas. This should involve greater coordination between existing institutions, and a bigger role for existing institutions particularly apt to increasing coherence (Commission on Sustainable Development, IMF/World Bank Governing Committees, WTO, United Nations' Economic and Social Committee). Better cooperation between Bretton Woods Institutions and UN economic bodies is an obvious priority area.
- Giving responsibility to particular institutions to coordinate some horizontal issues (e.g. World Bank Development Committee, Commission on Sustainable Development etc.) and considering ad hoc approaches to key problematic interactions which are not adequately dealt with by functional institutions (such as, perhaps, international crime).
- Creating frameworks for coordination between multilateral institutions and national governments (e.g. through development contracts).
- Given that the G-7 (G-8) will continue to play a role in some issues of coherence, links should be developed between the G-7 (G-8) and key emerging countries and regional groupings. However, the lack of representativeness of the G-7 (G-8) and the consequent incapacity to provide guidelines for international institutions make it a poor candidate for providing overall policy coherence. The development of links with key emerging countries should be seen as a preparation for a successor body to the G-7 (G-8) itself.
- Increased involvement of regional groupings in policy coordination and integration. The degree of involvement of regional groupings in providing overall policy orientations should increase in parallel to the extent of their functional competencies and their developing of efficient and legitimate structures.
- Seeking to focus political interest on the question of whether a move towards a structure to enhance coherence is desirable and feasible. This will need

consideration of both the intensity of interactions and the need for greater legitimacy in the management of the system as a whole.

In a long-term perspective, this progressive approach may provide the basis for a move towards an overarching structure with responsibility for providing a broad policy framework at international level.



REFERENCES

The Future of North-South Relations, 'Cahiers' of the Forward Studies Unit, Luxembourg, Office for the Official Publications of the European Commission, 1997.

Towards a More Coherent World Economic Order, 'Cahiers' of the Forward Studies Unit, Luxembourg, Office for the Official Publications of the European Commission, 1998.

