The Future of International Governance Architecture

Mexico City
Meeting Report #3
March 10-11, 2008

This is one of a series of meeting reports from the Breaking Global Deadlocks project. These meetings attempt to refine the concept of how leaders play an instrumental role in addressing pressing global issues. Past meetings have included prominent individuals, including former leaders, summit sherpas, and deputy ministers from most of the countries that have been identified as potential members of a new leaders’ forum (the G8 countries plus key emerging and regional powers). This meeting held in Mexico City explored international finance, governance mechanisms to address climate change, and the reform of existing international institutions. The discussion also included debate about the expansion of the G8 to include key emerging powers and the role of a “world steering committee” made up of regional powers and powerful economies.

Global Economic Issues

This session addressed 21st century challenges to governance architecture for international finance. There appears to be a crisis – the West thinks its values and formulae are universal, whereas many do not accept them. There was a bad start to the 21st century – cooperation and multilateralism were the goals, but confrontation and unilateralism prevailed. The global institutions are sixty years old and are outdated. In the finance area, they include the International Monetary Fund (IMF), the World Bank, the Bank of International Settlements (BIS), the Financial Stability Forum, the Organisation for Economic Co-operation and Development (OECD)’s Working Party 3, and the Regional Development Banks.

The Project

The Centre for International Governance Innovation (CIGI), in partnership with the Centre for Global Studies at the University of Victoria (CFGS) and with the support of several other organizations, has since 2003 led an extended multinational effort to explore the practical prospects for significant reforms to the institutions through which governments decide key international issues.

Since its inception, the project has undergone several phases. During the initial phase, the concept of a leader’s level G20 summit, or L20, was explored (www.L20.org). This top-level, intergovernmental forum would facilitate a commitment to breaking global deadlocks on issues that cannot be resolved through other mechanisms. Pressing global issues were examined in depth to test the hypothesis that a more inclusive and well-prepared summit process would yield significant progress.

The project seeks to build upon the L20 project outcomes by exploring in greater depth the importance of leadership in formulating policy and catalyzing solutions to pressing global problems.

Available for download at: www.cigionline.org/publications
In 30 years China, India, Brazil, Indonesia, and Korea (if unified) will be among the world’s 10 most influential countries. Pakistan, Bangladesh, and Nigeria will each have a population greater than 200 million. The world will be more complex and there will be new demands to address emerging issues. More structures and more international arrangements will be needed. It would be beneficial if a 16-20 country steering committee would work together, but only if the members themselves were to be bound by its decisions and rules. The reality is that the decisions of such a steering group will affect other countries.

The IMF is being marginalized. Discussion of governance reform must go beyond votes, shares and executive board seats. The important factors are institutional memory and the weight and influence of good people. Participants were reminded that John Maynard Keynes wanted to abolish the BIS, preferring a legal rather than an informal body. Accounting standards, codes, and debt restructuring approaches are all informal and non-enforceable. There was a failure of regulatory agencies to monitor and supervise; they ignored off balance-sheet activity. Leaders could push standards bodies to be more inclusive.

Moments of crisis can lead to institutional innovation. The one-size-fits-all prescription tendered to Asian countries emerging from financial crises cannot be applied to the United States. The world is facing a decentralizing trend, moving to a multi-currency order. This leads to the prescription that leaders should push the IMF to accept decentralization and become a central node of networks, rather than an institution. The IMF should accept regional arrangements and look to the Regional Development Banks as models.

One view was that there must be a Leaders’ “Steering Committee” and that it should not be based on variable geometry. The question is not whether, but what kind. Powers from each region must be included, because the lack of representativeness will decrease legitimacy, and hence effectiveness. The discussion turned to the practical questions of the emerging new financial mechanisms for climate change. Climate change should drive developmental policies, since without a hospitable climate, development investments will be in vain. Unprecedented amounts of money are being committed to addressing climate change, much of it about to be entrusted to the World Bank and RDBs. The OECD’s Paris Declaration on Aid Effectiveness – calling for recipient partner countries to exercise genuine ownership over the process – seems to have had little influence. The Bali conference’s decision on the governance structure of the Climate Change Adaptation Fund has had no impact. The World Bank will produce another top down mechanism where outreach will be for information, not consultation. There ought to be concern because one cannot afford business as usual practices which have plagued Official Development Assistance (ODA); these approaches have generally led to failure. Instead, multi-faceted approaches should be devised rather than a single delivery mechanism. Redundancies should also be built in to ensure local buy-in, local engagement and local decision-making. An analogue to the G8 Okinawa Task Force in ICT is needed to devise optional financial mechanisms and governance structures.

It was conceded that starting anew rather than trying to reform the World Bank is necessary. A new paradigm and new governance mechanisms needs to be found. Questions were raised concerning potential revenues flows from carbon trading schemes. Who will regulate the system? What new mechanisms can be developed based on a more generalized system of property rights for forests? Future financial flows will be the key element of any deal.

Today, China and India will not join the G8 since they do not want to compromise their G77 membership. If the G8 does not accept expansion, a parallel institution such as the G20 could be established. Further, the G8’s arrogance

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1 There was contention on this point – with some arguing that the composition of such a group should vary to ensure the presence of the most appropriate countries, which varies depending on the problem at issue. The rejoinder was that personal relations and institutional memory trump the argument. A consistent group will build empathy and understanding.
and obtuseness has created the possibility of a rival bloc – the G5. At the Leaders level, there are several ways to get to a Leaders’ “Steering Committee.” Perhaps the Five (and Indonesia) should convene their own summit meeting in 2009 and invite the G8 (having first secured the acceptance of the next US president).

Discussion continued on composition. The G5 – the Gleneagles 5 – was created with little reflection. Indonesia should probably be added. But ultimately the subjects to be discussed, climate change or deterioration in the global economy, are more important than composition. Several participants advised not to build the case for a Leaders’ Steering Group based on legitimacy criteria; instead, the focus should be on effectiveness. The question should be who are the key players needed to solve the problem, emphasizing that this was a pre-negotiation steering group that would send any matters decided on to a larger and universal forum.

Recent financial turbulence has been centered in the US and the developed world. The IMF has been relegated to the sidelines; both the IMF and World Bank have negative financial flows, receiving more payments than they disburse. Sovereign wealth funds have become major players.

There is a crisis of economic policy ideas – the Washington consensus is discredited. Reform of global governance has not kept pace as seen in the selection of the World Bank President and the scandalous provision of IMF Board seats for Africa.

The current financial crisis occurred despite the IMF, the BIS, and the Financial Stability Forum. Transparency codes, early warning systems and the rating agencies failed.

The nature of the next crisis cannot be anticipated. In 1999 no one could have anticipated the current global financial imbalances. The format of crises is always different. This argues for a fairly permanent steering committee with wide membership.

To be less abstract, what issues are susceptible to progress in a single effective steering committee? A steering committee might be fine for ODA, but inappropriate for the Doha Round. Where can common ground be found: migration or food and water shortages? An umbrella, with an institutional memory/“archive” is required. There was no consensus as to whether the steering committee should have fixed membership or participation varying with the subject matter. The facts are: what exists does not work; something new is needed, and the “perfect is the enemy of the good.”

Development, Political, and Security Issues

Climate Change

The history of the United Nations Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, and lessons from the Montreal Protocol were reviewed. These lessons included the importance of scientific assessments simplifying issues for decision makers; development of safe alternatives; availability of funding to assist developing countries; collaboration among industry, academics, NGOs and government institutions; and monitoring and follow up. The Montreal Protocol evolved over a period of years from a weak agreement with few countries to a robust and effective agreement, with manageable mechanisms and with global adherence.

The need to price carbon emissions to increase investment in R&D and to expand international cooperation on deploying alternative technologies was also reviewed. To prevent a “tragedy of the commons,” the like-minded must pursue a new post-Kyoto agreement.

Prospects for nuclear energy were fraught with uncertainty with respect to costs. R&D and more investment directed to nuclear safety are needed.

Security

Views vary on what constitutes threats to international security – from HIV/AIDS to poverty to catastrophic terrorism. Some would say that unilateral exercise of US power is a threat to security. Others would define the absence of a system of collective security as a threat. Advances in bio-technology lead to security questions. Threats should be defined as any event that leads to large-scale loss of life and undermines nation states.

Security institutions require strengthening – the underlying global bargains must be reviewed and extended. The list of needs include:

- Universal adoption of the nuclear protocols and incentives regarding the nuclear fuel cycle;
- An IPCC-type mechanism to create consensus, to overcome the divisions within science concerning the extent of the potential problem in the field of bio-security;
- Resources to increase the capacity of the UN, the African Union, and the Peacebuilding Commission;
• A Mid-East regional mechanism to foster negotiations;
• A new treaty-based institution for cooperation in counter-terrorism; a High Commissioner for Terrorism.

UN Security Council Reform

The impact of UN Security Council reform on global governance was explored. One view was that delaying tactics would not work any more, that the Security Council will be expanded, and that this was not good for governance. The next US President will want to stop the free-fall in popularity and trust of the US.

A new category of “castrated” (veto-less) permanent members may emerge. The net result will be negative in the medium term because the new permanent seats will be balanced by more elected members. This will result in three tiers of membership, the bottom two permanently unhappy. The P5 will remain the Security Council’s Executive Committee.

There is a lesson for those hoping to create a Leaders’ “Steering Committee” from the G8 and G5 (or the L20 from G20 Finance Ministers). One must be very sensitive to the imperatives of legitimacy and universality. One should not expect the world to be grateful and appreciative if any Leaders’ “Steering Committee” is established. It will need some kind of structured and formal universal blessing. The General Assembly must confer legitimacy, for the creation of a very specific leadership group, for a very specific and well-defined purpose. There will have to be much ground preparation with all stakeholders. It cannot be an open ended management committee for “homeless” global issues.

Informal Global Governance Structures

The “accidental” outcome of the Gleneagles 5 was reviewed. The Gleneagles experience with climate change led to follow-up sessions and the Heiligendamm process. There was recognition that ad hoc G8 outreach was not a substitute for the more inclusive structures needed to achieve a significant agreement on climate change. The G5 are now more proactive regarding priorities – they propose topics and agenda. The G5 face similar challenges – diversity, income inequality, and poverty. They are now in permanent communication with each other, with Mexico serving as coordinator. They do not want to talk about “joining” the G8 to form an “elite” club. On the other hand, there is a willingness to assume more leadership responsibility, to adopt further commitments, and to have meaningful discussions seeking solutions on topics of common interest. Meaningful discussion is possible only with preparations which must be calibrated to allow informality in the leaders’ discussions.

Preparations for the Hokkaido G8 summit were reviewed. More leaders than ever (23) are invited. There is an event with the G8 meeting African leaders (the NEPAD 5, the AU and Ghana). The G8, meeting alone, will discuss the economic environment, climate change, Africa, and openness to markets. There is a subsequent event where the G8 will meet with eight other major emitters (President Bush’s major economies initiative). Japan, apparently for reasons of regional rivalry, wants to maintain the integrity of the G8. It has sent several signals it will not help make the Gleneagles 5 automatic participants.

The pros and cons for moving quickly to a G13 were discussed. The pros include the fact that it is easy to build on an existing body, with an agenda and an institutional base. The Five have been participants in the past three G8 summits and have established internal structures for summity. Dealing with the global financial instability requires the involvement of the developing world – the financial issue is less controversial than climate change. The “cons” include the fact that the G8 do not feel illegitimate or irrelevant. There is no “G5” institution. The “G5” are not representative of the rest of the world, and do not have common goals or agenda. The G5 believe the G8 is irrelevant. It is easier to start a new process than build on an old one.

One thought was that G5 Leaders, rather than go to Hokkaido, should meet at leaders level to legitimize the G5 and talk amongst themselves. It was observed that China has no interest in discussing climate change with the G8. The challenge then posed was to name one problem that the G5 would resolve alone – the response was progress in actions of non Annex 1 countries. The participants reviewed the situation in China. The Chinese leadership’s main preoccupation is the tremendous challenge of economic development within China. China will not take a leading role on the global stage. There is sentiment within China that it must respond to climate change, but there is frustration with the international process, given others’ position on technology transfer. China will not push on cuts but could accept an approach on intensity. China is unlikely to sign on to binding commitments.

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1 See http://unfccc.int/parties_and_observers/parties/non_annex_i/items/ 2833.php for a list of all UNFCCC non Annex 1 states.
The role of civil society was touched upon and its powerful impact in several instances were noted – on debt relief, ODA, HIV/AIDS. Civil society now has excellent analytical capacity, or has alliances with groups with this capability. They have moved far beyond ODA. The question will be how do they participate: through Sherpas, parliaments, and/or blue ribbon panels and wise persons groups?

It was asked whether our network should be selling an idea. The consensus was that the process has already begun (e.g., G13, G14, G20). But the impetus will not come from G8 outreach. It must come from the Five. The Chinese will not join a G8. The G5 will not be a second class add-on. Nevertheless, the G8 will remain.

With respect to untangling issues and reforming structures in the UN, the G5 must first decide what they want, and should then prepare a common view on important issues to present to the G8. They want discussions rooted in mutual respect, equality and participation on the same basis. The current economic crisis merits discussion among leaders. There is a need for a shared assessment by the 13 countries to address robust cooperation on trans-border problems.

Conclusions

There appeared to be consensus on several points:

• There was a lack of confidence that existing institutions, and specifically the United Nations, could address the challenges arising from global interdependence;

• There is a particular role that leaders can play, given the mismatch between the dimensions of global challenges and boundaries of ministerial portfolio and the mandates of international organizations;

• A Leaders’ “Steering Committee” is needed for major issues, but preparations are key, with officials eliminating “lesser issues”, boiling down major issues, and framing matters of contention for decision;

• Some argued that the legitimacy of such a steering group is a red herring; the group would not act as a “directoire” or a “World Decisions Inc.” It would only bind itself and agree to work together towards specific ends. The group would not bind or bully others. Kofi Annan had supported an “L20” raising the G20 Finance Ministers to Leaders level. The group would crunch long-festering issues and then bring the deals to the UN to ratify them;

• There was faint hope for the American (16-member) major economies initiative, if the meetings are prepared by officials from Environment Ministries;

• The Japanese have stalled the idea of the G8 inviting the Gleneagles Five to meet for substantive discussion (G8+5 succeeded the idea of the L20);

• Climate change is a problem looking for a forum, but it cannot be resolved by the G8;

• Future work in the climate change area must demonstrate cogently that mitigation and prevention policies are cheaper than dealing with future consequences of inaction.

This report was prepared by Barry Carin, Associate Director, Centre for Global Studies, University of Victoria, Senior Fellow, CIGI; John Sewell, Senior Scholar, Woodrow Wilson Center, Former President, Overseas Development Council; Clint Abbott, Senior Researcher, CIGI, Research Associate Centre for Global Studies, University of Victoria; Laura Innis, Project Officer, CIGI
Glossary

BIS
The Bank for International Settlements is an international organization that fosters international monetary and financial cooperation and serves as a bank for central banks.

Digital Opportunity Task Force (DOT Force)
Created by the G8 Heads of State at their Kyushu-Okinawa Summit in July 2000, which brought together 43 teams from government, the private sector, non-profit organizations, and international organizations, representing both developed and developing countries, in a cooperative effort to identify ways in which the digital revolution can benefit all the world’s people, especially the poorest and most marginalized groups.

Financial Stability Forum
The Financial Stability Forum (FSF) was convened in April 1999 to promote international financial stability through information exchange and international cooperation in financial supervision and surveillance.

G20
The Group of Twenty (G20) Finance Ministers and Central Bank Governors was established in 1999 to bring together systematically important industrialized and developing economies to discuss key issues in the global economy.

Heiligendamm Process
A dialogue between the member states of the G8 group of countries and the important emerging economies that deals with the biggest challenges the global economy is facing today. The important emerging economies are: Brazil, China, India, Mexico, and South Africa.

L20
A proposed forum of 20 global leaders, similar in country composition to the existing Finance Ministers G20, therefore small enough to be effective yet large enough to represent the world’s diversity.

Major Economies Initiative
An American (16-member) initiative announced by President Bush at the G8 Leaders Conference in May 2007 to further the shared objectives of reducing greenhouse gas emissions, increasing energy security and efficiency, and promoting strong economic growth

New Partnership for Africa’s Development (NEPAD)
An economic development program by the African Union. NEPAD was adopted at the 37th session of the Assembly of Heads of State and Government in July 2001 in Lusaka, Zambia. NEPAD aims to provide an overarching vision and policy framework for accelerating economic cooperation and integration among African countries.

Outreach 5 or Gleneagles 5
Consists of Brazil, China, India, Mexico, and South Africa. These countries, recognized as important emerging powers, were invited to participate in some aspects of the Gleneagles G8 summit in 2005. The Gleneagles summit established an informal G8 dialogue with the G5, and they remain an important group in discussions of global governance reform.

Paris Declaration on Aid Effectiveness
The Paris Declaration, endorsed on March 2, 2005, is an international agreement to which over 100 ministers, heads of agencies, and other senior officials adhered their signatures, committing their countries and organizations to continue to increase efforts in harmonization, alignment, and managing aid for results, with a set of monitorable actions and indicators.
Agenda

Tlatelolco Building, Ministry of Foreign Affairs of Mexico

March 10, 2008

Morning/Afternoon
Participants arrive to Mexico City
Departure for Ministry

March 11, 2008

09:00 – 09:30 Opening and Introductions

Global Governance Structures: Challenges and Perspectives on Reform

09:30 – 12:00 Global Economic Issues
Addressing 21st century challenges to international governance architecture for international finance:
- International financial architecture (Pedro Malan)
- Response (Eric Helleiner)
- Informal governance structures: the role of the G7, the G20 and the new emerging economies (Paul Martin)
- New Financial Mechanisms for Climate Change Mitigation and Adaptation (Eric Vogt)

12:00 – 14:00 Development, Political and Security Issues
- Development on the international agenda (Fransisco Súarez) – UNFCCC and Post-Bali scenarios (Mario Molina)
- Security issues (Stephen Steadman)
- UN Reform (Robert Fowler)
- Governance reform and the UN (Juan Manuel Gómez Robledo)

12:00 – 14:00 Informal Global Governance Structures: The Interaction between the G5 and the G8
- The role of the G5 (Lourdes Aranda)
- The Facts- the current G8+5 (Michael Small)
- Six Options for the future (Gordon Smith)
- Pros and cons for moving quickly to a G13 (Andrés Rozental)
- Response (Xue Lan)
- The role of the civil society in contemporary diplomacy (John Sewell)
- Discussion

17:30 – 18:00 Conclusions
Participant List

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About the Centre for Global Studies

The Centre for Global Studies was created in 1998 with a mandate to conduct collaborative, policy-oriented inquiry into the impacts of globalization on a broad spectrum of inter-related issues encompassing international governance and finance, the environment, security, and sustainable development. Building on the university’s existing base of interdisciplinary expertise, the Centre provides a vehicle for bridging scholarship with the needs of policy-makers for concise and accessible analysis in response to the pressing challenges of global change.

Since its formation, the CFGS has evolved rapidly to establish an extensive program of international research and development assistance activity. Through its innovative “centre of centres” model, the CFGS provides infrastructure and administrative support to a diverse group of associates, who operate within the following six core activities:

- Division of Globalization and Governance
- Division of Technology and International Development
- Institute for Child Rights and Development
- International Women’s Rights Project
- Iraqi Marshlands Project
- Pacific Climate Impacts Consortium

Common themes that unify the research work of associates at the Centre include an engagement with action-oriented approaches to democratic reform and capacity building, and an overriding commitment to the advancement of human and environmental security objectives. The Centre is also concerned with issues of state security, an interest it pursues through participation in a variety of global and multilateral initiatives aimed at addressing the root causes of conflict and arms proliferation.

In addition to its core team of associates, the Centre sponsors multiple student internships, and maintains an extensive network of international research partners, with whom it collaborates on a project-to-project basis.

The Centre for Global Studies is financed by revenues from an endowment fund, as well as from grants from a number of public and private funding sources.

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About the Centre for International Governance Innovation

The Centre for International Governance Innovation is a Canadian-based, independent, non-partisan think tank that addresses international governance challenges. Led by a group of experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate, builds capacity, and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events, and publications, CIGI’s interdisciplinary work includes collaboration with policy, business and academic communities around the world.

CIGI’s work is organized into six broad issue areas: shifting global power; environment and resources; health and social governance; trade and finance; international law, institutions and diplomacy; and global and human security. Research is spearheaded by CIGI’s distinguished fellows who comprise leading economists and political scientists with rich international experience and policy expertise.

CIGI has also developed IGLOO™ (International Governance Leaders and Organizations Online). IGLOO is an online network that facilitates knowledge exchange between individuals and organizations studying, working or advising on global issues. Thousands of researchers, practitioners, educators and students use IGLOO to connect, share and exchange knowledge regardless of social, political and geographical boundaries.

CIGI was founded in 2002 by Jim Balsillie, co-CEO of RIM (Research In Motion), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario. CIGI gratefully acknowledges the contribution of the Government of Canada to its endowment Fund.

Le CIGI a été fondé en 2002 par Jim Balsillie, co-chef de la direction de RIM (Research In Motion). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l’appui reçu du gouvernement du Canada et de celui du gouvernement de l’Ontario. Le CIGI exprime sa reconnaissance envers le gouvernement du Canada pour sa contribution à son Fonds de dotation.