



Overview of Global Governance

World Needs Improved Governance System

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In this issue, *Japan SPOTLIGHT* highlights one of the most important and also difficult issues that the world now faces – the question of global governance. The reason we do so is that a number of recent incidents show our current globalized world cannot enjoy economic prosperity and political stability without paying proper attention to every development in any part of the world, no matter how far away from wherever we live, and that increases the need to manage the whole world for fair and equal distribution of economic benefits and to avoid political instability.

For instance, poverty in Africa could cause regional political conflict and thus eventually destabilize world peace. With the lack of sufficient governability of the World Trade Organization (WTO), symbolized by the stuck negotiations of the Doha Round, any bilateral attempt toward conclusion of an FTA, such as South Korea's with the United States or EU, would cause concern among third countries, including Japan, about being discriminated against and losing competitiveness in the two FTA-covered markets.

The lenient attitude of emerging countries like the BRICs toward audacious consumption of energy and thus their seeming lack of concern about the global environment could certainly affect any other small country's amenities and industrial life through the possible increase of global CO₂ emissions.

In addition, it is clear that the current economic crisis cannot be fixed without reliable and stable coordination of all nations' macroeconomic policies.

GDP trends of major countries & regions (\$1 billion)

	2007	2014	2030
Japan	4,380 (7.9)	5,792 (7.8)	17,503 (7.6)
US	14,078 (25.5)	17,419 (23.0)	49,267 (21.4)
EU	16,939 (30.6)	19,055 (25.5)	48,992 (21.3)
BRICs	7,111 (12.9)	14,475 (19.4)	69,884 (30.3)
China	3,382 (6.1)	8,283 (11.1)	46,366 (20.1)
India	1,101 (2.0)	1,908 (2.6)	7,560 (3.3)
Brazil	1,334 (2.4)	2,156 (2.9)	7,965 (3.5)
Russia	1,294 (2.3)	2,128 (2.9)	7,993 (3.5)
World	55,270	74,660	230,523

Note: Figures in brackets denote ratios to World GDP.

Source: "World Economic Outlook Database," International Monetary Fund, October 2009

Japan Well Placed to Contribute

The question is how to manage this closely interlinked world in an effective and reliable manner. The difficulty of global governance today lies in two points: namely, the increasing diversity of global challenges to be managed by global governance schemes, and the emergence of new powerful countries such as the BRICs. Both factors make the current governance institutions such as the G-8, IMF/World Bank, WTO, etc. powerless and ineffective.

Japan, I believe, is in one of the best positions to contribute to efficient global management to mitigate concerns like those mentioned above and introduce reliable rules of the game into any issue. This is because Japan is so far the only non-Western country that has been successful as a capitalist country in the Western camp and as such it knows how to reconcile possible conflict between Western and non-Western values, which seems to be the source of the current confusion that has created difficulties for global governance, in particular after the emergence of the BRICs.

Diversified Challenges

Before specifying Japan's possible contributions, I would like to show how diversified the current global challenges are. We can classify these issues into the following six categories.

The first is the political category including the fight against terrorism, civil war, refugee-related issues, etc. The second is the economic category including issues such as poverty, the economic crisis, etc. The third is the social category where the global climate, human rights, pandemics, explosive increases in population, etc. are high on the agenda.

The fourth is issues of culture, including education, preservation of cultural inheritance, etc. The fifth category is science and technology, encompassing the issues of technology transfer, genetics, etc. And finally there is the category of nature, where the most important issue is natural disaster relief.

Who are engaged in addressing the global challenges described above?

The United Nations, IMF/World Bank, WTO and OECD are the international organizations involved in working on solutions for global political and economic issues. The G-8 and G-20 are also part of another important multilateral process working on mainly the issues of international macroeconomic policy coordination to deal with the worldwide recession that occurred after the financial crisis. Regional international institutions are playing an important role as well. The EU is the best-developed regional international institution and is attempting to contribute to resolving global challenges.

Quality Standards for Global Governance

Now, what are the criteria to judge and assess the quality of global governance?

The first criterion is effectiveness. How well are global challenges resolved? For example, how much are global CO₂ emissions reduced by international negotiations? To what extent is poverty in Africa improved by the activities of the World Bank or IMF?

The second criterion is efficiency. Time and human resources used for solving global issues are the elements of this criterion. Many negotiators' invaluable longtime efforts sometimes result in very little agreement in trade negotiations, such as the WTO-hosted multilateral negotiations.

The third criterion is equality and fairness. To have only certain large countries receive the benefits of global governance is something to be avoided. For example, the distribution rule of the allowance of CO₂ emissions for each country must be fair and equal among all countries.

The fourth criterion is transparency in the decision-making process. All international negotiation processes must be open to the public.

Lastly, democracy is the most important principle in global governance. In any international organization's activities, the value of democracy is to be pursued. For example, UN peacekeeping activities often include surveillance of elections to ensure democracy.

What makes global governance difficult, I believe, is a conflict between the interests and values of developed countries and those of developing countries. The latter always seek economic development rather than protection of the global environment or trade liberalization, etc., to which the former often give priority. The emergence today of the BRICs, politically powerful developing countries, makes it even more difficult to achieve effective, efficient global governance. WTO negotiations and talks pursuing a post-Kyoto Protocol regime for the control of global warming are not progressing well due to the conflict of interests between these two groups.

How to Address Governance Issue

I would like to mention a few more observations on some specific global governance processes.

Concerning macroeconomic policy governance, it was noted after the financial crisis that the G-7/G-8 process should not be considered the right framework since it does not accurately reflect the recent shift in the global balance of power. Instead, the G-20, of which the BRICs are members, has come to be considered a more relevant framework for macroeconomic policy coordination. The table in this article (also featured in our July/August issue's Economic Focus column) shows clearly that including the BRICs in the G-20 would be pertinent in terms of their future expected size of GDP. However, some economists question the efficiency of the process since 20 can be too many for smooth decision-making. Important member countries vary from issue to issue, so some economists doubt the relevancy of the G-20 being fixed always with the same countries.

It is also necessary to think about the most appropriate management system, including the membership of a policymaking council, a voting system, etc. of international organizations such as the IMF/World Bank and WTO that are dealing with the economic crisis and trade protectionism that loomed after the crisis so that the

above-mentioned shift in power can be properly reflected in their decision-making process.

Another new issue related to global governance is how to manage the so-called "global commons," defined as common global assets for human beings such as the high seas and outer space. It is important for us not to leave the management of these assets to the power game of large countries, but rather to create new rules of governance for them for fair and equal distribution of those benefits.

Japan's Contribution to Global Governance

How Japan can contribute to global governance? I suggest the following four points for consideration.

Firstly, as mentioned at the beginning of this essay, Japan, as the first non-Western country that has succeeded in capitalistic economic development, can disseminate its know-how to achieve economic success through industrial policy-oriented economic aid to poor developing countries, alleviate the seriousness of poverty and thus eliminate one of the principal reasons for conflict. Japan should take the initiative in improving the functions of the IMF/World Bank and be responsible for helping poor countries' economic development by allowing them to share Japan's empirical lesson.

Secondly, as a nation giving peace a supreme value, Japan should become more actively engaged in UN peacekeeping activities by becoming a permanent board member of the Security Council.

Thirdly, Japan should definitely make a special contribution to the reduction of nuclear arms, one of today's high-priority political agenda items of global governance, since Japan is the world's only victim of atomic bombing.

Lastly, I should mention the possibility of a new regional cooperation framework in the Asia-Pacific area, which could be quite similar to the EU in terms of its mission and target.

Japan can work as a mediator between Asian countries and the United States in this area since Japan is one of the most important US allies and at the same time geographically belongs to Asia.

Regional Community: One Solution

As pointed out above, a regional community is one of the ways and means of global management, and thus a community of Asia-Pacific countries including the United States and major Asian countries could contribute to global prosperity and security by ensuring the prosperity and stability of the regional economy. Since new emerging countries such as the BRICs are also naturally the members of this regional community, the grouping could be a suitable place for them to learn more informally about minimum international rules rather than doing so in worldwide organizations. The rest of the world will benefit from such education for the BRICs.

In the following articles, officials working for international organizations such as the United Nations, the OECD and the Economic Research Institute for ASEAN and East Asia (ERIA) will introduce their invaluable views. Readers can learn about the challenges and prescriptions to resolve the difficulties faced by each organization, and compare them with the views expressed in this article. **JS**

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