

Global Governance

By Noboru HATAKEYAMA

Ministers who attended the Ministerial Conference of the Doha Development Round of the WTO deeply regretted last December that the negotiations were at an impasse. Now it is unlikely that all elements of the DDR can be concluded simultaneously in the near future.

Meanwhile, the 17th Conference of the Parties (COP17) failed to reach a consensus on legal instruments, although it succeeded in setting a schedule to complete its work by 2015 and implement it in 2020. This implies that there are no international binding rules on greenhouse emissions in 2013 and 2014, making it possible for each country to emit as much GHG as much it wants, since the Kyoto Protocol will expire at the end of 2012.

As represented by these two cases, global governance tried by the UN or its related organizations has not worked too well recently.

Although there may be many reasons for this, the most obvious problem is that there are too many players in these games. In the WTO, there are 150 members. In the UN Framework Convention on Climate Change, 40 countries are members.

There are many important trade-related legislative issues to decide as of now. These include: 1. climate change and trade, 2. state-owned corporations (SOC) and trade rule, and 3. abuses of the power of possessing rare resources. However, frankly speaking, what matters is the fact that the WTO cannot produce the most appropriate conclusion.

To prevent climate change, the most reliable measure would be the so-called cap-and-trade system. The first issue of the system is establishing an objective organization such as the UN to have the right to distribute to each country the annual amount of greenhouse gas emissions permitted, based on the forecast of global emissions.

The second issue is for such objective organizations to come up with international rules on such distribution of GHG.

Regarding SOC, the first thing we should do is come up with desirable behaviors of state-owned corporations. In China, although the number and share of SOC have been reduced rather drastically, the number of SOC-listed companies has increased and its share in the total still occupies 61%, while the fund-raising power of listed companies is much stronger than that of non-listed companies.

In Russia, where many people felt that the market mechanism was introduced most drastically in the first place, the government restarted its interventions under the leadership of Prime Minister Putin, especially in the energy area.

It is not necessarily limited to former Communist countries for

the SOCs to be working. For example, Japan was defeated by South Korea in its bidding for a nuclear energy plant in the United Arab Emirates. The reason for Japan's defeat is said to be that, while the Japan-side consortium consisted of purely private companies, the South Korean consortium included a state-owned electricity company that could offer more generous conditions than its Japanese competitor.

After the sub-prime-loan economic crisis, we could see many similar governmental involvements even in the US. For example, 60% of the stocks of GM are still possessed by the US government.

Of course, SOC may distort the market mechanism. Therefore, we may have to establish international rules on SOC.

Thirdly, there is a big risk that a country will abuse its power, deriving from the fact that the country happens to be rich in mineral resources of rare metals. We may have to establish international rules on this issue as well.

To which organization should these tasks be assigned? I would like to propose establishing G10 to play the role of global governance, including necessary guidance on these three issues.

In establishing G10, there is an essential point. That is, the selection of the ten countries should be made based on an objective formula to avoid discretion, to secure a democratic process to select and give legitimacy to the selection. G8 and G20 have to be abolished in exchange for establishing G10.

The formula should be simple and elaborated further from now on. However, just to give you an idea of the kind of formula I am talking about, let's assume it will be something like as follows. According to my formula, the G10 members will be selected from No 1-10 countries in terms of the ranking of each country's population and GDP shares in their respective world totals.

If we use 2008 data, those ten countries are the US, China, India, Japan, Germany, France, Brazil, the UK, Russia and Italy. In a nutshell, they are G7 minus Canada plus the four BRIC countries. This outcome coincides with our common sense. If we use 2010 data, the latest available, Italy, suffering from the European crisis, will go out and Indonesia will come in. Each year we have to try to use the newest available data, changing the members of G10 to match the current economic situation. **JS**

Noboru Hatakeyama is chairman/CEO, Japan Economic Foundation. Before then he was chairman/CEO, JETRO. A former senior trade official, he was involved in many trade issues, including the Uruguay round of GATT talks. He is known as a pioneer of debate on FTAs involving Japan.