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Global Governance in forward looking studies:

Concepts, Measures and Data Sources

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I The concept of global governance : beyond states and markets

Global governance refers to the fabric of institutions and actors organising the whole system of international relations. The objects are institutional in the sense that they are humanly devised rules of behaviour agreed among agents to coordinate some of their actions[1]. It can be seen as a system but it is composed of various spheres of relations which are loosely connected, all of which limits our capacity to embrace the nexus of relations within one set of interconnected relations as one expects in the description of a system. Despite this complexity this nexus presents at various time in history some major features which are deeply impacting economies and societies all around the world. Forward looking studies tend to be mainly concerned by some specific aspects of this governance, whether they looked at trade issues, capital mobility or defence issues. The challenge in this project is to encompass a wider than usual number of dimensions. This has a cost, namely that it will force us to reduce the complexity of some issues, using rough indicators to account for degrees of trade integration, capital mobility, defence agreements, intellectual property flows, ...

The main features of global governance evolve continuously as expected but also by means of large breaks, very much like describe in tectonics. Some of these changes can be expected, somehow like earth quakes in some part of the world (like the San Andreas drift line in California), not so much as a general collapse of some institutional form at world level but more likely at some regional levels, within a part of the world where tensions have been developing to a point where the old systems of national governance as well as their mode of international connections is deeply transform by a crisis. This assessment also points out that global governance does not apply in the same way across the board of regions or countries. The nature of global governance itself implies some regional divisions and these will change along time. Even if we would agree on a long term trend to increase the forms of internationalisation, all the phases that we could distinct so far are still marked by some segmentation between regions, zones.

What is the purpose of the perspective we retain to have an encompassing, still simplifying view of global governance?

As our AUGUR project has many components, a reading in terms of indicators of the various aspects of governance should help:

- In part to translate into assumptions that could be integrated into the macro modelling used in our project.
- In part to discuss the consistency of the scenarios in taking into accounts their various aspects.
- Finally to complete scenarios that will be retained in the project, giving them their full specifications and helping with their policy implications.

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[1] To extend this definition à la Douglas North, let us precise that institutions are rules not only constraining behaviours but also enabling them to set up new relations and new institutions.

Still global governance has undergone many changes in the last decades, following the end of the period of reconstruction (the golden years of capitalism) and the increased internationalisation of most economies, following the end of the Gold Exchange standard and the ensuing trend of economic liberalisation experienced by successful waves of countries. It is thus useful to first take a retrospective view of the global governance that initially prevailed, if only to take into account that institutions change and adapt more than they disappear. We shall rapidly come back on the institutions set up in the aftermath of world war II , as they remain, even if they have deeply changed, as corner stones of the enlarged construction of global governance that we can observe at the beginning of the 21st century.

2 A retrospective view: from the "golden years of (national) capitalism" to the high days of economic liberalism (and global capitalism).

The core of the global governance that prevailed in the three decades following world war II was designed at the outset of the war. A key element in that respect was the creation of the United Nations and the definition of its role as a peace keeper at the world level. It played an important role, keeping the balance between the two blocks formed by the western countries on one side, under the leadership of the United States (some would say under the hegemony of the US (see Keohane, 1986), and the Communist block , under the leadership of the URSS. In this cold war, based on military dissuasion, the UN acted as the voice of the Third World and the locus where the two blocks could arbitrate some disputes and pass on the international rules they agree with. The Third World at the time was mainly looking to find its own way of emancipation, gaining their autonomy as nation states, getting rid of the old colonial ties. The three worlds agreed on the necessity of this decolonisation. The global governance of the time was thus driven by the States as the only actors. In other words the global governance was centrally of a geopolitical nature.

During this period the UN acquired a real status and legitimacy, even if at all times the budget and the capacity to mobilize armed forces remained extremely limited, if compared with the means available for any sizeable nation state (see Blin and Marin 2009). The UN had an entire infrastructure of specific function organisations of global governance (such as ILO, WHO, UNESCO,..) that could be mobilised if needed and will increasingly be so when global problems arise.

It does not mean that the UN was the only institution of geopolitical governance at the time. Regional orders such as the NATO alliance or the Warsaw pact were equally active in the working of the system under view.

The centrality of the geopolitical nature of the global governance of these decades do not imply that only institutions gearing geopolitical relations were at play. Institutions dealing with economic issues have all along been developing, promoting trade and capital mobility in a global system still marked with important duties on trade and severe constraints on capital mobility.

OECD originated as far back as 1948 (under the name of OECC) with the objective of managing the Marshall Fund, then trying a decade later to promote international economic cooperation in the western world.

The World Bank created in 1944 at Bretton Woods first was lending loans to allied European countries then after the Marshall Plan (managed by the OECD above) the Bank specialised in loans to investment projects of non European countries.

The World Bank itself comprised two institutions The International Bank for Reconstruction and Development and the International Development Association.

The International Monetary Fund was also created at Bretton Woods and signed then by 29 countries with the objective, in a system of fixed exchange rates, to help countries with difficulties in their balance of payments, leading eventually to exchange rates realignments.

These institutions seemed thus in charge of “technical” adjustments, mainly within the western world, extending progressively their services to third world countries.

Similar institutions existed within the Eastern bloc, such as the COMECON was thus the reply to the OECD.

The role of these “economic” institutions remained rather secondary in the global governance of the time, with little if any coordination, even within each bloc.

The GATT, General Agreement on Tariffs and Trade, was also founded in the immediate aftermath of world war II, in 1947 (after the failure to create an overall International Trade Organisation in the trail of the UN as the International Labour Organisation). The GATT had for objective to lower tariffs in a reciprocal and multilateral manner. It operated in various rounds some every five years till 1994 when the WTO world trade organisation was created.

Another characteristics of the global governance in this period is that it implied nation states as the only actors. In effect beyond the military alliances, only one regionalisation process did emerge, in Europe. Still the driving force of this European regionalisation process in its early time was mainly to ensure a long time of peace in an Europe severely damaged by two successive world wars. The economic dimension of the European Union clearly became prevailing in the following period, eg after the breakdown of the gold exchange standard and the ensuing oil crisis.

3 Towards a geo-economic global governance: the major role of crises after 1973

Crises are the occasions of major turning points in the dynamics of change prevailing in global governance configuration.

Crises of a political nature occurred during the three post war decades. From the blockade of Berlin to the installation of rockets in Cuba, or the nationalisation of the Suez canal, or the insurrection in Budapest, periods of high tension kept occurring during the cold war, not to forget long open wars such as occurred in Korea, Vietnam and Afghanistan.

These crises came and went without changing much the nature of the global governance, apparently comforting the role of its basic pillars.

The crises of the following period, which concerned more centrally economic issues, helped by contrast the emergence of a deeply transformed "system" of global governance.

The collapse of the Gold exchange Standard in 1971 and the ensuing Oil crisis in 1973 gave way to a major shift in global governance. It started with a generalised battle against price inflation in western countries and turned at the beginning of the 80s into a generalised pressure in favour of economic liberalisation and openings of economies. Market forces were put in charge of the regulation of all relations and in the first place of the relative values of currencies. This economic liberalism did not emerge out of nothing but had been prepared by some think tank since the very beginning of the first period, immediately after war when the interventionism à la Keynes was opposed among policy makers with the "laissez faire " à la Hayek.[2] This U-turn was voiced in the political arena of nations by two populists rulers, Reagan and Thatcher. It launched a period of some three decades when market forces would be the ultimate common principle to rule an ever growing part of human activities. It spread to the rest of the world in various stages. The "third world" was progressively concerned by this economic liberalisation by the channel of the IMF, applying, whenever it could its Washington consensus program, praising free market driven restructuring.

Financial sectors were in all countries among the first activities calling for liberalisation and free mobility of capital, developing their own sequence and ensuing soft regulations (of which Basel 1 in 1988)[3].

The fall of the Berlin wall opened rapidly the way to economic liberalism in the old "Eastern block". Let us notice that it came more out of an internal implosion of the block (that seemed hopeless to deliver any of its promises) than from any external action (even if some unbundling of the western group, especially with the emergence of the European Union somehow showed the way). The transformation to market economies in these "eastern" countries have most of the time been extremely radical, with the help of many western economic advisers. By the mid 90s the geo-economic dimension of the global governance was clearly prevailing. There was no central body in charge of an economic global government but the sayings of the main international institutions like the IMF, the World Bank , combined with the newly created WTO[4], all went into the same direction: free market forces is the

[2] The American Entreprise Institute AEI was one of these think tanks.

[3] This soft law (rules devised by the banking industry itself to face risks as they appeared, a short sighted type of auto regulation that started as soon as 1974 with the collapse of the Herstatt bank leading to the creation of a first Basel committee (Basel Concordat of 1975 as a crisis management agreement of cooperation between G13 central banks under auspices of BIS) and which will develop on the same voluntary and short sighted pattern till the global crisis set off in 2007. See Eatwell J.(2009) Une nouvelle architecture financière internationale. *L'économie politique* N°42. Avril

[4] The World Trade Organisation was created in 1994 as a follow up of the General Accord on Tariff and Trade GATT organisation with a clear mandate to open the economies to

solution. It took no real time to see, within a couple of year, that free market could also be the problem.

In the first place floating exchange rates, increases in capital mobility and development of financial markets worldwide rapidly led way to international speculative run, ending in more or less localized financial crises[5]. Attempts to find some stability by means of central agreements such as Plaza Agreement (G5), then Louvre (G7) in 1985 did not really succeed to set up a stabilised system of exchange rates. Damaging uncertainty culminated in 1997 with the East Asia crisis where a run against the Thai Bhat for fear of some local overinvestment in building spread defiance to neighbouring countries. It was soon followed by the Russian crisis of 1998.

This uncertainty of a system of largely flexible exchange rates and of a rising globalized finance somehow strengthened a trend for regionalisation processes all around the world. The defensive nature of the EU process has been clear from the mid 80s onwards to the creation of the Euro zone, even if in practice from the Single Act of 1987 onwards the EU has gradually turned into a rather free trade and widely open zone. Even in East Asia the 1997 crisis made it clear that the de facto regionalisation realized by local multinational firms (and first of all by Japanese firms) had to be backed by more institutional mutual commitments[6]. Somehow these regional arrangements, even if allowed by the GATT original treaty (article XXIV), represent some bias with regard to its first principle (ensuring reciprocity and multilateralism of agreements). The will to boost international trade quickly led overall to a general decline of multilateralism, noy only in favour of regional arrangements but also of bilateral agreements (see Deblock 2009).

The economic liberalism of the new global order met at the end of the 90s with another drawback when it became obvious that the developing countries that had caught up with developed economies, namely, the four East Asian countries also qualified of Four Tigers, did not so much relied on market forces for their achievements but on good old country specific industrial policies, emphasizing the benefits of a State intervention much denied elsewhere. This explanation of the East Asian Miracle [7] did much to disqualify a Washington consensus that had mainly brought social unrests and stagnation where it was applied as a key factor to resume growth.

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exchanges on a multilateral basis. A major innovation in a global governance reach was that WTO had sanction powers based on binding arbitration.

[5] Looking at the impacts of crises in the making of global governance one has to distinguish crises which are reinforcing one of the major trait of a system and those which somehow overdo it and push the system into some new type of global governance as will do the cumulative effect of the 1997 and 2001 crises (see the work on financial crises by Boyer, Dehove, Plihon , (2004)).

[6] Leading East Asian countries in Chiang Mai (1999) to foresee some planning of financial solidarity against the risks of new speculative runs. Accidently it led Asian countries to act much more cautiously in the following decade…..limiting the impacts of the global financial crisis of 2008 on their financial systems.

[7] Exposed in a celebrated review of the world bank.

By the late 90s one of the only trump card that this new global order driven by economic liberalism could present was its praised link between financial mobility and support to innovation activities. The development of internet and the diffusion of new stock markets specialised in high tec enterprises, altogether with an active wide ranging network of stock markets, was supposed to ensure an unprecedented manna of innovations all across the world. But the financial innovations have been a factor of instability and of rising income inequality, with little impact on product innovations, if only in a very incremental way. The dot.com crisis of 2001 brought a clear negative answer to this hope that one could have had regarding innovations at the beginning of this wave of financial innovations. It became clear that such loose monitoring of innovative activities by financial markets, even specialized could not work on a large scale. A clear symptom of such disillusion has been the clear retreat of venture capital from real early stage innovative venture. It showed very clearly that checking innovations implied expertise and patience that the financial world could not offer. Increasing intellectual property rights (very much in the straight logic of the new global governance) was of no help in that respect; in many cases on the contrary it raised voices to contest the very legitimacy of such move, for instance when it prevents poor countries and people to access vital pharmaceutical drugs or software helpful to learn and communicate. Indeed the creation of the WTO in Marrakech went along with a TRIPS agreement that put a stop to free diffusion of knowledge towards LDCs, a real blow on potential catching up especially regarding health issues.

The list of drawbacks, as they appeared at the end of the 90s was already quite long. A major one stemmed from the limits of fully fledged privatisation in many activities that required a long term view and investment such as the activities of large network service of intermediation such as in transports (chiefly railways) , in utilities (chiefly electricity) where all the new formula set up at the onset of the new governance turned out, after some 10 to 15 years, to present major defaults putting at stake the future of these industries and discriminating unfairly against users (for a balance sheet see the EU project PRESOM).

On top of all these drawbacks for a global governance mainly driven by geo-economic liberalism, September 11th occurred to recall the need of the States to ensure some level of security and face the threat that radical globalized terrorist group could put on all activities. It was clear by then that one had reach a stage where global financialisation preventing any steady global governance system to develop between national government and international institutions, creating a trilemma that Rodrik (2001) stressed very timely (see Plihon (2009)).

Clearly by the end of 2001 the shortcomings and blockages of a global governance driven by a geo economic liberalism....where the regulatory power of the States were much reduced not so much in favour of strong regulations by international institutions but to the benefit of soft law mechanisms, if any, largely captured by vested interests. In such a context of deregulation a largely globalised financial sector could only lead to major financial crises as stressed by many authors from Minsky to Godley pointing at the intrinsic instability of an unleashed financial sector. By the end of the 1990s a major global financial crisis was thus clearly foreseeable. A decade has been lost where the financial sector became fully dominant in a more and more unchecked speculative context.

4) The lost decade : 1997 -2007

In effect, if the shortcomings of the kind of geo-economic global governance put in place were so clear by 1997, why a change in this unidirectional fully fledge deregulation did not occur that could have avoided the losses and misery of the global financial crisis that started in 2007?

If we look, again at “grands traits”, at what happened in this first decade of the 21st century it becomes clear that the world of finance had succeeded to take over some kind of primacy within the neo geo-economic global order that left it in command unopposed. We can see this take over of finance at two complementary levels, on one side share holder value became the unique prevailing criteria in the governance of listed firms, on another side financial intermediation largely globalised and backed by a global network of financial places increased as ever its range of manoeuvre. The first condition led the firms, with the help of banks, into short term games of mergers and acquisitions to the detriment of long term productive investments. The second condition increased the instruments of the banks (including shadow banking operations) and therefore the fees of banks bringing the costs of financial intermediation to historically unprecedented high levels. Because most of the bank extravagancies occurred especially during this decade (1997-2007) (see the rise in the diffusion of derivatives and new instruments) we propose to consider the period as a lost decade on the road towards a global governance that could match the challenges of the time, that were already clearly expressed at the end of the 1990s in terms of a global tri dimensional sustainability (environmental, economic and social).

Economic liberalisation had shifted OECD economies from a bank based to a market based financial system, with the financial intermediation of the banking sectors now following an *Originate, Rate and Relocate model*, pushing crises in markets rather than in institutions (see Alexander, Eatwell. Persaud, Reoch 2007). This drastic change in the forms of intermediation progressively diffused to most countries along with the development of financial markets and the services of rating agencies (a crucial link in this model)[8]. Financial instruments expanded at an incredible rate that no (short sighted) soft law regulation could control (no more Basel II implemented in 2006 than new accounting norms IARS, trying to keep up with the new ties between firms and financial markets). This new phase opened up to market oriented systemic crisis, eg a breakdown in the functioning of markets for traded assets. Markets were thus threatened at both ends. On one side future markets were the objects of speculative runs (like on most commodities markets), increasing the volatility of prices. On another side easy borrowing led consumers to accumulate insuperable debts, leading to defaults with cumulative effects.

[8] It is indeed more a change in the forms of intermediation more than a disintermediation as the main financial institutions basically kept the control of the new complex of finance that was developed.

One of the market enjoying the more speculative runs was the housing market. Modern finance pushed both housing prices up and households bankruptcies up; especially in the US to an extent where the financial size of the home market impacted strongly on the rest of the economy.

But this “modern” finance had also its share in the crisis of some commodities markets, sending prices to unusually high prices, provoking in some poor countries famine and social unrest, making of food security and energy security major priorities for the coming years[9]. It led to all kind of moves to protect the vital interests of countries threatened from restrictions on exports and imports to limits put on investments in land and resources.

No need to say that this “modern globalised” finance put also an heavy pressure on exchange rates markets. Excessive liquidity increased the room for speculative manoeuvre, pushing currencies either to peg its rate to a large currency of reference namely the dollar or to find shelter in some regional monetary zone, a difficult exercise as shown by the Eurozone, that the Asian countries contemplated but as an opportunity to construct and eventually seize. But this constrained system of flexible exchange rates ends up being even more unstable that a fully fledge floating systems of currencies (see Aglietta 2009). Only a few countries can enjoy free room for manoeuvre , using their exchange surpluses for the best financial investment without constraints, those are the sovereign funds of some rentier countries (still some 20% of their GDP for middle east countries).

At the end of what could be considered as a lost decade in view of what were the objectives of the previous geo-economic global governance (to push forward a fully fledge internationalisation by means of free market principles) , the financial phase has been a total failure: states are often forced to restore protectionist measures on trade and investment, finance which was supposed to facilitate to firms access to export markets rebuke them by the instability it induced. The total cost of banking intermediation has finally increased when the efficiency of such service intermediation is usually measured by the reduction of this margin (see the reduction of prices on sea transport cost for instance).

The global financial crisis of 2007-2008 in showing how unsound had the model of modern finance become with his “home made” soft regulation, may lead to drastic changes. (see Insert 1 on the contradiction between this rise of finance and the free market principle that initiated it).

[9] On the role of modern global finance in the high rise of basic food prices in 2007, see Allaire G. () and Pouch T. (2008)

Insert 1:

The hegemonic rise of Finance :

contradicts the free market principles that carried its liberalization.

Notwithstanding the detrimental nature of a system of regulation only based on short sighted soft law, the last decade exposed many signs of this extra ordinary financialisation, that were in contradiction with the precepts of a straightforward free market economy. Financial sectors could thus be blamed for:

- Realising an intermediation on global product markets that has become counterproductive, reducing the size of markets for fear of the instability created in terms of prices or of defaulting on the consumer side.
- Promoting a share holder value criteria calling for financial rate of return well above the real growth rates, thus a factor of macro economic instability.
- Arranging mergers and acquisitions to meet the rates of returns imposed by financial markets, which neglected the old anthem of free market principle banning monopolistic positions.
- Concentrating financial sectors and thus contributing to the construction of firms "too big to fail", constituting a real rent as shown during the 2008 financial crisis when States were forced to bail out the large establishments.
- Developing financial products such as Collaterized Debt Obligations ,CDOs, (portofolios of various financial investments) with incredible lack of transparency[10].
- Using tax havens to avoid fiscal controls and facilitate all kind of money laundering.
- Having their products certified by rating agencies with obvious vested interests,
- Rising the cost of financial intermediation (in percentage of GDP) , while a productive intermediation should be able to reduce its costs....as done in an extraordinary way for instance by sea transport.
- Putting directly or indirectly their clients in risky positions of over-endebtment[11]

[10] With a last scandalous example being given by Abacus a CDO launched by Goldman Sachs , which was composed of around one hundred different basic products with for each one a note of some 50 pages ! see Le Monde May 4th 2010 page 3.

[11] The sub prime crisis showed many cases of loans done with little chances from the start to be recovered , considering the low expected income of the borrowers, a situation that could not be ignored by the banks when it concerned so many cases. The business model in that case was more to make loans massively than safely.

By all means the domination of finance experienced in the decade 1997-2007 cannot simply go on as it was; if only because it has already favoured by reaction the development of new actors, new trends, new issues (as assessed in the next section) that will forge some new global governance system.

The world of 1997 to 2007 was thus predictably instable because of the overwhelming role of finance.

At the end it became obvious for a large number around the world that the taming of finance was a major pre condition for any stabilisation of the new global order. But this is not the only prerequisite. New actors, new themes emerged during the period of geo–economic global governance and its avatar driven by global finance, implying for the new global governance to meet some conditions that we explore in the next section.

5) Underlying changes in the fabric of global governance 1973-2007.

In the periodization that we made of global governance we insisted on the changes and its main features. But new and old traits remain important that could play a role in the future. They should not be forgotten in a forward looking study.

The three phases of global governance from 1945 till 2007

	1945-1973	1973-1997	1997-2007
Nature of global governance	Geo-political governance	Global economic liberalisation	Global financialisation
Nature of the rise of the global system	Post 1945 , two blocks and a third world	Progressive diffusion of a fully fledge economic liberalism	The rise of the supremacy of finance…over free market rules
Nature of crises and changes	End of Gold exchange standard, 1971 Oil crisis 1973	A progressive Globalization of markets with defensive regionalization processes and …recurrent crises in various product markets	The hold of finance over diverse markets raised the levy of this intermediation in the economies, ending in a global financial crisis in 2008.

We followed in the previous sections the rise and the fall of the main features of what could be defined as the prevailing global governance in each period. The dates may not be so clear cut and could be marginally disputed, still those we retained echo some political or economic crises.

First of all, the global nature of these global governance settings have to be further qualified as they do not refer to the same combination of actions of national states, global markets or supra national bodies.

Beyond this qualification the fabric of global governance is also made of underlying changes in old components or of rising new actors and themes, all of which are forging future global governance patterns. We want hereafter to hint at some of these new comers, some of these underlying transformations that may or may not become important components in shaping the configuration of future global governance.

Let us note passim that these underlying changes are also accompanying major transformations in the reorganizations worldwide of productive activities. The fordist industrial growth of the first phase led in a world of free market of goods and capital to a huge relocalisation of manufacturing activities, followed by a global networking of service activities, including the financial activities, which rapidly led to a stage of globalised financial operations, unprecedented at such scale of establishments and countries. These transformations of the economic scene constitute a major challenge for the set up of a global governance system.

a) Some post world war II institutions remained largely in place and adjusted marginally to the changing context: Global governance does not change overnight and it mixes the old and the new. A first good example is given following what has become of the United Nations in the last two periods of global governance.

The UN which was playing a central role in the geo-political governance of the after war period did not peter out when the geo economic global governance took over in the 80s. On many grounds it seemed to deploy its activities, to create new instruments, addressing “sectoral” issues as well as fully fledge economic development issues. During the crises, that first forged the geo economic global governance, then transformed it into some geo financial global governance, the UN set up various plans and agencies to cope with some specific issues arising, be it food security or economic development.

Food security exists when all people have physical and economic access to safe and nutritious food to meet their dietary needs. Food security emerged as a specific issue in 1974 with the creation of a UN specific Committee in the aftermath of a World Food conference. In 1996 the committee has been put in charge by the World Food Summit of the implementation of an Action Plan, meant to increase the means and the consistency of the actions against food insecurity, outlining clearly that up to this date actions have been rather uncoordinated and ill founded.

The Millenium Goals Development plan, launched in 2001 by the UN to assist more efficiently impoverished nations in selecting 8 specific goals to be achieved by 2015, is a good example of such willingness of the UN to address specific current issues. But the means that can be devoted to such plan, beyond the capacity of the UN and of its agencies to coordinate international aid, are minimum. It has to do with the budget of the UN. Everything else equals the budget of the UN is rather modest : with a yearly operating budget lower than (US) 2 billions $ and total expenditure of less than 15 billions $ (including all UN agencies and programs (FAO, WHO, UNESCO, UNICEF,...) the UN has 40 times less financial resources than say the Pentagon (over 500 billions $) This relatively limited budget does not let to the UN the possibility to enlarge its role following a strategy of its own , to meet the challenge of a global crisis for instance. In comparison the Wall Street bail out in 2008 costed some 700billions $! Finally again UN expenditure is more or less equal to the yearly budget of the New York City Board of Education (some 12 billions $)[12].

[12] All figures taken from Blin and Marin 2009

Moreover, even when the time of the geo-economic governance gave way to a more centrally financial pattern, the UN did not coordinate the actions of its various agencies (UNCTAD, ILO, UNESCO, FAO,...) to either meet the challenges that many developing countries were facing under the Washington Consensus or under the global financialisation. It is mostly the crisis of 1997 in East Asia that restrained China and India to liberalize their banking sector, in the course of their rapid expansion and adhesion to WTO in by the late latest years of the program in this direction was called. It saved these banking sectors to be trapped significantly in the global financial chaos of 2008[13].

The crisis of 2008 and the demise of the old form of global governance may though lead to reactions of nation states and international agents that could enlarge in a near future the budget and the room for manoeuvre of post war institutions.

b) <u>Some post world war II institutions underwent important transformations</u>, adjusting to the new goals and channelling some major transformations of the new global governance. The shift from the old GATT to the new WTO in 1994 illustrates such move. This updating in turn leads to take a more realistic view of the changes that occurred in the real economies world wide. The issues that these transformed institutions have to deal with reflect these major changes. The various rounds of the WTO negotiations made it clear that a new world had emerged, with a major rise of large developing economies (the BRIC group and its variants) and the constitution of various alliances depending on the trade item under view.

An important change occurred in the 80s in the international agenda when, in view of the success of Asian countries, developing countries were pressed (if only by conditioning financial support) to abandon the development strategy of import substitution in favour of a liberalisation and integration in the world market, under temporary derogatory conditions, depending on the level and nature of development. These “special and differentiated treatment” (SDT) provisions became a key issue, especially for the Doha round of negotiations launched in 2001[14].

This move came also to acknowledge the emergence of some large developing countries in the world economy as well as in the international arena. The shift from G7 to G20 simply draw the conclusion of such evidences[15].

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[13] A chance which has also occurred to the Brazilian banking sector, ...thanks to the old practice of capital controls set up by the Lula government to avoid insuperable changes in the currency rate.

[14] See:
http://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm

[15] G20 appeared in september 1999 in Washington at a meeting of the G7/G8. Two other groupings had appeared before (G22 and G33). The institutionalization of the G20 was motivated by the need of a better coordination between the developing world of large countries and the developed world represented by its super powers. It was also meant to address the challenges raised by the 1997 East Asia crisis to the old global economic order. See Fournier-l’heureux (2009)

The will to develop free trade and liberalisation rapidly in this period lead to some unexpected results[16]. Regional agreements were accepted as first steps towards more multilateral moves. But nation states were also at the same time looking for regional alliances that would help protecting their currencies. Therefore these regional agreements flourished and somehow weakened the multilateralism principle of the WTO agreements. The number of bilateral agreements increased significantly: from only 20 regional agreements in 1980, their number raised up to 86 in 2000 and by January 2010 230 regional agreements in use all of which, representing half of world trade (according to the website of the WTO , see Deblock, 2010). Regional agreements are often defensive in spirit, trying to find ways to cope with a fully fledge international competition.

Nevertheless both kinds of agreements, liberalising further goods, services and capitals markets, increased the growth of trade and therefore some globalisation of product markets. But this relatively strong expansion of global trade (which overtook the average growth of the world GDP by some percentage points) has to be qualified as it may be more or less segmented at regional levels or within bilateral frameworks. This level of fragmentation of trade liberalisation is an important indicator to assess the nature of the globalisation of product markets[17]. This dimension is especially important regarding the agreements involving developing countries which are understandingly often opting for defensive trade policies (see Estevadeordal et alii, 2009). Deblock (2010) stresses that this has become common practices by the years 2000s , even if obviously it does not concern in the same way large countries with a strong bargaining power (often referred to as emerging countries..including in varying subsets depending on the negotiations, Brazil, Russia, India, China, South Africa and Mexico) and poor countries often forced to accept unequal bilateral deals. At the same time it is also clear that the sanction and conflict resolution powers given to WTO have channelled protectionist trade conflicts into more containable and resolvable “legalistic” channels rather than tit-for-tat warfare.

The debate on SDT provisions did not reach any conclusion (which explains that the Doha cycle did not either). It led to many categorisations of developing countries but no accord on the criteria and their integration into a development policy (Kasteng et alii 2004; Rodrick 2001).

Clearly the WTO has failed to create a multilateral forum as an even, fair playing field for the development of all trade partners, whatever their initial level of development. Its stepwise procedures, operating product by product, even with temporary derogations, gave little opportunity to forge the new development convention that was required. The difficulties of the present Doha Development

[16] This will combined the central policy of the WTO with the need of developing countries after the 1997 crisis to increase trade to accumulate foreign currencies in order to improve their financial security.

[17] Such indicator could complete the view given for instance by the OECD indicators on products markets liberalization but for developed economies (see OECD, ...).

round of negotiations[18] to strike such new deal just illustrates this dead end (Abbas 2009).

The complex fabric of agreements, reached so far, remains patchy, with strong unequal positions; chiefly it leaves to some countries possibilities to take unilaterally safeguarding measures in case of external shocks. The best example of such bias is given in the first place by the trade arsenal of the US : from the Buy America act to the super 301 , the 1988 Omnibus Trade and Competitiveness Act which imposed to the US trade representative a specified timetable for investigating alleged unfair trade practices and for taking sanctions unilaterally, in contradiction with the obligations of the multilateral system that WTO tries to implement (see Drache 2010).

All of which recalls that states in many cases remained very present in the working of the global trade system. The shift towards more market driven economies has indeed largely changed their role. They took a great part developing and constantly adjusting the regulatory framework of the various products markets. This shift from an old Keynesian interventionism to a role of regulatory state accompanying developments of markets is a major trait of the transformation induced by the diffusion of economic liberalism (see Jessop 2002). It does not mean though that this regulatory power of the state strikes a fair balance on all issues; this form of state interventions may on the contrary arbitrate eventually more easily (less apparently) in favour of the interests of large globalized businesses than direct financial interventions or direct public production activities could have done.

Part of this role of the state in this new environment consists in editing norms and standards. It certainly support the development of international trade (but may also act as measures of protection. The impact of norms and standards on economic growth turns out to be significant on average across countries (see Miotti 2009)[19]. The number of norms and standards issued varies along time. It would also be interesting to assess the conditions under which they act as trade barriers.

The EU has a strong role in the edition of norms and standards, which is sometimes considered as a specific advantage of Europe (see Laïdi 2008). Indeed norms and standards contribute strongly to the coordination of agents in such a diverse region as Europe[20].

Interestingly these norms and standards have been issued chiefly in the last three decades by a mix of public and private bodies, which is an important feature of the new era of economic liberalism.

[18] A round opened in September 2001 and which did not reach its conclusion last December 2009.

[19] In a country like France some 90% of these norms are European or international. Their stock has been steadily rising from 1963 onwards, with phases of acceleration of the flow of norms issued (like 1963-1975, then 1990-2007).

[20] See the foresight study stressing this competitive advantage for Europe in the world of 2030.

6) Emergence of new themes, new actors, new channels in the period 1973-2007

The making of global governance in this period 1973-2007 saw also the emergence of new themes, new actors and new channels.

A) New themes

A major change in that respect has been the rise of the environmental issue. Global warming has became in the last two decades a major issue, mobilizing opinion and calling for new policies. Major catastrophes such as Tchernobyl or some pandemia all contributed to the rise of this concern.

Symptomatically a *Commission on Sustainable Development* was set up in 1992 as an UN agency, following a UN conference on *Environment&Development/Earth Summit* held in june of the same year in Rio[21]. Progress was to be reviewed every five years. The third assessment was the occasion for the 2002 Johannesburg summit – the *World Summit on Sustainable Development,* putting forward many aims but remaining disturbingly short on credible obligations (see Begg 2007).

In 2006, the EU revised its Sustainable Development Strategy (SDS), updating its aims but also elaborating some governance mechanisms to advance these aims. At the same time individual Member States designed national institutions to monitor sustainable development.

Expectations may have been wronged with the dead end of the Copenhagen summit in December 2009. One may still consider that the decade to come will be marked by the emergence of a geo-environmental global governance. The Stern report (2006) 22 and the IPCC (International panel on climate change) report of 200723 are clear landmarks in the process of recognition of this environmental concern. The rising concern in the last decade for a certain number of global public goods (Kaul et alii 2009), is another sign of the attention brought to the preservation and fair use of the environment. It also stresses that the concern for environment may well lead to reconsider broadly the frontier between private and public domain to the advantage of the last, which would represent a real U-turn with the previous periods of both geo-economic then financial global governance.

B) New actors, new channels

The period has also witnessed the emergence of new global players. First of all the rise of non government organizations NGOs which became influential on trade and

[21] The *Millenium Development Goals* (see above) were launched at the same time in the momentum of the Rio summit.

[22] The *Stern Review on the Economics of Climate Change* is a 700-page report released on October 30, 2006 by economist Nicholas Stern for the British Government which discusses the effect of global warming on the world economy

[23] "Climate Change 2007 » is the fourth assessment presented by the IPCC.

environmental issues. One important date in that respect has been is tied with the demonstrations of Seattle in November December 1999 during the second WTO round of negotiations. It clearly brought back on the agenda the North South issue in a new perspective. Environmental issues have also been at the origin of many NGOs.

Overall the rise of these organizations has been boosted by the development of internet which rapidly offered cheap means to voice globally all kinds of protests and opinions. By and large it helped to constitute a global opinion which soon became influential. It diffused information and knowledge creating a global forum, much used by academic and scientific communities around the world. It also contributed to developed some kind of globalized culture. (for a full picture of this rising constellation of NGOs and their growing role in global governance see Archibuggi 2008).

Finally these new global players, these new channels of communication created a new situation for the multinational firms which had escaped national controls in moving around the world their production activities. The existence of global players contributed to diffuse new practices, forcing multinational firms to be accountable on all issues that could have an international echo among customers, employees or concerned public authorities. Threats on the environment by chemical industries are good example. It pressed firms to report to international audiences on the impacts of their activities on the environment as well as on the well being of their employees and the profit of investors.

This practice of *corporate social responsibility* CSR appears in a mid term perspective as a partial substitute to local dynamics of accountability that are loosing momentum at a time when free market ideology is prevailing. This reporting may well correspond to some cheap talk but it can also lead to new forms of international regulations and therefore forge new components in the architecture of global governance. CSR can be influenced by its interactions with national policies or regionalization trends. The institutionalization of CSR reporting as an element in the fabric of the global governance is shown in one of the recent workshop on the norm 26000 launched by the International Organisation for standardization ISO[24].

This development should not mask the facts that old practices of lobbying by business organizations (which obviously takes a biased view of the interests of stake holders) remain valid if not developing also at world scale level. Beyond these legal

[24] ISO is also a post world war II institution, created in February 1947 by the national standardisation offices of the US, the UK and France, it has by now some 157 members. Interestingly there exists an European office of standardization (ECS) , a regional potentially “competing” body of the ISO , both being in practice cooperating and sharing the work.

activities , some account should be made of the role of illegal activities in global governance. Drugs and other criminal networks took the opportunities of a more internationalized world to become global themselves. This role should not be underestimated ... if only for its connections with the financial world. All these components should be assessed in the making of the complex fabric of global governance. Clearly their influence and their capacity to voice and defend their interest is not at all equal. These asymmetries evolve along time and tracking these changes is important to characterize the effective nature of global governance.

This does not refer only to the classical difference of treatment between workers and shareholders, but even between shareholders the consideration given may vary strongly between large share holders and small share holders, trying to protest against practices of stock options, mergers and acquisitions which are often to their disadvantage.

Still the emergence of CSR can be seen in the more general context of the development of soft law practices in many domains. Firms and other stake holders in various domains fix themselves rules of behavior. Public bodies are passive in these processes, even if they reckon the validity of the rules thus constructed. Such example of method of open coordination (to refer to the EU practices to help with the coordination of national rulings in domains which are outside the competencies of the EU) is also given by the International Competition Network ICN, supposed to rally efforts of members in favor of a fair international competition law, much inspired by the US anti trust regulation (Picard 2009)[25].

A major example is given by the implementation of the new accounting norms IFRS (International Financial Reporting Standards) in 2005. Reacting to the financial scandals of 2001 uncovered by the 2000 dot.com stock market crisis (Enron, Worldcom, ..) there was a will to develop norms that would value assets at their market value (and not at the prices at which they were bought). The norm was developed by a private group of accountants. It became by 2002 a required practice of accounting for the EU. Valuing at market prices is pro-cyclical; it constitutes thus a dangerous factor of instability, as it will be proved in the financial crisis of 2008. Somehow Basel II also added to the instability of the system in editing rules too complex, inappropriate and difficult to implement, thus escaping to control

[25] ICN is considered as a pragmatic US answer to the issue of designing a competition law in accord with their own and to a second degree more or less coordinated with the law of other trade partners. Despite the fact that this soft law machine has not been very effective so far, the network created in 2001 with 14 partners has attracted by now some 107 countries. http://www.internationalcompetitionnetwork.org/
Although member of ICN, the EU has started in 2002 its own network on competition. Moreover only 9 African countries are members of ICN and China is not a member.

procedures and chiefly to any macro prudential overview.

On the stability/security of financial market

In the same vein the crises and instability problems that appeared after the collapse of the fixed exchange rate system (installed at Bretton Woods) led the main central banks of the OECD countries to set up a committee (the Basel Committee) to fix the good practices in the new financial environment (see Eatwell 2010) We thus had the Basel I set of rules in 1988 and by 2005 a new set of rules (Basel II). The crisis of 1997-98 then led the G7 to propose the creation of a Financial Stability Forum (gathering directors of the main central banks as well as the main international financial institutions - IMF, World Bank , and BIS Bank of International Settlements). This process of soft law under the heading of the FSF was thus at work in the domain of finance up to 2008.

On the stability/security of product markets.

The globalization of finance, under such regime of soft law, had an impact on many other product markets. Either it fueled speculative runs or it provoked heavy rises in the indebtedness of consumers. …and all the more so that supply or demand were rigid. The best examples are given by markets of food products and raw materials. Raul Prebisch had stressed the relative stability and the long term decline of the relative prices of food products and raw materials in the three decades following WWII, much helped in that respect by the stabilization policies of nation states. These figures changed in the post 1973 era: the volatility of prices increased strongly and states did not intervene to stabilize markets, hoping that financial markets will ease a soft working of product markets.

In fact the volume of exchange in the case of food products is only a small share of total production, largely used in situ. For instance the international market for cereals amounted in 2007-2008 to some 14% of the world production(1689 millions of tons)[26]. Any downwards move in production (for example a bad crop in a large developing country) can launch a severe price inflation and lead to a series of open social crises (riots) as it happened in 37 countries (mainly in Africa) in 2007-2008[27]. Conversely any upward move in production (good crop and a biased expectation of prices) may well lead to surpluses that will bring prices down and ruin the poorest peasants. Such well known price cycle in agricultural markets has not been overcome so far by the economic liberalization advocated by most international institutions (from the OECD to the world bank , WTO and IMF) and listed as an explicit priority since 1994 (Blair House agreement) and as the main “mot d’ordre” of the WTO Doha round which opened in 2001. This round of negotiations did not reach any conclusion so far, just exposing the conflicts of interest among developed as well as among developing countries (with a group of highly productive large producers –the group

[26] 7% for the rice.

[27] With a rise of the price of corn of 181% between February 2005 and February 2008 (+83% for food prices over the same period),according to the World Bank see Madaule (2009),

of Cairns- pleading for a fully fledge liberalization while small poor countries were asking for a fair agreement that would help them to develop their vital agricultural sector). By mid 2008 two theses were opposed. On one side those willing to pursue the liberalization of the agricultural sectors undertaken over the last two decades. On the other side those willing to strike a fair balance between market mechanisms and some protection scheme that would help with the development of agricultural sectors, much needed by the stage of development of the countries under view.

Most of the international institutions were in favor of further liberalization [28]. They had a good ground for that with the price rise of the recent years. In their view prices were bound to stay high considering: a) the rise in world population, b) the limited volume of cultivable areas, c) the rising competition of agro fuels and d) the change in the diet of developing countries,

The opponents to further fully fledge liberalization advanced that a) prices remained very unstable (after the peak of July 2008 prices went down by some 48% in six months), b) agriculture is a vital sector in many poor countries , food security has become an issue, c) public aid , amounting to 100 billions USD , is much too low to meet what would be needed to get peasants out of poverty, d) investment in an agriculture for local subsistence remains a priority[29] and e) administered prices can help in some cases of product markets and countries (Madaule 2009).

Considering the differences in productivity and in conditions of exploitation the solution is likely to be a mix of market and public mechanisms. Already Food security has acquired the status of a global public good[30]. One of the Millenium Development Goals retained in 2001 was to reduce by half the 800 millions people undernourished by 2015, all of which implies the development of local subsistence oriented agricultures. The FAO has also set up a specific Committee on food security after the revival in 2008 of a project of Global partnership on alimentation. By and large the plea in favor of liberalization of agricultural markets of most international institutions (even if diversified in favor of least developed countries) still show a lack of coordination between all the objectives of the international agencies. The segmentation of global governance on these issues remains a striking feature at the end of the 2000s. The global financial crisis of 2008 and the economic crisis that followed with the specific issues raised by the levels of indebtedness reached by the various countries at the end of 2009 may force the international institutions to adjust their policies in a more coherent way. The failure of the Doha negotiations cycle suggests that such goal cannot be achieved within the framework and procedures of the WTO.

[28] see Perspectives agricoles de l'OCDE et de la DAO 2008-2017 OCDE-FAO 29 mai 2008 (www.fao.org/es/ESCcommon/ecg/550/fr/AgOut2017F.pdf)

[29] A recent commentary of the FAO stressing that the by now one billion of undernourished persons "is the result of 20 years under investment and neglect of the sector", sounds like a strong condemnation of the policy followed during these decades by the international agencies http://www.fao.org/wsfs/world-summit/en/?no_cache=1

[30] Somehow complementary with access to water which is also reckoned as a global public good, requiring investments which will have joint effects on food and water.

On the reconstruction of defense issues.

Defense is a major element of global governance. The balance between East and West forces was a central element of the geo-political governance, for a while qualified of cold war time. Its importance progressively reduced with the decline of the USSR. The fall of the Berlin wall in 1989 accelerated reductions in military expenditures although it became rapidly clear with the first war in Iraq or with the wars in the ex Yougoslavia that new challenges would lead to new forms of military interventions. In these new missions the military domination of the space which remained a central element of east west confrontation throughout the 80s and 90s kept some priority on the agenda. A more recently rising priority followed from the war on terrorism in the aftermath of the attack of September 11th 2001 in the US.

The ensuing new forms of peace keeping missions, including local military interventions as important and lasting as shown in Iraq and Afghanistan, boosted back military expenditures. These peace keeping missions can extend to humanitarian interventions following major disasters (earthquakes, floods, drought, storms, famines, pandemia, piracy…) where national armies are led to intervene, in most cases, at some point, implying the collaboration and supervision of the UN. Climate change is likely to increase many of such interventions. Interventions to control the proliferation of nuclear weapons seem also to remain high on the agendas. By and large military spending is thus bound to remain high but its content in terms of technology and therefore its role in boosting R&D and hi tec civil industries is likely to be more reduced than observed in the second half of the 20th century (see James 2010)[31].

The emergence of new actors and new channels goes altogether with the occurrence of a new geography. If the process of internationalization opens national borders it also gives new rooms for manoeuvre to large megacities which can develop policies of their own in terms of communication, organizations of markets and finance.

They constitute the grid of trade and finance networks that structure the world economy. In these mappings some places play a particular role such as fiscal havens and free trade zones. The phase of geo-financial governance of the past decade has given a new momentum to these fiscal havens which became necessary links of most financial institutions. The figures are impressive (see Chavagneux, Murphy and Palan 2010) : between 45 and 60 places could be qualified by the end of the 2000s as fiscal havens. They hosted 2 millions offshore enterprises. 50% of all international bank loans are registered in such places as well as 30% of FDIs (Foreign direct investments) and 52% of the hedge funds. As for rich individuals they hold in these fiscal havens some 12000 billions dollars (eg the equivalent of the US GDP).

On the international arena the timing of the successive stands of governments concerning these fiscal havens are rather telling on the various phases of

[31] Internet would thus have been one of the last major transfer, still much depends in that respect of the contribution that military R&D could eventually bring to the development of nanotechnologies and biotechnologies.

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liberalization (Chavagneux , Palan , 2006). When the use of these havens was rising in the second half of the 70s a report for the US government (Carter at the time) made it clear that the anti patriotic behavior of multinational firms had to checked (Gordon, 1981). The bank lobby countered this report and led to the creation of International Banking Facilities (IBF), eg offshore places located in the US, soon followed by similar facilities in other developed countries like Japan, resulting overall in an increased capital mobility.

One will have to wait the crises of 1997 and 2000 to see the beginning of an open denunciation of the fiscal havens ("name and shame" action) from the OECD, the Financial Stability Forum (FSF) and the GIFA (Group of international financial action, a body set up in 1989 to check money laundering).

This "name and shame" policy petered out with the election of G.W. Bush and the ensuing declaration of the US finance minister in 2001 that the US will not support any attempt to harmonize fiscal rules at an international level. The terrorist attack of September 11th did not change much this anti-interventionism[32]. The EU did follow the initial move of the early 2000s against fiscal havens but its directive (asking member states to share information on the assets of non residents) will only be implemented up in the 2005[33].

Sovereign Wealth Funds (SWF)

One could add in the list of the new actors that have emerged in the last three decades the sovereign wealth funds, which are special purpose investment funds created by governments for macro-economic purposes. SWFs 'assets are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatization, fiscal surpluses and receipts resulting from commodity exports. SWFs which amounted by 2009 to some 3800 billions of USD (thus more than the hedge fund industry) have existed for decades but became more important in recent years and are likely to continue to grow in the near future (up to 5000 billions in 2012 according to the UK think tank IFSL http://www.ifsl.org.uk/output/ReportItem.aspx?NewsID=20

Indeed SWFs are bound to be fueled, along trade surpluses, by the quest for financial security. Brazil has created such fund for this purpose in 2009 and a long list of countries are planning to do so : Angola, Bolivia, Canada, India, Japan , Nigeria , Taiwan and Thailand. Some other countries, like France has done in 2009 creating a SWF of 26 billions USD, will do the same to fuel the innovativeness of their economy and thus their competitiveness.

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[32] Some US think tanks as the *Center for Freedom and Prosperity* even tried to lobby the US congress against the mild "name and shame" policy of the OECD.

[33] Though Luxembourg, Austria and Belgium were allowed to maintain secrecy, providing they tax the capital income of non residents, at a rate of 15% between 2005-2007, 20% between 2008-2010 and 35% ,afterwards. The implementation also supposed that the directive would be extended to neighboring countries (non EU members), such as Andorre, Liechtenstein, Monaco, San Marin, Switzerland, or the places associated to EU members, like the anglo normand islands, the Isle of Man or the Caribean Islands...which was painfully achieved.

The regional distribution of funds is interesting with Asian and Middle East each close to 40% of SWF assets, and the 20% remaining for Europe (of which 12% for Norway alone).

Besides SWFs one finds similar government funds which are set aside to meet either government's future entitlement obligations to its citizens, or planned infrastructure construction. State owned enterprise may well also create such SWF.

By their origin SWFs tend to have a longer term approach to investment decision and to go on a regularly basis for overseas assets. Commodity SWFs (eg SWF stemming from export of commodities) went for half in equity investment, a quarter in bank deposits and 15% in Government bonds. Non commodity SWFs have been particularly investing in US government bonds. All of which raises the concern that SWFs may invest to secure control of some strategic business sector or priviledge their own national interests above their own "investors" interests, especially in times of global economic crisis. In that respect a Working Group on Sovereign Wealth Funds (IWG) was created with the support of the IMF in May 2008 which published in October 2008 a set of 24 Principles, aiming mainly to increase transparency[34].

The OECD on its side published in 2008 principles of fairness and transparency on behalf of recipient countries. Clearly by 2008 SWFs had become a major component in the making of global governance, bound to have specific reactions in cases of global financial or economic crisis.

Looking at the emergence of new actors it is worth signaling the rising importance at a world level of the Islamic Finance. Basically measured in terms of sharia compliant assets has been estimated to have reached 951 billions USD by the end of 2008 (up of some 80% in two years! initially averaging 150 billions in 1990s). It concerned mainly middle East countries, including Iran, but also increasingly Asian countries Malaysia, Bangladesh, Pakistan and Indonesia. 75% of these assets are hold by commercial banks, 10% by investment banks[35].

Having been more cautious on toxic equity assets, Islamic finance will loose less in the global financial crisis that followed, although it remained exposed to the crisis in housing properties (as happened in Dubai).

The above shows that actors and domains were variously exposed to external risks.

The global financial crisis of 2008 and the ensuing economic crisis has affected the core of the developed economies and therefore impacted strongly and differently the various trends sketched above. Basically it led to some return of the power of the states versus all the diverse soft auto-regulations that had developed in the

[34] The transparency of SWFs can be measured by an index constructed by the Sovereign Wealth Fund Institute http://www.swfinstitute.org/research/transparencyindex.php

[35] The rest consisting of specific bonds, called Sukuk,10%, funds 5%, and specific insurance schemes, Takaful, 1%. See: http://www.ifsl.org.uk/output/ReportItem.aspx?NewsID=32

management of global governance. Still this return differs according to domains and countries.

7) Impact of the 2008 financial crisis

As shown in the retrospective view, given in the preceding sections, global governance has changed from one major crisis to the other. One can expect that the fully fledge global financial crisis, that started with the US sub prime crisis in 2007 and gained its full global momentum in 2008, will have a strong impact on global governance. The fact that it started with the housing market is telling of the disturbances that a rather uncontrolled or auto-controlled financialization can produce on markets. As Greenspan himself declared in 2007[36], at the outburst of the sub prime crisis, that it was bound to happen and could have occurred with any other market where modern finance had been able to increase turn over by means of securitization of its bills. In a globalised finance the toxic assets under view spread undistinguishably all over the world. The wave of defaults of what should have remained a "local" issue had thus far ranging cumulative effects. It launched a huge crisis of confidence that affected firms at the core of this modern finance business, all along 2008, culminating with the collapse of Lehman Brothers. It was soon followed by the discovery of various scandals, like the Madoff Ponzi scheme, while public opinions across the world realized the importance of the global margin of intermediation levied by the financial sectors (which in turn allowed super bonuses, wages and golden handshakes). In this context the huge credit crisis threatening to blow up the whole system led to a return at full speed of states interventions. The huge bails out of financial institutions, soon followed by the massive rescue loans to economic activities rapidly threatened by the sudden disappearance of credit, constituted a major break with the past, creating new situations of power and indebtedness bound to forge new patterns of global governance.

We shall review these transformations under three headings: A) the discredit of finance and the return of state control and interventionism, B) product markets security and the rise of protectionism, C) adjustment to new debt structures.

A) The discredit of finance and the return of state interventions.

One of the first result of the crisis has been the discredit of the financial sectors. Once the surprise of the major bailouts at the peak of the crisis was over, calls for stringent reforms of the financial sectors multiplied themselves all over the world[37]. Reregulation of finance is now on the agenda of most countries. Even though it is clear that constraining measures are difficult to take unilaterally by countries, the over all pressure is such that the US, the UK or Germany do not hesitate to take strong steps in that direction. The question is thus not to see whether there will be any reregulation but to what extent will this new regulatory framework be strongly

[36] see Le Monde October 3rd page 14

[37] At the peak of the crisis some were even claiming to nationalize the banks on the verge of bankruptcies, even in countries that had been at the core of the process of global financialisation .

binding. Clearly the control of the industry will not be left to soft law mechanisms. State controls and interventions will prevail. Institution like the IMF will be given and have already been given more formal power and considerably enlarged budget to reinforce their power[38]. The Financial Instability Forum has been "upgraded" by the G20 into a Financial Stability Board and will work, under the tutelage of the IMF , as a major component of the new Global Governance emerging (see Eatwell 2010). How long will it take for such transformation to get its full momentum? How long will it last? Much depends on the time it takes for a new convention on the role international finance to emerge. Some issues will serve as tests of cooperation. The control of fiscal havens will be one[39]. The regulation of hedge funds another. Checking the transparency of sovereign funds a third[40]. Regulating rating agencies could be a fourth on this potentially long list. Not to mention the restrictions of open positions on stock markets (as decided in Germany in May 2010). This cooperation could be achieved in the first place at regional level, still the issues under view have upfront a global dimension, calling for multilateral action, monitored by the G20 for instance. Restrictions on capital mobility could also be on the agenda as it helped countries like Brazil to keep clear of the financial crisis. This return of the state does not prevent the commitment of NGOs, some of them being directly focusing on watching transparency of financial institutions, nor the commitment of multinational firms which have been using extensively fiscal havens and other facilities to move around their profits. Corporate social responsibility (CSR) reporting could thus include information on the global handling of finance of corporations. Looking forward, many combinations of actions can contribute to fix the new regulatory framework. This framework will have to be clearly linked with some broadly agreed development policy. The lost decade and the global financial crisis gave to financial security the status of a new global public goods.

Moreover the new legitimacy of state interventionism, gained in controlling the financial sector, should bring some support to state interventions in other domains. Also to be noticed the rising role of central banks in the set up of all the large bails out as well as in the reconstruction of financial stability.

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[38] The meeting of the G20 in London August 2009 raised the budget of the IMF by some 750 billions USD.

[39] Recent evolutions may have been more drastic than previously following the G20 meeting in Pittsburg (2009 fall) forcing under auspices of OECD Switzerland and other havens to renegotiate cooperation treaties (so called double taxation treaties). New law in the US known as "Stop tax havens abuse act" (march 2010) puts huge pressure on foreign banks to comply with information disclosure and tax withholding rules.

[40] Indeed an International Forum of Sovereign Wealth Funds has already been created to check this transparency of SWFs and the respect of the "Santiago" principles. But here again this soft law response should be comforted by the supervision of a more formal international institution as it has been the case with the Forum of Financial Stability.

B) Trade, product markets security and the rise of protectionism.

As soon as the international financial crisis broke out, there was a fear that countries would try to limit their international exposure with protectionist measures. Everyone had in mind the disastrous reactions following the krach of 1929 which led over time to an enormous fall in world trade[41].

It did not prevent though trade to fall and protectionism to rise but it remained to begin with quite manageable. Though it showed at least two things: first governments kept on, a rather discriminatory basis, an arsenal of protectionist instruments, reflecting differences of power, second it somehow revealed that the recent past in some market had already launched protectionist strategies that could be of consequences in the long run on global governance. Basically examples of such tensions could be seen in markets that were strategic to feed population, supply crucial energy or raw materials. For this reason we consider that issues of product markets security are for some products central challenges for the years to come.

The Food security issues came strongly on the agenda in the course of 2009; the financial crisis seemed to add to the complexity of the situation shown by the high price inflation of 2008 , followed by a 50% drop in price within six months, with the number of people undernourished kept rising (1 billion people , some 15% of the world population). To nourish 9,1 billions people by 2050 the production should increase by some 70% from its 2005 level, when yields are reducing, new uses emerging (energy), and climate changes threatening precisely the most vulnerable countries. To face this worrying situation a new body has been created (on October 2009 17th): the food security committee FSC, to bring to a new level of intervention the international action. This Committee is supposed a) to coordinate national actions, b) to associate all the Un and NGOs organisations c) to establish a comprehensive scientific basis assessing the shortages ahead[42]. Indeed this upgrading still leaves open many issues (How coercive will be its recommendations? What will be the balance between short term and long term aid? which budget of intervention will be allocated to it?[43]). Critics have asked for a new agency similar to the one created to fight AIDS[44].

It is also clear that in the mean time to face the future global shortage countries which foresee some deficits are developing specific strategies : buying cultivable land

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[41] The President of the FED Bernanke being a specialist of the 1929 crisis certainly helped in that respect to have the Bush administration to take the drastic measures they took to support the economy.

[42] See Agrimonde 2009 for instance for its scenarios on the 2050 balance sheets between supply and demand of agricultural products

[43] The G8 in Aquila july 2009 has promised to increase the spendings on agriculture development by some 20 billions USD, a promise the implementation of which is difficult to follow and still fara from the 44 billions needed yearly according to the FAO to cure malnutrition.

[44] Jeffrey Sachs for instance according to The Economist. November 21 2009

abroad (especially in Africa) which may be in contradiction with local needs (see Canfin 2009[45]), arranging long term binding supply contracts, ...

Somehow this food supply issue has some similarity with the fossile energy issue: nations are developing strategies to secure long term access to supplies and one can easily foresee from the worries expressed during the last big rise in the oil price that the issue of a minimum access to this depletable resources (an Oil security committee or the like) will be raised.

By and large this is going to be the case for all depletable resources which are necessary for the basic economic activities of a country. It does not stop at primary products. It is clear that knowledge and information are also vital and that a fair global development should guarantee some access to these man made resources.

The very logic that we see at work in the progressive building up of a list of global public goods and the definition of minimum access will continue and extend to many products and resources. Besides this move, in which NGOs will play an important role along governments and big businesses (eventually combined within CSR contracting), the functioning of many product markets will be largely influenced by the prospect of forthcoming shortages, temporary or lasting, in a medium or long term. We have stressed that such prospects of disequilibrium, be it because of shortages or overproduction, will be fought at the levels of nations with an arsenal of protectionist measures[46] as we have experienced it with the recent fall in world trade. The World Bank in March 2009 has released an important assessment of trade protectionism and so did the 2010 Heritage House Index of Economic Freedom which covers the full period of recession. But a lot of these registered measures aree contingent and were suppressed after a while, rich countries were mainly using subsidies and developing countries tariffs. Interesting in such assessment would also be FDI meant to secure access and non tariffs barriers meant to protect home markets.

The present crisis leads us to see a lot of product markets as combining two kind of security strategy. This perspective should be completed taking into account the ecological dimension. We stressed that the global governance to follow could well be driven by some environmental preoccupation. The will to reduce consumption of depletable resources is compatible with the two above logics mixing international justice and national interests. The problem is to know how this preoccupation will be integrated with the two others. Scenarios on food security do show the importance of ecological behaviours, avoiding early exhaustion of soils but also pressing for a more sustainable diet in developed and developing countries [47].

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[45] See also « The growing demand for land : risks and opportunities for small holder farmers. " www.ifad.org/events/gc/roundtables/2.pdf

[46] see Drache 2010 p36

[47] Obesity having become an issue in both classes of countries

Measures to secure access to markets, be it for the needs of the most deprived parts of the population or for the needs of national economies as a whole, can all contain to some level ecological requirements. One would have to evaluate the importance of this drive to secure as well environment.

Fiscal measures, as foreseen with the carbon tax, are convenient ways to take on board this objective. When fiscal issues are at stake, it evokes the third dimension of global governance that stemmed from the recent crisis, namely the budget issue raised by the huge bails out and supportive policies launches by the various countries to avoid the spectrum of a huge 1929 like depression.

C) *Managing debt structures and global imbalances.*

If the rapid reaction of governments in 2009 (see table 1) has succeeded to avoid the kind of large depression experienced in the 3Os, it led to a widespread rise in the levels of public indebtedness which in turn raised new fears from the financial markets that had been rescued two years ago, putting pressures on governments to reduce these debts. Austerity plans are back on the governments agenda, all of which could have detrimental consequences on economies.

If such stop and go policy diffuses to all countries there is a risk that the big depression would have been only postponed. The challenges for the future are whether or not global governance mechanisms will help to sort out which countries have better to reduce their deficits and which may on the contrary follow up with some expansionary policies that would help to keep the world economy going. In effect the stimulus in 2009 has been quite strong in many countries. While in the 1930s public deficit represented to the upmost 4% of GDP[48], these ratios raised in 2009 to two digits numbers in such major countries as the US, the UK, Japan and India.

By 2010 the levels of debts of most developed economies went quite over their "usual" levels. Still the status of these levels of indebtedness varies according for instance to the nature of the creditors (nationals like in Japan or Italy) or foreigners (like in the US and the UK). Another variable influencing the sustainability of high levels of indebtedness may be tied with the depth of the national financial market, or the international diffusion of the currency. Indicators of the sustainability of various levels of indebtedness can thus help to assess the capacity of a zone or a country to follow reflation policies.

[48] See Eichengreen and O'Rouke (2009) , accessible on the web : http://www.voxeu.org/index.php?q=node/3421

Table 1	Fiscal deficit 2009 (%of GDP) source IMF 2009	
The US	12.5	
Japan	10.5	
The UK	11.6	
France	8.3	
Germany	4.2	
China	3.9	
Brazil	3.8	

Countries were soon to realize that a widespread increase in levels of debt called the attention of financial markets and led them to speculate on the possible bankruptcies of some countries. What was first called the Greek crisis turned out to become a much more general threat. While in the first phase of the crisis, exchange rates were relatively stable, attacks on the currencies multiplied in the follow up of the Greek crisis showed that the importance of the debts raised a new challenge.

On one side markets (via unreconstructed (yet) rating agencies) are pressing for reduction of public expenditures and increase in taxes to reduce the debts, but on the other side markets are worried that the measures taken by country or at a global level would depress economies and therefore fail to reduce the debts. The dilemma for the countries under view is to strike the right balance between reduction of deficits and support of economic growth. The issue of indebtedness has thus to be dealt within a rather mid to long term horizon.

Measures of misalignement of exchange rates can inform us on the right or wrong balances, depending on the growth potential of each country and of the exchange rates zones that can be accordingly targeted.

The positions of countries after the massive bails out of banks and subsidies to activities threatened by the fall in the volume of trade, therefore vary remarkably depending on the sustainability of their new levels of indebtedness. It leaves to some countries little room for manoeuvre. The constraints depend a) on the mobility allowed to capital, b) on the solidarity that can be expressed at regional levels and c) and on the room for manoeuvre left to the speculative runs of financial markets (codes of conducts, regulations of open positions,..)[49].

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[49] See Willem Buiter of Citygroup and Rheinhart and Rogoff (2009) for the past experiences of countries recovering from high debt ratios in a relatively short period of time.

What is becoming of the various currency blocks is back as a major issue. In this perspective the option of SDR (Special Drawing Rights) has to be considered, as it constitutes one way to alleviate the pressure and reduce the privilege of some major currencies. Following a suggestion of China the April 2009 summit of the G20 brought back this possibility (see Lelart 2010). But SDRs are samples of currencies of varying values and thus are not so handy for a widespread use. IMF has had an internal use of SDRs for quite a while but whether they can be put to use more extensively by a wide range of economic agents remain to be seen (De Boissieu 2010).

Finally under this item of managing global imbalances one should also consider elements of the balance of payments, not tied with trade and FDI seen above, such as international aid and remittances which for some countries constitute crucial components of their balances. The rising role of remittances, which have overtook by now the amount of public aid, is an important feature of all scenarios on migrations flows.

8 To conclude : issues to be retained in a forward looking approach of global governance

The issues to be selected in drafting scenarios on the 20 years to come are straightforwardly stemming from the above assessment of the general trends underlying the changes in global governance, combined with the potential consequences of the 2008 crisis.

The fabric of global governance can be decomposed by (interdependent) domains:

A) financial markets, with a special focus on types of controls, room of manoeuvre for bankers and capital,)

B) product markets, looking especially at the dimensions of fairness (public good) and the possibilities of long term strategy of access (ownership, property rights,..).

C) debts and global imbalances , looking at exchanges rates and fiscal competition: underlining the conditions of arbitrage between generations (debt and fiscal issue) and between countries (exchange rates and fiscal issue)

D) Defence issues, looking at the magnitude and orientation of military expenditures altogether with their impact on security issues of some product markets.

Part of the interdependence between these domains can be caught specifying the agents determining the behavioral rules :

- 1) Nation states in a rather uncoordinated way,
- 2) International institutions (the heritage of post world war II institutions and new institutions similarly originated from an international convention between nation states),

- 3) Multinational firms designing at a global level their own best practices, involving in more or less comprehensive ways the stake holders,
- 4) Social movements, with a global reach (including non governmental organizations : NGOs), selecting in a rather uncoordinated, specific way their objectives,

Global governance could then be described in a table specifying how domains are conceived (the rows) and by which combination of agents (the columns).

This scheme can be used for instance to illustrate the various combinations of domain specifications and agents alliances that could support the emergence of a geo – environmental global governance. Climate threat clearly points at the organization of some product markets and at special conventions regarding fiscality and indebtedness. Various sets of indicators can help to assess the characteristics of domain over a mid to long term period of time. Such indicators do exist as we have stressed in the previous sections, others will have to be constructed. Regarding the combination of actors contributing to the “regulation” of a given domain, indicators are much less common. It would imply for instance to be able to estimate the relative shares of soft and hard law in a given field. Rough indicators (on expert advices as done in the OECD data base on product market regulation for instance) could be constructed. General data bases on the institutional profiles of countries could help in that respect[50]. In this systematic exploration of the dimension of global governance and its use to describe in a consistent and precise way what could be the global governance of the two decades ahead one should keep in mind the main challenges stemming out of our review of the past three decades, eg :

- The north/south “dialogue” and the issue of development,
- The environmental threat and how the reorganization of product markets can help (with its two security dimensions public good in a short run perspective, ownership in a long term perspective)
- The generation issues raised by both the depletion of resources and indebtedness.

[50] See for instance the Institutional profiles data base III (IPD III) http://www.cepii.fr/ProfilsInstitutionnelsDatabase.htm and http://www.maastrichtuniversity.nl/governance.

Actors with global reach and forms of actions Fields of intervention	States (standard nation states, rogue states, fiscal havens, megacities,..) (soft law, hard law)	International Institutions (multilateral, regional,.G20,G 7, G….) (soft law, hard law)	Multinational Enterprises (types of actions: CSR, lobbying, cartels, criminal groups…) (soft law, hard law)	Other International Actors (types of actions: NGOs type A, NGOs type B, trade unions, academic groups, professional groups, cultural groups, ..) (soft law, hard law)
On finance *(taming …)* - shadow banking (hedge funds, investment funds, …) - regulation of financial markets (capital mobility, rating agencies, accounting norms,..)				
Trade and product markets *(towards sustainability (security/environment/.)* -Security (Food, Energy, water, knowledge, health, education, culture,…).. -Rent seeking (intellectual property rights, internet, exploitation rights (sea and space), rare materials, nuclear energy,) -Protectionism (arsenal of protectionist measures,…) -Norms and standards of products				
Global imbalances, External Debts and exchange rates -Misalignment of exchange rates -Fiscal competition -Management of endebtedness - International transfers (aid , remittances,…)				
Defense issues -military budget and cooperation - new missions				

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