



**THE ROLE OF
THE UNITED NATIONS
IN GLOBAL ECONOMIC
GOVERNANCE**

Geneva, August 2009

THE AUTHOR

This Paper is written by Dr. Yilmaz Akyüz who is Special Economic Advisor, South Centre, Geneva. He was formerly Director, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development (UNCTAD). He can be reached at yilmaz.akyuz@bluewin.ch.

THE SOUTH CENTRE

The South Centre is an intergovernmental organization of developing countries. It prepares, publishes and distributes information, strategic analyses and recommendations on international economic, social and political matters of concern to the South. In order to meet its objectives, and within the limits of its capacity and mandate, the Centre also responds to requests for policy advice, and for technical and other support from collective entities of the South such as the Group of 77 and the Non-Aligned Movement. In pursuing its objectives of promoting South solidarity, South-South cooperation, and coordinated participation by developing countries in international forums, the South Centre has intellectual autonomy.

This paper is produced by the South Centre to contribute to the better participation of developing countries in international negotiations. Readers are encouraged to quote or reproduce the contents of this paper for their own use, but are requested to grant due acknowledgement to the South Centre and to send a copy of the publication in which such quote or reproduction appears to the South Centre. All rights are reserved.

The South Centre's output does not necessarily reflect the official positions or views of its Member States or other developing countries.

Electronic copies of this and other South Centre publications may be downloaded from <http://www.southcentre.org>.

South Centre

Ch. de Champ d'Anier 17, 1211 Geneva 19, Switzerland

Tel: +41 22 7918050; Fax: +41 22 7988531

Email: south@southcentre.org

Website: <http://www.southcentre.org>

THE ROLE OF THE UNITED NATIONS IN GLOBAL ECONOMIC GOVERNANCE

Closer global economic integration in the past several decades has resulted in growing interdependence not only among economic performances of countries, but also among various spheres of economic policy including trade, money, finance, employment, investment and technology. At the global level these issues are addressed by specialized institutions established by intergovernmental agreements. Although reference is often made in their charters to common broader global objectives regarding economic and social development, in practice each of these institutions focus on its specific mandate and objectives. This creates systemic incoherence and inconsistency not only because there can be trade-offs among the objectives pursued by different agencies, but also because failure in certain areas of global policy has broader implications for the multilateral system as a whole. A key question facing the international community in seeking to establish effective global economic governance is, therefore, how to ensure that objectives and policies pursued by specialized agencies mutually reinforce each other in support of equitable, rapid and sustained economic and social development.

Resolution of trade-offs among various economic and social objectives is a key challenge in policy-making both at the national and international level. National governments often find themselves struggling to minimize and resolve the conflicts that arise among different policy objectives such as price stability and full employment, equity and efficiency, fiscal discipline and social spending, and external and internal equilibrium. Since different governmental bodies are assigned to different areas of policy, a main challenge faced in national social and economic governance is how to establish an effective centralized coordination mechanism so as to strike the right balance among different and competing objectives and to secure compliance and accountability.

Trade-offs are no less common in international policy making. An important area where conflicts pervade concerns the creation and dissemination of knowledge and technology. Rules designed to firmly secure intellectual property rights with a

view to protecting and promoting innovation and the links established between such rights and multilateral obligations in international trade have often come into conflict with the need to safeguard public health in poorer countries which cannot afford royalties in medicine, resulting in serious controversies over the WTO agreement on TRIPS. Undue protection given to property rights is also becoming a serious obstacle to reaching globally agreed targets with respect to carbon emission by making it difficult for countries without adequate resources to acquire climate-friendly technologies in order to reduce carbon emission without sacrificing economic growth and development. Similarly, narrow financial objectives pursued by the IMF and imposed through pro-cyclical policy conditions attached to lending to developing countries often conflict with broader objectives linked to development, including the creation of decent work for all as advocated and promoted by the ILO, or the alleviation of poverty as multilaterally agreed under the MDGs.

Lack of coherence in the multilateral system allow and even encourage conflict of purpose in actions and positions of individual governments in different domains of global interdependence. For instance the United States government remains reluctant to ratify the ILO convention on Freedom of Association and the Right to Organize, but is nevertheless very keen to insert worker rights into multilateral and bilateral trade agreements as an instrument for protecting jobs at home against countries with ample and cheaper labour forces.

Perhaps the most blatant incidence of incoherence concerns trade and finance. Success in maintaining a free multilateral global trading system requires more than simply dealing with reductions in tariffs, quotas, subsidies and other technical factors that impede the expansion of trade. Rather, the entire international system must be capable of supporting the trading system. It has long been recognized that stable exchange rates and the steady expansion of employment are preconditions for the maintenance and development of an open system of international trade. As noted by Keynes during the Bretton Woods conference “tariffs and currency depreciations are in many cases alternatives. Without currency agreements you have no firm ground on

which to discuss tariffs... It is very difficult while you have monetary chaos to have order of any kind in other directions.”¹

However, existing multilateral arrangements fail to secure compatibility of monetary and financial systems with free multilateral trade. The ILO has no effective mandate and jurisdiction over national macroeconomic and sectoral policies that affect the level and nature of employment. More importantly, because of shortcomings in its governance structure, the IMF is unable to exert multilateral disciplines over exchange rate, financial and macroeconomic policies of its non-borrowing members, notably the major reserve-currency countries, which wield a predominantly strong influence on international economic conditions, even though its principal task remains to safeguard international monetary and financial stability in support of expansion of trade, income and employment. Nor are there effective regulatory mechanisms to reduce the scope of international financial and currency markets to generate instability and chaos, and propagate them globally.

Thus, during relatively short periods, countries' exchange rates frequently vary by amounts which are large in percentage terms in comparison with their average tariff levels, and the resulting changes can substantially exceed that of multilaterally agreed tariff changes. The increasingly frequent and virulent systemic breakdowns in the operation of international financial markets associated with financial liberalization and deregulation have been generating destabilizing influences on the global trading system not only by producing instability of exchange rates and increasingly frequent shifts in international competitiveness but also by promoting deflationary forces whereby adjustments to crises take the form of economic contraction and import cuts. Yet the Articles of GATT contain no provision for responses to the distortionary effects of exchange rate misalignments analogous to those for subsidies or dumping.

A main source of incoherence between trade and finance is the implicit acceptance of the priority of meeting financial obligations over observance of commitments to free trade. Article VII of the IMF provides for exchange controls and

¹ Keynes (1944, p. 5). The same point is made by Shultz (1998, p. 15) who suggested that the IMF should meet in WTO setting rather than with the World Bank since “exchange rates and trade rules are the two sides of the same coin.”

trade restrictions when the currency required to finance external imbalance is declared to be scarce while Article XII of the GATT allows any contracting party to restrict its imports in order to safeguard its external financial position and its balance of payments. No analogous provisions are made in the current system for suspension of external financial obligations under similar conditions.

The lack of singularity of purpose in the policies of the international institutions in ensuring that their policies meet the requirements for the successful expansion of the system of multilateral free trade and an equitable distribution of its benefits to both developed and developing countries was explicitly recognised in paragraph 4 of the Marrakech Declaration: “Ministers recognize, however, that difficulties the origins of which lie outside the trade field cannot be redressed through measures taken in the trade field alone. This underscores the importance of efforts to improve other elements of global economic policymaking to complement the effective implementation of the results achieved in the Uruguay Round” (WTO 1994: para 4).

Efforts to improve coherence of policies in such diverse but interrelated areas remain sporadic and ineffectual in large part because they rely on ad hoc cooperation among specialized agencies, the compartmentalization of whose mandates and jurisdictions is not well designed for proper consideration of certain key connections between different issues and appropriate policy responses in different areas. The WTO Working Group on Debt, Trade and Finance established after the Doha Ministerial in 2001 in order to enable the multilateral trading system to contribute to a feasible solution to the problem of external indebtedness of developing countries and to “strengthen the coherence of international trade and finance policies with a view to safeguarding the multilateral trading system from the effects of monetary and financial instability” has achieved almost nothing in bringing about a stable global monetary and financial environment conducive to faster expansion of trade and employment. In fact it made no reference to the Marrakech Ministerial Declaration on coherence (UNCTAD 2002: 43). Nor is the cooperation established in this context between the WTO, the IMF and the World Bank with a view to attaining “coherence in global economic policymaking” (WTO 2004) designed to ensure the kind of systemic coherence between trade and finance raised by the Marrakech Declaration. Rather, it has become an instrument of collective effort to push for one-size-fits-all

trade liberalization in developing countries, encouraging it by mechanisms such as aid-for-trade and the enhanced integrated framework. Again the *Financing for Development* initiative has not yielded any significant outcome in this respect in the past seven years even though “addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development” was one of its key objectives.

Nor can this task be fulfilled by ECOSOC under its current mandate and jurisdiction. It is not authorized to take binding decisions for the specialized agencies outside the UN system so as to secure systemic coherence. According to the Charter of the United Nations, the Organization can only “make recommendations for the coordination of policies and activities of the specialized agencies” (Article 58) and ECOSOC “may enter into agreements with any of the agencies..., defining the terms on which the agency concerned shall be brought into relationship with the United Nations” (Article 63). The main task of ECOSOC is to coordinate the work of relevant UN agencies and bodies in economic and social issues. However, even in this narrow area it has been quite ineffectual, unable to exert authority to secure singularity of purpose and accountability within the UN — something that led to the appointment of a High-Level Panel on UN System-wide Coherence as part of the follow-up to the outcome of the Millennium Summit in search of a unified and coherent framework for the country-level operational activities of UN agencies.

Avoiding fragmentation and disintegration of the multilateral economic system and proliferation of unilateralism and bilateralism calls for a rethinking of global economic governance. There is a need to restructure multilateral disciplines and to introduce new institutional arrangements so as to secure greater equity and symmetry between developing and advanced economies, and to bring coherence among rules applying to different spheres of economic activity such as trade and finance, labour and capital, and intellectual property rights and health and technology so that difficulties in one field do not undermine international economic relations and objectives pursued in others. There can be little doubt that democratization of global governance and the emergence of systems of representation and accountability is essential for such a transformation as well as its credibility and legitimacy.

In its final document the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development, held in New York from 24 to 30 June 2009, recognized the need for securing greater coherence of the global economic system and for strengthening the “coordinating role” of the UN.² However, the exact form such coordination could take appears to be highly contentious. Speaking in explanation of vote after the adoption of the document the United States delegation reiterated its “strong view ... that the United Nations does not have the expertise or mandate to serve as a suitable forum or provide direction for meaningful dialogue on a number of issues addressed in the document, such as reserve systems, the international financial institutions, and the international financial architecture” and argued that “the international financial institutions have governance structures, as set out in their respective Articles of Agreement that are independent of the United Nations. Any decisions on reform of the international financial institutions or the manner in which they conduct their business are the prerogative of their shareholders and their respective Boards of Governors. Consequently, [the United States] government does not interpret the language in this document as endorsing a formal United Nations role in decisions affecting the international financial institutions or international financial architecture.”

Interestingly, similar reservations appear to have been raised in the G20 Working Group on the Reform of the IMF regarding the role of the G20. According to the report of the Working Group (G20 2009: para 26), while “many working group members supported the G-20 encouraging the Executive Board and management to expedite the work being undertaken on reviewing governance in the IMF and in particular ensure that ... there is a strong accountability framework,... many other working group members believed this was micro-managing the Fund, and that [such matters] are better left to the Fund and IMFC.” It is not disclosed which countries expressed these reservations, but it appears that major shareholders of the IMF are uncomfortable not only with the UN, but also the G20 taking up certain issues regarding the reform of the global financial architecture, notably that of the IMF.

² See UN (2009, notably paras 16 and 52).

There can be little doubt that each institution has its own charter and operational modalities which could only be changed by formal decisions taken by their constituency or shareholders according to their own procedures. However, this does not preclude their members to engage in discussions in other fora with a broader perspective over matters that pertain to such institutions and reach agreement, to be affected by a formal decision taken in the institution concerned. This is how the G7/G8 has been operating in matters pertaining to, *inter alia*, Bretton Woods Institutions and has situated itself at the center of global governance. More recently the G20 London Summit reached “agreements” on a large number of issues such as the resources and lending instruments of the IMF and MDBs and changed the name and the composition of the FSF which were subsequently signed and sealed by appropriate bodies of the institutions concerned. Clearly, what is considered as an acceptable practice for G3, G7 and G20 cannot be denied to the United Nations General Assembly which comprises all “shareholders” of the IMF and the WB, and all members of other specialized multilateral agencies.

There are indeed precedents where similar agreements were reached in the UN system to be adopted subsequently by the IFIs concerned. The Compensatory Financing Facility introduced in the early 1960s to enable developing countries facing temporary shortfalls in primary export earnings to draw on the Fund beyond their normal drawing rights at concessional terms resulted from a UN initiative (Dam 1982: 127-28). Guidelines for negotiations of official and officially guaranteed debt of developing countries were effectively set at UNCTAD in 1980 through the adoption of TDB Resolution 222(XXI) which was seen by Michel Camdessus, the chairman of the Paris Club at the time, “as establishing the international legitimacy of the Paris Club within the international financial architecture” (Cosio-Pascal 2008: 10-11). Finally, the establishment of the SDRs owes a great deal to the initiative taken at UNCTAD I in 1964 for further study of measures related to the complementary credit system of the IMF and the report prepared by an UNCTAD expert group establishing that developing countries needed unconditional liquidity created on a universal basis (Toye and Toye 2005: 162-63).

The role of the UN in global economic governance should be among the first issues to be taken up in the follow-up to the UN conference. Once it is established

that the UN is the appropriate fora for discussing issues related to “international economic and financial system and architecture” from a broad development perspective, the task is to reform the UN system by setting up appropriate bodies and mechanisms. One option could be to create a UN body at the level of the General Assembly and the Security Council with authority to take binding decisions in areas of activity of specialized multilateral agencies and to secure consistency, compliance and accountability. It could draw on the existing G20, supplemented by elected members as in the Security Council. Under such an arrangement ECOSOC, duly extended to include all members of the UN, could well replace the Second and Third Committees (Social, Cultural and Humanitarian, and Economic and Finance Committees) as a single UN General Assembly body for economic, financial and social issues.

Embedding the G20 into the UN system would not only enhance its legitimacy, but also secure that its developing-country members would continue to play a central role in multilateral governance in economic and social issues – rather than being called upon when things go wrong and forgotten subsequently. The current global crisis presents developing countries with an opportunity for shaping multilateral institutions and globalization according to their collective interests. For the first time after recurrent crises and hardships, developing countries have begun to fashion a common vision of what kind of international economic and financial architecture they should be seeking in support of development, rather than simply reacting to positions and proposals coming from governments of advanced economies. But the opportunity may well be lost if these matters are pursued in *ad hoc* groups which do not enjoy institutional legitimacy and political mandate, rather than taken to where they belong.

References

- Cosio-Pascal, E. (2008). "The Emerging of a Multilateral Forum for Debt Restructuring: The Paris Club." *UNCTAD Discussion Paper* 192.
- Dam, Kenneth W. (1982). *The Rules of the Game. Reform and Evolution in the International Monetary System*. Chicago: University of Chicago Press.
- G20 (2009). G-20 Working Group 3: Reform of the IMF. Final Report. 4 March. www.g20.org
- Keynes, J.M. (1944). John Maynard Keynes at the House of Lords, 23 May 1944. In Donald Moggridge (ed.), *The Collected Writings of John Maynard Keynes*. Volume 26: *Activities 1941-1946, Shaping the Post-War World, Bretton Woods and Reparations*. Cambridge: Cambridge University Press. 1980.
- Schultz, George, P. (1998). "Merge the IMF and World Bank." *The International Economy*. January/February: 14-16.
- Toye, J. and R. Toye (2005). "From New Era to Neo-liberalism: US Strategy on Trade, Finance and Development in the United Nations, 1964–82." *Forum for Development Studies* 1-2005.
- UNCTAD (2003). *Trade and Development Report*. Geneva.
- UN (2009). Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development. General assembly Resolution A/63/L.75.
- WTO (World Trade Organization) (1994). "On the Contribution of the World Trade Organization to Achieving Greater Coherence in Global Economic Policymaking," Declaration of the World Trade Organization, 15 April 1994, Marrakech.
- WTO (2004). "Coherence in Global Economic Policymaking and Cooperation between the WTO, the IMF and the World Bank." WT/TF/COH/S/9. WTO: Geneva.