REFORM OF GLOBAL GOVERNANCE INSTITUTIONS

Transforming Global Governance Institutions: Towards Public Interests?

5th BRICS Academic Forum, Durban

Michelle Pressend[1]

11 & 12 March 2013

Introduction

The world faces a deepening multiple crises - planetary ecological, climate, food, energy, and finance crises

In this current multiple crisis both the North and South continue to prioritise growth in their economies based on standard economic models – the North wants to maintain its high growth rate and the South wants to play "catch-up". However, climate change, the oil peak, high oil prices, high food prices, an unfair international trade regime and inequities in the global political economy presents major challenges for emerging economies to achieve the "catch-up" they perceive they require to grow their economies.

Government's at global level seek to "solve" these crises through various for multilateral institutions such as the United Nations, World Bank, International Monetary Forum (IMF), the World Trade Organisation (WTO) and self-appointed or self-organised groups of the world's most powerful countries such as the G8, G20 and BRICS.

So the question I pose is what is the "new" that BRICS can bring to change the current world order?

---

[1] Michelle Pressend is policy analyst on global political economy in the areas of trade and environment, climate change and sustainable development. She is currently working for the Economic Justice Network of FOCCISA (a policy think-tank for a the Christian Council of Churches in Southern Africa) as the Tax Justice Coordinator.

In the presentation of global governance reform, questions arose on the whether the BRICS "evolutionary or revolutionary"/"reformist or transformist"? It remains to be seen in how the BRICS navigates change in the global regime that could manifest in a global geopolitical power shift from a unipolar to multipolar world.

My presentation emphasises three aspects on transforming global governance:

1. I argue that the structure and composition of institutions lags behind the changing political realities and question how the BRICS challenge this situation.
2. The reform agenda of BRICS on international financial institutions is limited.
3. A key issue that differentiates South Africa from the rest of the BRIC countries that may have implications on South Africa role and/or economic participation in the BRICS commitments.

1. The structure and composition of institutions lags behind the changing political realities on how does the BRICS challenge this situation

The weakening of the UN as the central global international governance institution is critical to address.

For instance if we look at the composition of global institutions to regulate Multinational Corporations, they are non-existent, allowing MNCs to operate with impunity. Rasigan Maharajh in his presentation showed that many of the top MNCs surpasses the economies of countries.[2] These corporations have found various ways to increase their profits in a poorly regulated global financial system.

Between 1970 and 2008, illicit financial flows from Africa amounted to about US$854 billion (of which US$175 billion flowed out of southern Africa), which could have satisfied the continent's external debt obligations and left a surplus of US$600

[2] http://www.tni.org/sites/www.tni.org/files/download/corporatepower-webbooklet.pdf

billion[3] to reduce poverty and stimulate economic development (define as fair and redistributive, takes into ecological limits and improves the well-being of people NOT just based on GDP growth). The bulk of these illicit flows – an estimated 60-65 per cent of the global total - consists of paid or reduced taxes on profits that businesses, particularly MNCs, shift between tax jurisdictions in order to reduce their tax bills (to nil, in some cases).[4]

This supply-side corruption thrives in globalised financial markets and urgently needs to be addressed. The financial secrecy index (FSI) reveals that 60 financial centres are categorised as secrecy jurisdictions, which encourage and enables illicit financial flows and tax havens. The FSI ranks the top five secrecy jurisdictions as those that have the greatest global impact; the ranking on the top is the USA (Delaware), Luxembourg, Switzerland, the Cayman Island and the City of London. [5]

Given the scale of illicit finance flows, what role will the BRICS play in transforming the global finance architecture and supporting greater global financial transparency?

The momentum is building across the globe for measures to tackle transfer mis – pricing and tax havens this issue was raised in G20 process in 2011. In addition, the Sanya Declaration of the BRICS Leaders Meeting[6] calls for the strengthening of global economic governance, and amplifying the voice of developing and emerging countries in international affairs based on universally accepted principles of international law, collective-decision making and mutual respect. In addition "*We support the [G20] in playing a bigger role in global economic governance as the premier forum of international cooperation. We expect new positive outcomes in the fields of economy, finance, trade and development from the G20 Cannes Summit in [November] 2011.*"

---

[3] Commercial tax evasion (most of which is trade mispricing practices) constituted between 60% and 65% of illicit outflows in the world as at 2008. See Baker, R. *Illicit Financial Flows from Africa*: Hidden Resources for Development (Washington DC: Global Financial Integrity, 2001), at page 1.
[4] *Ibid.*
[5] http://www.taxjusticeafrica.net/content/tax-us-if-you-canwhy-africa-should-stand-tax-justice
[6] Sanya Declaration of the BRICS Leaders Meeting, Sanya, Hainan, China, 14 April 2011

But progress has been slow and we are yet to see any strong measure on re-regulation of global financial markets.

It is important to recognize that in the age of neoliberal globalization, within the UN itself, a strategy began for awarding corporations an increasingly high power quota.[7] This began in 1993, with the elimination of UN bodies that represented at the time an attempt to establish social control over TNC activities.

One of the organs created by ECOSOC (UN Economic and Social Council) in Resolution 1913 in December 1974 to investigate the activities in TNC's and elaborate on their code of conduct, the Centre of Transnational Corporations was created in 1974. [8]

In 1993, the US government requested to turn the Centre of Transnational Corporations into the Transnational and International Investment within UNCTAD. Upon this decision the Commission for Transnational Corporations would become UNCTAD. Abandoning the attempts to control TNCS instead to the "contribution of transnational to growth and development".[9]

The UN in the year, 2000 established the Global Compact to incorporate "social actors" in which 44 TNCs participated, among them Nike, Shell, Rio Tinto.[10] A proposal to "end the impunity of transnational corporations" stressed, this alliance creates dangerous confusion and tension between a public international institution like the UN and the private interest of the TNCs.

---

[7] http://www.tni.org/article/united-nations-and-transnational-corporations-deadly-association

[8] Contrbutiions by Hector Moncayo, Juan Hernandez, Alejandro Teitelbaum, Sebastian Valdomir and Francesco Martone, (2013). Unpublished document, "Proposal for the Elaboration of a People's Treaty on Transnational Corporations (TNCs)"

[9] *Ibid.*

[10] http://www.tni.org/article/rio20-and-greenwashing-global-economy

On Climate change

Solutions to deal with this ecological crisis facing our planet are largely trade-led and market-driven, with technological advancements at the forefront.

When the Kyoto Protocol was introduced, carbon-trading mechanisms in essence was the beginning of those largely responsible for climate change to obviate their responsibilities.

Following COP 17, the financial resources required by developing countries to adapt to the impacts of climate change and mitigate carbon emissions towards a transition away from a fossil- based economy remains a major point of contention at the these negotiations. Regrettably the BASIC (Brazil, South Africa, Indian and China) countries made significant comprises on genuine climate finance when they agreed to Copenhagen Accord during COP 15. These comprises included a “pledge and review” system, where developed countries are committed to mobilise US$100 million by 2020 through various means, which include carbon trading (of which the real benefits to the environment are as yet unproven), private equities, and investments in cleaner development mechanisms as well as the establishment of the Global Climate Fund. A major concern related the sources of funding are that it is predominately from private sources. The implications of the Copenhagen Accord has been widely criticized as the “death of multi-lateral environment agreements”, especially the Kyoto Protocol.[11]

With BRICS varying positions in the their different sub-groups, particularly the invidious role it played during the COP 15. It remains to be seen how they regroup their positions and make up for the lost ground to strengthen the UN multi-lateral environment agreements in the build up to 2020 as well how BRICS collectively seizes the opportunity in the transition to a low carbon economy and at the same time meet the socio-economic needs of the majority of poor and marginalized

[11] Saliem Fakier, http://sacsis.org.za/site/article/408.1
Michelle Pressend, http://sacsis.org.za/site/article/410.1

people.

2. Reform Agenda of BRICS in the international financial institutions

We see that change is expensive both in diplomatic currency as well as in financial resources and is very incremental. So while the change in the voting structure and composition of the international financial institutions is a laudable goal, there is a more immediate policy priority facing us at present. As a consequences flowing from the global financial crisis that started in the rich countries **what we see both at the ideological academic and practical level is a commitment to austerity policies**.

The neoclassical and neoliberal economics premised on cutting spending has largely undermined employment and living standards within nations.

This is mostly the case, even in advanced countries like what is happening with Spain Greece Portugal and Italy under austerity. While the international monetary fund has made special arrangements to deal with the problem of certain countries, the overall approach is still that of austerity informed by neoclassical economics.

At another level it can be seen that poor countries particularly in Africa have received the poor man's credit card may be the “blue” or the “black” one whereas the IMF created a “platinum” card when the crisis hit the countries in Europe. So what we see is evidence of policy flexibility, a number of solutions that can be used to deal with the crisis and particularly the crisis in Africa, including allowing countries to settle their debts in their local currency.

These flexibilities both in the post-war period to do with currency imbalances between countries are included but not used, because of the commitments to austerity policies. The key problem with austerity policies is that when countries are in trouble, the IMF helps to kick them when they are down.

The most immediate priority for reform of the international financial institutions is

to remove the limitations they place on countries policy space that reduces their ability to effectively deal with unemployment. What is needed are policies that allow for employment promotion and increases in standards of living and not just increases in GDP and enclave development or growth without distribution to the lower members or vulnerable members of society.

2.1 Financial reform and BRICS Development Bank

Currency battles emerging from the BRICS and the threat to the universal reserve currency, indicates the potential of the BRICS to shift the global financial system dominated by the US dollar. At the 2012 BRICS summit the partners called for intra-BRICS trade in "non-Third currency". The Chinese Reserve Bank has also called for a new reserve currency as opposed to the dollar (or that Rinminbi be added to pot of currencies in the Special Drawing Rights). [12]

The dollar's potential displacement shows us a battle for a new world order-taking place today. With the dollar as the world's currency, the US is the only country in the world that can expand its buying power simply by printing its currency. Any other country doing so (as Zimbabwe did) in a world of global trade would simply cause rampant inflation and currency collapse. At the same time, any act of devaluing its currency immediately lowers its foreign debt (because this is also in dollars) and lowers everyone else's reserves (which are also in dollars). [13]

The BRICS Bank is another point of contention; particularly the nature and the form the Bank would take as well as finance for the Bank. BRICS should consider establishing a new development bank along the lines of the *Banco del Sur* (Bank of the South) in South America, which was established in 2009 with countries with an initial capital of 20 billion US dollars. In a clear departure from the undemocratic and paternalistic governance structure of the World Bank, no single country will own the bank, or have the sole right to make appointments. Although not fully defined,

---

[12] Leonard Gentle's Presentation, (2012). SA and BRICS: Understanding SA's ambitions in a new world order

[13] Leonard Gentle, "South Africa and BRICS: It's all about dollar" in Workers World News: Alternatives to Globalisation, Issue 75, February 2013, ILRIG

voting power will be based on financial need rather than monetary contribution or political weight. Questions remain, what will the nature of the BRICS Bank be? Will it be a clear departure from the WB and IMF?

It is better to have a weakened multi-polar world than a strong “world policeman” dominating the world militarily and in currency terms. In that sense the BRICS represents both a decline of the US and the space to do something different in the world because no new power is replacing the US as the imperial hegemon.

3. A key Issue that Differentiates of SA from BRICS

When looking at the BRICS it is clear that there is one feature and possibly there are others but this is the priority, that differentiate South Africa from the other members. All the other members of the BRIC have clear development policies that are financed through state institutions, rather than complete reliance on the commercial banking sector. This perhaps reflects on South Africa's development policy and approach but also its orientation in terms of how it sees the role of the state in the economy. **However what is clear is that the international economic order does not distribute benefit as claimed by neoclassical theory and that state intervention is required to ensure adequate distribution of benefits.**

Countries that run persistent and chronic deficits have different characteristics and policy options available to them as compared to countries that run surpluses or are in a position of holding sufficient control over the market and exercise control in a way that does not dilute policy space.

The issue of development, and by this I mean a fair and equitable distribution of benefits from economic activities as well as the important element of technological upgrading, needs to be considered especially in the dire African situation. Even with the global economic crisis the response of government’s policy tools to address the productive structure is lacking in a number of respects. Levels of industrialisation are low. Levels of productivity are low. Stimulus measures in such a context would merely inflate the demand for imports and there are limits to the amount of gold and bananas the world can consume.

In this vein it is important that South Africa has initiated the process of inviting other African countries to the BRICS Summit. The inclusive and participatory processes that are sure to follow are important in that it establishes relations between countries. These relations need to be fostered.

The African continent is particularly unique from the regions of the BRIC countries as it embraced the total neoliberal package and has followed the path for instance on economic integration of signing binding treaties and making binding declarations that are often not followed up or countries lack the capacity of financial resources for enforcement. Dot Keet in her views on alternatives regionalism, emphasized arrangements based on cooperation in a number of social sectors, coordination of developing technical systems and infrastructure and harmonization – of rules, regulations, norms and standards governing common systems and cross-border relations. [14]

With BRICS on the horizon, it is clear that there are changes in the political reality and that new relationships need to be fostered and these need not only be legal and treaty-based but can also be on a softer level so that a more pragmatic approach to cooperation can be taken between regions.

As Chris Paterson, the Conservative MP from the United Kingdom and last British governor of Hong Kong said, "one of the key things that allows Western countries to operate as they do is their club ability."

END

[14] Dot Keet, (2008). "Strengthening Regionalism" in Dilemmas of Poverty and Development: A proposed framework for the Southern African Development Community, eds Michelle Pressend and Michele Ruiters, Institute for Global Dialogue.