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Rethinking Global Governance: Cooperation in a World of Power

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Abstract

abstract

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Introduction

In today's interconnected world, the issues that challenge us extend beyond borders. Climate change, for example, impacts everyone carbon emissions from one country can lead to catastrophic consequences globally. Diseases spread without regard to national boundaries. For centuries, economic principles have emphasized that reducing trade barriers leads to greater prosperity, allowing nations to specialize and benefit from their comparative advantages. Knowledge generated in one part of the world can offer benefits to all.

However, despite the need for coordinated global governance in many areas, reality paints a different picture. The global governance framework is often undermined by the pursuit of national interests. In many cases, countries prioritize their own political agendas, and as a result, the nation-state remains the primary entity responsible for accountability. Additionally, global governance mechanisms can sometimes favor powerful countries, sidelining the pressing issues that affect the wider world. Given these challenges, it is crucial to adopt a more practical and minimalistic approach to global governance. This paper proposes a framework that embraces such an approach.

We begin by presenting guiding principles for the design of global governance, followed by a discussion on why a minimalistic conception is necessary. The remaining sections of the paper examine the application of these ideas across various domains such as intellectual property rights (IPR), trade, financial flows, monetary policy, investment agreements, and debt management. These principles will help identify areas where successful agreements are possible (green light), where caution is needed (yellow light), and where global governance may not be advisable (red light).

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Four Key Principles for Minimalist Global Governance

A minimalist global governance system should be structured around the following guiding principles:

National Sovereignty with Limits on Harmful Actions

The first principle posits that countries should generally be free to shape their domestic policies as they see fit, as long as these policies do not intentionally harm other nations. This rule holds particularly for smaller countries whose domestic policies rarely have significant global repercussions. However, nations that have a disproportionately large impact on the global economy, such as major financial or trade powers, should be held accountable for the negative consequences their actions may have on poorer or less developed countries.

The principle further restricts international governance to cases where policies deliberately harm other nations for domestic benefit. Examples of such "beggar-thy-neighbor" (BTN) policies include import tariffs or export restrictions aimed at extracting monopoly rents from other countries, currency devaluations that benefit a nation at the expense of others, or tax haven exploitation. These policies disproportionately benefit the nations enacting them while imposing losses on others.

While international governance should not seek to regulate all domestic policies that cause cross-border spillovers, it should establish mechanisms to ensure that large countries do not impose undue costs on others through their economic actions.

Recognition of National Differences

A second guiding principle is the acknowledgment that countries vary widely in their economic circumstances, histories, and national preferences. International agreements must account for these differences, particularly when it comes to regulating global public goods. For instance, financial regulations that balance innovation and stability may vary significantly between countries. Similarly, when it comes to regulating new technologies, such as innovations in data and privacy, countries may prioritize different values, such as privacy versus convenience.

For instance, a global framework for intellectual property may not be suitable for every nation. What works for a developed country that is a leader in technological innovation may not be suitable for a developing nation with fewer resources or a less advanced innovation ecosystem.

Global Fairness Beyond Efficiency

The third principle is that global agreements should aim not just for economic efficiency but also for fairness. The global commons—whether it's in health, climate change, or other areas—require investments that often fall unevenly on the shoulders of poorer nations. For example, advanced economies are the primary contributors to global emissions, so they should bear a more significant burden in combating climate change. A fair global governance structure would ensure that wealthier nations provide financial support and technology transfers to developing countries.

Similarly, large nations, especially those with a global economic influence such as the United States, should craft their policies with consideration for the negative spillover effects they may cause in other countries, particularly in the global South.

Governance Focused on the Commons

Finally, global governance should prioritize issues of shared concern—the global commons. Addressing these challenges requires a collective effort to ensure sustainability, fairness, and cooperation. Whether it is climate change, the management of global health risks, or the equitable distribution of resources, the international community must find common ground and formulate strategies that balance the needs of all nations, without undermining their sovereignty.

The Need for Caution in International Agreements

Developing countries and emerging markets must approach international agreements with caution, particularly those that offer them a small share of the benefits. This is crucial, given the unpredictable nature of the global economy. Even a modest gain in the short term can transform into a significant loss over time. A recent example of this is the tax agreement proposed by the OECD. Developing countries were offered a very small share of the benefits, while being asked to forfeit their rights to impose digital taxes and other vaguely defined "unilateral measures." Some nations signed the agreement, believing that any revenue was better than none. However, with the ongoing growth of the digital economy, the revenue they relinquished could become increasingly important. If this agreement were ever implemented, which is currently uncertain, the gains would likely benefit the advanced economies, leaving developing countries at a disadvantage.

The Broad Social and Political Consequences of Economic Agreements

It is essential to recognize that economic arrangements are not isolated from social and political impacts. Economic policies can lead to redistributive effects that influence different income groups or regions, creating unintended consequences. Moreover, the imposition of limitations on the autonomy of national policymakers can undermine political accountability, fostering discontent and potentially increasing support for extremist, populist movements. For instance, capital market liberalization—while enabling the free flow of capital across borders—has not only caused financial instability in some regions but has also contributed to political tensions by reducing the policy space available to governments.

Global economic agreements do not only affect financial and economic outcomes; they can also alter societal structures. A society with a more cooperative approach to economics may foster a culture of mutual aid, while a neoliberal model focused solely on self-interest may encourage more individualistic behaviors.

Central Tensions in Global Governance

The central issue in global governance lies in the tension between national sovereignty and the need for coordinated international action. The nation-state remains the primary entity for political accountability, even in regions like the European Union, where there has been a significant shift of policy-making power to supranational institutions. This sovereignty creates challenges for global economic cooperation, especially in tackling shared challenges such as climate change or the provision of global public goods.

At the same time, nation-states have historically played a crucial role in fostering economic development. The state has been a key institution in promoting social stability, expanding education, and advancing industrialization. Therefore, while global economic integration is valuable, the role of the nation-state should not be diminished. Rather, national governments should maintain the ability to experiment with diverse institutional arrangements that suit their unique economic, social, and political contexts.

Balancing Global Cooperation and National Interests

The design of global governance must strike a balance between promoting fairness and efficiency on a global scale while also preserving the autonomy of individual nations. On one hand, global governance can create a system that ensures fairness by providing global public goods, limiting harmful externalities, and encouraging cooperation. The aim would be to create a system of international laws that treats every country equally, protecting smaller nations from the undue influence of more powerful ones.

On the other hand, global governance can sometimes be a mechanism for the powerful to exploit weaker nations. Historically, global agreements have often benefitted advanced countries while imposing disproportionate burdens on developing nations. This imbalance is evident in cases where global rules favor powerful countries or when there is no enforcement for violations by larger economies, while smaller nations face significant consequences for non-compliance.

The Evolution of Globalization: Successes and Failures

Some countries, particularly in East Asia, have successfully leveraged globalization for their own benefit. These countries have seen rapid growth and have narrowed the income gap with developed nations. They did not necessarily adhere to the prescribed neoliberal economic policies but managed to thrive within the global system. In contrast, Africa's experience has been far less successful, particularly due to the structural adjustment programs promoted by the IMF and World Bank, which led to economic stagnation.

In the Uruguay Round of trade negotiations, for example, the outcome heavily favored the advanced economies, leaving developing countries with limited gains. The following round, aimed at addressing this imbalance, failed after 14 years of inconclusive talks.

Reassessing the Neoliberal Global Order

The current global economic architecture was largely shaped during the era of neoliberalism, which championed free markets, deregulation, and limited government intervention. However, the outcomes of this approach have been mixed, particularly for developing countries that often found themselves on the losing side of global agreements. In this context, it is critical to reconsider the design of global governance to ensure that it is fair, equitable, and considers the needs of all nations, especially those that have historically been marginalized.

Reevaluating Trade and Capital Liberalization

The once widely-accepted notions of free trade and unrestricted capital flows are increasingly being questioned. The promised benefits of these policies appear to be less substantial than previously claimed, while their costs—particularly for workers—have become more evident. Workers face issues such as lower wages, higher adjustment costs, and greater uncertainty. Similarly, liberalizing capital and financial markets has also brought more harm than good.

The Self-Interest of Nations

A viable agenda for global governance must take into account the national interests of individual countries, broadly defined, in order to ensure its long-term sustainability. However, this presents a challenge, as the concept of national self-interest is not straightforward. Often, the interests of powerful domestic groups rather than the nation as a whole shape policy. For example, while the United States may benefit from removing tariffs and reducing carbon emissions, industries like fossil fuel production may resist such measures, even though they would be in the national interest.

In international trade negotiations, it is often not the voices of ordinary citizens that are heard but those of powerful producers. After an agreement is reached, it is these interests that may determine whether it is properly enforced. However, there are instances where the broader social benefits of an agreement are so large that they outweigh the resistance of special interests. In these cases, compensation or other measures can help overcome opposition.

More frequently, however, international agreements have been used by powerful industries to serve their own interests, often in secret negotiations with minimal public input. For instance, major digital corporations have attempted to influence global agreements to restrict governments' ability to regulate digital activities such as privacy and competition.

The Challenge of Externalities

Even in areas where large externalities exist, cooperation can be difficult. Large countries often create negative externalities, and they may be unwilling to limit their actions. In principle, global cooperation could mitigate these externalities and lead to better outcomes, but it is difficult to persuade the countries responsible for the harm to voluntarily compensate those affected by their actions.

Moving Toward a Minimalist Global Architecture

A minimalist approach to global governance may be the most practical solution, as it could avoid the pitfalls of overly ambitious global reforms that often fail. This approach would emphasize targeted and achievable global cooperation in specific areas. We will now explore various global challenges where a minimalist approach could work.

Climate Change and Special Drawing Rights

Climate change is a global challenge that demands coordinated action, especially as developing countries are projected to account for most future emissions. The financial resources needed to help these countries transition to sustainable energy sources are substantial, but there is a simple way to raise funds: the issuance of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF). SDRs are essentially IMF-issued currency, which can be issued with little cost as long as there is excess capacity in the global economy.

Given the low cost and the urgency of addressing climate change, issuing SDRs should be an obvious solution. However, resistance persists, largely due to concerns that such actions could undermine the profits of financial sectors. A global agreement on climate financing through SDRs would provide significant benefits, yet resistance to this idea remains a barrier.

Pandemics and Intellectual Property Waivers

Intellectual property (IP) plays a crucial role in global governance, particularly in health crises. The TRIPS agreement, which has been in place since 1995, established strong protections for intellectual property rights, often benefiting industries such as pharmaceuticals and entertainment. However, this regime does not always align with the broader public interest.

During the COVID-19 pandemic, the urgency of developing vaccines and treatments highlighted the drawbacks of the existing IP system. Countries like South Africa and India proposed waiving intellectual property protections for COVID-19-related products, arguing that this would allow for more equitable distribution. While President Biden appeared to support the idea, powerful pharmaceutical companies, along with countries like Germany, Switzerland, and the UK, blocked the waiver. This prioritization of corporate profits over global public health underscores the flaws in the current IP framework.

A minimalist approach to global IP governance would acknowledge that each country has unique needs and circumstances. At a minimum, there should be automatic IP waivers during pandemics, as declared by the World Trade Organization (WTO), and compulsory licenses for climate-related technologies.

Taxation of Multinational Corporations

The taxation of multinational corporations (MNCs) is a complex issue that has long been a source of contention. MNCs often seek to minimize taxes by shifting profits to jurisdictions with low tax rates. The current system, based on transfer pricing, has proven ineffective in addressing these practices.

A minimalist approach to multinational taxation would focus on simplifying and streamlining the rules to ensure that MNCs pay their fair share of taxes, while also respecting the sovereignty of individual countries to set their tax policies. International tax reforms should aim to reduce loopholes and ensure that profits are taxed where they are generated, rather than where they are most easily hidden.

Sovereign Debt Negotiations and Global Power Imbalances

The minimalist framework for global governance is clearly insufficient when it comes to issues like debt negotiations. These often become a contest of power, where influential financial interests prevail, undermining the ability of less powerful nations to secure fair resolutions. A lack of effective international law often results in a "law of the jungle" scenario, where the strong dictate terms to the weak. While proposals, such as the creation of an international bankruptcy court, have been discussed since the 2008 financial crisis, these ideas have yet to come to fruition. A more realistic alternative could be a mediation system where the IMF calculates how much debt restructuring is needed for a nation's debt to be sustainable, ensuring more balanced negotiations.

Global Governance and Power Dynamics

The global institutions and agreements we have today often reflect the power imbalances between major countries and the deficiencies in democratic governance within those countries. Outcomes are usually shaped by the interests of powerful stakeholders within the largest economies. While democracies have systems in place—such as checks and balances—to limit the excesses of power, no such mechanisms exist on the global stage. Although global civil society occasionally makes its voice heard, such instances are rare. The failure to address issues like "vaccine apartheid" highlights the limitations of current governance structures.

For the time being, an effective global governance system must acknowledge these realities. While normative discussions about justice and fairness are valuable for defining aspirations, the practical considerations of realpolitik must guide the creation of a global framework. This framework must balance the provision of global public goods and the regulation of externalities with the potential for power abuses by entrenched interests. Moreover, the wealthy and powerful players in the global system have become adept at masking their self-interests behind the language of virtue. In many cases, efforts to create a fair global system have backfired, resulting in negative consequences like premature deindustrialization, deregulated financial markets, and deepening economic crises, which have worsened inequalities both within and between nations.

The Case for Minimalist Global Architecture

The minimalist approach to global governance is based on the recognition that the powerful cannot be easily restrained. Therefore, developing countries and emerging markets must consider what kinds of agreements and institutions would best serve their interests, understanding that when it is convenient for the wealthy and influential nations to break rules or manipulate systems for their own gain, they will do so. This pragmatic approach acknowledges the realities of global power dynamics and aims to work within them to achieve better outcomes for weaker nations.

A Moment of Potential Change?

It is possible that we are at a crossroads where greater action could be taken. The growing rivalry between geopolitical blocs—such as the U.S. and its allies versus China and its partners—could create competition for influence in the developing world. This competition might help curb the worst forms of special-interest-driven behavior that currently dominate international policy. Additionally, within democratic countries, there are strong social movements advocating for social and economic justice, both within national borders and globally. The more these movements gain momentum, the greater the potential for moving beyond the minimalist governance model described here.

In conclusion, while the current global governance system often reflects the interests of the powerful, there are opportunities for reform and change. A minimalist approach may be the most realistic path forward for now, but shifts in global power dynamics and the growing demand for social justice could open doors to a more just and effective global system in the future.

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