United Nations
CDP
Committee for
Development Policy

Global governance and global rules for development in the post-2015 era*

Global cooperation, as exercised through its various institutions, arrangements and rules, needs to be reformed and strengthened to better manage the increasing interdependence among countries, reduce large inequalities that exist within and among countries and achieve sustainable development. Global rules have to provide sufficient policy space for national Governments to promote the development of societies and the reduction of inequalities. In this regard, the Committee for Development Policy calls on the Economic and Social Council to take a leadership role in reforming global governance and global rules, thereby making the Council's recent reform truly effective. It further recommends that the Council establish a strong monitoring and accountability mechanism that covers all development partners, including developed and developing countries, the private sector, non-governmental organizations and multilateral organizations. These reforms of global governance and rules should be at the centre of the global partnership for development.

The increasing mobility of capital, pervasive regulatory loopholes in tax systems and the proliferation of tax havens are major drivers of global tax avoidance and evasion. This results in substantial losses in government revenue in developed and developing countries, which continue to face deepening financing gaps. They undermine the capacity of national Governments to face global challenges and supply their populations with vital public goods and services. By shifting the tax burden to labour income and consumption, tax avoidance and evasion have important implications for equity and fairness. Existing international cooperation has produced limited results and needs urgently to be strengthened for the mobilization of domestic resources for development worldwide. In this regard, the Committee recommends that the Council: (a) continue to urge Member States to accelerate and broaden the dialogue on issues related to international cooperation in tax matters; (b) call for the establishment of implementation and monitoring mechanisms, including clear and measurable goals and targets, to track progress in the area of international cooperation in taxation; (c) strengthen the role and operational capacity of the Committee of Experts on International Cooperation in Tax Matters and consider converting that committee into an intergovernmental subsidiary body of the Council; and (d) promote an international convention against tax avoidance and evasion.

The United Nations has provided important intellectual leadership in addressing development challenges over the years. The Council, as a principal body for the follow-up on the implementation of the United Nations development agenda, can take on a greater role in promoting a dialogue on and providing guidance for the advancement of the reform agenda recommended in the present report, particularly in those priority areas such as the environment, international tax cooperation, technology transfer and diffusion, migration, regulation of cross-border capital flows, international monetary and trading regimes, and inequality. The Committee recommends that these issues be included in the annual programme of work of the Council under the overarching theme of promoting the balanced integration of the economic, social and environmental dimensions of sustainable development, including through its new integration segment.

A major weakness in the response to the 2008 financial crisis has been the absence of steps to create a regular institutional debt workout mechanism for sovereign debts similar to those that help manage bankruptcies in national economies. Voluntary debt renegotiations pose serious problems in terms of aggregation of credit contracts and court demands by non-participants ("holdouts"). External debt relief has a role in freeing resources for sustainable development. As recognized in the Monterrey Consensus of the International Conference on Financing for Development, there is need for an international debt workout mechanism to restructure unsustainable debts in a timely and efficient manner, to minimize moral hazard and to promote fair burden-sharing. In this regard, the Committee recommends that the Council bring this issue to the centre of its annual dialogue with the international financial institutions.

* Excerpt from Committee for Development Policy, Report on the eighteenth session, See Official Records of the Economic and Social Council, 2014, Supplement No. 13 (E/2014/33)

The CDP is a subsidiary advisory body of the United Nations Economic and Social Council (ECOSOC), providing independent advice on emerging issues that are critical for the implementation of the United Nations development agenda. The CDP is also responsible for recommending which countries should be placed on the United Nations list of least developed countries (LDCs).

1. Introduction

Intergovernmental cooperation is at the centre of the global partnership for development and has a vital role to play in the achievement of global development goals, not only in terms of the resources and technical assistance it can provide, but also in policy decision-making and norm-setting. Existing proposals to strengthen global governance and global rules to support development do not seem to be comprehensive enough and have not received sufficient attention by the international community as it discusses the development agenda for the post-2015 era.

The "institutional view", as embodied in various reports of the United Nations System Task Team on the Post-2015 United Nations Development Agenda and of the Secretary-General, seems to reduce the tasks of the global partnership for development to goal-setting, monitoring and the provision of means of implementation (with participation from several actors besides Governments) without, however, considering how adequate are the rules and institutions that shape the environment where economies operate.

Deliberations at the Open Working Group of the General Assembly on Sustainable Development Goals include consideration of the issue of governance, but its discussions have become subsumed under "rule of law", largely applicable to national contexts, particularly "failed" States and post-conflict situations. When transposed to the global level, the concept seems to apply to means of implementation, accountability and monitoring with few isolated suggestions in the areas of technology transfer, trade and official development assistance (ODA).

Lastly, the High-level Panel of Eminent Persons on the Post-2015 Development Agenda seems to reduce the global partnership to a collection of multi-stakeholder partnerships contributing to the implementation of each specific goal rather than a systemic view of rules that govern international economic relations.

The present report aims to provide a contribution to fill this gap. It will look more specifically at how international cooperation through its various institutions, arrangements and rules could be reformed and strengthened to achieve and sustain development gains in the post-2015 era.

2. Global governance and global rules: why reforms?

The term "governance" denotes the regulation of interdependent relations in the absence of overarching political authority, such as in the international system. It encompasses the totality of institutions, policies, norms, procedures and initiatives by which States and their citizens try to bring more predictability, stability and order to their responses to transnational challenges. Effective global governance cannot be achieved without effective international cooperation. Global governance reflects actions and decisions taken by the various agents participating in the international cooperation framework, in which Governments have a central role. Besides being a manifestation of international solidarity, international cooperation is a means to promote common interests and shared values and to manage increased interdependence.

International cooperation for development is an obligation of States. In 1945, States Members of the United Nations already recognized the centrality of "international co-operation in solving international problems of an economic, social, cultural, or humanitarian character, and in promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language, or religion", as stated in Article 1 of the Charter of the United Nations.

International cooperation and the resulting governance mechanisms are not working well. First, the current global governance system is not properly equipped to manage the growing integration and interdependence across countries. Globalization tends to accentuate interdependencies among countries, widening the scope of global public goods and other goods with strong spillover effects. Market mechanisms are not capable of providing global public goods. Collective action is therefore necessary. There is currently an insufficient supply of global public goods, with negative consequences for all. The lack of adequate financial regulation and the resulting volatility in capital markets, with its adverse impacts on output, income and employment, is a case in point. Other examples include an incomplete international tax cooperation system, lack of technologies and innovations to address the needs of the poor, absence of an international debt workout mechanism. Meanwhile, global public "bads" are not sufficiently constrained or properly regulated, including emission of greenhouse gases, tax havens, biodiversity losses and human trafficking.

Second, global governance structures and rules are characterized by severe asymmetries. There are marked asymmetries of access to the various decision-making processes, with developing countries having limited influence in shaping the rules and regulations they must abide by and/or shoulder the effects of. For instance, representation of developing countries' shares in International Monetary Fund (IMF) quotas and World Bank capital does not reflect their shares in the world economy today. Even the moderately ambitious reform approved by the IMF Board in 2010 has not yet been implemented. In any case, decisions on global monetary cooperation seem to have bypassed IMF and taken place in the "Group" sphere (G-5, G-7, etc.). The G-20 includes some major developing countries, but the vast majority of developing countries are still excluded. This represents the continuation of a pattern that could be called "elite multilateralism", which raises serious concerns about representativeness, inclusiveness and accountability.

The current global governance structure also reflects the asymmetries generated by the unbalanced nature of globalization. There are areas of common interest that are not covered, or are sparsely covered, by global governance mechanisms, while other areas are "over-determined or over regulated" by a myriad of arrangements with different rules and provisions; the latter contribute to fragmentation, increased costs and reduced efficiency. International trade is a case in point, with the mushrooming of bilateral and regional free trade agreements with different rules of origin and standards requirements. While there have been increased mobility of capital and of goods and services, there are restrictions on the movement of labour, and access to knowledge and innovation is subject to the costs associated with intellectual property rights. In turn, capital mobility has been associated with declining taxation on capital, both in developed and emerging countries, while labour, the less mobile factor of production, and consumers shoulder an increasing share of the tax burden.

Asymmetries in decision-making and in process coverage have important implications for asymmetries of outcomes. There is an international dimension to domestic or national inequalities. While inequalities within countries are mainly the domain of national Governments, there are several instances where global rules, or the lack thereof, may enhance those inequalities or constrain government action at the national level to reduce them. For instance, initiatives to promote internationally agreed minimum social standards in developing countries are supported by financial and technical resources provided by international cooperation. The development of vaccines and improved medical treatments for tropical diseases as well as for global pandemics such as HIV/AIDS has greatly assisted countries in improving the welfare of their populations. Meanwhile, stringent patent protection increases the cost of essential medicines in developing countries, making it more difficult for them to improve the health outcomes of their populations, particularly the low-income and poor segments. Lack of international fiscal cooperation facilitates tax avoidance by transnational corporations and wealthy individuals and reduces the pool of resources available for Governments to implement poverty reduction and distributive policies. Unregulated capital flows contribute to increased employment and output volatility in developing countries, usually affecting the most disadvantaged sectors of society.

Inequalities are not self-correcting. Instead, they perpetuate and reproduce inter-generational inequalities and cumulate and combine to recreate systematic disadvantages for certain groups and individuals. As interdependence increased, countries and people were left behind, participating at best at the margin of the global economy and/or unable to realize its potential benefits. At the global level, the income gap between the developed and the developing countries remains considerable, and has even deteriorated over the past quarter century in the cases of sub-Saharan Africa, Latin America and the least developed countries. Those countries that succeeded in narrowing the gap have opted for a strategic participation in international trade and tactical association with foreign investors with a view to promoting domestic backward and forward production linkages and the accompanying structural transformation of the economy by shifting from low to higher productivity sectors. These experiences often rested on the adoption of a wide range of policy instruments and innovative institutional arrangements.

Finally, and directly related to the above, global rules have led to a shrinking of the policy space of national Governments, particularly of the developing countries, in ways that impede the reduction of inequalities within countries and are beyond what is necessary for the efficient management of interdependence. Overall, there is a marked trend towards the standardization of rules and disciplines, usually those prevailing in developed countries. Standardization pressures have paralleled the fragmentation of production and distribution worldwide and the emergence of the global value chains as a main business model. Global value chains have also led to an explosion of regional and bilateral preferential trade agreements that often go beyond what has been agreed at the multilateral level, further constraining policy space and rules over areas well beyond trade flows. Further policy constraints originate in bilateral investment treaties, which go well beyond the obligation of providing prompt, effective and adequate compensation in case of expropriation, and effectively limit the capacity of countries to raise environmental standards and regulate volatile capital flows.

3. Principles for reform and selected examples of their application

A few critical principles are recommended to guide the reforms of global governance and global rules, and selected examples of their application to the reform process are highlighted below.

Common but differentiated responsibilities and respective capacities. This principle recognizes differences in the contribution to and historical responsibilities in the generation of common problems as well as the divergences in financial and technical capacity across countries to address shared challenges. It acknowledges the diversity of national circumstances and of policy approaches that should be embedded in the architecture as an intrinsic feature of the global community, not as exceptions to general rules. Some critical areas are the following:

– In reaching a new international consensus on the United Nations Framework Convention on Climate Change, it is necessary to recognize the variety of development trajectories across countries and responsibility based on historic emissions, current and projected total and per capita emissions.

– Differential treatment in the World Trade Organization (WTO) has been recognized, but significantly weakened. In the current context it means little more than longer implementation periods and non-binding provisions for technical assistance. Developing countries might be better off negotiating rules that are suitable to their development trajectory, and not exceptions to the rules. To guarantee this, the negotiating capacity of developing countries, particularly of the least developed countries, needs to be scaled up.

Subsidiarity. This implies that issues ought to be addressed at the lowest level capable of addressing them. The subsidiarity principle implies that some problems can be handled well and efficiently at the national and local levels, reducing the number of issues that need to be tackled at the international and supranational levels. Subsidiarity implies an important role for regional cooperation to address issues of mutual concern. Some critical areas are:

– A multilayered architecture for international monetary cooperation should be considered, with the active participation of regional and subregional institutions, reproducing, in the case of the international monetary system, the "denser" architecture that characterizes the system of multilateral development banks. The essential advantage of the denser architecture is that it provides both more voice and alternative financing opportunities for emerging and developing countries.

– Regional agreements on migration should be encouraged, in some cases taking advantage of the existing regional integration mechanisms. The fact that there is a greater similarity between economies in regional frameworks means that deals on migration would be more feasible. That could facilitate the path to incorporating the issue in global governance, even if this happens through more diffuse structures and with a set of agreements that would not necessarily be uniform.

– A feasible avenue to enhancing tax cooperation is to work with existing institutions and capitalize on experiences in policy coordination at the regional level. The European Union can offer some lessons that could be emulated in other regions and eventually scaled up at the global level.

Inclusiveness, transparency, accountability. To have universal legitimacy and effectiveness, global governance institutions need to be representative of, and accountable to, the entire global community while decision-making procedures need to be democratic, inclusive and transparent. As stated in the Monterrey Consensus, developing countries need to have a greater voice in relevant decision-making processes as well as in the formulation of global standards, codes and rules. Robust governance implies mutual accountability, verified by transparent and credible mechanisms and processes to ensure that agreed commitments and duties are being fulfilled. In this regard:

– There is need to design a more representative apex organization than the G-20, possibly by transforming it into a global economic coordination council, as proposed by the Commission of Experts of the President of the General Assembly on Reforms of the International Monetary and Financial System, and by advancing further in the reform of "voice and participation" of developing countries in the Bretton Woods institutions and the Financial Stability Board.

– Trade rules should not perpetuate or intensify current asymmetries. The overall transparency and fairness of the WTO dispute settlement mechanism could be further improved if the trade policy reviews, which provide an assessment of the state of trade policies of member countries with the largest shares of world trade, were geared towards the identification of practices incompatible with WTO and that are harmful to the export interests of developing countries, in particular of the smaller countries and/or of those countries without established WTO legal competence.

Coherence. The definitions of global rules and processes need to rest on comprehensive approaches, including the assessment of possible trade-offs, so that actions in one area will not undermine or disrupt progress in other areas but rather reinforce one another. Enhanced coherence is also needed between the international and national spheres of policymaking. This also requires improved coordination among various stakeholders and enhanced information sharing. In this regard:

– Environmental problems do not have frontiers. Yet, some countries compete for FDI by lowering environmental standards while transnational corporations favour countries with lax or "business-friendly" environmental regulations.

– There is need of a system, recognized by WTO and incorporated in bilateral investment agreements and free trade agreements, that promotes and enforces internationally agreed standards, regulations and codes of conduct on FDI, including the capacity of countries to protect the environment and regulate financial flows.

– Assistance to developing countries needs to move beyond increasing budgetary allocations to foreign aid, and consider ways to help developing countries mobilize domestic resources. Improved international tax cooperation can help developing countries increase their tax revenue by curbing tax evasion by multinational corporations, negotiating a fairer share in natural resource rents, stemming illicit financial flows and collecting tax on private assets held abroad by their residents.

4. Global governance for development: the role of the United Nations

In the increasingly complex system of global governance, questions arise on how effective institutions have been in identifying and handling global issues, especially from a development perspective, and how these institutions fulfil desirable criteria such as effectiveness, representativeness, participation, transparency and coherence. This is of particular importance for addressing ongoing and emerging challenges to meeting the Millennium Development Goals by 2015, for securing the reforms for global governance identified above, and for sustainable development in the post-2015 era according to the principles presented in section C above. Currently, the system of global governance does not meet these desirable criteria. The General Assembly, with its universal membership and democratic decision-making process, should function as the main political forum for managing global challenges, in close interaction with the Economic and Social Council and its subsidiary bodies on economic, social and environmental issues. But for the United Nations to utilize its distinct advantages, it would be important to strengthen its position in global governance.

There have been several proposals on how to enhance the central role of the United Nations in global governance as an essential element in achieving a broad development agenda, including all dimensions of sustainable development. The key issue here is finding the right balance between representativeness and participation, on the one hand, and effectiveness on the other.

The Charter gives the Economic and Social Council the role of coordinating the United Nations system. The Council should therefore play an essential role in global economic and social policymaking, and should be the principal body for the follow-up on the implementation of the United Nations development agenda. In this regard, the Council should take on greater responsibility for advancing the global governance reform agenda. It should provide guidance to the work of the entire United Nations system in addressing deficiencies in current governance in areas requiring improved international cooperation, such as the environment, international monetary and financial architecture, capital and labour flows, trade rules and inequality.

The Council's ability to coordinate and guide should be strengthened by appropriate follow-up and monitoring mechanisms for bridging the gap between agreements on commitments and the implementation of commitments. Such an accountability mechanism would focus on the three dimensions of sustainable development (economic, social and environmental), while taking into account the principles presented here. It would also provide an important basis for discussions in the high-level political forum on sustainable development, created in 2013, on how to further improve the outcome of the post-2015 development agenda, both in countries as well as within the United Nations system. The layout of such a system will require special attention in relation to the quantification of targets, data collection, and definitions and indicators measuring representativeness, inclusiveness, transparency and coherence of global governance.

The implementation of the post-2015 development agenda ultimately depends on the political will of Member States. Success will depend on whether all countries contribute to the reform of global governance and use their policy space to implement policies for achieving common goals. The probability of failing will remain high while global challenges are approached from the narrow national perspective. Responsible sovereignty — Governments taking steps beyond narrowly defined national interests — is urgently needed for States to cooperate in creating the conditions for the realization of internationally recognized rights and freedoms and to act according to the key principles put forward in this report.