Part I

The Global Governance Complex

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Global Governance and the Role of Institutions

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Introduction

Globalization poses exciting new opportunities and deep new risks for policy-makers. As trillions of dollars worth of investments, capital flows, goods and services make their way around the world economy, so too at almost equal speed, people, ideas, consumer fashions, and rebellion against globalization move across borders. There are powerful reasons for policy-makers to worry about how they might manage globalization and its impact.

What is globalization? It is a combination of internationalization, political and economic liberalization, and a technological revolution. Internationalization has been occurring over a long period of time as states forge more links with one another, as well as with more international institutions, to pursue mutual goals. Economic liberalization has accelerated since the 1980s as more governments adopt policies which integrate their economies more closely into the world economy, often under intense pressure from bilateral donors and international institutions. Hot on the heels of economic liberalization since the end of the Cold War, political liberalization and democratization have also spread, along with a new international attention to human rights and the prosecution of humanitarian intervention.

The ever closer linking of economies and political and social communities has been fuelled by a revolution in technology and communications. This makes it easier for market actors, companies, refugees, religious groups, non-governmental organizations and the like – not to mention criminal gangs – to operate transnationally. The product is an international system in which policy-makers and their constituencies are less sure of what can be managed and how.

Policy-makers worry that they are losing yet more of their control over their own economies, and policy choices as key policy instruments seem to dangle just out of reach. They are turning increasingly to regional or international institutions in the hope that coordinated solutions will provide some respite. On the streets, however, demonstrators argue that governments should not turn to international organizations. In so doing they remove key decisions from the people and make them in a secretive and undemocratic way.

Critics accuse international organizations like the WTO, the IMF and the World Bank of accelerating globalization primarily (if not purely) in the interests of big business. And this is but one part of the highly contested terrain of global governance. Many developing countries are increasingly concerned that growing intervention in the realms of politics, human rights and security is a strictly one-way affair which carries overtones of a new imperialism. The contemporary debates underline profound disagreements on two core issues: (1) who should govern at the international level and how; and (2) what they should govern.

The emerging pattern of global governance comprises a rich mixture of actors and processes. Vying for influence and control are powerful and less powerful states, experts, transnational corporations, non-governmental organizations, international institutions, and other actors. Each has a view of what should (or should not) be subject to international regulation, discussion or engagement.

This chapter will begin by analysing the actors and challenges in a globalizing world which new forms of 'global governance' are attempting to address. The second section will examine the present state of multilateralism and the limits of traditional intergovernmental governance. The third section will discuss the rise of private and public–private networks and their increasing contribution to global governance. The fourth section will probe the benefits and problems posed by the trend towards network governance. The fifth section will address the role of the US and the implications of its unilateral or bilateral as opposed to multilateral strategies for global governance. The conclusion will offer a comment on the prospects for democratizing global governance.

New Actors and Challenges in a Globalizing World

The new challenges created by globalization are compellingly illustrated by the international financial system. Liberalization and integration into global capital markets has dramatically increased the vulnerability of countries to volatile movements of capital across borders. This was highlighted in 1997 when a financial crisis in Thailand sparked what the IMF called a 'currency meltdown' across East Asia, catalysing a collapse of the rouble in Russia in 1998. Russia's crisis in turn brought down a US hedge fund called Long Term Capital Management, the collapse of which would have put at risk the largest banks in the USA. Economic policy-makers call the phenomenon 'contagion'. It has its parallels in other areas. The spread of HIV/AIDS in the 1980s and antibiotic-resistant tuberculosis in the 1990s, the cross-border passage of weapons and dangerous biochemicals, not to mention the uptake of anti-Western ideologies and the fate of scores of innocent refugees in the 1990s, have all underlined the new challenges of a 'shrinking world'.

Globalization has also affected domestic politics and thereby the capacity of governments to manage these new forces. Economic liberalization and integration has led to greater income inequality within countries without strong welfare states as the incomes of increasingly demanded skilled workers rise while those of unskilled labour drop (Berry and Stewart, 1999; A. Wood, 1994; Berger and Dore, 1996; Keohane and Milner, 1996). Even within wealthy states with good infrastructure, as recently summed up by a US Commission on National Security, the future holds out 'serious and unexpected downturns, major disparities of wealth, volatile capital flows, increasing vulnerabilities in global electronic infrastructures, labor and social disruptions . . .' (USCNS, 1999, p. 4). In many developing countries the prospects are yet grimmer. Having integrated into the world economy, many have found that they are now yet more vulnerable to the caprices of trade policies in industrialized countries, volatile capital markets, and an unstable international financial system (Rodrik, 1997; Fitzgerald, 2000).

The twenty-first century began with a wide set of reflections on the need for more effective international cooperation and coordination. Policy-makers the world over have begun to ask what kinds of institutions are needed to manage the challenges associated with globalization. A host of answers have been provided by a new industry of expert, high-level groups. To give just three examples, the ‘Zedillo Panel’ reported to the Secretary-General of the United Nations in June 2001 (UN, 2001), the ‘Meltzer Commission’ reported to the US Congress in 2000 (IFIAC, 2000), an Emerging Markets Eminent Persons Group completed a study for the Ford Foundation in 2001 (Ford Foundation, 2001). Each has propounded new institutions, reforms to existing institutions, and a continuing attention and evolution of global governance. This process is not one in which only policy-makers and academic experts are participating.

The financial crises of the 1990s demonstrated the capacity of private sector actors such as banks, investment houses, security brokerages, hedge funds and asset managers to create turmoil. As these actors create profit centres out of currency derivatives, and emerging market security trading departments, and take large positions in leveraged instruments on proprietary accounts, their frenetic trading activities create what one analyst has described as a ‘global whirlpool’ (Mistry, 1998). Crucially, these actors are also powerful political lobbyists and participants in the debate about how to govern (or leave to the markets) the global financial system. Similarly, large energy corporations are powerful lobbyists in global environmental negotiations, and pharmaceutical companies in the global HIV/AIDS strategy. Global governance creates an international arena for lobbying and the representation of vested interests. The risk is that powerful private interests begin to gain a ‘double’ voice whereby their interests are represented by their own governments with whom they lobby very effectively, and also directly in international negotiations by their own private representatives.

A further set of actors which have become particularly prominent in the new arena of global governance are non-governmental organizations, often referred to as ‘global civil society’. At least two kinds of groups might be included under this title. The most visible and vocal are large transnational non-governmental organizations based in industrialized countries, lobbying for particular principles or issues such as debt relief, environmental protection and human rights, such as Amnesty International, Worldwide Fund for Nature and Oxfam. These groups do not claim to represent countries or geographical groups, nor do they represent particular commercial interests (although they are accountable to their donors and members, and many are also in the business of delivering aid or similar goods). Their stake in the arena of global governance is more of a deliberative one. They bring principles and values to the attention of policy-makers and firms. They also play a role in monitoring global governance, analysing and reporting on issues as diverse as the Chemical Weapons Treaty, negotiations on global climate change, world trade, and the actions of the IMF and World Bank. In so doing, these transnational NGOs open up information, debate and criticism which can play an important role in holding both private and governmental sectors to account: although critics would ask ‘accountable to whom’, emphasizing that these NGOs are formally accountable at most to their fee-paying members.

A rather different community of NGOs is now also becoming increasingly involved in the debate and implementation of global governance. More 'locally based' NGOs, predominantly in developing countries, are being drawn into the fray. These groups claim to represent local constituencies. Many operate to plug gaps in their own country's government. Some try to make up for the fact that their government fails to represent a certain section of the population. Others attempt to make up for a government's lack of capacity to deliver assistance or services. Some are opposed and repressed by their government. Others work closely with their government.

Increasingly these groups are being included in discussions with international aid donors, international organizations and in other arenas of global governance. Their entry has been catalysed by a number of shifts in thinking about both aid and governance. Already in the 1980s non-governmental organizations, private charities and voluntary services were applauded by new conservatives, especially in the Thatcher and Reagan governments in the UK and USA, as alternatives to government involvement in welfare, aid and social policy. This thinking spilled over into aid policies which sought to channel aid through non-governmental groups in both the industrialized and developing countries. That trend changed in the 1990s with the rise of international support for democratization and a wave of development thinking focused on strengthening and modernizing the state. It is now recognized that good policies and outcomes require good politics. That means effective government, not effective NGOs competing with a weak government.

Another logic now drives the inclusion of locally based NGOs in international forums. Aid institutions and donor governments have recognized that wider participation and 'ownership' on the ground is necessary for development policies to be successfully implemented. This has been reiterated in numerous World Bank and IMF publications (World Bank, 1989, 1992, 1994, 1996, 1999; IMF, 1997, 2000). Getting wider ownership and participation is difficult, especially in countries where governments have few networks for consultation or representation and where wide gaps exist in who they represent and how. For these reasons, agencies such as the UN, the IMF, the World Bank and the United Nations Development Programme (UNDP) are encouraging both their own local representatives and government officials to develop consultative links and closer relations with local NGOs. This brings new tensions and problems to both local and international politics.

A key issue raised by the emergence of NGOs in global governance is who chooses which NGOs to include or consult in national or international negotiations. At the national level, if the government plays a key role, critics allege that genuine consultation is not taking place. Where outsiders play a role, governments argue that their sovereignty and their own processes of democracy are being subverted. Where the local representatives of international organizations are involved, they risk becoming powerful gate-keepers who use their power to favour some groups over others to cement and further their own position. At the international level all these problems are replicated. For these reasons, the new involvement of NGOs poses important new challenges to the legitimacy and accountability of international institutions.

Global governance is a contested terrain at best. Some would say that the very term obscures more than it describes, proposing or assuming a 'global community' which does not really exist and a form of management or government that is not really about governing (Streeten, 2001). What is clear is that globalization creates problems which require some degree of coordination, cooperation or regulation beyond the nation-state. Furthermore, a range of actors are demanding to be included in that process, with varying degrees of success. It is worth now turning to examine the various modes of governance that have emerged and to which actors they give most voice and on what grounds.

Multilateralism and its Limits

One way in which governments have responded to globalization has been through intergovernmental cooperation. States have sought to strengthen and institutionalize cooperation among governments at the international level. We see this in the new emphasis being put on institutions such as the United Nations, NATO, the IMF, the Bank for International Settlements (BIS), the World Bank and the WTO. The hope is that multilateral negotiations and a sharing of technical expertise will provide solutions to the new vulnerabilities created by globalization, and that international agencies will then be able to implement these solutions. Many new international institutions have recently been proposed, such as a Global Environment Organization (UN, 2001), a global bankruptcy mechanism (Ford Foundation, 2000; Raffer, 1993), a global financial regulator (Eatwell, 2000), an International Tax Organization (UN, 2001), an Economic and Social Security Council (Daws and Stewart, 2000) or Economic Security Council (UN, 2001), to deal with the new challenges of globalization.

One strand of belief in multilateralism proceeds from a rational-functional or 'institutionalist' approach to international relations and institutions. This theory assumes that cooperation among states permits governments to achieve goals which reflect everyone's interests. Multilateralism emerges because governments see it as a way to share and pool resources, reducing transactions costs and enabling a concentration of the expertise and capacity necessary to achieve particular kinds of international policy. In other words, governments create international institutions to promulgate their national interests in a cooperative way. They do this by delegating some power to international agencies of their own making (Keohane, 1984; Krasner, 1983). The result is multilateral agencies which ensure mutual benefits are gained from globalization and that losses are compensated. Agencies such as the IMF, the World Bank and the WTO smooth over the gaps and failures in the operation of markets, ensuring a more robust and stable global economy for all.

To some extent, multilateralism is a form of global governance which is both representative and accountable. Interstate institutions are representative because their governing bodies represent (even if not equally) all member governments. They are accountable because these same bodies enable governments to control budgets, mandates and operations.

Multilateralism, however, faces two problems in the contemporary world. In the first place, not all governments accept that their interests are best pursued through interstate agencies such as the IMF, the World Bank or the UN Security Council. The most powerful states in the world enjoy the luxury of being able to 'shop around' for the arena in which they can best achieve their ends. Sometimes this means turning their back on multilateralism and pursuing their goals through private–public alliances, regional, unilateral or minilateral means (see further discussion on this below). So too, developing and emerging countries argue that they are underrepresented and often ill-served by these organizations, which too often act like ‘rich men’s clubs’ (Woods, 1999).

Equally importantly, large sections of the public do not buy the idea that they are represented in institutions such as the IMF, the World Bank, the UN Security Council, or the WTO. They are not altogether wrong. In reality, representation and accountability have always been weak in these multilateral institutions. Now, however, the weaknesses are glaring because the institutions are being called on by their powerful members to intrude much more deeply into areas which were previously the preserve of national governments.

The new intrusiveness of international institutions is evident in the work of the IMF and the World Bank, now seeking to ensure ‘forceful, far-reaching structural reforms’ in the economies of their members (IMF, 1998). Likewise, in trade, the WTO works on many issue-related domestic policy matters, and it is now considering involvement in competition policy, government procurement and the environment. In the security realm, the UN Security Council has become involved in mandating or undertaking interventions within the borders of sovereign states as in Somalia, Kosovo and Bosnia-Herzogovina aimed *inter alia* at protecting the rights or lives of sections of the population – although this new interventionism is neither universal nor uniform (Chesterman, 2001).

In both G7 and developing countries, people are beginning to ask: by what right are these international institutions stepping into domestic policy? And when they do so, to whom are they accountable? The UN Security Council was structured by the victors of the Second World War to reflect the balance of power at that time. Five of the fifteen seats on the Council are held by what were then the Great Powers (USA, UK, France, People’s Republic of China and Russia) and each has the power to veto an action or resolution undertaken by the Council. All other states are represented in constituency groups and only modest steps have been taken to improve the transparency and accountability of the Council to all of its members (Wood, 1996).

The structures of the IMF and World Bank reflect their origins as essentially technical agencies dealing with issues of international coordination. The institutions are supposedly accountable to their member governments through representatives on the executive boards. Yet there are deep flaws in this structure. Only eight countries are directly represented (the US, UK, Germany, France, Japan, China, Russia and Saudi Arabia). As argued elsewhere (Woods, 2001), if their accountability is to come closer to matching their functions, the institutions need at least to have properly representative executive boards which actively control and monitor and are accountable for the work of the institutions, as well as open and legitimate processes for the appointment of the heads and staffs of the institutions. The new ‘opening up’ of the institutions to the public by publishing their work and consulting more with non-governmental organizations and ‘civil society’ is a recognition that the old-style multilateralism has to find new ways to legitimate itself.

The World Trade Organization is ostensibly the most equal of the agencies discussed so far. All member states enjoy an equal vote in the organization. Furthermore, unlike the more technical economic agencies, decision-making at all levels is member-driven rather than undertaken by expert staff. Voting power, however, means much less than it seems in the WTO for decisions are adopted by consensus and that consensus tends to be thrashed out in informal negotiations meetings (often called the 'Green Room' process) which are dominated by the United States, the European Union, Japan and Canada ('the Quad'). The bottom line in these negotiations on trade is that states with large market shares enjoy significant input and influence over decisions, indeed one might describe them as decision-makers, while states with smaller market shares are effectively decision-takers (Woods and Narlikar, 2001). Furthermore, private sector actors play a vital behind-the-scenes role in the delegations from the Quad countries (Dobson and Jacquet, 1999). NGOs enjoy a much lesser role (WTO, 1996), but are now accredited for ministerial conferences and can present amicus briefs in the dispute settlement processes (Robertson, 2000).

Multilateral institutions ideally provide opportunities for genuinely international debate and cooperation. In this they are a vital aspect of governance in the world economy. However, increasingly they are being accused of being insufficiently democratic, insufficiently expert, and/or insufficiently effective. For these reasons we see all actors involved in global governance turning to other forums.

The Rise of Private and Public–Private Networks

A tier of global governance increasing in size occurs in parallel to states and their multilateral organizations. In essence this is a form of private-sector or mixed public and private governance. In part it reflects the needs of companies who have become more global in their operations, production networks and commodity chains (Gereffi and Korzeniewicz, 1994). Where possible, such transnational corporations avoid state or interstate regulation. Instead they create their own tier of private sector 'governance', 'standard setting', 'codes of best practice' or self-regulation. For example, from 1973 onwards the International Accounting Standards Committee (IASC) successfully edged out intergovernmental efforts to promulgate regulation and the setting of accountancy standards, taking up a central role recognized since 1998 by the G7, the IMF and the World Bank (Martinez, 2001). This kind of regime leaves major private sector actors (based in the world's largest economies) in the driving seat, yet it is not evidence of the death of the nation-state. Far from it. On the whole, private sector governance emerges where powerful states choose not to regulate, or indeed where states actively support private sector actors in generating their own regime and then cooperate closely with that regime. This is worth illustrating.

One of the longer standing private networks is the International Chamber of Commerce, which was founded in 1919 and represents private sector companies and associations from over 130 countries. The ICC has no qualms about its role in governance, describing itself as having 'unrivalled authority in making rules that govern the conduct of business across borders. Although these rules are voluntary, they are observed in countless thousands of transactions every day and have become part of the fabric of international trade' (ICC, 2001). Along with its private rule-setting function, the ICC provides the International Court of Arbitration, the world's leading arbitral institution. Like other private sector organizations, the ICC has close links to governments and multilateral organizations. Indeed, within a year of the creation of the United Nations, the ICC was granted consultative status at the highest level with the UN and its specialized agencies.

Private sector governance and standard-setting emanates almost without exception from the most powerful industrialized countries. For example, in the international chemistry industry it is the American Chemistry Council (ACC), representing all major US chemical companies, which launched a 'Responsible Care' code in 1988 in response to public concerns about the manufacture and use of chemicals. The code requires members continually to improve their health, safety and environmental performance; to listen and respond to public concerns; to assist each other to achieve optimum performance; and to report their goals and progress to the public. The code is now being adopted in some forty-six countries, representing over 85 per cent of the world's chemical production (ACC, 2001). Likewise based in the United States are the Institute for International Finance, lobbying and proposing self-regulation for financial sector actors; major private credit-rating agencies such as Moody's and Standard & Poor's; cyberspace companies crafting codes on privacy, property rights and copyright laws (Lessig, 1999); and large corporations such as Nike and Mattel who have created codes of conduct governing their subcontractors in less developed countries. In large part these governance bodies have been created to obviate the need for government or intergovernmental regulation, and in the latter case as a response to growing NGO and media pressure.

In some instances, governments have played an active role in promulgating these private sector organizations. For example, the United States government helped to create the Internet Corporation for Assigned Names and Numbers (ICANN), a non-profit corporation formed to assume responsibility for the governance of various aspects of the internet such as the internet provider address space allocation, protocol parameter assignment, domain name system management, and root server system management functions previously performed under US government contract by IANA (Internet Assigned Numbers Authority) and other entities (ICANN, 2001). In this instance, the US turned to a non-governmental form of governance because it feared that a formal intergovernmental organization would be too slow and cumbersome in dealing with rapidly developing issues (Keohane and Nye, 2000, p. 24).

In other instances, private sector actors have joined with government and non-governmental organizations in order to create a new mixed form of governance, monitoring both private-sector and official policy and actions. The World Commission on Dams which began work in 1998 is an example, comprising four commissioners from governments, four from private industry, and four from NGOs. It was set up to review the development effectiveness of large dams and to develop internationally acceptable criteria, guidelines and standards for the planning, design, appraisal, construction, operation, monitoring and decommissioning of dams (World Commission on Dams, 2000). This network highlights a growing sensitivity of private corporations and governments to criticism and monitoring by transnational NGOs, whom they are now including within networks of governance.

A yet more ambitious example of global cooperation among private companies, governments, multilateral organizations, and NGOs is the UN's recently launched Global Compact initiative. The objective of the Compact is to bring together governments, companies, workers, civil society organizations and the United Nations organization itself to advocate and promulgate nine core principles drawn from the Universal Declaration of Human Rights, the ILO's Fundamental Principles on Rights at Work and the Rio Principles on Environment and Development. In signing up to the Compact, companies are asked to commit themselves to act on these principles in their own corporate domains. Since the formal launch of the Compact on 26 July 2000, the Compact has grown to encompass several hundred participating companies, as well as international labour groups and more than a dozen international civil society organizations.

The Global Compact is clearly not a regulatory regime nor even a code of conduct. The UN describes it as 'a value-based platform designed to promote institutional learning. It utilizes the power of transparency and dialogue to identify and disseminate good practices based on universal principles' (UN Global Compact, 2001). Nevertheless, the Compact reflects the degree to which international organizations and large multinational private actors today perceive a need to respond not just to global markets but to global social and political pressures: 'as markets have gone global, so, too, must the idea of corporate citizenship and the practice of corporate social responsibility. In this new global economy, it makes good business sense for firms to internalize these principles as integral elements of corporate strategies and practices' (UN Global Compact, 2001).

Globalization has forced a new openness on multinational companies wary of the power of consumers in their largest markets to boycott or respond negatively to bad press. For example, large oil companies such as BP and Royal Dutch/Shell have been publicly accused of colluding in human rights violations in countries such as Colombia and Chad-Cameroon. Both companies have adopted human rights policies strongly endorsing the UN Universal Declaration of Human Rights. Both are also offering to work more closely and openly with NGOs (British Petroleum, 2001; Shell, 2001). On a sceptical view, these companies are simply investing more in their public relations. Nevertheless, the potential power of corporations to effect change in this area is recognized even by their critics. As Human Rights Watch notes,

> a well-implemented policy [by BP] could have far-reaching effects, since BP merged with the US oil major, Amoco, to form the third-largest oil company in the world (behind Shell and Exxon), with operations in countries with poor human rights records such as Algeria and Colombia, and operating in alliance with Statoil – which also has a human rights policy – in Angola and Azerbaijan. (Human Rights Watch, 1999)

In a similar vein, diamond companies such as De Beers have attracted bad publicity about their role in mining 'blood' and 'conflict' diamonds in countries where the industry funds and perpetuates brutal civil wars, such as Sierra Leone. In their annual report for 2000, De Beers writes of the 'threat to the entire legitimate diamond industry' posed by the 'effect of conflict diamonds on consumer confidence' (De Beers, 2000). To ward off this threat, the diamond industry has created a World Diamond Council based in New York to develop, implement and oversee a tracking system for the export and import of rough diamonds to 'prevent the exploitation of diamonds for illicit purposes such as war and inhumane acts' (World Diamond Council, 2001). As with the oil companies above, the extent to which diamond companies implement effective policies in this area will depend not on governments or intergovernmental institutions but on NGOs who monitor and publicize infractions and thereby create the link between consumers in the North and corporate operations in the South.

Private sector initiatives to improve the environment, human rights, workers' rights and such-like reflect a response to the growing capacity of consumers and shareholders to hold companies to account. They also reflect companies' fears that not only consumers but also employees (both present and future) may turn away from companies branded pariahs by transnational NGOs. Equally companies fear that governments might intervene and regulate at the behest of voters. The result is a web of private-sector generated and monitored 'standards', 'principles' and policies, sometimes in cooperation with governments or intergovernmental institutions, which form an important element of global governance. These are areas in which the world is relying on transnational NGOs as agencies of accountability without which many global corporate activities would remain almost entirely unmonitored.

A New, More Technocratic 'Network' Governance?

A new trend has recently begun to emerge in intergovernmental attempts to manage and regulate globalization. Technical issues and areas are being identified, and expert networks are being fostered as a flexible and efficient way to manage them. The approach eschews old-fashioned representative institutions in which power differences among states are obvious. To cite two prominent scholars: 'any emerging pattern of governance will have to be networked rather than hierarchical and must have minimal rather than highly ambitious objectives' (Keohane and Nye, 2000, p. 37). In other words, state-based institutions of governance which exercise authority over all other actors should be replaced by 'network minimalism' which seeks 'to preserve national democratic processes and embedded liberal compromises while allowing the benefits of economic integration' (ibid.).

We see in these arguments clear institutionalist and functionalist assumptions which focus on cooperation rather than power, and on 'getting the job done' rather than on the justice or legitimacy of the process. Networks comprise participants with special technical expertise and material stakes in an issue, such as the chemicals, accountancy and financial stability networks mentioned above. Because they are selective, these networks are cohesive, technically sophisticated and efficient. Their legitimacy in large part depends on the quality of the outcomes they produce, that is, if they do their job well or not. Results not process matter most, or to express it in the language of some political scientists, the quality of the outputs matters more than the democratic inputs.

For example the Financial Stability Forum (FSF) was convened at the behest of the G7 in April 1999, to promote international financial stability through information exchange and international cooperation in financial supervision and surveillance. The new network was self-consciously selective, bringing together experts from the most important players in the international financial system, including national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSF does not represent all countries or regions of the world. Rather its goal is to coordinate the efforts of various bodies in order to promote international financial stability, improve the functioning of markets and reduce systemic risk (FSF, 2001). The legitimacy of the FSF rests on its efficiency in achieving its stated goals. That said, however, interestingly the G7 has found it necessary to expand its membership to include representatives from Hong Kong, Singapore, Australia and the Netherlands (FSF, 2001).

The 'efficiency' or output rationale for governance seems to be exercising a growing appeal. Indeed, we find it being applied to a number of other intergovernmental bodies. Three examples come to mind: the IMF, the European Union, and the WTO. In each case arguments have been made for more independent and expert-oriented governance so as to avoid the problems, vested interests and contradictions which arise from domestically rooted intergovernmentalism. Part of the argument has been elegantly expressed by Ernst-Ulrich Petersmann in the following terms: 'governments risk to become prisoners of the sirene-like pressures of organized interest groups unless they follow the wisdom of Ulysses (when his boat approached the island of the Sirenes) and tie their hands to the mast of international guarantees' (Petersmann, 1995). Away from the hurly-burly of domestic politics, policy-makers can come to more rational and selfless conclusions, or so we are led to believe.

In respect of the IMF it has been argued that the IMF 'should be made truly independent and accountable' so as 'to permit it to focus more efficiently on surveillance and conditionality' (De Gregorio et al., 1999). Like a central bank, we are told the IMF must be permitted to work in a more technocratic, independent way with its accountability ensured through transparency and a different kind of oversight by member governments. Just as independent central banks have proved better at fighting inflation, so too, we are led to believe, an independent world authority would better protect international financial stability. Of course, there are real problems in comparing the diverse tasks taken on by the IMF to that of a central bank. More deeply, the presumption underpinning the argument is that intergovernmental organizations can improve their legitimacy by bolstering their efficiency. 'Democratizing' the organization or attempting to link it more directly to a wider range of constituencies would, by contrast, derail the institution and delegitimize it further, or so the argument suggests.

In the European Union the output-oriented rationale for governance is that: 'At the end of the day, what interests them [people living in the EU] is not *who* solves these problems, but the fact that they are being tackled' (Prodi, 1999). This output-oriented rationale has underpinned the push for European Monetary Union (EMU) in spite of popular ambivalence about it. 'Efficiency' arguments have been used to suppress concerns about democratic representation and accountability. The institution at the heart of the EMU, the European Central Bank, is an independent and relatively politically unaccountable body (compared to its counterparts in the UK and USA). Its claim to legitimacy rests on its technical and expert nature rather than its potential representativeness or democratic accountability. Such efficiency arguments are now being made for yet wider and more political initiatives such as institutional reform and enlargement. Questions of legitimacy and democracy, it has been argued by one scholar, are increasingly being left to be dealt with as issues for public relations not institutional reform (Kohler-Koch, 1999).

The World Trade Organization is a final example of an organization we are told should be more independent. In order to minimize the rent-seeking producer interests that have so much power at the national level, it has been argued that the global trading system should be ‘constitutionalized’, where a written constitution is understood as ‘a contractual means by which citizens secured their freedom through long-term basic rules of a higher legal rank’ (Petersmann, 1995). Similar arguments are made by quite a wide range of scholars pressing for the WTO to become a vehicle for enforcing core values in human rights, environmental protection and labour standards.

In constitutionalizing the WTO, it is assumed that the ‘long-term basic rules’ on the basis of which trade should proceed are uncontested or uncontestable. These higher laws or values should not be shipwrecked on the ragged shores of national politics. Yet many would argue that trade rules which encroach into issues of welfare, the environment, labour rights, and intellectual property protection belong in the national realm. They reflect not some higher legal truth but deeply political priorities and choices over which citizens should have some say. This is not just a crude contest between economists and NGOs, liberalization versus the protection of human rights and values. It involves subtle adjudications over priorities, means and ends. Should one form of environmental protection be privileged over another? Should one species of dolphin be protected more than another? Who should decide?

One response to the political problems of constitutionalizing the WTO has been to argue that the institution should be more ‘inclusive’ (Howse and Nicolaidis, 2000). NGOs and other interested or expert parties, for example, should be included in deliberations on trade issues. To quote one enthusiast: ‘the right way to defeat bad ideas is with better ideas. Just as national democracy entails participation and debate at the domestic level, so too does democratic global governance entail participation by transnational NGOs’ (Charnovitz, 2000). There are a couple of problems embedded in this argument.

In the first place, the inclusion of NGOs will not necessarily redress the failure of the WTO adequately to represent some countries and groups while overrepresenting others. Indeed, inclusion might exacerbate rather than redress the lack of voice and influence suffered by developing countries. Note for instance that of the 738 NGOs accredited to the Ministerial Conference of the WTO in Seattle, 87 per cent were based in industrialized countries. Enthusiasts of inclusion need to consider more carefully how NGOs might be included without further distorting the underrepresentation of developing countries and peoples in the WTO.

A second problem arises with the broader argument that we might consider the WTO as a deliberative space within which the best ideas win. In this argument for ‘network governance’, the focus shifts from procedures and ‘inputs’ (such as elections and representative government) to the quality of debate and the ‘outputs’ of the system. The inclusion of NGOs and experts supposedly ensures high-quality deliberation which, the argument suggests, improves outputs. This is because the process of deliberation is (ideally) one in which the best ideas can be aired and genuinely expert participants can partake (without the limitations of a representative system). Through the process of deliberation, participants ‘learn’ and change their minds, coming to understand alternatives better and to modify their own starting positions.

The missing element in the deliberative network model is politics. The kinds of vested interests which ‘distort’ trade policy at the national level are assumed to disappear at the international level. Yet even a cursory examination of private sector participation in existing WTO negotiations reveals their powerful influence. Groups such as the US Coalition of Services Industries (CSI, 2001) and International Financial Services, London (IFSL, 2001) were deeply involved in negotiations on the General Agreement on Trade in Services, and the WTO Basic Telecommunications and Financial Services Agreements. The Financial Leaders Group, a private sector group of North American, European, Japanese, Canadian and Hong Kong financial leaders, publicizes its role as 'a key player in securing the 1997 Financial Services Agreement' and 'continues its work in the current WTO services negotiations' (FLG, 2001). Naturally representatives of private sector organizations bring a high level of expertise and ideas to the negotiating table. However, they represent, indeed they have a duty to represent, the narrow sectoral and material interests of their members. It distorts reality to propose that they are participants in a deliberation in which the best or better ideas will win because rationality triumphs over interests. The *raison d'être* of participating private sector groups is to represent the interests of their members.

The debate about deliberative networks highlights the need to pay attention in global governance to the issue of who defines the rules and outcomes of deliberation. Those who focus on 'outputs' pay too little attention to inputs and to questions such as: Who determines who can participate in the exercise? Who sets the agenda? Who sets the parameters within which acceptable outcomes must fall? As a result, the network governance enthusiasts overlook deep problems of legitimacy and accountability arising from these processes.

The significance of the question of who controls networks lies in the content and impact of the work being undertaken at the global level. In the FSF example, three issues are on the agenda: capital flows, offshore financial centres, and highly leveraged institutions (FSF, 2001). All three have a direct impact on developing countries, which are vulnerable to the systemic risks and issues involved, and some of which will be directly affected by regulation in this area because it could reduce offshore financial activities on which they rely. Governance in these areas – be it regulation or standards – will benefit some countries and cause significant costs to others. What will justify these choices? For output-oriented governance specialists the answer is the quality of the results and their contribution to international financial stability. Critics, on the other hand, will point out that there are many competing models of international financial stability. Some focus on regulation, others on liberalization. Some put the emphasis on capital controls, others on universal openness of capital accounts. The vigorous debate about which measures best achieve international financial stability reflects why the process of goal-setting and policy-making is so important.

Network governance has an important contribution to offer in managing the world economy, bringing as it does considerable and varied expertise to increasingly complex issues. However, even in seemingly technical areas such as financial stability, trade rules, monetary union, or accounting standards, the choice of goals and outcomes reflects the interests of those who control the process. For this reason, there are real dangers in substituting democratic accountability for expertise and independence.

The Role and Alternative Diplomacies of the United States

At the core of all the above models of global governance lies the role of the most powerful state in the system, the United States. For some the US is a constructive leader in world affairs, providing the necessary public goods for global cooperation and stability. To quote the 1999 US Commission on National Security, 'in the world we see emerging, American leadership will be of paramount importance . . . It is a rare moment and a special opportunity in history when the acknowledged dominant global power seeks neither territory nor political empire' (USCNS, 1999). For others, US leadership is better described as self-interested hegemony. In reality there are both internationalist and unilateralist tendencies in US foreign policy and in the different arms of the US government. This is evident in US attitudes both towards multilateral institutions and to the promulgation of alternative, smaller regimes where we find evidence of unilateralism and bilateralism.

A unilateralist impulse has characterized many US postures in international organizations. Much has been written in this respect about US policy towards the United Nations (Rivlin, 1996; Ruggie, 1996). A similar impulse also emerges in respect of international economic institutions. In the wake of the financial crises of the 1990s mentioned above, the US appealed to the IMF to engage in each crisis, yet at the same time a strongly unilateralist response emerged from the US Congress. In the Congressional debate on allocating the IMF more resources so as to deal with the crises in 1997–8, Congress made its approval conditional on the creation of an International Financial Institutions Advisory Commission (IFIAC).

IFIAC considered the future roles and structures of the IMF, the World Bank and other institutions and reported back to the US Congress in the so-called 'Meltzer Commission Report' of 2000 (IFIAC, 2000). The approach of the Commission was notable in that it undertook no consultation with other countries, not even those most affected by the work of the international financial institutions. Rather, the report presents a purely US-centred vision of how the institutions should be reformed, framed within the presumption (comparable to US positions on other UN agencies) that if the US is not 'tough' with multilateral institutions, then foreigners will take US taxpayers for a ride. The approach was not isolationist (as some would describe it) for it did not reflect a desire to disengage from the rest of the world. Rather, the approach was solidly unilateralist, reflecting a desire to engage with the rest of the world on US terms. In reality, however, few of the Commission's recommendations have found their way into policy. Nevertheless, they succeeded in bringing direct pressure to bear on both the World Bank and the IMF. Indeed, one of the first acts of the new managing director of the IMF, Horst Kohler, in 2000 was to meet with Allan Meltzer to discuss the report.

The US has disproportionate power in every international organization to which it belongs. I use the term disproportionate to mean power greater than its formal voting rights or stake in the organization. This means that unilateralist positions taken within the US cannot fail to influence international organizations and induce some submission on their part to the US agenda. Nevertheless, it is equally true that US administrations almost always stop short of adopting the unilateralist positions expressed by their colleagues in the US Congress. As will be discussed below, this is because the US needs multilateral organizations and cooperation from other governments in order to fulfil many of its core objectives.

A different form of unilateralism is apparent in other aspects of US foreign policy. The US engagement with other countries on trade issues offers an important illustration. Although the US has pushed for a new trade round within the framework of the

World Trade Organization, it is clear that this is not the only means by which the US pursues its international trade policy preferences. Trade policy within the WTO requires the US and other states to compromise in order to achieve the consensus necessary for measures to go through. Indeed, this is the essence of multilateralism. However, where the WTO rules do not match US preferences, the US has two other alternatives. It can disregard the application of WTO rulings. It can also seek to forge agreements – with countries individually or in groups – which better reflect the US desiderata.

In bilateral negotiations, the US has shown its capacity to achieve its own goals with very little compromise. One example is the US–Jordan Free Trade Agreement which was signed on 24 October 2000, eliminating duties and commercial barriers to bilateral trade in goods and services originating in the United States and Jordan (USTR, 2000). The agreement includes requirements which go well beyond what the US has managed to insert into the WTO agreements. The US–Jordan Free Trade Agreement includes provisions on intellectual property right protection, trade and the environment, labour, and electronic commerce, and side letters concerning marketing approval for pharmaceutical products, and trade in services. In essence, the US–Jordan Free Trade Agreement sets an example of how the US can achieve its trade goals without recourse to multilateral institutions. However, that is only if such agreements become more widespread.

The Free Trade Area of the Americas (FTAA) offers another example of a US initiative. The proposed agreement covers thirty-four countries in the Western hemisphere and extends across nine issues: market access; agriculture; services; investment; intellectual property; government procurement; subsidies, antidumping, countervailing duties; competition policy; and dispute settlement. Like the US–Jordan Trade Agreement, the FTAA includes a number of issues which the US has been unable to insert into WTO agreements. For example, on intellectual property protection, the US proposal 'complements and adds to the obligations that the US and most FTAA have undertaken through the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights' (USTR, 2001).

The issue for all other countries in the Americas is whether they will choose to submit to the FTAA, essentially riding the coat-tails or 'bandwagoning' with the United States, or whether they might attempt to counterbalance US power by reinforcing their capacity to negotiate collectively in groupings such as MERCOSUR (Tussie and Woods, 2000). The present disarray among MERCOSUR countries, due in large part to the divergent economic policies of Argentina and Brazil, make the prospects of the latter option rather dim.

What does all this mean for global governance? Bilateralism and regional arrangements offer all states an alternative to purely multilateral regimes. However, the states which benefit most from such arrangements are those with the largest market access to offer, the largest security umbrella to share, and the greatest capacity to threaten negative consequences from non-compliance or exclusion. The United States has the largest single trade market and defence capacity. This means that in negotiations with any one state or small combination of states, negotiations are asymmetrically weighted towards US preferences and policies. For this reason smaller and less powerful states have long endorsed the need to undertake negotiations in universal, multilateral institutions, even as they 'cover their bets' by participating in bilateral or regional arrangements with the United States (Krasner, 1985).

The consequences for multilateralism are not absolutely obvious. There is a long-standing debate in the political economy of international trade as to whether regional blocs assist or hinder moves to a more multilateral free trade regime. From the US perspective, its bilateral and regional measures are intended as building blocks of an international regime. The US would be only too happy for the standards embodied in the US–Jordan Free Trade Agreement or the FTAA to be applied internationally. For some this is evidence of enlightened leadership and of the US forging rules and institutions to create a system from which everyone will benefit.

Seen from other countries, the fine print of the agreements reveals specific priorities which reflect powerful US economic interests such as in the financial and technology sectors. Agreements to 'free trade' in these areas and to create standards in others (such as labour and the environment) will create winners within the US (and in other countries) but at others' expense. The US is not pushing free trade across-the-board but is pushing for liberalization in those sectors in which its interests lie. For these reasons, countries other than the US worry that the longer term impact of bilateral and regional arrangements will be to create a preferential area within which the US calls all the shots and other countries have little choice but to belong. Global governance built in this way casts most countries as rule-takers rather than rule-makers, bolstering a view of the US as an imperial hegemon.

All that said, there are powerful limits on how far the US can turn its back on multilateralism and the genuine participation of other countries in the forging of international institutions. In the security realm, this is due both to the nature of security threats and to the emergence of new actors. Long prior to the terrorist attacks on the United States of 11 September 2001, it was clear to the US Commission on National Security that the military superiority of the US would not protect it from the emerging threats to US security. Not only did the Commission note with extraordinary foresight that terrorists and other disaffected groups would cause Americans to die, possibly in large numbers, on American soil, but in the Commission's words, 'the most serious threat to our security may consist of unannounced attacks on American cities by sub-national groups using genetically engineered pathogens' (USCNS, 1999, p. 8). Countering these kinds of threats requires not just different domestic institutions but a new form of diplomacy, international intelligence collection, security provision, and the building of international coalitions. This has been dramatically demonstrated since 11 September 2001 whereby even the most unilateralist of American policy-makers have had to dive deeply back into international engagement and diplomacy.

Similarly in the economic realm, financial crises in several different parts of the world have underlined US dependence on international institutions such as the Bank for International Settlements, the IMF, the World Bank and new arrangements such as the Financial Stability Forum discussed above. For all these reasons, participation in multilateral institutions is essential to the US, as is its engagement in less formal coalitions and networks of states. Other states must work with US preponderance in informal intergovernmental and private sector arrangements and a dominant but not always preponderant US participation in multilateral institutions.

Conclusions: Is a More Democratic Global Governance Possible?

Global governance stands accused of being unaccountable and deaf to the world's diversity of peoples and issues. The accusation is not altogether unfounded. This chapter has described a web of governance comprising multilateral institutions, private sector networks, interstate networks and coalitions, and bilateral and regional arrangements. It portrays a system in which the underlying power and hierarchy of states and the most powerful transnational corporations are unavoidable, even (or even especially) in the so-called technocratic, expert arrangements to which policy-makers seem increasingly attracted.

The alternative as some see it is to consider democratizing global governance. Political theorists have long argued that globalization or growing interdependence presents an opportunity – if not the need – to establish a more global democracy, or at the very least to enshrine human rights and some form of global redistribution as a corner-stone of global governance (Beitz, 1979; Doyle, 1997). In recent debates we see this in arguments for 'mainstreaming human rights' and for implementing a universal set of moral values – a 'law of peoples' – and a clear set of principles regarding the nature and composition of international institutions (Held, 2001).

The practical problem for advocates of global democracy lies in how such values might be implemented. Should they advocate using existing institutions such as the IMF, the World Bank and the WTO, however unfairly or unaccountably constituted, to push a further agenda of conditionality in the area of human rights? Critics argue that the institutions are not adequately legitimate. Developing countries have too little voice within them and the institutions are too unaccountable and too unrepresentative to impose further conditionality.

Morally, it has already been argued in this chapter that the case for global conditionality on human rights, environmental protection or the like casts profound questions about whose ends are being sought. To this we must add that actions to this end might produce unintended consequences which may cancel out the 'good' ends.

Practically, extending the kinds of conditionalities applied by international organizations on individual states will not work without the commitment of governments and peoples on the receiving end. This has already been learnt in the realm of economic policy. It applies even more strongly in the political and social realms.

A more modest approach to democratizing global governance starts by recognizing the limits of democracy at the international level. As elegantly argued by Robert Dahl, we should be 'wary of ceding the legitimacy of democracy to non-democratic systems' (Dahl, 1999, p. 33). The point here is that domestic political systems have a *potential* to be democratically accountable even if they are not yet so, in a way that international organizations cannot. Rather than reinforcing the power and scope of existing institutions, the more pressing question is how to make these institutions (including the informal networks) more representative of the wide range of people and values in the world and more accountable to those they most affect. There may well be some top-down steps which would assist in this.

One oft-recurring proposal for reforming global governance is to create an Economic and Social Security Council (Daws and Stewart, 2000) or 'Economic Security Council'

(UN, 2001). This proposal has had many proponents over the years (Bertrand, 1985; UNDP, 1994; Commission on Global Governance, 1995; Ul Haq, 1995; Stewart and Daws, 1996). Most recently it was reinvigorated by the Zedillo Panel which reported to the Secretary-General of the United Nations in 2001. The Panel described an Economic Security Council as a body which 'would have the same standing on international economic matters that the Security Council has with regard to peace and security'. A small, powerful Council could comprise representatives from each region as well as smaller states, using the existing five UN regional economic commissions to elect representatives (UN, 2001). This proposal would not cure the ailments of global governance discussed in this chapter. However, its recent shift into mainstream high-level discussions of global governance underscores the current preoccupations of many policy-makers and academics.

The global governance debate is focused heavily on the reform and creation of international institutions and the need for these agencies to consult and to include non-governmental organizations and 'global civil society'. Yet global governance is increasingly being undertaken in a variety of networks, coalitions and informal arrangements which lie a little further beyond the public gaze and the direct control of governments. It is these forms of governance that need sustained and focused attention, to bring to light whose interests they further and to whom they are accountable.

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