

Endogenous Governance “Reform” and Prospects for International Cooperation

(based on work with Aaditya Mattoo)

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Stuck in Time

- Four major post-WWII international institutions: Security Council, World Bank, IMF, and GATT/WTO
- Crisis of Legitimacy because governance reflects realities of 1945. No evolution in governance except for GATT/WTO (G-20?)
- What are the lessons for cooperation going forward?

Governance

- De jure and de facto rules for decision-making
 - In the IMF and World Bank both are broadly consistent (quotas and voting in favor of the rich)
 - In the WTO, there is a meaningful difference
- What is “desirable” governance from a dynamic perspective?
 - Do they change with economic and political realities?
 - Do they also protect the weak?

International Monetary Fund

- Global financial crisis rescued IMF from near-irrelevance
- Very creditable performance during the crisis (A⁻)
 - Stabilizing Eastern Europe
 - Increasing resources
 - Pushing for fiscal stimulus
 - Trying to make IMF more borrower-friendly
- But basic governance anomalies remain:
 - IMF's Managing Director: European monopoly
 - Quotas not remotely representative of current economic power (Compare Netherlands/Belgium with China, India, Brazil)
 - Europe has or influences 10 out of 24 chairs on the IMF's Executive Board (Truman, 2005)

International Monetary Fund

- Euro-Atlantic not an International Monetary Fund
 - Legacy of the Asian Financial Crisis (“Stigma” problem)
 - Reinforced in this crisis (example of Latvia)
- Will it change? Is power ever given up voluntarily?
 - “Supply” factors for change weak
- Key test will be selection/election of next Managing Director

World Bank

- Power decoupled from accountability/contributions (Devesh Kapur)
- Crime without “victims”
- Crying need for change: lack of correlation between the evidence on what works and the practice of what is done
 - Global public goods versus government-to-government lending
- Absolutely no demand for change: cozy relationship between rich creditors and borrowing governments
 - Examples: “trust funds”; little demand for global public goods
- Explanation 1: Size, fuzzy mandate, blurred perceptions
- Explanation 2: Ambivalence of the new economic powers.
 - China’s bilateralism on aid
 - New powers are both borrowers and lenders. Does stake depend on being at the extremes of borrowing and lending?
 - In the Bank like in the Fund, “supply” of change weak; IMF, new powers are more actively seeking change but in Bank demand for change is also non-existent

GATT/WTO

- Failure to conclude Doha Round might obscure/distort perceptions about WTO.
- But this is one real example of endogenously evolving (de facto) governance GATT/WTO is a governance success
- In the GATT/WTO, two distinctions:
 - De facto and de jure (one country, one vote) governance
 - Governance during negotiations and in enforcement
- Early GATT: Developing countries were “out” of the system and given special and differential (S&D) treatment
 - Suited both the rich and developing countries

GATT/WTO

- Uruguay Round: As some developing countries started to become important (economically and trade-wise), they were brought into the fold
 - Unlike in the IMF and WB, change does not have to be demanded, the stake of partner countries increases organically (i.e. supply of and demand for change evolve organically)
- Developing countries' obligations increased (S&D was diluted) but the benefits to them also increased (textiles and agriculture)
 - China's WTO accession
- Clearest indication of "legitimate" governance is in dispute settlement:
 - Symmetric: Both rich and poor bring cases against each other and these are generally implemented
 - Antigua and the US; Costa Rica and US
 - China and the US: Contrast between IMF and WTO
- Genius of the WTO system:
 - Part is just that trade is an equal exchange: If countries become large others automatically get a stake in engaging those countries. Reciprocity
 - Periodic negotiations: Gets political buy-in
 - And dispute settlement system functions largely because of this periodic updating of the political contract (sense of a fair and mutually beneficial deal). Good governance in negotiations helps good governance in dispute settlement

GATT/WTO

- Doha standstill not because of governance failure but perhaps because of success
 - International trading system perceived to be reasonably open, Even crisis and unprecedented drop in trade did not provoke protectionism
- Problems of the WTO: Legitimacy/effectiveness trade-off tilted overly toward the former
- Over-reach of the Uruguay Round Single Undertaking whereby even small and poor countries (whose interests are orthogonal to the system) have de facto blocking power because given de jure power
 - Cotton-exporters in Cancun
- Hence renewed search for variable geometry-type solutions (Mattoo and Subramanian, 2009)

Prospects for Cooperation

- Post-WWII: One hegemon, common vision
- Now, we have less than (or more than) one hegemon and possibly different visions:
Cooperation will be much harder because it will have to be based on interests
- GATT/WTO model suggests that successful cooperation requires “reciprocity” (broad give-and-take) and constant updating of reciprocity for legitimacy

Prospects for Cooperation

- The need for cooperation exists (perhaps even stronger):
 - Climate change; China; financial regulation; access to commodities and energy
- But will require institution/forum that has legitimacy
- One possible model based on comparative advantage: GATT/WTO becomes the forum for enforcement while other institutions (IMF, FSB, etc) provide the technical expertise
- Example of undervalued exchange rates (Mattoo and Subramanian, 2009)

G-20?

- Response to governance failures of the IMF and World Bank
- G-20 worked but probably a lot due to the fact of crisis
- Will G-20 work in normal times? Far from clear