Prospects for Good Global Governance: The View from the South

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Executive Summary

The first part of this report details, from a Southern perspective, the evolution of the current system of global economic governance since the end of the Second World War. This process has been, to borrow Max Weber's metaphor, one of creating an "iron cage" of overlapping international bureaucracies and directorates that has constrained the development of the South.

The second part focuses on the non-democratic processes of decision-making in the key institutions of global economic governance.

In the third section, we analyze the causes and dynamics of the crisis of legitimacy that overtook the IMF, WTO, World Bank, and the Group of Seven in the late 1990's.

The fourth part examines the responses of the international bureaucracies to the demands for reform in the period 1997-2001 and analyzes why they failed.

The fifth section begins by discussing the proposal for the establishment of an Economic Security Council put forward by the Commission on Global Governance and probes the reasons it failed to take off. It then moves on to a discussion of two influential proposals for comprehensive reform, the first from the Meltzer Commission, the second from financier George Soros.

In the final section, we put forward an alternative model of a decentralized, pluralistic system of global economic governance which would allow developing countries to follow the strategies of development that would be sensitive to their values, their unique mix of constraints and opportunities, and their rhythms as societies.

Introduction

The issue of global economic governance has become extremely urgent in recent years. Alarm was registered during the Asian financial crisis in 1997, when the lack of regulations over global financial flows prevented the massive outflow of speculative capital from East and Southeast Asia, causing the collapse of these boom economies and great suffering to their peoples. The role of the International Monetary Fund (IMF) in making these economies vulnerable to volatile capital flows was severely criticized, as was its part in worsening the crisis of these economies with contractionary stabilization programs in the aftermath of the speculative hemorrhage.

Following on the heels of the crisis of the IMF was the collapse of the Seattle ministerial of the World Trade Organization (WTO) in Seattle in December 1999, which was caused by massive global disaffection with its policies of indiscriminate trade liberalization and with its non-transparent system of decisionmaking. Then, in February 2000, the International Financial Institution Advisory Commission appointed by the US Congress, better known as the Meltzer Commission, issued its report accusing the World Bank of being irrelevant to the problem of solving global poverty and the IMF of being part of the problem rather than the solution to global financial governance.

Who could have foreseen this severe crisis of legitimacy in the middle of the decade, when what was acknowledged as the pinnacle of the global multilateral system, the WTO, was born out of the eight-year Uruguay Round of trade negotiations? The future was bright and the challenge was "coherence" in the multilateral system, that is, the synchronization of the policies of the World Bank, IMF, and WTO to achieve the swiftest possible transition to a truly global economy based on free trade and financial flows. The grand vision was laid out in the WTO's famous "Coherence Declaration":

The interlinkages between the different aspects of economic policy require that the international institutions with responsibilities in each of these areas follow consistent and mutually supportive policies. The World Trade Organization should therefore pursue and develop cooperation with the international organizations responsible for monetary and financial matters, while respecting the mandate, the confidentiality requirements, and the necessary autonomy in decision-making procedures of each institution…Ministers further invite the Director General of the WTO to review with the Managing Director of the International Monetary Fund and the President of the World Bank, the implications of the WTO's responsibilities for its cooperation with the Bretton Woods institutions, as well as the forms such cooperation might take, with a view to achieving greater coherence in global economic policymaking.[1]

By the year 2000, coherence was on the backburner, and the issue before the three institutions was the unraveling legitimacy of the three institutions and their ultimate survival.

I. Evolution of the Current System of Global Economic Governance

The current system of global economic governance stems from the intersection of the two key dynamics of the post-World War II international economy: the competitive relations among the dominant capitalist economies and the efforts of the countries of the Third World to develop and push for a redistribution of global economic power. This analysis will focus on the latter.

The place to begin this analysis is the period of de-colonization in the 1950s and 1960s. The emergence of

scores of newly independent states took place in the politically charged atmosphere of the Cold War. Although they were often split between East and West in their political alliances, Third World countries gravitated towards an economic agenda that had two underlying thrusts: rapid development and a global redistribution of wealth.

While the more radical expression of this agenda in the shape of the Leninist theory of imperialism drew much attention and, needless to say, condemnation in some quarters, it was the more moderate version that was most influential in drawing otherwise politically diverse Third World governments into a common front. This was the vision, analysis, and program of action forged by Raul Prebisch, an Argentine economist who from his base at the United Economic Commission for Latin America (CEPAL), won a global following with his numerous writings.

Developed in the late 1950s and early 1960s, Prebisch's theory centered on the worsening terms of trade between industrialized and non-industrialized countries, an equation which posited that more of the South's raw materials and agricultural products were needed to purchase fewer of the North's manufactured products. Moreover, the trading relationship was likely to get worse since Northern producers were developing substitutes for raw materials from the South, and Northern consumers would spend a decreasing proportion of their income on agricultural products from the South.[2]

The Rise of UNCTAD

Known in development circles as "structuralism," Prebisch's theory of "bloodless but inexorable exploitation," as one writer described it,[3] served as the inspiration for Third World organizations, formations, and programs that sprang up in the 1960s and 1970s. These including the Non-Aligned Movement, Group of 77, Organization of Petroleum Exporting Countries (OPEC), and the New International Economic Order (NIEO). It was also central to the establishment of the UN Conference on Trade and Development (UNCTAD) in 1964, which became over the next decade the principal vehicle used by the Third World countries in their effort to restructure the world economy.

With Prebisch as its first secretary general, UNCTAD advanced a global reform strategy with three main prongs. The first was commodity price stabilization through the negotiation of price floors below which commodity prices would not be allowed to fall. The second was a scheme of preferential tariffs, or allowing Third World exports of manufactures, in the name of development, to enter First World markets at lower tariff rates than those applied to exports from other industrialized countries. The third was an expansion and acceleration of foreign assistance, which, in UNCTAD's view, was not charity but "compensation, a rebate to the Third World for the years of declining commodity purchasing power."[4] UNCTAD also sought to gain legitimacy for the Southern countries' use of protectionist trade policy as a mechanism for industrialization and demanded accelerated transfer of technology to the South.

To a greater or lesser degree, the structuralist critique came to be reflected in the approaches of other key economic agencies of the United Nations secretariat, such as the Economic and Social Council (ECOSOC) and the United Nations Development Program (UNDP), and became the dominant viewpoint among the majority at the General Assembly.

The Bretton Woods Twins versus the UN Development System

The response of the leading countries of the North to the challenge of economic de-colonization posed by the emerging countries was conditioned by several developments. Most important of these was the Cold War. The priority of the political enterprise of containing the Soviet Union and communism pushed the North, particularly the US government, to a less hard-line stance when it came to the question of whether the economic structures of its client countries conformed to free market principles. While the US upheld private enterprise and demanded access for its corporations, it was more tolerant when it came to protectionism, investment controls, and a strong role for government in managing the economy. It also veered away from a classic exploitative stance to promote at least the image of supporting limited global redistribution of wealth, this being accomplished mainly through foreign aid. As the emerging countries gravitated toward the UN system, the leading governments increasingly relied on the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) to push their agenda.

The Bretton Woods institutions, founded in 1944, began with missions quite distinct from their latter-day involvement with North-South relations. The IMF was conceived by John Maynard Keynes and Harry Dexter White, the two pillars of the Bretton Woods meeting, as the guardian of global liquidity, a function that it was supposed to fulfil by monitoring member countries' maintenance of stable exchange rates and providing facilities on which they could periodically draw to overcome cyclical balance of payments difficulties. On the other hand, the IBRD was, as its name implied, set up to assist in the reconstruction of the war-torn economies, particularly those of Western Europe, by lending to them at manageable rates of interest.

By the early 1970s, however, US President Richard Nixon's taking the dollar off the gold standard had inaugurated a new era of floating exchange rates that made the IMF's original mission superfluous. Instead, the

Fund was deeply involved in stabilizing Third World economies with balance of payments difficulties. As for the World Bank, it had evolved into the prime multilateral development agency for aid and development.

In the case of the World Bank, a turning point of sorts was the debate triggered by the 1951 report of a group of experts entitled "Measures for the Economic Development of Under-Developed Countries," which proposed making grant aid available to Third World countries.[5] Using this as a springboard, Third World countries at the General Assembly tried to push through resolutions that would establish the Special UN Fund for Economic Development (SUNFED), which would be controlled not by the North but by the UN and whose criterion for providing loans would not be narrow banking rules but development need.

The North, led by the United States, strenuously resisted these efforts, resorting at first to delay and diversion, like proposing the creation of a $100 million fund to be used to finance an investment survey that the IBRD or some other Western agency would undertake.[6] But when diversion and delay failed to derail the South's drive to set up SUNFED, the North came out with an alternative: an institution for making soft loans for development from capital subscribed by the North but one controlled by the North rather than the Third World majority at the United Nations. Thus came into being the International Development Association (IDA), which was attached to the World Bank as the latter's soft-loan window. As one analyst of this period has pointed out:

Much of the impetus for IDA came from the Bank itself, increasingly worried over Southern demands for a competing UN fund. Eugene R. Black, the bank's shrewd president, said bluntly that "the International Development Association was really an idea to offset the urge for Sunfed." Black, like any other banker, had little use for soft loans. But if anybody would make them, he reasoned, it had better be the Bank. If new business was to be done, Black wanted to do it."[7]

The IDA was part of a compromise package that effectively killed the idea of a UN-controlled development fund. The other part of the package was the establishment of the UN Special Fund, later renamed the UN Development Program (UNDP), which served as the channel of much smaller quantities of mainly technical aid to Third World countries.[8]

The IDA–UNDP compromise derailed the demand for a UN-controlled agency, but it did not stop the escalation of Third World demands for a redistribution of global economic power. This process resulted in the establishment of UNCTAD in 1964, and attained dramatic results with the Organization of Petroleum Exporting Countries' (OPEC) ability to seize control of oil pricing in the early and mid-1970s, culminating with the adoption by the UN General Assembly Special Session of 1974 of the "new international economic order" program. The thrust of these moves was clearly reformist rather than revolutionary, expressing demands of Third World elites rather than Third World masses. Nevertheless, their prominence in the context of successful struggles waged by revolutionary movements in Vietnam and other Third World countries lent a note of urgency to Washington's search for an effective counter-strategy of managed reform.

The Southern Challenge in the 1970s

In the 1970s, the World Bank was to be the centerpiece of liberal Washington's response. Robert McNamara, who was appointed in 1968 as the World Bank's president after his troubled stint at the US Defense Department, became the point man in the expanded liberal approach. The McNamara approach had several elements. First was a massive escalation in the World Bank's resources, with McNamara raising World Bank lending from an average of $2.7 billion a year when he took office in 1968, to $8.7 billion in 1978 and $12 billion by the time he left office in 1981. Second was a global program aimed at ending poverty via a program that sought to sidestep the difficult problems associated with social reform by focusing aid on improving the "productivity of the poor." Third was an effort to split the South by picking a few countries as "countries of concentration" to which the flow of bank assistance would be higher than average for countries of similar size and income.

The rise of OPEC, however, made World Bank aid and foreign aid less critical to many of the leading countries in UNCTAD and the Group of 77 in the mid-1970s. These countries could gain access to massive quantities of loans that the commercial banks were only too happy to make available in their effort to turn a profit on the billions of dollars of deposits made to them by the OPEC countries.

Instead of aid, UNCTAD focused on changing the rules of international trade, and in this enterprise it registered some success. During the fourth conference of UNCTAD (UNCTAD IV) in Nairobi in 1976, agreement was reached, without dissent from the developed countries, on the Integrated Program for Commodities (IPC). The IPC stipulated that agreements for 18 specified commodities would be negotiated or renegotiated with the principal aim of avoiding excessive price fluctuations and stabilizing commodity prices at levels remunerative to the producers and equitable to consumers. It was also agreed that a common fund would be set up to regulate prices when they either fell below or climbed too far above the negotiated price targets.

UNCTAD and Group of 77 pressure was also central to the IMF's establishing a new window, the Compensatory Financing Facility (CFF), to assist Third World countries in managing foreign exchange crises created by sharp

falls in the prices of the primary commodities they exported. Another UNCTAD achievement was getting the industrialized countries to accept the principle of preferential tariffs for developing countries. Some 26 developed countries were involved in 16 separate "general system of preference" schemes by the early 1980s.

These concessions were, of course, limited. In the case of commodity price stabilization, it soon became apparent that the rich countries had replaced a strategy of confrontation with an evasive strategy of frustrating concrete agreements. A decade after UNCTAD IV, only one new commodity stabilization agreement, for natural rubber, had been negotiated; an existing agreement on cocoa was not operative; and agreements on tin and sugar had collapsed.[9]

Right Wing Reaction and the Demonization of the South

By the late 1970s, however, even such small concessions were viewed with alarm by increasingly influential sectors of the US establishment. Such concessions within the UN system were seen in the context of other developments in North-South relations. These appeared to show that the strategy of liberal containment spearheaded by the Bank in the area of economic relations had not produced what it promised to deliver: security for Western interests in the South through the co-optation of Third World elites.

While professing anti-communism, governing elites throughout the Third World, which were the backbone of the UNCTAD system, gave in to popular pressure, abetted by local industrial interests, to tighten up on foreign investment. Nowhere did this trend spark more apprehension among American business people than in two countries which were considered enormously strategic by US multinational firms. In Brazil, where foreign-owned firms accounted for half of total manufacturing sales,[10] the military-technocrat regime invoked national security considerations, and moved in the late 1970s to reserve the strategic information sector to local industries, provoking bitter denunciation from IBM and other US computer firms.[11] In Mexico, where foreign firms accounted for nearly 30 percent of manufacturing output,[12] legal actions and threats of pulling investments by the powerful US drug industry followed the government's program for the pharmaceutical industry. The industry proposed no-patent policies, promotion of generic medicines, local development of raw materials, price controls, discriminatory incentives for local firms, and controls on foreign investment.[13]

Disturbing though these concessions and actions were, they could not compare in their impact with OPEC's second "oil shock" in 1979. Despite the fact that Western oil companies were passing on the oil price increases to consumers in order to preserve their enormous profit margins, to many Americans OPEC became the symbol of the South: an irresponsible gang that was bent on using its near monopoly over a key resource in order to bring the West to its knees. Although OPEC was not dominated by communists or radical nationalists like Libya's Khadafy but by US allies such as Saudi Arabia, Kuwait, and Venezuela, its "oil weapon" evoked more apprehension than the nuclear arms of the Soviet Union. The oil cartel was feared as the precursor of a unified Southern bloc controlling most strategic commodities, and right wing propagandists pointed to the Algiers Declaration of the Non-Aligned Movement in 1973 in their efforts to fan fear and loathing in the North:

The heads of state or government recommend the establishment of effective solidarity organizations for the defense of the raw materials producing countries such as the Organization of Petroleum Export Countries...to recover natural resources and ensure increasingly substantial export earnings.[14]

The United Nations system was a central feature of the demonology of the South that right wing circles articulated in the late 1970s and early 1980s. In their view, the UN had become the main vehicle for the South's strategy to bring about the New International Economic Order (NIEO). As the right wing think tank Heritage Foundation saw it, the governments of the South devoted "enormous time and resources to spreading the NIEO ideology throughout the UN system and beyond. Virtually no UN agencies and bureaus have been spared."[15] The South's effort to redistribute global economic power via UN mechanisms was viewed as a concerted one: private business data flows are under attack internationally and by individual Third World countries; proposals for strict controls of the international pharmaceutical trade are pending before more than one UN body; other international agencies are drafting restrictive codes of conduct for multinational corporations; and UNESCO has proposed international restraints on the press.[16]

Especially threatening to the Foundation was the effort by the Third World to "redistribute natural resources" by bringing the seabed, space, and Antarctica under their control through Law of the Sea Treaty, the Agreement Governing Activities of States on the Moon and Other Celestial Bodies (called the Moon Treaty), and an ongoing UN study and debate over Antarctica. Malaysian prime minister Mahathir Bin Mohamad, the principal architect of the effort to get the UN to claim Antarctica, told the General Assembly "all the unclaimed wealth of this earth" is the "common heritage of mankind," and therefore subject to the political control of the Third World.[17]

Resubordinating the South I: Structural Adjustment

When the Reagan administration came to power in 1981, it was riding on what it considered a mandate not only to roll back communism, but also to discipline the Third World. What unfolded over the next four years was a two-pronged strategy aimed at dismantling the system of "state-assisted capitalism" that was seen as the domestic base for Southern national capitalist elites, and drastically weakening the United Nations system as a forum and instrument for the South's economic agenda.

The opportunity came none too soon in the form of the global debt crisis that erupted in the summer of 1982, which drastically weakened the capabilities of Southern governments in dealing with Northern states and corporations and Northern-dominated multilateral agencies. The instruments chosen for rolling back the South were the World Bank and the IMF. This was an interesting transformation for the World Bank, which had previously been vilified by *The Wall Street Journal* and the right wing as one of the villains behind the weakening of the North's global position by "promoting socialism" in the Third World via its loans to Southern governments. But the liberal McNamara, who was now faulted by the right wing for losing Vietnam and failing to contain the Southern challenge, was replaced by a more pliable successor, and ideological right-wingers seeking the closure of the Bank were restrained by pragmatic conservatives who wished to use the Bank instead as a disciplinary mechanism.

"Structural adjustment" referred to a new lending approach that had been formulated during McNamara's last years at the Bank. Unlike the traditional World Bank project loan, a structural adjustment loan was intended to push a program of "reform" that would cut across the whole economy or a whole sector of the economy. In the mid-eighties, IMF and World Bank-imposed structural adjustment became the vehicle for a program of free market liberalization that was applied across the board to Third World economies suffering major debt problems. Almost invariably, structural adjustment programs had the following elements:

- Radically reducing government spending, ostensibly to control inflation and reduce the demand for capital inflows from abroad, a measure that in practice translated into cutting spending on health, education, and welfare.
- Liberalizing imports and removing restrictions on foreign investment, ostensibly to make local industry more efficient by exposing them to foreign competition.
- Privatizing state enterprises and embarking on radical deregulation in order to promote more efficient allocation and use of productive resources by relying on market mechanisms instead government decree.
- Devaluing the currency in order to make exports more competitive, thus resulting in more dollars to service the foreign debt.
- Cutting or constraining wages and eliminating or weakening mechanisms protecting labor like the minimum wage to remove what were seen as artificial barriers to the mobility of local and foreign capital.

By the late 1980s, with over 70 Third World countries submitting to IMF and World Bank programs, stabilization, structural adjustment, and shock therapy managed from distant Washington became the common condition of the South. While structural adjustment was justified as necessary to create the conditions that would enable Third World countries to repay their debts to Northern banks, there was a more strategic objective—to dismantle the system of state-assisted capitalism that served as the domestic base for the national capitalist elites. In 1988, a survey of structural adjustment programs (SAPs) carried out by the UN Commission for Africa concluded that the essence of SAPs was the "reduction/removal of direct state intervention in the productive and redistributive sectors of the economy."[18]

As for Latin America, one analyst noted that the US took advantage of "this period of financial strain to insist that debtor countries remove the government from the economy as the price of getting credit." Similarly, a retrospective look at the decade of adjustment in a book published by the Inter-American Development Bank in 1992 identified the removal of the state from economic activity as the centerpiece of the ideological perspective that guided the structural reforms of the 1980s.

By the end of the 12-year-long Reagan-Bush era in 1992, the South had been transformed: from Argentina to Ghana, state participation in the economy had been drastically curtailed; government enterprises were passing into private hands in the name of efficiency; protectionist barriers to Northern imports were being radically reduced; and, through export-first policies, the internal economy was more tightly integrated into the North-dominated capitalist world markets.

Re-subordinating the South II: Taming the Tigers

There was one area of the South that was relatively untouched by the first phase of the Northern economic counterrevolution. That was East and Southeast Asia. Here practically all the economic systems displayed the same features of state-assisted capitalism found elsewhere in the South: an activist government intervening in key areas of the economy, a focus on industrialization in order to escape the fate of being simply agricultural or

raw material producers, protection of the domestic market from foreign competition, and tight controls on foreign investment. Where the key East and Southeast Asian economies appeared to differ from other economies in the South was mainly in the presence of a fairly strong state that was able to discipline local elites, the greater internalization of a developmentalist direction by the state elite, and the pursuit of aggressive mercantilist policies aimed at gaining markets in First World countries, particularly the United States.

The frontline status in Asia of many of these so-called "newly industrializing countries" (NICs) during the Cold War ensured that Washington would turn a blind eye to many of their deviations from the free market ideal. But as the Cold War wound down from the mid-1980s, the US began to redefine its economic policy toward East Asia as the creation of a "level playing field" for its corporations via liberalization, deregulation, and more extensive privatization of Asian economies.

It was a goal that Washington pursued by various means in the late 1980s and early 1990s. However, Japanese capital was relocating many of its industrial operations to East and Southeast Asia to offset the loss of competitiveness in Japan owing to the rapid appreciation of the yen triggered by the Plaza Accord in 1985. Access to this capital allowed countries like South Korea, Thailand, and Indonesia to ignore the requirements of formal structural adjustment programs that were foisted on them by the World Bank and the IMF in the early 1980s when they were temporarily destabilized by the debt crisis. This left unilateralism in trade and financial diplomacy as the principal mechanism employed by the US to deal with the increasingly successful Asian "tigers."

Unilateralism was aggressively pursued, sometimes to the point of *de facto* trade war. Washington's mood was aptly captured by a senior US official who told a capital markets conference in San Francisco that "Although the NICs may be regarded as tigers because they are strong, ferocious traders, the analogy has a darker side. Tigers live in the jungle, and by the law of the jungle. They are a shrinking population."[19]

With some assistance from the IMF and the World Bank, unilateral pressure succeeded in getting key Asian countries to liberalize their capital accounts and to move to greater liberalization of their financial sectors. But when it came to trade liberalization, the results were meager, except perhaps in the case of Korea, whose trade surplus with the US had been turned into a trade deficit by the early 1980s. But even this development did not change the US trade representative's assessment of Korea as "one of the toughest places in the world to do business."[20] As for the Southeast Asian countries, Washington's assessment was that while they might have liberalized their capital accounts and financial sectors, they remained highly protected when it came to trade and were dangerously flirting with "trade distorting" exercises in industrial policy, like Malaysia's national car project, the Proton Saga, or Indonesia's drive to set up a passenger aircraft industry.

The indiscriminate financial liberalization demanded by Washington and the Bretton Woods institutions, coupled with the high interest rate and fixed currency regime favored by local financial authorities, brought in massive amounts of foreign capital into the region. But it also served as the wide highway through which $100 billion exited in 1997 in a massive stampede in response to dislocations caused by over-investment and unrestricted capital inflows, like the collapse of the real estate market and widening current account deficits.

A golden opportunity to push the US agenda opened up with the financial crisis, and Washington did not hesitate to exploit it to the hilt, advancing its interests behind the banner of free market reform. The rollback of protectionism and activist state intervention was incorporated into stabilization programs imposed by the IMF on the key crisis countries of Indonesia, Thailand, and South Korea.

In Thailand, local authorities agreed to remove all limitations on foreign ownership of Thai financial firms, accelerate the privatization of state enterprises, and revise bankruptcy laws along lines demanded by the country's foreign creditors. As the US trade representative told Congress, the Thai government's "commitments to restructure public enterprises and accelerate privatization of certain key sectors—including energy, transportation, utilities, and communications—which will enhance market-driven competition and deregulation—[are expected] to create new business opportunities for US firms."[21]

In Indonesia, the US trade representative emphasized that the IMF's conditions for granting a massive stabilization package addressed practices that have long been the subject of this [Clinton] Administration's bilateral trade policy... Most notable in this respect is the commitment by Indonesia to eliminate the tax, tariff, and credit privileges provided to the national car project. Additionally, the IMF program seeks broad reform of Indonesian trade and investment policy, like the aircraft project, monopolies and domestic trade restrictive practices, that stifle competition by limiting access for foreign goods and services.[22]

The national car project and the plan to set up a passenger jet aircraft industry were efforts at industrial policy that had elicited the strong disapproval of Detroit and Boeing, respectively.

In the case of Korea, the US Treasury and the IMF did not conceal their close working relationship, with the Fund clearly in a subordinate position. Not surprisingly, the concessions made by the Koreans—including raising the limit on foreign ownership of corporate stocks to 55

percent, permitting the establishment of foreign financial institutions, full liberalization of the financial and capital market, abolition of the car classification system, and agreement to end government-directed lending for industrial policy goals—had a one-to-one correspondence with US bilateral policy toward Korea before the crisis. As the US trade representative candidly told US congressmen:

Policy driven, rather than market-driven economic activity, meant that US industry encountered many specific structural barriers to trade, investment, and competition in Korea. For example, Korea maintained restrictions on foreign ownership and operations, and had a list of market access impediments...The Korea stabilization package, negotiated with the IMF in December 1997, should help open and expand competition in Korea by creating a more market-driven economy...[I]f it continues on the path to reform there will be important benefits not only for Korea but also the United States.[23]

Summing up Washington's strategic goal, Jeff Garten, undersecretary of commerce during President Bill Clinton's first term, said, "Most of these countries are going through a dark and deep tunnel...But on the other end there is going to be a significantly different Asia in which American firms have achieved a much deeper market penetration, much greater access"[24] By 1998, transnationals and US financial firms were buying up Asian assets from Seoul to Bangkok at fire sale prices.

Resubordinating the South III: Dismantling the UN Development System

This assault on the NICs via the IMF stabilization programs and on the broader South via Bretton Woods-imposed structural adjustment was accompanied by a major effort to emasculate the United Nations as a vehicle for the Southern agenda. Wielding the power of the purse, the United States, whose contribution funds some 20–25 percent of the UN budget, moved to silence NIEO rhetoric in all the key UN institutions dealing with the North-South divide: the Economic and Social Council (ECOSOC), the UN Development Program, and the General Assembly. US pressure resulted as well in the effective dismantling of the UN Center on Transnational Corporations (TNCs), whose high quality work in tracking the activities of the TNCs in the South, had earned the ire of the TNCs. Also abolished was the post of director general for international economic cooperation and development, which "had been one of the few concrete outcomes, and certainly the most noteworthy, of the efforts of the developing countries during the NIEO negotiations to secure a stronger UN presence in support of international economic cooperation and development."[25]

But the focus of the Northern counteroffensive was the defanging, if not dismantling of UNCTAD. After giving in to the South during the UNCTAD IV negotiations in Nairobi in 1976 by agreeing to the creation of the commodity stabilization scheme known as the Integrated Program for Commodities, the North, during UNCTAD V in Belgrade, refused the South's program of debt cancellation and other measures intended to revive Third World economies and thus contribute to global recovery at a time of worldwide recession.[26] The northern offensive escalated during UNCTAD VIII, held in Cartagena in 1992. At this watershed meeting, the North successfully opposed all linkages of UNCTAD discussions with the Uruguay Round negotiations of the GATT and managed to erode UNCTAD's negotiation functions, thus calling its existence into question.[27] UNCTAD's main function would henceforth be limited to "analysis, consensus building on some trade-related issues, and technical assistance."[28]

The World Trade Organization: Third Pillar of the System

UNCTAD continues to survive, but the truth of the matter is that it has been rendered impotent by the WTO, which came into being following the signing of the Marrakech Accord in April 1994, which put in force the agreements concluded during the eight-year Uruguay Round of the General Agreement on Tariffs and Trade (GATT). The WTO was 46 years late in coming into being, though it had initially been regarded by liberal internationalists in the US and Britain as the third pillar of the Bretton Woods system, doing for trade what the IMF did for finance and the World Bank for economic reconstruction. A global trading organization had initially been scheduled come into existence as the International Trade Organization (ITO) in 1948, but the threat of non-ratification by unilateralist forces in the US Senate led to its being shelved in favor of the much weaker GATT by the defensive Truman administration.

By the mid-1980s, trade rivalries with Europe and Japan, rising import penetration of the US market by Third World countries, frustration at the inability of US goods to enter Southern markets, and the rise of new competitors in the shape of the East Asian NICs made the US the leading advocate of a much expanded GATT with real coercive teeth. Central to the founding of the WTO were the twin drives of managing the trade rivalry among the leading industrial countries while containing the threat posed by the South to the prevailing global economic structure.

In this sense, the WTO must be seen as a continuation or extension of the same Northern reaction that drove structural adjustment. While its emergence consolidated

the structural hegemony of the North as a whole, it served the interests of the world's prime economic power in particular. This becomes clear once we examine the circumstances that surrounded its creation.

World trade did not need the WTO to expand 17-fold between 1948 and 1997, from $124 billion to $10,772 billion.[29] This expansion took place under the flexible General Agreement on Trade and Tariffs (GATT) trade regime. The founding of the WTO in 1995 did not respond to a collapse or crisis of world trade such as happened in the 1930s. It was not necessary for global peace, since no world war or trade-related war had taken place during that period. In the seven major interstate wars that took place in that period—the Korean War of 1950–1953, the Vietnam War of 1945–1975, the Suez Crisis of 1956, the 1967 Arab-Israeli War, the 1973 Arab-Israeli War, the 1982 Falklands War, and the Gulf War of 1990—trade conflict did not figure even remotely as a cause.

GATT was, in fact, functioning reasonably well as a framework for liberalizing world trade. Its dispute settlement system was flexible, and its recognition of the "special and differential status" of developing countries provided the space in a global economy for Third World countries to use trade policy for development and industrialization.

Why was the WTO established following the Uruguay Round of 1986–1994? Of the major trading powers, Japan was very ambivalent, concerned as it was to protect its agriculture as well as its particular system of industrial production that, through formal and informal mechanisms, gave its local producers primary right to exploit the domestic market. The European Union (EU), well on the way of becoming a self-sufficient trading bloc, was likewise ambivalent, knowing that its highly subsidized system in agriculture would come under attack. Though demanding greater access to their manufactured and agricultural products in the Northern economies, the developing countries did not see this as being accomplished through a comprehensive agreement enforced by a powerful trade bureaucracy, but through discrete negotiations and agreements in the model of the integrated program for commodities (IPCs) and commodity stabilization fund agreed upon under the aegis of the UN Conference on Trade and Development (UNCTAD) in the late 1970s.

The founding of the WTO served primarily the interest of the United States. Just as it was the US which blocked the founding of the International Trade Organization (ITO) in 1948, when it felt that this would not serve its position of overwhelming economic dominance in the post-war world, so it was that the US became the dominant lobbyist for the comprehensive Uruguay Round and the founding of the WTO in late 1980s and early 1990s, when it felt that more competitive global conditions had created a situation where its corporate interests now demanded an opposite stance.

Just as it was the United State's threat in the 1950s to leave GATT if it was not allowed to maintain protective mechanisms for milk and other agricultural products that led to agricultural trade's exemption from GATT rules, it was US pressure that brought agriculture into the GATT-WTO system in 1995. And the reason for Washington's change of mind was articulated quite candidly by then US agriculture secretary John Block at the start of the Uruguay Round negotiations in 1986: "[The] idea that developing countries should feed themselves is an anachronism from a bygone era. They could better ensure their food security by relying on US agricultural products, which are available, in most cases at much lower cost."[30] Washington, of course, did not just have developing country markets in mind, but also Japan, South Korea, and the EU.

It was the US that mainly pushed to bring services under the WTO coverage, with its assessment that in the new burgeoning area of international services, and particularly in financial services, its corporations had a lead that needed to be preserved. It was also the US that pushed to expand WTO jurisdiction to the so-called "trade-related investment measures" (TRIMs) and "trade-related intellectual property rights (TRIPs)." The first sought to eliminate barriers to the system of internal cross-border trade of product components among TNC (transnational corporation) subsidiaries that had been imposed by developing countries in order to develop their industries; the second to consolidate the US advantage in the cutting edge knowledge-intensive industries.

It was the US that forced the creation of the WTO's formidable dispute-resolution and enforcement mechanism after being frustrated with what US trade officials considered weak GATT efforts to enforce rulings favorable to the US. As Washington's academic point man on trade, C. Fred Bergsten, head of the Institute of International Economics, told the US Senate, the strong WTO dispute settlement mechanism serves American interests because "we can now use the full weight of the international machinery to go after those trade barriers, reduce them, get them eliminated"[31]

In sum, it has been Washington's changing perception of the needs of its economic interest groups that have shaped and reshaped the international trading regime. It was not global necessity that gave birth to the WTO in 1995. It was the United States' assessment that the interests of its corporations were no longer served by a loose and flexible GATT but needed an all-powerful and wide-ranging WTO. From the free market paradigm that underpins it, to the rules and regulations set forth in the different agreements that make up the Uruguay Round, to its system of decision making and accountability, the

WTO, was regarded even by many Europeans and Japanese as a blueprint for the global hegemony of corporate America. It sought to institutionalize the accumulated advantages of US corporations.

The Group of 7: an International Directorate?

The Bretton Woods institutions and the GATT-WTO provided a comprehensive structure of multilateral control over the global economy by the rich countries led by the United States. But the creation of "consensus" among the dominant powers was a function that was not performed adequately by the three institutions, where the highest national representatives were people much below ministerial rank in their respective national bureaucracies. It was the need for a central institution to provide broad strategic and policy agreement among that the institution known as the Group of Seven (G-7) came into being. Started during a rather small summit of the world's leading industrial economies in Rambouillet, France, in 1975, the G-7—now the G-8, with the inclusion of post-Soviet Russia—has evolved into what one report called "the nearest the world comes to having an apex body concerned with the global economy."[32]

The annual summit was the high point of the G-7 process, and over the years, the event became a highly elaborate affair attended by government delegations that numbered in the thousands.[33] While the summit of heads of state drew the most media attention, perhaps equally critical in terms of working out joint strategies was the meeting of finance ministers that took place a few days before the summit. Apart from these two sessions, there was "quiet bureaucratic coordination throughout the year…"[34]

In its first few years, the G-8 evolved mainly as a forum for discussing and loosely coordinating the macroeconomic policies of the rich countries in order to navigate a direction of stable growth that would avoid the Scylla of high inflation on the one side and the Charybdis of deep recession on the other. It was credited with a number of successes in the pursuit of this goal, including preventing the 1987 stock exchange crash from triggering global deflation by coordinating the monetary policies of the advanced countries.[35]

Even in its heyday, however, the G-7 was criticized as having little to offer the developing world. As one analyst put it, "the issues that the G7 normally considers fall within a narrow range of macroeconomic management, particularly in the monetary and financial fields. It neither considers nor takes an far-reaching decisions on some of the most urgent problems confronting the global community: for example, population growth, environmental degradation, drug trafficking, flow of refugees, food security, child survival, women's empowerment, human development."[36]

It was, however, the blatant exclusiveness and non-representativeness of the G-7 that drew the sharpest criticism, even from liberal quarters. For instance, the Commission on Global Governance berated the G-7 for the fact that it:

represents only 12 per cent of the world's population. By excluding China and India, it can no longer even claim to represent the world's major economies. The development issues that concern most of humanity have low priority on its agenda. Looking decades ahead, it will become more and more anachronistic that non-OECD economies that account for a large and growing slice of the world economy are not represented in the main body with an overview of international economic issues.[37]

II. Decisionmaking Structures of the Multilateral Agencies

If the developing countries have been disadvantaged by the policies of the Bretton Woods institutions and the World Trade Organization, a great part of the reason is that they have been marginalized in the formal decision-making systems of these institutions. An analysis of global economic governance would not be complete without a discussion of these structures, if only to show what global economic governance should not be like.

World Bank

A US Treasury Department report in the early eighties captured the dominance exercised by the United States in the World Bank in particular:

The United States was instrumental in shaping the structure and mission of the World Bank along Western, market-oriented lines…We were also responsible…for the emergence of a corporate entity with a weighted voting run by a board of directors, headed by a high-caliber American-dominated management, and well-qualified professional staff. As a charter member and major shareholder in the World Bank, the United States secured the sole right to a permanent seat on the Bank's Board of Directors.[38]

Formal decision-making power is based on the size of capital subscriptions. While significantly below the 42 per cent share of voting power that it had at the time the Bank began operations in 1946, the 17.6 per cent it currently possesses is above the critical 15 per cent it

needs to retain a veto over major lending decisions. The US has jealously guarded its preeminent shareholder role. Although Japan has been pressing for a larger share, the US has been able to limit its capital share and voting power to eight per cent.

Formal power is supplemented by informal mechanisms. By "tradition," the Bank's president is always an American citizen appointed by the US government, and the Bank's location in Washington, DC, gives the US Treasury Department easy access to it and helps insure that US citizens account for one quarter of senior management and the higher-level professional staff.[39]

Formal and informal mechanisms ensure a situation where "[o]ther significant actors—management, major donors, and major recipients—have recognized the United States as a major voice in the [multilateral development] banks. They know from past experience that we are capable and willing to pursue important policy objectives in the banks by exercising the financial and political leverage at our disposal."[40] In a study of fourteen of "the most significant issues" that sparked debate at the Bank—ranging from blocking observer status for the Palestine Liberation Organization (PLO) to halting Bank aid to Vietnam and Afghanistan—the United States was able to impose its view as Bank policy in 12 cases.[41]

The World Bank has been an important arm of US global policy, in the view of the Treasury Department. Indeed, "Neither bilateral assistance nor private sector flows, if available, are as effective in influencing LDC [less developed countries] as the MDB's [multilateral development banks]."[42] Indeed, as a Congressional Research Service analysis put it, the advantage of the World Bank and multilateral development banks from a US point of view was that they "perform the difficult task of requiring performance standards of their borrowers, a task which the United States and other lenders may be reluctant to impose on a bilateral basis."[43] A case in point was cited by former Deputy Treasury Secretary Peter McPherson who observed with respect to the Philippines:

We have not been particularly successful ourselves in winning policy reforms from the Philippines. Because it is something of a disinterested party, however, the World Bank has been enormously successful in negotiating important policy changes which we strongly support.[44]

International Monetary Fund

As in the case with the World Bank, the developed economies dominate the International Monetary Fund (IMF), with the five largest economies having 45.47 of total votes in the Board of Governors, the US being preeminent with 19 per cent. Since other rich countries have 21.42 per cent of the votes, the developed countries as a group have the voting power to block all decisions requiring majorities. In response to pressure from developing countries' demand to have a larger say in decisionmaking, the developed countries pushed through the Second Amendment to the Articles of Agreement. This detailed 53 different decisions requiring supermajorities of 70 to 85 percent to be passed, which meant that subgroups of "the developed have the ability to block decisions requiring 70 to 85 per cent majorities."[45]

The special weight of the US, in particular, has been carefully protected through the creation of new rules—a process detailed in an important article by Richard Leaver and Leonard Seabrooke. By the early 1970's, the US's voting power had declined from 30 per cent and was fast approaching the 20 per cent threshold protecting "special decisions." Japan and other countries were, however, seeking a change in voting power to reflect their greater weight in the world economy. This was, however, something that "Washington would not tolerate."

It stonewalled a review of the Fund's quotas, drawing out the process. But in the end a deal was struck with the Japanese and the Europeans. The voting power of the US was indeed reduced to 19 per cent, but the supermajority requirement for "special decisions" was racheted up to 85 per cent. This extraordinary double movement provided the precedent for a similar deal inside the World Bank a decade later, so setting one of the major parameters of the distribution of political power governing the Fund through the period of the Latin and Asian debt crisis.[46]

Democracy is also ill-served by the fact that the Fund is extremely non-transparent, since despite the fact that members have voting rights, a formal vote, either in the Board of Executive Directors or in the Board of Governors, is "a relatively rare occurrence."[47] The US executive director for the greater part of the Clinton administration, for instance, revealed that the executive board actually had votes on approximately a dozen out of 2000 decisions during her tenure. Instead, most decisions are made instead by a form of consensus.

However, as Ngaire Wood has noted, consensus as practsed by the Fund has non-democratic implications. One is that it merely serves to cover up the unequal power relations that would reveal themselves were a formal vote taken since "formal powers have an underlying force of which all participants in meetings are aware."[48] Another is that states and NGO's that are not present during the proceedings find it very hard to figure out what actually transpired, thus undermining transparency and accountability."[49]

Although the Fund is by tradition headed by a European, it is extraordinarily submissive towards the US Treasury Department. During, the Fund bailouts of Mexico in 1994-95 and Southeast Asian countries in 1997, IMF

Managing Director Michel Camdessus was widely regarded as being micromanaged by Secretary of the Treasury Robert Rubin and his key aide Larry Summers, provoking the *New York Times* to call the Fund "a proxy for the United States."[50]

The Fund's special functions for Washington was what led the latter to veto the creation of the Asian Monetary Fund (AMF) proposed by Japan during the IMF-World Bank meeting in Hong Kong in September 1997. As analyst Eric Altbach claims, Washington's vehement response stemmed from the fact that increasing congressional constraints on the president's power to commit US bilateral funds to international initiatives made the US "more dependent on its power in the IMF to exercise influence on financial matters in Asia. In this context, an Asian monetary fund in which Japan was a major player would be a blow to the US role in the region." [51]

World Trade Organization

One of the key reasons for the collapse of the World Trade Organization ministerial in Seattle in December 1999 was the absence of transparent decisionmaking. Stories about of ministers from developing countries complained of being lost at the Seattle Convention Center, looking for a "Green Room" where key decisions would be made, not knowing that the Green Room did not refer to a real room at the convention center but to an exclusive process of decisionmaking.

During the WTO ratification process in 1994, partisans of the new trade organization portrayed it as a one-country/one-vote organization where the United States would actually have the same vote as Rwanda. In truth, the WTO is not governed democratically via a one country-one vote system like UN General Assembly or through a system of weighted voting like the World Bank or the IMF. While according to its constitution, it is a one country/one vote system, "consensus" is the process that reigns in the World Trade Organization, one that it took over from the old GATT, where the last time a vote was taken was in 1959.

Consensus, in practice, is a process whereby the big trading countries impose their consensus on the less powerful countries. As C. Fred Bergsten, a prominent partisan of globalization who heads the Institute of International Economics, put it during US Senate hearings on the ratification of the GATT-WTO Agreement in 1994, the WTO does "does not work by voting. It works by a consensus arrangement which, to tell the truth, is managed by four—the Quads: the United States, Japan, European Union, and Canada…Those countries have to agree if any major steps are going to be made. But no votes."[52]

Though the Ministerial and the General Council are theoretically the highest decisionmaking bodies of the WTO, decisions are arrived at not in formal plenaries but in non-transparent backroom sessions known as the "Green Room," after the color of the Director General's room at the WTO headquarters in Geneva. With surprising frankness, at a press conference in Seattle, shortly after the ministerial collapse, the US Trade Representative Charlene Barshefsky described the dynamics and consequences of the Green Room: "The process, including even at Singapore as recently as three years ago, was a rather exclusionary one. All the meetings were held between 20 and 30 key countries…And this meant 100 countries, 100, were never in the room…[T]his led to extraordinarily bad feeling that they were left out of the process and that the results even at Singapore had been dictated to them by the 25 to 30 countries who were in the room."[53]

Barshesky admitted that "the WTO has outgrown the processes appropriate to an earlier time. An increasing and necessary view, generally shared among the members, was that we needed a process which had a greater degree of internal transparency and inclusion to accommodate a larger and more diverse membership." This was backed up by UK Secretary of State Stephen Byers who stated that the "WTO will not be able to continue in its present form. There has to be fundamental and radical change in order for it to meet the needs and aspirations of all 134 of its members."[54]

III. Crisis of Policy, Crisis of Legitimacy

With the founding of the WTO, neoliberalism or, as it was more grandiosely styled, the "Washington Consensus" seem to have carried all before it by the mid-1990's. As one of its key partisans later remarked, in a nostalgic vein, "the Washington Consensus seemed to gain near-universal approval and provided a guiding ideology and underlying intellectual consensus for the world economy, which was quite new in modern history."[55] Less than five years later, the Consensus was in tatters and the key institutions of global governance that underpinned in were experiencing a severe crisis of legitimacy.

The IMF's Stalingrad

If any event may be said to have contributed to undermining the Fund, it was the Asian financial crisis, whose legacy of collapsed financial systems, bankrupt corporations, and rising poverty and inequality continue to plague the region. One can say that the Asian financial crisis was the Stalingrad of the IMF. Bearing in mind the limits of metaphor, the IMF during the Asian financial crisis acted like the German Sixth Army, making one wrong move after another on the way to disaster.

It was the IMF that helped trigger the massive flow of volatile speculative capital into the region by pressing

the Asian governments for capital account liberalization prior to the crisis, egged on itself by the US Treasury Department. It was the IMF that confidently moved in after the panicky flight of speculative capital began, with a tight fiscal and monetary formula that, by drastically reducing government's capacity to act as counterforce to the downturn in private sector activity, converted the financial crisis into an economic collapse.

It was the IMF that assembled the high profile multibillion-dollar rescue packages that were meant to rescue foreign creditors even as local banks, finance companies, and corporations were told to bite the bullet by accepting bankruptcy. It was the IMF that imposed on the fallen economies a program of radical deregulation and financial and trade liberalization that was essentially Washington's pre-crisis agenda the tigers had been able to frustrate during their days of prosperity. And it was the IMF that, at the urging of the US Treasury Department, killed the proposal for an Asian Monetary Fund (AMF), which would have pooled together the reserves from the more financially sound economies to serve as a fund from which those subjected to speculative attack could draw to shore up their currencies.

As the stricken economies registered negative growth rates and record unemployment rates in 1998, and over one million people in Thailand and 21 million in Indonesia fell below the poverty line, the IMF not surprisingly joined corrupt governments, banks, and George Soros as the villains of the piece in the view of millions of newly impoverished Koreans, Thais, and Indonesians.

But equally as consequential for its future as an institution was the fact that the IMF's actions brought the long simmering conflict over the role of the Fund within the US elite to a boil. The American right denounced the Fund for promoting moral hazard, with some personalities like former US Treasury Secretary George Shultz calling for its abolition, while orthodox liberals like Jeffrey Sachs and Jagdish Bhagwati attacked the Fund for being a threat to global macroeconomic stability and prosperity. Late in 1998, a conservative-liberal alliance in the US Congress came within a hair's breath of denying the IMF a $14.5 billion increase in the US quota. The quota increase was salvaged, with arm-twisting on the part of the Clinton administration, but it was clear that the long-time internationalist consensus within the US elite that had propped up the Fund for over five decades was unraveling.

The Past Catches Up

The Fund's performance during the Asian financial crisis led to a widespread reappraisal of the Fund's role in the Third World in the 1980s and early 1990s, when structural adjustment programs were imposed over 90 developing and transition economies.

Judged by the extremely narrow criterion of promoting growth, structural adjustment programs were a failure, with a number of studies showing that adjustment had brought about a negative effect on growth. After over 15 years, it was hard to point to more than a handful as having brought about stable growth, among them the very questionable case of Pinochet's Chile. What structural adjustment had done instead was to institutionalize stagnation in Africa, Latin America, and other parts of the Third World. A study by the Center for Economic and Policy Research shows that 77 percent of countries for which data is available saw their per capita rate of growth fall significantly from the period 1960–1980 to the period 1980–2000, the structural adjustment period. In Latin America, income expanded by 75 percent during the 1960s and 1970s, when the region's economies were relatively closed, but grew by only six percent in the past two decades. [56] Average incomes in sub-Saharan Africa and the old Eastern bloc have actually contracted."[57]

Broadening the criteria of success to include reduction of inequality and bringing down poverty, the results were unquestionable—structural adjustment was a blight on the Third World. A study by Mattias Lundberg and Lyn Squire of the World Bank summed it up thus: "the poor are far more vulnerable to shifts in relative international prices, and this vulnerability is magnified by the country's openness to trade…(A)t least in the short term, globalization appears to increase both poverty and inequality."[58] The number of people globally living in poverty—that is, on less than a dollar a day—increased from 1.1 billion in 1985 to 1.2 billion in 1998, and was expected to reach 1.3 billion by 2000. According to a recent World Bank study, the absolute number of people living in poverty rose in the 1990s in Eastern Europe, South Asia, Latin America and the Caribbean, and Sub Saharan Africa—all areas that came under the sway of structural adjustment programs.

As a consequence of greater public scrutiny following its disastrous policies in East Asia, the Fund could no longer pretend that adjustment had not been a massive failure in Africa, Latin America, and South Asia. During the World Bank-IMF meetings in September 1999, the Fund conceded failure by renaming the extended structural adjustment facility (ESAF) the "poverty reduction and growth facility" and promised to learn from the World Bank in making the elimination of poverty the "centerpiece" of its programs. But this was too little, too late, and too incredible. Support for the IMF in Washington was down to the US treasury by the end of the Clinton administration.

Meltzer and the World Bank

Since assuming office in 1996, Australian-turned-American Jim Wolfensohn, by opening up channels of communication with the non-governmental organizations (NGOs) and with the help of a well-oiled public relations

machine, tried to recast the Bank's image as an institution that was not only moving away from structural adjustment but was also making poverty-elimination its central mission, promoting good governance, and supporting environmentally-sensitive lending. The best defense, in short, was to expand the agency's agenda.

The report of the Meltzer Commission found its mark in February 2000. Exhaustively examining documents and interviewing all kinds of experts, the Commission came up with a number of devastating findings that bear being pointed out: 70 percent of the Bank's non-grant lending is concentrated in 11 countries, with 145 other member countries left to scramble for the remaining 30 percent; 80 percent of the Bank's resources are devoted not to the poorest developing countries but to the better off ones that have positive credit ratings and, according to the Commission, can therefore raise their funds in international capital markets; the failure rate of bank projects is 65–70 percent in the poorest countries and 55–60 percent in all developing countries. In short, the World Bank was irrelevant to the achievement of its avowed mission of global poverty alleviation.[59]

And what to do with the Bank? The Commission urged that most of the Bank's lending activities be devolved to the regional developing banks. It does not take much for readers of the report to realize that, as one of the Commission's members revealed, it "essentially wants to abolish the International Monetary Fund and the World bank," a goal that had significant pockets of support…in our Congress."[60]

Much to the chagrin of Wolfensohn, few people came to the defense of the Bank. Instead, the realities of the Bank's expanded mission were exposed in the months leading up to the World Bank-IMF meeting in Prague in September 2000.[61] The claim that the Bank was concerned about "good governance" was contradicted by the exposure of its profound involvement with the Suharto regime in Indonesia, to which it funneled over $30 billion in 30 years. According to several reports, including a World Bank internal report that came out in 1999, the Bank tolerated corruption, accorded false status to false government statistics, legitimized the dictatorship by passing it off as a model for other countries, and was complacent about the state of human rights and the monopolistic control of the economy. That this close embrace of the Suharto regime continued well into the Wolfensohn era was particularly damning.

The image of a new, environmentally sensitive Bank under Wolfensohn also evaporated in the avalanche of criticism that came after the Meltzer report. The Bank was a staunch backer of the controversial Chad-Cameroon Pipeline, which would seriously damage ecologically sensitive areas like Cameroon's Atlantic Littoral Forest. Bank management was caught violating its own rules on environment and resettlement when it tried to push through the China Western Poverty Project that would have transformed an arid ecosystem supporting minority Tibetan and Mongolian sheepherders into land for settled agriculture for people from other parts of China.

A look at the bank's loan portfolio revealed the reality behind the rhetoric: loans for the environment as a percentage of the Bank's total loan portfolio declined from 3.6 percent in fiscal year 1994 to 1.02 percent in 1998; funds allocated to environmental projects declined by 32.7 percent between 1998 and 1999; and more than half of all lending by the World bank's private sector divisions in 1998 was for environmentally harmful projects like dams, roads, and power. So marginalized was the Bank's environmental staff within the bureaucracy that Herman Daly, the distinguished ecological economist, left the Bank staff because he felt that he and other in-house environmentalists were having no impact at all on agency policy.

Confronted with a list of thoroughly documented charges from civil society groups during the now famous Prague Castle debate sponsored by Czech president Vaclav Havel during the tumultuous IMF-World Bank meeting on September 23, 2000, Wolfensohn was reduced to giving the memorable answer, "I and my colleagues feel good about going to work everyday." [62] It was an answer that underlined the depth of the Bretton Woods system crisis of legitimacy, and was matched only by IMF managing director Horst Koehler's famous line at that same event: "I also have a heart, but I have to use my head in making decisions."[63]

The WTO on the Road to Seattle

In the mid-1990s, the WTO was sold to the global public as the lynchpin of a multilateral system of economic governance that would provide the necessary rules to facilitate the growth of global trade and the spread of its beneficial effects. Nearly five years later, the implications and consequences of the founding of the WTO had become as clear to large numbers of people as a robbery carried out in broad daylight. What were some of these realizations?

- By agreeing to eliminate import quotas and signing the Agreement on Trade Related Investment Measures (TRIMs), which declared such mechanisms as local-content policies and trade balancing requirements illegal, developing countries discovered that they had signed away their right to use trade policy as a means of industrialization.
- By signing the Agreement on Trade-Related Intellectual Property Rights (TRIPs), countries realized that they had given high tech transnationals like Microsoft and Intel the right to monopolize innovation in the knowledge-intensive industries, and provided biotechnology firms like Novartis and Monsanto the go-signal to privatize the fruits of aeons of creative interaction between human communities and nature such as seeds, plants, and animal life.

- By signing the Agreement on Agriculture (AOA), developing countries discovered that they had agreed to open up their markets while allowing the big agricultural superpowers to consolidate their system of subsidized agricultural production that was leading to the massive dumping of surpluses on those very markets, a process that was, in turn, destroying smallholder-based agriculture. The figures spoke for themselves: the level of overall subsidization of agriculture in the Organization for Economic Co-operation and Development (OECD) countries rose from $182 billion in 1995 when the WTO was born, to $280 billion in 1997, to $362 billion in 1998! Instead of the beginning of a New Deal, the AOA, in the words of a former Philippine secretary of trade, "has perpetuated the unevenness of a playing field which the multilateral trading system has been trying to correct. Moreover, this has placed the burden of adjustment on developing countries relative to countries who can afford to maintain high levels of domestic support and export subsidies."[64]

In contrast to the loose GATT framework, which had allowed some space for development initiatives, the comprehensive and tightened Uruguay Round was fundamentally anti-development in its thrust. This was evident in the GATT-WTO Agreement's watering down of the principle of "Special and Differential Treatment" (SDT) for developing countries. A central pillar of UNCTAD—an organization dis-empowered by the establishment of the WTO—the SDT principle held that owing to the critical nexus between trade and development, developing countries should not be subjected to the same expectations, rules, and regulations that govern trade among the developed countries. Owing to historical and structural considerations, developing countries needed special consideration and special assistance in leveling the playing field for them to be able to participate equitably in world trade. This would include both the use of protective tariffs for development purposes and preferential access of developing country exports to developed country markets.

While GATT was not centrally concerned with development, it did recognize the "special and differential status" of the developing countries. Perhaps the strongest statement of this was in the Tokyo Round Declaration in 1973, which recognized "the importance of the application of differential measures in developing countries in ways which will provide special and more favorable treatment for them in areas of negotiation where this is feasible."[65]

Different sections of the evolving GATT code allowed developing countries to renegotiate tariff bindings in order to promote the establishment of certain industries; to use tariffs for economic development and fiscal purposes; to use quantitative restrictions to promote infant industries; and conceded the principle of non-reciprocity by developing countries in trade negotiation.[66] The 1979 framework agreement known at the enabling clause also provided a permanent legal basis for general system of preferences (GSP) schemes that would provide preferential access to developing country exports.[67]

A significant shift occurred in the Uruguay Round. GSP schemes were not bound, meaning tariffs could be raised against developing country until they equaled the bound rates applied to imports for all sources. During the negotiations, the threat to remove GSP was used as "a form of bilateral pressure on developing countries."[68] Special and differential treatment (SDT) was turned from a focus on a special right to protect and special rights of market access to "one of responding to special adjustment difficulties in developing countries stemming from the implementation of WTO decisions."[69] Measures meant to address the structural inequality of the trading system gave way to measures, such as a lower rate of tariff reduction or a longer time frame for implementing decisions, which regarded the problem of developing countries as simply that of catching up in an essentially even playing field.

SDT was significantly watered down in the WTO, and this was not surprising for the neoliberal agenda that underpins the WTO philosophy which differs from the Keynesian assumptions of GATT: that there are no special rights, no special protections needed for development. The only route to development is one that involves radical trade (and investment) liberalization.

Also leading to the developing countries' disillusionment with the GATT-WTO was the fate of the measures approved during the Uruguay Round that were supposed to respond to the special conditions of developing countries. There were two key agreements which promoters of the WTO claimed were specifically designed to meet the needs of the South: the special ministerial agreement approved in Marrakech in April 1994, which decreed that special compensatory measures would be taken to counteract the negative effects of trade liberalization on the net food-importing developing countries; and the Agreement on Textiles and Clothing, which mandated that the system of quotas on developing country exports of textiles and garments to the North would be dismantled over ten years.

The special ministerial decision taken at Marrakech to provide assistance to "net food importing countries" to offset the reduction of subsidies that would make food imports more expensive for the "net food importing countries" has never been implemented. Though world crude oil prices more than doubled in 1995–1996, the World Bank and the IMF scotched any idea of offsetting aid by arguing that "the price increase was not due to the agreement on agriculture, and besides there was never any agreement anyway on who would be responsible for providing the assistance."[70]

The Agreement on Textiles and Clothing committed the developed countries to bring under WTO discipline all textile and garment imports over four stages, ending on January 1, 2005. A key feature was supposed to be the lifting of quotas on imports restricted under the multifiber agreement (MFA) and similar schemes which had been used to contain penetration of developed country markets by cheap clothing and textile imports from the Third World. However, developed countries retained the right to choose which product lines to liberalize and when, so that they first brought mainly unrestricted products into the WTO discipline and postponed dealing with restricted products until much later. Thus, in the first phase, all restricted products continued to be under quota, as only items where imports were not considered threatening—like felt hats or yarn of carded fine animal hair—were included in the developed countries' notifications. Indeed, the notifications for the coverage of products for liberalization on January 1, 1998 showed that "even at the second stage of implementation only a very small proportion" of restricted products would see their quotas lifted.[71]

Given this trend, John Whalley notes that "the belief is now widely held in the developing world that in 2004, while the MFA may disappear, it may well be replaced by a series of other trade instruments, possibly substantial increases in anti-dumping duties."[72]

IV. The G-7 and Reform, 1998-2001

With the onset of Asian financial crisis, the role of the G7 in coordinating the response to the need change in the institutions of global economic governance became particularly acute. This was particularly clear in relation to the Asian financial crisis.

Reforming the Global Financial Architecture

Calls for a new global financial architecture to reduce the volatility of the trillions of dollars shooting around the world in pursuit of narrow but significant interest rate differentials came from many quarters in the wake of the crisis. Eventually, the US evolved the position that the current architecture was basically sound, there was no need for major reforms, and what was needed was simply "improving the wiring of the system." Though there were some differences on some details, this position was shared by the other members of the G-7.

This approach assigned primacy to "reforming" the financial sectors of the crisis economies through increased transparency, tougher bankruptcy laws to eliminate moral hazard, prudential regulation using the "core principles" drafted by the Basle committee on banking supervision, and greater inflow of foreign capital not only to re-capitalize shattered banks, but also to "stabilize" the local financial system by making foreign interests integral to it.

When it came to the supply-side actors in the North, this perspective would leave them to voluntarily comply with the Basle principles. Although, government intervention might be needed periodically to catch free-falling casino players whose collapse might bring down the whole global financial structure (as was the case in late 1998 when a consortium of New York banks—lead by the Reserve Bank of New York—organized a rescue of the hedge fund Long-Term Capital Management after the latter was unraveled by Russia's financial crisis). The farthest the G-7 has gone in terms of dealing with the controversial hedge fund question was to issue a declaration in October 1998 commenting on the need to examine "the implications arising from the operations of leveraged international financial organizations including hedge funds and offshore institutions" and "to encourage offshore centers to comply with internationally agreed standards."[73]

Tobin taxes or similar controls designed to slow down capital flows were a no-no. Instead even more liberalization was seen as the answer to global financial instability. The US Treasury Secretary Larry Summers revealed the logic behind this approach in his comments on Argentina in 1999: "Today, fully 50 per cent of the banking sector, 70 per cent of private banks, in Argentina are foreign-controlled, up from 30 per cent in 1994. The result is a deeper, more efficient market, and external investors with a greater stake in staying put."[74] To put it in the curious algebra with the US Treasury, financial liberalization equals domestic financial stability equals the global interest.

When it came to IMF reform, no substantial reforms were offered in the area of policy. For all intents and purposes an unreformed IMF continued to be at the center of the "firefighting system. " Indeed, the G-7 supported the expansion of the powers of the IMF. On the one hand, it gave the Fund the authority to push private creditors to carry some of the costs of a rescue program, that is, to "bail them in" instead of bailing them out. This was a modest response to clamor on both the right and the left that because the Fund had been used in the past to bail out private creditors, they were merely encourage to engage in more irresponsible lending in the future.

On the other hand, the G-7 authorized the creation of a "contingency credit line" that would be made available to countries that are about to be subjected to speculative attack. Access to these funds would be dependent on a country's track record in terms of observing good macr-

oeconomic fundamentals, as traditionally stipulated by the Fund.
The only problem with the latter proposal was that no one wanted to avail of the pre-crisis credit line, rightly worried that speculative investors would take this as a sign of crisis and move to take their capital out of the country, thus accelerating the crisis that the pre-crisis credit line was supposed to avert in the first place.

Another innovation that was trumpeted by the G-7 in the area of global financial management was the creation of a "Financial Stability Forum." As originally proposed, this body had no representation from the less developed economies. When this generated criticism, the G-7 issued an invitation to Singapore and Hong Kong to join the body. The developing countries were still not satisfied, however, leading the G-7 to create the G-20, with more representation from the South. As Andy Knight notes, however, even this expanded G-20 has no representation from the poorest developing countries.[75] Moreover,

The G-20 also lacks any mechanism for reporting or for accountability to the broader international community; its origins in the G-7 reduce its legitimacy; its membership is not fully representative; its mandate is narrow; its procedures are not inclusive enough to allow for participation by non-governmental organizations; and, its operations are not all that transparent either.[76]

From Structural Adjustment to Poverty Reduction?

With the disaster of structural adjustment becoming more evident in developing countries, the G-7 committed itself to achieve, with the leadership of the World Bank, a significant reduction in the debt servicing of the 41 highly indebted poor countries (HIPC). This commitment was most loudly proclaimed at the G-7 meeting in Cologne in July1999. Yet at the Okinawa Summit the following year, debt reduction for the poor countries did not figure in the agenda, and during the Genoa Summit in July 2001, it received only perfunctory mention in the final communique. This was not surprising because the actual debt reduction achieved by the program since it began in 1996 was only $1 billion—or a reduction of their debt servicing by only three per cent in four and a half years. There was simply no desire to allow greater debt reduction without requiring more pervasive conditionalities.

At the World Bank-IMF meeting in the fall of 1999, the extended structural adjustment facility (ESAF) was renamed the poverty reduction and growth facility. Along with this change was supposed to come a basic change in approach. As US Treasury Secretary Larry Summers put it, the new approach would consist of "moving away from an IMF-centered process that has too often focused on narrow macroeconomic objectives at the expense of broader human development." [77] The new process would be "a new more inclusive process that would involve multiple international organizations and give national policy makers and civil society groups a more central role."[78]

But the new approach, at closer inspection, was suspiciously like the old one. Summers stated that the new IMF must have as one of its priorities "strong support for market opening and trade liberalization." [79] Trade liberalization, he continued, "is often a key component of IMF arrangements. In the course of negotiations, the IMF has sought continued compliance with existing trade obligations and further commitments to market opening measures as part of a strategy of spurring growth. For example: As part of its IMF program, Indonesia has abolished import monopolies for soybeans and wheat; agreed to phase out all non-tariff barriers affecting imports; dissolved all cartels for plywood, cement, and paper; removed restrictions on foreign investments in the wholesale and resale trades; and allowed foreign banks to buy domestic ones. Zambia's 1999 program with the IMF commits the government to reducing the weighted average tariff on foreign goods to ten per cent, and to cutting the maximum tariff from 25 to 20 per cent in 2001. In July, the import ban on wheat flour was eliminated."[80] In other words, beneath the rhetoric of anti-poverty and human development, the same neoliberal economic model prevailed.

As for the PRSP process—the preparation of poverty reduction strategy papers between Fund, Bank and local government officials—this turned out to be nothing more than an effort to add a veneer of public particpation to the same technocratic process and model emphasizing liberalization and deregulation. Recent reports coming in from countries where the PRSP process has begun "show that little has changed in the IMF-World bank's approach to programming either in content or in process. Experiences from Bolivia, Nicaragua, Tanzania, Zambia, and Mozambique indicate that PRSP processes continue to be based on existing structural adjustment frameworks and macroeconomic indicators, with little more than lip service to genuine public participation in poverty analyses and policy formulation."[81] The paper goes on to elaborate:

[[P]articipation to date has involved little more than consultations with a few prominent and liberal CSO's, rather than broad-based, substantive public dialogue about the causes of incidence of poverty. Local, vernacular forms of civil society organization such as labour unions, peasant organizations, social movements, women's groups, and indigenous people's organizations have not been invited into the process, and the little public discussion that has taken place has been limited to well resourced national and international non-governmental organizations.[82]

That the drive for reform at the Bank had been stymied

was revealed dramatically by the resignation in frustration of two highly regarded economists: Joseph Stiglitz, the chief economist, and Ravi Kanbur, head of the World Development Task Force.

Non-democratic decisionmaking affirmed

When it comes to the issue of democratizing the IMF and the World Bank, there is no longer any talk about doing away with the feudal practices of always having an American head the Bank and a European to lead the Fund. In terms of giving more voting power to developing countries, many proposals have been made over the last three years. Perhaps the most prominent of these has been associated with Joseph Stiglitz, the former chief economist. Stiglitz's not unreasonable proposal is that "pending a reexamination of the allocation of voting, the direct voice of the borrowing countries in the executive boards of the IFI's be increased, e.g., by establishing two additional seats with half votes, or repackaging constituencies."[83]

Such proposals have not even reached first base, and the reason is, as Mark Zacher notes, "it is very unlikely that the major donor states (namely, the Western industrialized countries) are going to sacrifice their veto power (15, 30, and 50 per cent of total votes depending on the issue) over the amount of money that they contribute or the policies concerning loans and grants to recipient countries. They may be willing to make some modest changes in the distribution of votes and the majorities that are required for particular types of decisions; but they are not going to sacrifice their ability to block decisions that concern contributions to the IMF and the IMF's dispersements [sic] of these funds."[84]

Decision-making at the WTO: From Seattle to Doha

As for the World Trade Organization, instead of seeking to change the blatantly unrepresentative decisionmaking processes after the Seattle fiasco, WTO officials have been busy defending them. The Green Room process was, for instance, defended thus by a key adviser to Director General Mike Moore: "One of the myths about Seattle is that there were no Africans and hardly any developing countries in the Green Room. In fact, there were six Africans and a majority from developing countries. Moreover, any deal reached in the Green Room must still be approved by all WTO members."[85] Mike Moore himself told developing country delegates at the UNCTAD X meeting in Bangkok in February 2000 that the Consensus/Green Room system was "non-negotiable."[86]

The lack of movement towards a more transparent and democratic decision-making process was more than evident in the leadup to and in the proceedings of the Fourth Ministerial in Doha, Qatar, in November 2001.

The proposed draft declaration for the Ministerial meeting was a product of the sort of non-transparent tactics that the big trading powers resorted to. In the lead-up to Doha, most of the developing countries were pretty much united around the position that the Ministerial would have to focus on implementation issues and on reviews of key WTO agreements, not on launching a new round of trade liberalization.

But when the draft declaration came out a few weeks before Doha, the emphasis was not on dealing with implementation issues, but on an alleged consensus on opening up negotiations on the issues of competition, investment policy, government procurement, and trade facilitation that were the priorities of the minority of rich and powerful trading countries. "Despite clearly stated positions that the developing countries are unwilling to go into a new round until past implementation and decision-making are addressed," noted Aileen Kwa, who followed the process closely, "the draft declaration favorably positioned the launching of a comprehensive new round with an open agenda."[87]

The draft, which was authored by the chair of the General Council, was a product of consultations with all WTO members. In actual fact, the key consultations were conducted among an inner circle of about 20-25 participants—the so-called Green Room process that effectively excludes most of the members of the WTO. In the lead-up to Qatar, this exclusive process held two "mini-Ministerials," one in Mexico at the end of August and another in Singapore on October 13-14. How one got invited to these meetings was very murky. Aileen Kwa cites the case of one ambassador from a transition economy who was promised an invitation to a Green Room meeting by the WTO Secretariat but never got one. Then there was the case of an African ambassador who wanted to attend the Singapore mini-ministerial: When he approached the WTO secretariat for an invitation, he was told that they were not hosting the meeting. When he tried the Singapore mission in Geneva, the response was that they were simply coordinating the meeting and were not in a position to send out invitations.[88]

The Doha ministerial from Nov. 9 to 14, 2001, took place amidst conditions that were already unfavorable from the point of view of developing country interests. The September 11 events provided a heaven-sent opportunity for US Trade Representative Robert Zoellick and European Union Trade Commissioner Pascal Lamy to step up the pressure on the developing countries to agree to the launching of a new trade round, invoking the rationale that it was necessary to counter a global downturn that had been worsened by the terrorist actions. The location was also unfavorable, Qatar being a monarchy where dissent could be easily controlled. The WTO Secretariat's authority over who would be granted visas to enter Qatar for the ministerial allowed it to radically limit the number of legitimate NGO's that could be present to

about 60, thus preventing that explosive interaction of developing country resentment and massive street protest that took place in Seattle.

Still, these factors would not have been sufficient to bring about an unfavorable outcome. Tactics mattered, and here the developing countries were clearly outmaneuvered in Doha. Among these tactics the following must be highlighted:[89]

- Pushing the highly unbalanced draft declaration and presenting it to the ministerial as a "clean text" on which there allegedly was consensus, thus restricting the arena of substantive discussion and making it difficult for developing countries to register fundamental objections without seeming "obstructionist."
- Pitting officials from the capitals against their negotiators based in Geneva, with the latter being characterized as "recalcitrant" or "narrow."
- Employing direct threats, as the United States did when it warned Haiti and the Dominican Republic to cease opposition to its position on government procurement or risk cancellation of their preferential trade arrangements.
- Buying off countries with goodies, as the European Union did when, in return for their agreeing to the final declaration, it assured countries in the ACP (Africa-Caribbean-Pacific) group that the WTO would respect the so-called "ACP Waiver" that would allow them to export their agricultural commodities to Europe at preferential terms relative to other developing countries. Pakistan, a stalwart among developing countries in Geneva, was notably quiet at Doha. Apparently, this had something to do with the US's granting Pakistan a massive aid package of grants, loans, and debt reduction owing to its special status in the US war against terrorism. Nigeria had taken the step of issuing an official communique denouncing the draft declaration before Doha, but came out loudly supporting it on November 14-a flip-flop that is difficult to separate from the US's coming up with the promise of a big economic and military aid package in the interim.
- Reinstituting the infamous "Green Room" on November 13 and 14, when some 20 handpicked countries were isolated from the rest and "delegated" by the WTO secretariat and the big powers to come up with the final declaration. These countries were not picked by a democratic process, and efforts by some developing country representatives to insert themselves into this select group were rebuffed, some gently, others quite explicitly, as was the case with a delegate from Uganda.
- Finally, pressuring the developing countries by telling them that they would bear the onus for causing the collapse of another ministerial, the collapse of the WTO, and the deepening of the global recession that would allegedly be the consequence of these two events.
-

Doha was a low point in the GATT-WTO's history of backroom intimidation, threats, bribery, and non-transparency. There are no records of the actual decision-making process in Doha because the formal sessions of the ministerial—which is where decision-making is made in a democratic system—were, as in Seattle, reserved for speeches, and the real decisions took place in informal groupings whose meeting places kept shifting and were not known to all. There being no records, there is little accountability and the principals in any deals can deny that they engaged in questionable behavior. This non-transparent process resulted in practically sidelining the developing countries' demand that the WTO focus on implementation issues and placing on center-stage the top agenda of the big trading powers: the eventual launching of a new set of trade negotiations that would bring into WTO jurisdiction the non-trade areas of investment, competition policy, government procurement, and trade facilitation. C. Fred Bergsten., the free-trade partisan, once compared the WTO and trade liberalization to a bicycle: it only stays up by moving forward. Doha set the WTO upright once more, but it is still wobbly, and this is because a great deal of resentment lingers among developing countries from the whole non-transparent process of bamboozling them into accepting a declaration running counter to their interests. The WTO's crisis of legitimacy is not over, and the non-transparency and lack of democracy so evident in Doha may yet deepen it.

V. Proposals for Reform of Global Governance

An Economic Security Council?

Aside from reform proposals for the WTO and Bretton Woods institutions, among the key ideas advanced in the last few years has been the creation of an Economic Security Council (ESC), a suggestion associated with the Commission on Global Governance. According to the Commission, the ESC would have the same status in the UN hierarchy as the Security Council but be independent of it.

The ESC would be a sort of international economic directorate—an "apex body" that would serve as the "focal point for global economic governance." A key function of this body

would be to bridge the gap between the various international economic insittutions. This does not mean there has to be centrally coordinated direction of all the world's institutions of economic governance under one umbrella. That would be neither feasible not desirable. What is required is agreement on goals, roles, and mandates...

At a practical level, the ESC and its staff would expect to work closely with staff from the Bretton Woods institutions and the GATT/WTO, breaking down the institutional isolation that currently exists, as well as with bodies such as the International Labour Organization (ILO), to underline the social dimensions of its functions.[90]

Establishment of the ESC would be accompanied by a "rationalization" of Bretton Woods and UN institutions, with the Commission recommending closing down UNCTAD and UNIDO and suggesting that were it to come into being, "governments may want to consider whether it is necessary to continue the work of the Development and Interim Committees."[91]

Ever since it was floated in 1995, the ESC has not gained much support from either developed or developing countries. A new superbody with significant developing country membership to whom the Bretton Woods institutions and the WTO would "report to" was not bound to excite the developed countries. At the same time, the proposal that "the world's largest economies would be represented as of right," while others would not be in a 23 member body did not appeal to the developing countries.

Moreover, developing countries were not happy with the recommendation to abolish UNCTAD and move its functions to the WTO,[92] since UNCTAD had been, after all, one of the few agencies in the UN system that had consistently championed the interests of the Third World. Equally important was the sense that because of inevitable dominance by the developed countries, the ESC superbody would simply translate into a centralization of rich country control over the global economy, especially since the ESC would need to work close with the rich-country dominated WTO and Bretton Woods institutions.

The Meltzer Commission Proposal

As noted earlier, the report of the International Financial Institution Advisory Commission, better known as the "Meltzer Report" after its chairman Alan Meltzer, launched a devastating attack on the performance of the World Bank and the IMF that served as a striking confirmation from the mainstream of what a whole generation of progressive critics had been saying for the last 25 years.[93] Among the most important conclusions of the report were the following:

- instead of promoting economic growth, the IMF institutionalizes economic stagnation;
- the World Bank is irrelevant rather than central to the goal of eliminating global poverty;
- both institutions are to a great extent driven by the interests of key political and economic institutions in the G-7 countries—particularly, the US government and US financial interests;
- the dynamics of both institutions derives not so much from the external demands of poverty alleviation or promoting growth but to the internal imperative of bureaucratic empire-building.

While diplomatic in its language when discussing the IMF, the report finds little of value in the institution. It shows that the Fund's foray into macroeconomic reform via structural adjustment institutionalized economic stagnation, poverty, and inequality in Africa and Latin America is the 1980's and 1990's.

It confirms that the Fund's original objective of ensuring a stable global financial order was derailed by its prescription of indiscriminate capital account liberalization for the countries of East Asia, its habit of assembling financial rescue packages that simply encouraged "moral hazard" of irresponsible lending and speculative investment, and its prescribing tight fiscal and monetary policies that merely worsened the situation in the countries hit by the Asian financial crisis instead of reversing it.

The report recommends shutting down Fund programs like the extended structural adjustment program, now renamed the "Poverty Reduction Strategy Program," and downsizing the IMF. Inexplicably, however, in view of its unsparing criticism, it recommends that the IMF should continue in and consolidate its role of being a "quasi-lender of last resort" to countries suffering a liquidity crisis. By the Commission's own account, this is a task that the Fund has handled badly in the past. Moreover, the Commission's recommending of strict conditions under which it may extend credit contradicts its own criticism of "the use of IMF resources and conditionality to control the economies of developing nations."[94]

Particularly objectionable is the Commission's proposal that the Fund provide liquidity assistance only to those countries that "permit freedom of entry and operation got foreign financial institutions" on grounds that these entities would, among other things, "stabilize and develop the local financial system." This is problematic for two reasons. First, foreign financial institutions such as hedge funds, which have taken full advantage of "free entry and operation," have helped precipitate one financial crisis after another. Second, forcing countries to adopt western-style free market norms governing the ownership of foreign financial subsidiaries and their local operations violates the first core principle that the Commission endorses for IMF reform—that is, "the desire to ensure that democratic processes and sovereign authority are respected in both borrowing and lending countries."[95]

This contradiction between the logic of the analysis and the prescription is a reminder that the Commission was, after all, a US government-appointed body, many of whose members came from the banking sector, conserva-

tive think tanks, and establishment universities who are very wary about placing significant restrictions on the free flow of finance capital globally, even when the evidence they are staring at underlines the destructiveness of unchecked capital mobility.
When it deals with the World Bank, the Commission draws a picture of a massive institution that is driven to lend more by instititutional imperatives than actual need in the recipient countries, that is burdened by high failure rates both in its project lending nad its program (structural adjustment) lending, that has poor monitoring capabilities of the sustainability of its projects, that competes rather than supplements the regional development banks.

The Commission proposes the transformation of the World Bank into a World Development Authority that would give only grant aid and technical assistance. It would also have the Bank devolve its loan programs to the regional development banks.
To take the second proposal first, evolution and decentralization are fine principles, but they are no solution if the regional institution has the same structure, operating style, and paradigm of development as the World Bank. This is certainly the case with the Asian Development Bank, which has had the same record of high project failure rates, the same lack of accountability, and the same macroeconomic approach as the World Bank.[96] The other components of the multilateral aid system must, in short, also be restructured, since they are satellites orbiting around the World Bank.

As for the proposal to turn the Bank into a centralized concessional aid agency, this is no solution at all since the problem lies not in the function of the Bank but in its structure, approach, and ideology. It is hard not to imagine it bringing to the management of concessional aid the same problems it has had in the administration of loans. Moreover, the World Development Authority would not eliminate the power imbalance that is one of the key problems with the World Bank and the Bretton Woods system: control by the rich countries of the decisionmaking and management of aid.

The Soros Proposal

George Soros, the financier, has recently achieved renown for his critique of the global financial system, especially for his critique of the paradigm of "market fundamentalism" that undergirds it. His most recent book, *On Globalization,* is a thoughtful critique of the current system of global economic governance and presents an ambitious blueprint for reform of the WTO, the IMF, and the international aid system.

Perhaps, Soros stands most firmly when he deals with the WTO. Unlike many other proponents of global governance reform like the International Confederation of Free Trade Unions (ICFTU), Soros does not propose attaching amendments like labor or social clauses to the WTO charter. This is not, however, for the reasons given by many WTO critics, who say that this would simply give more power to an already extremely powerful organization since the WTO would be given the mandate to be the ultimate judge in trade and labor issues. Soros supports the WTO mission of promoting "rules-based liberalization of international trade" and believes that WTO "accomplishes that mission brilliantly."[97] Soros' reason is that this would overload the WTO with a task that it is not equipped to do while hampering it in fulfilling its main role of global trade liberalization. Other institutions should either be strengthened or created to promote what Soros calls "global public goods" such as labor rights, the environment, consumer safety, and public health. The International Labor Organization (ILO), for instance, must be strengthened vis-à-vis the WTO, and the place to start is by forcing governments to ratify ILO conventions. Civil society, he argues, should be pressuring the US government, for instance, which has ratified only 13 of 182 ILO conventions and only two of eight "core labor standards."[98]

This promising approach of urging the creation or strengthening countervailing institutions devoted to public goods is nevertheless undermined by his failure to follow through on the political consequences of his analysis. Inexplicably, he does not propose coercive power for such countervailing institutions but would limit them to eliciting "voluntary compliance."[99] In fact, the problem lies not in the lack of countervailing institutions—there are scores of multilateral environmental agreements and organizations; it lies in their lack of coercive power. In contrast, the WTO enjoys formal coercive power while the IMF and World Bank possess informal coercive power owing to their control over massive financial resources.

When it comes to the World Bank, Soros' reform proposals are on even more tenuous grounds. He argues that the proposal of the Meltzer Commission to convert the World Bank into a World Development Authority specializing in grants to the poorest countries is not acceptable because" so-called middle income countries like Brazil, and even Chile, have very uneven income distributions and great social needs."[100] He also argues for giving James Wolfensohn a chance to implement reforms like the Comprehensive Development Framework ("CDF") or the "Poverty Reduction Strategy Papers." Lending operations must be reformed, there should be more consultations with civil society, loans to repressive and corrupt regimes should be stopped, directors should be made more independent of the governments they represent, steps must be taken to prevent the staff from dominating the agency like putting a limit of five years on employment.

The problem here is that many of these reforms have been

tossed about for 30 years, ever since the tenure of Robert McNamara, yet things have not improved. As Soros himself has admitted on other occasions, the Bank's performance has simply gotten worse and the bureaucracy has become more immovable.[101] As noted earlier, the CDF framework and the PRSP have not meant a break with the old macroeconomic paradigm guiding both World Bank and IMF structural adjustment programs which stressed narrowly defined economic efficiency, greater market orientation, and fiscal and monetary stability.[102] Consultations with civil society groups have, in fact, taken place under Wolfensohn, but this has amounted to no more than a public relations exercise, the main legacy of which has been greater suspicion of the Bank by many grassroots NGO's that felt the Bank was isolating them as "unreasonable" NGO's and dealing only with "reasonable" ones.

As for giving Wolfensohn a chance, this is a highly personal calculus which is not likely to sound credible to pro-reform elements who have been waiting for nearly a decade since Wolfensohn's appointment as World Bank head for some improvements to take place. Critics point out that the Wolfensohn regime is in many ways a replay of the era of Robert McNamara, with the same "anti-poverty" rhetoric and strategy, and with the same meager results in terms of effective aid programs.

In the end, Soros admits that keeping the World Bank afloat is only a temporary measure designed to ward off the attack of the right on multilateral aid, thus buying time to place a better aid mechanism in place.[103] That mechanism would be the issuance of special drawing rights (SDRs) via the IMF and the rich countries' donation of their share to a development fund. This would mean treating the SDR not just as a reserve currency but as a real asset to be used for development purposes. Should the rich countries agree to treat SDR's as real assets and to donate their share of the new SDR's created to aid, Soros says, there would immediately be available some $18 billion under a special SDR issue already approved by the IMF but awaiting ratification by the US Congress.

Under the proposal, an "international board operating under the aegis of the IMF but independent of it" would be set up to decide which projects or programs would be eligible for funding. The board would actually have no authority over the spending of funds but "would merely prepare a menu from which the donors would be free to choose, creating a market-like interplay between donors and programs, supply and demand."[104]

Creating money to pay for aid seems like the perfect solution. But the basic problem is that it puts too much emphasis on the volume of aid as the key to development rather than the conditions and implementation of aid. Soros cites favorably the United Nations report authored by former Mexican President Ernesto Zedillo that calls for an increase of $50 billion in aid. Soros has fallen victim to the same syndrome that also ensnared Robert McNamara: that poverty can be solved by throwing money at it. The paradigm within which aid programs operate is a far greater determinant of success, and this is absent from Soros' proposal, except for mention about a greater role of civil society organizations in aid delivery.

The Soros proposal, moreover, does not solve one of the key problems with the Bretton Woods system, which is the stranglehold on decisionmaking by the rich countries. The donors of SDRs—meaning the OECD countries—would still be the ones to decide which programs or projects are worth supporting. As in the case of the World Development Authority proposed by the Meltzer Commission, the massive power imbalance that is at the heart of the Bretton Woods system of multilateral aid remains. Indeed, with no developing country representation assured either on the proposed board or among the funders' consortium, the outcomes could be worse under this "market-like system" than under the present system.

When it comes to the IMF, Soros' critique of the institution follows the now familiar lines: the Fund pushed the capital markets of the Asian economies before they were prepared for it, thus creating the conditions for the Asian financial crisis; and when the crisis did hit, the Fund promoted pro-cyclical policies, such as tight budgets and high interest rates, that worsened the crisis. Soros says that he partly agrees with the conservative critique that the IMF's past interventions created "moral hazard," but he says that this was to a great degree inevitable to attract private capital to the developing world since without some extra-market incentives, capital would not have flowed there.[105]

Soros' defense of the Fund as necessary to attract capital to the developing world suffers on two counts. First, given the conditions of limited profitability in the metropolitan economies in the early nineties, foreign capital had no choice but to migrate to areas that were regarded as offering better opportunities profit-wise; in other words, it is likely that they would have done this whether these countries had IMF programs or not. The example of Malaysia, Singapore, Hong Kong, China, and Taiwan—all of which either had no IMF programs or had inconsequential ones—underline this.

Second, the sort of capital that was encouraged to enter developing country capital markets by the possibility of an IMF rescue in the event things soured was speculative capital, which was mainly interested in high rate-of return, quick turnaround kind of investments such as the stock market or real estate. This is not the kind of capital that contributes to development. The dynamics of foreign direct investment, which involves a strategic commitment to the economy, is not determined by IMF guarantees.

The importance he attaches to the Fund as mechanism of getting capital to flow to the developing world is what makes Soros support strengthening the IMF despite what he acknowledges as its poor record in the developing world. Some reforms that Soros seeks are viable. "Bailing in" lenders instead of bailing them out—that is, having them participate with financing a rescue program and agreeing to take losses in the process is one. Establishing an international bankruptcy mechanism that would protect the debtor and allow an orderly process of both economic recovery for the debtor and asset recovery for the creditor is another.[106]

However, establishing a contingency credit line (CCL) that countries with "good policies" can tap into before a crisis begins is unsound, for two reasons which have already been pointed out by other critics and of which Soros is aware: first, few countries would dare take advantage of CCL's for fear of alarming investors that a crisis is impending and thus create conditions for a stampede; second, the IMF's ability to distinguish good from bad policies.

Thus we are back to the fundamental problem. The Fund is saddled with a paradigm that puts a premium on macroeconomic stability, legal and political conditions that promote the interests of foreign capital, and the unrestricted functioning of the market. This paradigm, coupled with the United States Treasury's propensity to use the IMF to use the Fund to advance US economic and corporate interests, is at the heart of the Fund's succession of failures in the developing world. Giving the Fund more power like offering CCL's and managing an international bankrupt regime is tantamount to rewarding failure. Like the Meltzer Commission, Soros begins by criticizing the Fund for wrong policies but ends up believing that it "needs to play a larger rather than a lesser role…"[107]

VI. An Alternative System of Global Economic Governance

The crisis that is wrenching the current system of global economic governance is a systemic one. It is not one that can be addressed by mere adjustments within the system, for these would be merely marginal in their impact or they might merely postpone a bigger crisis. To borrow the insights of Thomas Kuhn's classic *Structure of Scientific Revolutions,* when a paradigm is in crisis, there are two responses. One is that followed by the adherents of the old Ptolemaic paradigm, which was to make more and more complicated adjustments to their system of explanation until it became too complex and virtually useless in promoting scientific advance. The other path was that taken by the partisans of the new Copernican system, which was to completely break away from the old paradigm and work within the parameters of the competing paradigm, which could not only accommodate dissonant data in a far more simple fashion but also point to new exciting problems.[108]

Rather than deal with adjustments or proposals for institutional reforms within the current paradigm of global economic governance, which rests on drive to promote more globalization and more liberalization, this final section will propose the principles and thrusts of an alternative system of global governance.

There is a crying need for an alternative system of global governance. We disagree with the view that thinking about an alternative system of global governance is a task that for the most part is still in a primeval state. In fact, we feel that that many or most of the basic or broad principles for an alternative order are already with us, and it is really a question of specifying these broad principles to concrete societies in ways that respect the diversity of societies.

Work on alternatives has been a collective past and present effort, one to which many North and South have contributed. The key points of this collective effort might be synthesized under the rubric "deglobalization." While the following model addresses principally the situation of countries in the South, many points have relevance as well to societies and economies in the North.

Deglobalization

What is deglobalization?

We are not talking about withdrawing from the international economy. We are speaking about reorienting our economies from the emphasis on production for export to production for the local market;

- about drawing most of our financial resources for development from within rather than becoming dependent on foreign investment and foreign financial markets;
- about carrying out the long-postponed measures of income redistribution and land redistribution to create a vibrant internal market that would be the anchor of the economy;
- about deemphasizing growth and maximizing equity in order to radically reduce environmental disequilibrium;
- about not leaving strategic economic decisions to the market but making them subject to democratic choice;
- about subjecting the private sector and the state to constant monitoring by civil society;
- about creating a new production and exchange complex that includes community cooperatives, private enterprises, and state enterprises, and excludes TNCs;
- about enshrining the principle of subsidiarity in economic life by encouraging production of goods to take place at the community and national level if it can be done so at reasonable cost in order to preserve community.

We are talking, moreover, about a strategy that consciously subordinates the logic of the market, the pursuit of cost efficiency to the values of security, equity, and social solidarity. We are speaking, to use the language of the great social democratic scholar Karl Polanyi, about re-embedding the economy in society, rather than having society driven by the economy.

Pluralist Global Governance

Deglobalization or the re-empowerment of the local and national, however, can only succeed if it takes place within an alternative system of global economic governance. What are the contours of such a world economic order? The answer to this is contained in our critique of the Bretton Woods cum WTO system as a monolithic system of universal rules imposed by highly centralized institutions to further the interests of corporations—and, in particular, US corporations. To try to supplant this with another centralized global system of rules and institutions, though these may be premised on different principles, is likely to reproduce the same Jurassic trap that ensnared organizations as different as IBM, the IMF, and the Soviet state, and this is the inability to tolerate and profit from diversity. Incidentally, the idea that the need for one central set of global rules is unquestionable and that the challenge is to replace the neoliberal rules with social democratic ones is a remnant of a techno-optimist variant of Marxism that infuses both the Social Democratic and Leninist visions of the world, producing what Indian author Arundathi Roy calls the predilection for "gigantism."

Today's need is not another centralized global institution but the deconcentration and decentralization of institutional power and the creation of a pluralistic system of institutions and organizations interacting with one another, guided by broad and flexible agreements and understandings.

We are not talking about something completely new. For it was under such a more pluralistic system of global economic governance, where hegemonic power was still far from institutionalized in a set of all-encompassing and powerful multilateral organizations and institutions that a number of Latin American and Asian countries were able to achieve a modicum of industrial development in the period from 1950 to 1970. It was under such a pluralistic system, under a General Agreement on Tariffs and Trade (GATT) that was limited in its power, flexible, and more sympathetic to the special status of developing countries, that the East and Southeast Asian countries were able to become newly industrializing countries through activist state trade and industrial policies that departed significantly from the free-market biases enshrined in the WTO.

Of course, economic relations among countries prior to the attempt to institutionalize one global free market system beginning in the early 1980's were not ideal, nor were the Third World economies that resulted ideal. They failed to address a number of needs illuminated by recent advances in feminist, ecological, and post-post development economics. All we wish to point out here is that the pre-1994 situation underlines the fact that the alternative to an economic Pax Romana built around the World Bank-IMF-WTO system is not a Hobbesian state of nature. All we want to stress is that the reality of international relations in a world marked by a multiplicity of international and regional institutions that check one another is a far cry from the propaganda image of a "nasty" and "brutish" world. Of course, the threat of unilateral action by the powerful is ever present in such a system, but it is one that even the most powerful hesitate to take for fear of its consequences on their legitimacy as well as the reaction it would provoke in the form of opposing coalitions.

In other words, what developing countries and international civil society should aim at is not to reform the TNC-driven WTO and Bretton Woods institutions, but, through a combination of passive and active measures, to either a) decommission them; b) neuter them (e.g., converting the IMF into a pure research institution monitoring exchange rates of global capital flows); or c) radically reduce their powers and turn them into just another set of actors coexisting with and being checked by other international organizations, agreements, and regional groupings. This strategy would include strengthening diverse actors and institutions as UNCTAD, multilateral environmental agreements, the International Labor Organization, and evolving economic blocs such as Mercosur in Latin America, SAARC in South Asia, SADCC in Southern Africa, and a revitalized ASEAN in Southeast Asia. A key aspect of "strengthening," of course, is making sure these formations evolve in a people-oriented direction and cease to remain regional elite projects.

But above all, it would support the formation of new international and regional institutions that would be dedicated to creating and protecting the space for devolving the greater part of production, trade, and economic decision-making to the national and local level. The primal role of international organizations in a world where toleration of diversity is a central principle of economic organization would be, as the British philosopher John Gray puts it, "to express and protect local and national cultures by embodying and sheltering their distinctive practices."[109]

More space, more flexibility, more compromise—these should be the goals of the Southern agenda and the international civil society effort to build a new system of global economic governance. Support for such a system of decentralized global economic governance would be rational from point of view of the European Union, not only because it would place it in line with Southern

aspirations for development but also because such a system would serve the interests of the European Union itself as a supranational regional body. It is in such a more fluid, less structured, more pluralistic world, with multiple checks and balances, that the nations and communities of the South—and the North—will be able to carve out the space to develop based on their values, their rhythms, and the strategies of their choice.

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