Emerging powers in global governance: New challenges and policy options

(Preliminary draft)

Laurence Tubiana, Tancrède Voituriez
Introduction

The global governance of collective issues or “global public goods” has currently reached a crossroads. On the one hand, indisputable elements of crisis testify to the difficulty in governing globalization by means of concerted standards and rules (Tubiana, Lerin, 2003) – as seen in the postponement or laborious progress of multilateral negotiations, whether environmental (climate, biodiversity) or trade-related (WTO Doha round). On the other hand, the “objectivization” of specific global problems ensures that these problems develop an unprecedented consensus of knowledge and interest, which confirms their importance. This is particularly so for the climate issue (Stern, 2007), for the Millennium Development Goals (especially poverty and health) that we know will not be reached, and for security issues (nuclear proliferation, nuclear terrorism). “The paradox of our times can be stated simply”, says David Held: “the collective issues we must grapple with are of growing extensiveness and intensity and, yet, the means for addressing these are weak and incomplete” (Held, 2006: 240).

For Europe this situation is most worrisome. Logically and by necessity, it has championed a system of collective action based on norms and regulations in exchange of which its members have partly given up sovereignty. A wait-and-see policy of falling back on national interests is especially dangerous for this European conception of an international system. The active contribution of these new political and economic powers to global governance’s revival is of major importance to the European Union, as opposed to the United States who can easily make do with the assertion of national sovereignties. Therefore it is up to Europe to be proactive in inventing a new international contract, balanced in terms of rights and responsibilities. It should define a coherent and incentive policy to deal with these emerging powers, rather than pose as an ethical power while simultaneously defending, most of the time, its economic interests.

A question posed to Europe by the emerging countries could be formulated as follows: what would it take to have the emerging countries partake in the solution? In this paper, we analyse some aspects of the problem before sketching some solutions. Problems indeed differ according to environmental aspects of emerging countries growth (first section), the macro-economic consequences of such a growth (second section), or the equity concern emerging countries loudly express in negotiation fora (third section).
The environmental deadlock

In 2005, and for the first time since the turn of the XXth century, the emerging economies’ share in the sum total of the wealth produced worldwide has crossed the symbolic threshold of 50% (measured in purchasing power parity). India’s growth rate is approximately 6% in real terms; its projected growth during the next decade is deemed greater, so that India should eventually become the world’s third economic power between 2020 and 2025. China’s growth, 2 points higher in average and more extroverted, is given more media coverage owing to its impact on world trade. China’s share in American importation has increased from 6% in 1995 to 15% in 2004. China total trade in goods grew at an annual rate of 24.5 % during the 10th Five-Year Plan period (2000 to 2005), and the target set for the 11th Five-Year Plan period (2006-2010) is to increase its trade in goods from US$142.2 billion in 2005 to US$230 billion in 2010. The OECD expects China to surpass the USA and Germany and become the world’s first exporter as early as 2010. China’s share in the world’s demand for raw metals has risen from 5-7% in the early 1990s to over 25% today. China has the second largest foreign exchange reserve of approximately US$ 700.

Carrying on with the current trends is not sustainable for energy security reasons

Neither demographic giants that India and China are, with 40% of the world’s population, can expect to develop and bring an extra two billion inhabitants to the middle class’s consumption level in the old industrialised countries on the basis of the USA’s or even Europe’s development model.

The growing resort of emerging economies (except for Brazil) on oil and gas leads first of all towards a dead-end. Even under “equilibrium” scenarios where investments of the oil and gas industry are fully deployed, the demand projections put emerging economies and the rest of the world in front of a risk of physical scarcity and of energy prices between 80 and 100 dollars per ton (World Energy Outlook, 2006). This avenue is obviously not sustainable even without taking into account the political tensions a supply race would generate.

The generalized resort on coal, whose reserves are abundant in Chine and India, is neither a simple solution for substitution. The social costs of local pollutions and logistic transport problems make coal a costly and investment-intensive solution at large-scale.
Carrying on with the current trends is not sustainable for global environment

Carrying on with the current trends of fossil energy consumption (including coal and oil) that underlie this development model’s large scale expansion would lead to scenarios where climate change risks become exponential.

China is gaining the first rank of the most CO\textsuperscript{2}-emitting country. By 2030/2050, according to the International Energy Agency, if the current energy consumption trends continue the greenhouse gas emissions should reach 40 giga tonnes of CO\textsuperscript{2} equivalent for the whole world. In the laissez-faire scenarios, the emerging countries would account for half of the world emissions in 2030 (approx. 17.5 giga tonnes of CO\textsuperscript{2}) and for more than half in 2050. Expressed in terms of emission per-capita, they would remain way under industrialised countries, but as a whole, owing to their choices and development needs, they would represent half of the problem and thus half of the solution.

In 2030, at this level of emissions, the greenhouse effect gases will have accumulated to such an extent that global warming presents great risks of reaching more than 5°C. Such changes would alter the entire world’s physical geography. Even at lower warming levels, more than a billion people would suffer from water shortage, that 20% to 50% of species would be threatened with extinction, and that approximately 200,000 million people would become economic refugees (Stern, 2007).

The impact of global warming is an immediate threat to emerging countries themselves. Tropical or subtropical and dry zones that represent a large part of the lands in emerging countries will suffer more than temperate zones.

An energy changeover is therefore absolutely required (giving up fossil fuels, developing an energy-saving economic model), to stabilise climate at a moderate level of global warming (a 2°C rise of temperatures); a global warming already inevitable, even if very significant reduction efforts are made (Jacquet and Tubiana, 2006).

Unprecedented pressure on natural resources

Although this growth’s impact, in terms of natural resource exhaustion, pollution, public health and economic or social costs, bears in the first place on emerging countries themselves, its consequences are also global.

These are primarily the upshot of the rapid growth rates of the demand in raw materials. The drop of prices in manufactured goods boosts the world’s consumption of raw materials processed by intensive labour economic systems. Let us consider for instance the consumption of tropical woods (processed for the smallest cost in
emerging economies), with deforestation’s negative externalities endured by supplier countries and the planet at large.

China’s quest for natural resources (including timber, oil, base metals as well as agricultural products) and overseas investment in support of meeting these needs have become frequent topics in the global media. China has often been portrayed as responsible for negative global developments beyond its borders. However, in some cases (e.g., timber/furniture, cotton/textiles), it is not only China’s own consumption that drives the resource demand. For example, over half the value of China’s exports is derived from imported components and raw materials. A Stanford University study pointed out that the import value of Chinese exports to the USA is as high as 80% (Lau, 2003). This means that China acts as the workshop to the world, processing raw materials to produce the final products. This would imply that responsibility for sustainability and environmental concerns lies with consumers in the importing countries as much as with China.

The macro-economic uncertainty

The challenges concerning the emerging countries’ macroeconomic policies, and specifically China’s, are very carefully scrutinised. Beyond the fact that these countries are eminently heterodox (Stigliz, 2000; Santiso, 2006), one salient feature of their growth model lies in its macro-consequences at global level. A « macro shock » cannot be discarded for at least three reasons (Reisen, Grandes et Pinaud, 2005). Firstly, the authors state, China may now be regarded as a price maker on some international commodity and energy markets. Hence, China should not just be perceived as a producer of low priced goods, but likewise of “cheap savings”. Secondly, the prospective rise in institutional savings, fed by demographic trends and switches from PAYG to funded pension systems, together with the need to achieve decent capital returns despite the headwinds of shrinking labour forces in the OECD area, can be expected to intensify the macroeconomic effects of business cycles in both OECD and non-OECD areas. Faced with low returns, pension-fund strategy committees and individual investors have been increasingly turning to hedge funds, searching for uncorrelated asset classes with a focus on absolute (rather than benchmark-oriented) returns. These new actors may require policy attention as they have probably introduced amplifiers to global credit cycles, with potentially harmful effects to both capital-importing countries and investment returns in capital-exporting countries. Third and last challenge, Asia’s high-reserve policy and limited exchange rate flexibility, which has permitted an accommodative US monetary stance, singled out the Euro as adjustment variable, and which clearly been causing problems in Asia, not

only through trade friction, but also by exacerbating the country’s accelerating liquidity growth/overheating economic growth problems.

We could add a fourth element, which concerns the wage rates, and the possible pressure to lower these wages that the Chinese labour force reserve on the one hand, and the competition introduced in an increasing amount of professional activities on the other, could bring about (Grossman and Rossi-Hansberg, 2006), for the skilled labour as well as the unskilled. Let us recall economist Richard Freeman’s question: “Is your wage set in Peking?” and the controversies on the consequences of outsourcing on the USA’s real incomes (Samuelson, 2004 ; Bhagwati, Panagariya, Srinivasan, 2004). The prospect of the conjunction of new technologies widening competition and trade from products to tasks (and therefore from sectors to individual workers) and the arrival on the labour market of a large “mass” of Indian and Chinese workers with a broad range of skills leads to giving more slack to the prediction of the convergence speed of wage rates throughout the world, and to the prediction of the extent of the wage drop some workers in rich countries might have to face. All these items will be part of the deal emerging and non-emerging countries will or should be willing to make.

The quest for equity

Most global governance institutions are now at the end of a cycle, but since the post-war period (Bretton Woods Institutions, GATT) and the Earth Summit (Rio conventions on climate, biodiversity and desertification) enjoyed a legitimacy acquired through the singularity of the event that triggered their creation (World War II and the environmental alert – especially climate alert – respectively). Today these institutions are seeing their goals and their results challenged, and their mandate questioned: this is the case for the IMF, which was weakened initially following the financial crises in South East Asia (1997) and Russia (1998), then today by the Chinese and Brazilian trade surplus; it is also the case for the World Bank concerning the performances of its strategic poverty reduction programmes; and also for the WTO, concerning its ability to put liberalization to the service of development, but also for the OECD DAC, which Chinese investment has circumvented; and finally also for the Rio conventions, for which the possibility of a renegotiation is questioned.

The institutional governance cycle launched after World War II and partly redefined after the Rio Earth Summit is drawing to a close with the question of the compatibility of development models: compatibility of development models with sustainable development goals (provided these have been clearly defined), but also compatibility between countries. Such a question is not new. But it has received renewed attention due to the pivotal position of emerging countries: as “developing countries,” they call for exemptions and alleviations of the requirements to preserve
global public goods; as “large countries” in demographic terms, they dispose of growth capacities large enough to catch up with Europe within a couple of decades, but with unsustainable impacts that are already occurring and/or may very shortly be comparable with those of rich countries. To (re)gain legitimacy, governance institutions need to solve a thorny equation: they are asked to bridge the development gap between countries (i.e. to encourage the catching up process) while drastically reducing the gap between the readjustment’s impacts on the environment and sustainable development more generally. The trade and climate change negotiations are striking examples of this issue.

*Fairness in trade*

The creation of the WTO exemplifies this double legitimacy and the difficulties it entails. The Preamble to the Marrakech Agreement establishing the World Trade Organization includes direct references to the objective of sustainable development and to the need to protect and preserve the environment. It states that WTO members recognise that “their relationships in the field of trade and economic endeavour should be conducted with a view to raising living standards, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world’s resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to improve the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.” Giving priority either to economic development or environment’s preservation is left to the discretion of the different countries “with differing levels of economic development.”

Yet actually accounting for this legitimacy, and not merely asserting it, is challenging. Under the pressure of Brazil, South Africa and India, among other developing countries, the current WTO negotiation round (originally the “Doha Round”) has been renamed the “Development round,” with the explicit ambition of increasing the share of world trade liberalisation gains accrued to developing countries. In spite of the progress—be it uneven—made since the round was launched 6 years ago, negotiations are in a deadlock. WTO members seem incapable of negotiating a trade agreement “favourable to development.” Three main reasons can explain this.

The first, which seems very simple, is that no clear and consensual criteria have been defined to assess whether or not the outcome of trade negotiations is “favourable to development.” Oddly enough, neither the Gatt nor the WTO has addressed the question seriously, as shown by the fact that neither has bothered to define what a “developing country” is. Any WTO member country can claim to be a developing country provided that no objection is made by another member. In the negotiation process the lack of clear-cut definition has tremendous implications on the arguments
and positions of member States, and particularly of developed countries. While some NGOs such as Oxfam for instance support a broad definition of “developing countries” (non-OECD members, in short), others suggest differentiating emerging countries from lesser developed countries among the whole set of “developing countries.” Hence some among the French delegation were overheard questioning the agricultural trade negotiation package, insofar as CAP tariffs would be drastically cut and would be unfair in benefiting primarily to large land owners in emerging countries. Without consensus on beneficiaries, no agreement can be reached. The equity issue has been made clear, but no appropriate answer has been found yet.

The second reason lies in another absence of consensus, this time on the expected effect of trade openness on development, providing the term is actually defined. While most economists share Samuelson’s (1939) view that some trade is better than no trade, no scientific statement, with scientific value on par with the comparative advantage theory, provides “true and non trivial” predictions on the effects of trade openness on development. Largely, admittedly, because development remains a tricky concept to define and measure. Attempts to substitute “growth” to it have not proven decisive. Comparative advantages which predict instantaneous gains to any (small) country opening up its trade, says nothing about dynamic gains and growth. And growth theory, focusing on innovation, human capital or research and development, does not make either export or import enter its equations. Trade theory is silent about growth and conversely growth theory about trade. No consensual knowledge, liable to guide public policies toward a defined objective (Haas, 1980)—trade liberalisation in this particular case—was available to make the trade and development linkage operational in WTO negotiations (on this point see Stiglitz and Charlton, 2005; Rodrik 2007).

The last reason is inferred from the aforementioned. Considering the absence of a theoretical link between trade and development, empirical studies and numerical simulations have multiplied over the last six years. What has been observed over the last six year period is increasing competition among economic research staffs on trade impact simulations according to various “development” criteria such as country GDP, poverty headcount ratio or real wage in specific industries. OECD and World Bank trade models are no longer the main players in this field (see for example the ICTSD symposium on trade models, 2005), their results being sometimes even sharply questioned and criticised (Bureau, Jean, Matthews, 2006; Voituriez, 2006). And the gains from trade derived from competitive simulations and model refinements seem to shrink inexorably. What we know from all these studies on the impact of trade seems rather trivial: there are gainers and losers from trade liberalisation; this is true at country level as well as household level; in some cases, the poorest are the losers, but in some cases only. Lastly, there should be gains for all, but some (households and countries) will have to wait a bit (Chabe-Ferret, Gourdon, Marouani, Voituriez, 2006).
Equity in negotiations on climate change

The negotiation on climate change has shown the limits of a wrong perception of the problem and of its solutions.

The Kyoto protocol’s hypothesis, based on a fair allocation of emission rights, connected to a market mechanism that should minimize abatement costs of CO2 emissions, has not worked properly.

Industrialized countries, « responsible » for the past accumulation of greenhouse gas emissions, were expected in principle, once ambitious objectives were fixed, to carry out massive financial transfers towards developing countries, fulfilling both interests and establishing between the North and the South solidarity. The underlying conception of Kyoto’s equity turned out to be impracticable, mostly because countries tend to have a preference in financing domestic action and making local profit, rather than operating a significant transfer (Colombier, Kieken, Kleiche, 2006).

As for developing countries, they are unenthusiastic about a restrictive quantified agreement: curbing their emissions that could limit their access to energy, and thus stifle their development. With a limited prediction capacity on future emissions that an international regime could impose on developing countries, some countries fear that the agreement would involve a sharing of emissions on a “de facto” mode, whereas today, developed countries account for half of the world’s emissions but only one sixth of the population.

Some ideas have been developed and refined which enable to obtain a better perception and reduce some uncertainties. It is particularly the case for the objective of climate stabilization and the division of the efforts on the long term: the hypotheses generated from the prospective model exercise in response to the objective of stabilization of GHG, outline a growth perspective of emissions on mid-term for developing countries. To check climatic changes at a reasonable level, countries with medium incomes should, by 2050, return to their 1990 level of emissions whereas other countries could operate a reduction by 2 or 3 of their emissions with respect to this same level of reference. In the same time span, the emissions of developed countries should be divided by 4.

The aim to stabilise GHG concentration at an ambitious level may be achieved by granting different regions of the world varying margins of evolution adjusted to their initial situation. The immediate and necessary action for emerging countries is justified with respect to their interest by two reasons: energetic, urban and industrial infrastructures which will determine the consumption of energy during the next
decades are not yet constructed and constitute a major economic opportunity. Also, in terms of urbanism, transports or energetic efficiency there exist a broad range of beneficial actions to the climate which allow the emerging countries to sustain the development process.

From this analysis, two main elements should be stressed. The first is that equity has a critical place in today’s discussions on global issues. The second is that legitimate governance will be difficult to achieve if the difficulty to define common criteria of equity remains. It will be only possible by globalizing the different points of negotiation to make the different visions of equity compatible, and by organizing some “trade-offs” between various fields. This approximation will only be possible with a common vision of the problem and a shared vision of the end result, and flexibility, which should allow the different countries sufficient autonomy to experiment their policies and reduce the social cost generated by the change of situation.

Making emerging countries part of the solution

The uncertainty on the possible technological evolution in response to the climate change challenge, as well as the controversies concerning the impacts of growth in emerging countries in the fields of macroeconomics, energy or health, make scientific knowledge and ideas crucial to the issues of global governance inherent raised by the emerging countries. Global governance theories present a very large framework for behavioural comprehension and analysis of state and non-state actors that rely on power and force but are not confined to these limits (Keohane and Nye, 2000 ; Mayntz, 2002 ; Hira and Cohn, 2003/04 ; Held, MacGrew, 2006). Two important basic models are usually employed to understand the phenomena of coordination: collective action models, based on utilitarian conjectures deriving from the theory of rational choices, and the models of social practices which consider that the interests and preferences of actors are not given facts. In this case, they must be analyzed independently in order to understand the way the actors perceive and in return influence their environment. In particular, according to this last approach, there is no objective or naturalist definition of goods common to humanity, for whose preservation the States among other actors have a rational interest to cooperate. No more than there is a given balance of power that could explain the absence of anarchy and the stability of hegemony. Thus, for E. Haas (1990) and J.G. Ruggie (1998), two additional variables governing the distribution of power must be taken into account: social goals and knowledge, both closely related to the preferences expressed by the
international relations actors on various subjects. This last approach could be the framework to carry out the following priorities of action, resulting from the above analysis.

Concerning the climate, the build up of a common knowledge has proved to be more necessary than efficient: as shown during the G8+5 summit, the first step in the renewal of the 2001 negotiations is an agreement on a quantified emission goal in the long term.

The debate must focus on the long term. The challenge is to perform, within the next century, an industrial revolution and to do so with the varying rhythms of each country on a global scale. The long term goal, to be feasible, should convince the economic actors that the climate problem is structural to their investment policies. The possible agreement with emerging countries is no longer to “share” the burden, but rather to build a partnership based on a new model of development and growth, on the investments to perform and their financing.

The technologies of this revolution are already partly available and could be rapidly disseminated if adapted public policies were applied. New technologies will also be necessary, for which a clear political signal is critical in order to accelerate their development. However, technologies will not be sufficient if they are not followed by structural changes in the demand of energy, in particular concerning the building industry, urban infrastructures and transport.

The Bush administration objects to the European approach based on quantified emission goals for all countries and a greater commitment of industrialized countries than emerging countries. It prefers a “bottom-up” approach based on the acknowledgement of national efforts freely decided by each government. The weak point of Europe is that emerging countries are interested in the American arguments because they defend the principle of sovereignty. Its strong point is that nobody seriously believes that voluntary approaches, even at a global level, will be sufficient to curb emissions. Therefore, the challenge for Europe is to adjust its approach to emerging countries and support the options that protect their vital interests while actively contributing to the solution of the climate problem.

Under which conditions can a partnership be elaborated?

Concerning the industrialized countries, it is primarily rules that are required. Important restrictions to the emissions of industrialized countries will create an important demand of credits on the carbon market, but without a minimum of rules in a context of intense competition in some sectors, there cannot be either transfers or investments from industrialized countries towards emerging countries. Imposing a structural change in the development model to a large part of the world’s industry may
only be possible if similar rules are applied in other regions of the globe. If not, an expansion of “ecologic” outsourcing could occur, rendering null and void a partnership agreement. Therefore finding an agreement is essential to promote investments and technology transfers including on the carbon markets of emerging countries. This agreement requires the implementation in emerging countries of coherent public policies in the field of energy, albeit without short term quantified objectives. It is within this framework that we must consider the linkage between commercial rules and climate policy issues.

As for the emerging countries, the participation against global warming and to the production of other global public goods means that these countries are fully integrated as responsible actors of the global system and that they accept their status. Therefore, the question of equity of treatment in the global system becomes an essential point for cooperation, so does the linkage between the fields of negotiations to be undertaken: technology, investments and trade.
Conclusion

We have focused throughout this paper on two cross-sectional issues which are trade liberalisation and climate change. Several broad implications can be derived.

Firstly, the cooperation possibilities of countries depend upon their capacity to create issue-linkages between various fields of international action. They also depend upon the capacity of the governance regime to compensate for countries’ sovereignty partial abandonment in precise fields, with what can appear, in other fields, as security, autonomy or economic gains.

The issue-linkage is also the result of growing interactions between the various aspects of issues which all stem from globalisation. The competition in world market leads – or means – also competition between social models of collective preferences. World market integration requires a common policy framework to organise the compatibility between different public policies. There lies the difficulties to make effective a governance regime based on rules; there lies also the need to combine flexible approaches with shared and common objectives.

The structure of the governance system is in itself affected by all this. The quest for global deals requires the creation of restricted groups capable to negotiate and conclude agreements. These “global deals” negotiated within clubs occur between both private and public actors. The creation of such clubs is at the heart of the relationship between emerging and Oecd countries.

Operational clubs do not make universal consensus superficial and useless. The governance within clubs creates the basis for the definition and implementation of global policies; the resort to a universal framework for discussion is necessary to support a shared understanding of common objectives to attain for sustainable development.
References


