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TIME FOR CHANGE IN GLOBAL TRADE AND FINANCIAL GOVERNANCE

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ABSTRACT

The governance structures of the International Monetary Fund, World Bank and World Trade Organization are distinct, although the meetings of the leaders of the Group of 7 industrial countries (G8 including Russia on political matters) provide an opportunity to forge coherence at least with the interests of those countries. Sometimes heads of other countries are invited to meet on the fringes of the summits, but these consultations are hardly negotiating forums. This paper argues why this is no longer tenable, if it ever was, and how to go about building a more representative structure of global trade and financial governance.

TIME FOR CHANGE IN GLOBAL TRADE AND FINANCIAL GOVERNANCE

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One of the advantages of retiring from a long career in the UN Secretariat and rejoining academia is that you can step back from daily responsibilities. You can ask yourself, "After almost 30 years, what sense does it all make?" I have begun to think about that and I will say some things to you today based on such reflections.

I've been asked to address global political dimensions of the linkages between the international trade and external debt of developing countries. I am basically going to make three points and then draw a conclusion. First, international trade and external finance — and thus trade and debt — are so intimately linked that it is amazing we even need to think about linkages. Probably the reason has to do with my second point, which is that international policy makers have largely separated decision making on international trade and financial policy into distinct, specialized forums. There should be no surprise if the decisions they reach are not always consistent with broad international policy goals. Third, while there is one international forum at which coherent policy decisions can be made on global trade and financial policy, most countries have been excluded from participating in it. The decisions that are made in that forum presumably accord at least with the policy goals of the countries that participate in making them. My conclusion is that the world is not better for this structure. The current challenges in the major international trade and financial institutions only underline the problem. Policy makers in the North and South would do well to ask themselves how to reach better international decisions on trade and financial policy. The intergovernmental conference at the end of 2008 in Doha, Qatar to review the Monterrey Consensus on Financing for Development provides an opportunity to kick off a collective effort to design a more balanced and effective structure.[2]

Trade and Finance Are Inextricably Intertwined

First point, perhaps not necessary to state explicitly, but for completeness here it is: international trade requires international finance and vice versa. Trade is not on a cash basis; trade takes time and so it needs to be financed. Also, from the start, ships carrying international trade also carried the mail, including not only commercial and personal mail but also securities. Shipping — and electronic communication today — is an

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[1] Thanks are due to Aldo Caliari of the Center of Concern for the invitation to participate in a very worthwhile workshop.
[2] In a post-script, I will point to a proposal (not my own) on how to start looking, post-Doha.

internationally provided service and thus itself part of international trade. So, international trade and finance have always been intimately linked.

Trade has even provided opportunities for creating financial securities that are then traded on domestic financial markets. A prominent example is the "banker's acceptance" in which an importer takes a loan from a bank in his country that accepts to pay a foreign exporter's bill for goods shipped. The importer repays the bank after selling the imported goods. The bank can hold the acceptance until repayment by the importer on maturity of the loan, or sell it on the local financial market at a discount. The buyer of such a security receives the face value of the security when it matures and thus gets his money back plus interest; he has bought a short-term bank-issued security and could not care less that it finances international trade. When did this market start? It was already known in 12th century Europe.

You can also say, at least at the level of a country as a whole, that international finance does nothing more than change the time path of a nation's international trade. Twenty years ago I was working for a UN commission concerned about African debt,[3] when a member of the commission, Robert Hormats of Goldman Sachs, made the simple and in the context startling observation that external debt is simply postponed trade. What he meant is that when financial flows are accommodating, the total value of imports into a country can exceed exports and the balance of trade in goods and services will then be negative. The deficit would be financed by financial inflows; there is a "net transfer" of financial resources to the country. For the most part, these inflows are not grants; they are loans. Add them up and you have the country's foreign debt.[4] The makers of loans expect that at a later point they will be repaid, which means at the country level that at some point the trade balance has to be reversed. You then have a balance of trade surplus and thus a net financial transfer abroad; exports will be greater than imports. The policy question is only a matter of when it is appropriate for the shift to take place. That is the nature of the intimate linkage of international finance and trade at the macroeconomic level. Economists have been talking about these issues for the longest time.

Furthermore, the International Monetary Fund (IMF) today examines the linkages of international trade and finance of member countries as part of its standard, annual "Article IV consultations." It considers the prospective sustainability of each country's external debt by looking at the future path of the ratio of external debt to export revenues under "baseline" and alternative scenarios.[5] If the exercise shows that the ratio "explodes" at some future point or under some potential economic shock that is tested,

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[3] See *Financing Africa's Recovery* (Report and Recommendations of the Advisory Group on Financial Flows to Africa, Sir Douglas Wass, Chairman), United Nations, New York, 1988.

[4] To be precise, the "net transfer" comprises all financial flows in and out of a country, including interest and profit payments, direct and equity portfolio investment, and grants and loans made to and by residents of the country or its government (see United Nations, *World Economic Situation and Prospects*, issued annually, which regularly tracks the net financial transfers of groups of developing countries). For most developing countries, especially at an early stage of their development, the net transfer primarily comprises foreign lending to the country.

[5] It similarly analyzes the dynamics of total government debt relative to gross domestic product under multiple scenarios.

such as a significant devaluation of the exchange rate, the debt is deemed excessive and policy adjustments are recommended. For low-income countries, the Fund goes a step further, in cooperation with the World Bank, and assesses the current external-debt-to-export ratio against a set of benchmarks meant to flag when the debt is too high, at which point official creditors are asked to switch support of the country from loans to grants (whether or which creditors do so is a separate story).

In carrying out their debt sustainability analyses, IMF and the Bank cannot help but notice the linkages of trade and debt. They may see that developed country import restraints on developing country exports impede their achieving debt sustainability, but they are impotent to do anything about it. They must also accept the volatility of international commodity markets as a given. Policies that might address these issues are classified as trade policies and are thus beyond the mandate of the two institutions.[6]

The Power Politics of Debt and Trade

The relationship of a developing country to its foreign government and multilateral official creditors is obviously a political one, by definition. But this is only one aspect of the politics of international debt. From early in the 19th century until the Second World War, much of the international financial flows that were not directly financing trade were monies lent to the governments of developing countries, usually in the form of foreign private purchases of sovereign bonds or of corporate bonds linked to major government supported infrastructure projects, such as building railroads. When some of the borrowing governments found they could not repay, bondholders formed national committees to try to recoup their investments and often complained to their own governments. That being the age of imperialism, the governments sometimes — albeit infrequently — took military action in support of the defaulted creditors. The most famous examples were the bombing of the port of Veracruz, Mexico by Great Britain, France and Spain in 1861 (followed by the French invasion in 1863), and the joint blockade of the ports of Venezuela by Germany, Britain and Italy in 1902-3 to capture customs house revenues to pay off the debt.

Outright interventions to collect sovereign debts not only were extreme ways to settle financial disputes, but they also provided excuses for expanding imperial influence over developing countries and territories, as in Tunisia (1869-70) and Egypt (1876), as well as in Latin America. Thus, when intergovernmental peace conferences were convoked in Europe to seek ways to settle international disputes short of war, one focus of attention was sovereign debt crises. The result in this case was the "Convention Respecting the Limitation of the Employment of Force for the Recovery of Contract Debts" signed at The Hague in 1907. It sought to substitute international arbitration for invasion of defaulting debtor countries.

[6] This notwithstanding, IMF and World Bank are widely accused of asymmetrically pushing developing countries to unilaterally remove their trade barriers as part of the conditionality for financial support (see "The IMF's Approach to International Trade Policy Issues: Preliminary Draft Issues Paper for an Evaluation by the Independent Evaluation Office (IEO)," IMF, March 18, 2008).

While the United States supported this treaty, it had also earlier taken a unilateral policy stance. The new policy, announced by President Theodore Roosevelt in 1904, took the form of a corollary to the "Monroe Doctrine," which the United States had proclaimed in 1823 and which said that any European attempt to recapture the newly independent countries in Latin America would be regarded as a hostile act by the United States (not that the US was in a position to do much about it at that time). Roosevelt's corollary was that European governments should also not invade to collect debts from defaulting Latin American governments. This did not necessarily mean debt relief, however, but that the United States would help collect the debts for the European creditors (as well as its own). The US would itself invade if deemed necessary, as it did in the Dominican Republic in 1904. In other cases, the US worked with local governments having distressed debt who understood Roosevelt's threat and who with US intermediation reached settlements with their foreign bondholders, as in Colombia and Venezuela in 1905, Costa Rica in 1911, Nicaragua in 1912 and Guatemala in 1913.[7] The policy stood until 1933, when the other President Roosevelt, Franklin Delano Roosevelt, replaced it with the "Good Neighbor Policy."

In each of the cases noted, economic adjustment policies had to be adopted by the debtor countries so they could generate enough resources for foreign debt servicing. In the period since the end of Second World War, this has been done in a more subtle way through adjustment programs arranged with multilateral institutions. In other words, if one judges that the current international system for sovereign debt workouts is excessively creditor friendly, I think you can see that it has deep historical roots.

The Executive Committee of the World Economy

Just as the emerging United States and the major European powers reached an accommodation on handling Latin American external debt problems in the early 20th century, essentially the same governments, joined by Japan, took a leadership role in developing international policies on developing country debt in the second half of the century. Indeed, to the degree that there is coherence in any area of international trade and financial policies today, it is due to the same self-appointed club of governments that set the policy on sovereign debt workouts. I am referring, of course, to the Group of 7 (G7), which has met annually at summit level since 1976.[8] The Group was formed in the aftermath of the collapse of the "Bretton Woods system" of international monetary relations that had been established after the Second World War.

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[7] See Kris James Mitchener and James Weidenmer, "Empire, Public Goods and the Roosevelt Corollary," *Journal of Economic History*, vol. 65, No. 3 (September, 2005), pp. 658-692. Another good source on this period is Christian Suter and Hanspeter Stamm, "Coping with Global Debt Crises: Debt Settlements, 1820-1986," *Comparative Studies in Society and History*, vol. 34, No. 4 (October, 1992), pp. 645-678.

[8] Members are Canada, France, Germany, Italy, Japan, United Kingdom and United States, as well as the European Commission, which represents the members of the European Union on trade policy matters.

Although there has always been a "variable geometry" of important countries that come together on specific issues, the G7 became the standing forum of the major developed countries for global economic policy reform and coherence. It formulated "the" general policy strategy for the world economy, which has been to move toward full trade and financial liberalization, on the argument that this would foster global economic stability, growth and development. Implementation of the policy strategy has been uneven, however, as the group has pressed harder for action in some areas and less in others, and as it has pressed some countries more consistently to liberalize than others. The G7 has always been, after all, a political body. That is, on the one hand, the general strategy is meant to apply across the board. On the other hand, the more independent the country, the less its policy makers were willing to apply the strategy whole cloth (consider the successful resistance to liberalizing short-term capital flows in China or India). In addition, the stronger politically the sector within a G7 country, the more completely the country would itself ignore the liberalization prescription (agricultural protectionism in the G7 owing to effectively organized farmers being an especially telling case in point).

When the G7 does reach a consensus on a policy matter in the trade and financial realm, it is then generally adopted and implemented by one or more of the relevant global trade and financial institutions, which the club has been able to control, at least until recently. The World Trade Organization (WTO) — successor in 1995 to the General Agreement on Tariffs and Trade (GATT) — serves as the main forum for global trade policy negotiations and oversight of national trade policy commitments, although certain commercial policy issues, such as cooperation on cross-border aspects of tax policy and setting limits to competition between officially supported export credit agencies (as on interest rates), have been assigned to the more limited membership Organization for Economic Cooperation and Development. The G7 charged the IMF, in essence, to align the economic policies of the rest of the world (excluding the Soviet bloc while it existed) with the G7 strategy, sharing the "structural adjustment" part of this job with the World Bank and the regional development banks.

While adhering fairly constantly to its general policy orientation, the G7 has been somewhat more flexible in its membership. Thus, after the Cold War ended, it began post-summit meetings with the Russian Federation and in 1997 invited Russia into the club itself, creating the "G8." By the same token, the Heads of State of the G8 have also invited groups of developing country leaders to meet with them from time to time on the fringes of their summits. Finally, in 2007, the G8 formulated a more permanent outreach project in the "Heiligendamm Process." In this, under Germany's leadership, they sought to bring the governments of Brazil, China, India, Mexico and South Africa closer to their fold as the "O5," at least for a two-year trial period of discussions on a menu of economic policy matters of mutual concern.[9]

[9] The issues, as stated in the joint communiqué of Germany and the 5 leaders at the Heiligendamm Summit (June 2007), were: "promoting cross border investment to our mutual benefit; promoting research and innovation; development, particularly Africa; and sharing knowledge for improving energy efficiency." It may be noted that the G20, described below, only deals with financial issues and that proposals to raise it to heads of state level have not borne fruit.

How the Specialized Institutions Interact

Whether or not the G8 invitation to the O5 bears fruit, no major reform has yet taken place in the structure or governance of the specialized institutions that implement the international economic policy decisions of the "executive committee." The first thing to observe is that each of the specialized economic institutions, especially WTO, IMF and the World Bank, has a strong mandate in its own field and that there is no effective mechanism to bring about inter-institution coherence other than the fact that the G7 heads of state can make their respective trade, finance and development ministers work together in the institutions they share in governing.[10]

On paper, the international trade and financial institutions are meant to cooperate with each other. Indeed, IMF's charter states that its purpose includes facilitating "the expansion and balanced growth of international trade."[11] In fact, the ministerial oversight committees of the Bretton Woods institutions — the International Monetary and Financial Committee (24 finance ministers and central bank governors) and the Development Committee (24 finance and development cooperation ministers) — do not hesitate to discuss aspects of trade policy as they impinge on their respective mandates. But these committees are not empowered to reach decisions on trade policy.[12] In addition, the WTO's founding documents include an explicit declaration to cooperate with the IMF and the World Bank to achieve "greater coherence in global economic policymaking," while mutually respecting the mandates and autonomy of each institution.[13] In practice, this has meant merely that senior managers of the Fund and Bank are given observer status at the ministerial meetings of the WTO (consisting of trade ministers of the full membership), and similarly management of WTO may attend the Bank/Fund ministerial meetings.[14] This does not add up to a mechanism to reach coherence among international trade and financial policies.

UNCTAD and the UN General Assembly

Once upon a time, however, there was a broad international effort to forge a coherent set of international economic policies that would be consistent with promoting the development of the developing countries. The effort began with the United Nations

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[10] To be fair, the G7 is less in control in the WTO than in the Fund and Bank. Under the GATT, once a deal was brokered between the US, Europe and Japan, it was fairly certain to be adopted globally. This can no longer be assured in the larger WTO.

[11] See *Articles of Agreement of the International Monetary Fund*, adopted at the United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, July 22, 1944, Article I.

[12] Formally, the committees are advisory in their own institutions, as the executive boards and boards of governors have decision-making power; nevertheless, the policy advice of the committees is routinely implemented by the IMF and the World Bank.

[13] See "Declaration on the Contribution of the World Trade Organization to Achieving Greater Coherence in Global Economic Policymaking," which forms part of the "legal texts" concluding the Uruguay Round, adopted in Marrakesh, April 15, 1994.

[14] This notwithstanding, cooperation on technical assistance and staff consultation on specialized topics have been more intense.

Conference on Trade and Development (UNCTAD) in 1964. You will find that integrated discussions of trade and finance took place at that conference, and that the follow up mechanism that was instituted after the conference sought to continue such discussions to the point of negotiation on specific trade and financial policies. A permanent structure was created of specialized standing commissions under an overarching body, the Trade and Development Board (TDB). Every four years, UNCTAD would meet as a major international conference, assess the work so far, and give new discussion and negotiation mandates for the next four years, which the TDB would oversee.

Although certain policy measures were successfully negotiated already in the 1960s, such as the Generalized System of [Tariff] Preferences (1968), UNCTAD reached its high point as a negotiating forum on a range of trade and financial issues in the 1970s. While it was not empowered to strengthen the overall policy coherence with development in IMF, the World Bank or the GATT, donor governments made commitments in UNCTAD on aid and debt policies (including retroactively adjusting the terms of outstanding aid loans to match the easier terms of more recent loans, and agreeing on a nascent set of principles for renegotiating sovereign debt). The Integrated Program for Commodities produced detailed agreements to smooth out price fluctuations on specific international markets, including through the use of buffer stocks (which IMF agreed to support through a new window for loans to make buffer stock purchases). Agreements were also reached on international shipping.[15]

Although I am sure the specific negotiations were never easy, I imagine they benefited from a political commitment reached in the UN General Assembly in 1974, which called for the establishment of a New International Economic Order (NIEO). It was not an accident that the special Assembly meeting that issued the call took place soon after the first sharp increase in petroleum prices managed by the Organization of the Petroleum Exporting Countries (OPEC). This was followed in 1975 by another special session of the General Assembly on economic issues that did not break any new ground, although separately, the IMF adopted special lending programs for oil-importing developing countries in distress.

There was a view that the 1975 General Assembly session failed to produce more than a non-committal text as too many countries had to be brought together to reach consensus. Thus, a smaller group of countries from the North and South was convoked as the Conference on International Economic Cooperation in Paris in 1976. The implicit deal that was targeted was more stable oil markets in exchange for enhanced trade and financial cooperation for development. But there was no breakthrough in Paris either and at the end of the decade the discussions returned to the United Nations.

This is where I entered the scene as a junior staff member of the UN Secretariat in New York. It was a time of major change in the Secretariat. UNCTAD had decided to consolidate its staff in Geneva and reduced its New York office to representational duties

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[15] See UNCTAD, *Beyond Conventional Wisdom in Development Policy: An Intellectual History of UNCTAD, 1964-2004*, United Nations, 2004.

in the General Assembly. Some of the economists who remained behind in New York joined the Department of Economic and Social Affairs, which was also reorganizing. Most important in our context is that France sent Jean Ripert to be the new Under-Secretary-General in charge of that department. As he told a small team of DESA and ex-UNCTAD staff that would assist him, he came with a mandate from France to try to make a success of the resumed North-South Dialogue at the UN. He had a limited and, he knew, temporary opportunity. He felt, however, that there was enough good will for one more attempt to forge a comprehensive deal for development.

It failed and I witnessed the moment it happened. The General Assembly had convoked itself in 1979 as a Committee of the Whole (COW) to continue the Paris discussions. Some governments sent senior officials to lead their negotiations, underlining the importance of the opportunity. And yet, the discussions got stuck on words. There was no political will to negotiate on substance.

The COW had broken into working groups on the different chapters of the proposed declaration. I was assigned to assist in the one dealing with financial cooperation. Like the other groups, it met in one of what were then smoke-filled rooms in the basement of the UN building in New York. But instead of negotiating on actual policies, the country representatives were hung up on whether they should spell the New International Economic Order with upper or lower-case letters, and whether it should be "a" new international order or "the" new order. Lower-level diplomats carried out the negotiations, but senior officials might come in from time to time to listen to how they were going. Richard Cooper, who was US Under-Secretary of State for Economic Affairs in the administration of Jimmy Carter, came to listen to this conversation and after a few moments said in a stage whisper that this was [expletive deleted] and he got up and left.[16] That was the end of it. He was right. There would be no breakthrough here either.

Things only got worse for the North-South Dialogue in the 1980s. The United States joined the United Kingdom as a market fundamentalist regime in 1981, while rolling back inflation became the first priority of economic policy in all the G7 countries, whatever the cost and whoever would bear it. In the widespread recession that followed, oil and other commodity prices plummeted, after having peaked at the end of the inflationary 1970s. The ensuing debt crisis hobbled many major (and minor) developing countries. Latin America would later refer to the 1980s as the "lost decade," and Africa would see per capita output fall in the 1980s and then again in the 1990s. One may conclude that the North no longer felt it needed to cut a deal with the South. Indeed, UNCTAD lost its role as a negotiating forum and today its quadrennial conferences — I hesitate to say this but I think it is true — merely set the research and technical assistance agenda of the organization until the next conference.

[16] I asked him about it many years later and he only denied the expletive.

The Monterrey Opening

There is an aspect of the story above that is not much commented upon. The UN is a foreign ministry forum, just as IMF is a finance ministry/central bank forum and WTO is for trade ministries. Whenever the UN found itself a locus for substantive North-South economic policy agreements, it seems it was always for foreign policy reasons. Initially, development policy followed naturally from the UN's role in decolonization. But, decolonization was largely over by the 1970s so something else must have brought foreign policy makers to call for an NIEO at the UN.

Indeed, the North was then absorbing the fact that power over a central commodity had been grabbed by certain countries of the South. A number of major commodity prices had long been controlled, often in collaboration between producers and consumers, such as the supportive role the US tin stockpile played in helping to manage the international tin price. OPEC, on the other hand, was purely a supplier organization, even if some of its members were close allies of the major powers.[17] It has even been said — but I have no way to know if it is true — that Henry Kissinger, US Secretary of State in the administrations of Richard Nixon and Gerald Ford, conceived the 1974 General Assembly special session on the NIEO as a way to talk the developing world into exhaustion, doing nothing while seeming to do something. In fact, that is too cynical, as some policy advances were made after 1974, including in UNCTAD as mentioned earlier.

In any event, by the 1980s, OPEC showed itself to be less formidable than feared, and all the joint international commodity arrangements with economic provisions eventually broke down. The attention of foreign ministries at the UN was increasingly limited to the political side of the house; economic discussions were a side-show and some governments sent less and less skilled diplomats to cover the discussions that did take place. The action on economic policy matters was elsewhere. Indeed, when WTO was created, the trade negotiators very explicitly decided not to become a specialized agency of the United Nations.

Nevertheless, the North-South Dialogue never fully disappeared from the UN. In 1980 there was an effort to get a "global round" of negotiations going; it never happened. In 1990 there was another effort. In 1997 the newly appointed Deputy Permanent Representative of Venezuela, Ambassador Oscar de Rojas, decided to try again. This time it led to the 2002 International Conference on Financing for Development (FfD), which adopted the Monterrey Consensus.

The process that led to the summit meeting at Monterrey was unique. It is the only major UN conference that originated as a developing country proposal. It began as a Latin

[17] The discovery that OPEC could effectively increase oil prices sent a shock wave through the US administration and Congress at the time. Some "hawks" clamored for military intervention to "defend" oil production and transportation lines. They were civilians, of course, while the military authorities cautioned that they were unprepared for a desert war (private conversations, US Army War College, Carlisle Barracks, Pennsylvania, 1974).

American initiative, was adopted by the developing country governments at the UN represented by the Group of 77, but then it also drew support from the United States, joined by Japan and the Republic of Korea, and finally the Europeans. It found a champion in the World Bank, which seconded staff to assist the UN Secretariat in preparing for the conference and was supported as well by the IMF and the management of WTO.

This is not the place to discuss in any detail how the process of preparing Monterrey overcame the hesitancy of most governments to look to the UN as a potentially serious forum on international economic matters.[18] I would instead just note that several factors made the UN an attractive *political* forum on economic policy and Monterrey an opportune occasion. First, the credibility of the IMF and World Bank had been increasingly challenged as the 1990s wore on, not only in developing countries that had been through "structural adjustment," but also in the legislatures of some donor countries, especially the US. Second, the UN had successfully given voice to the European social agenda through the global UN conferences on environment, gender and social affairs more broadly. Indeed, it appears that World Bank management appreciated that the anti-poverty focus of its new President, James Wolfensohn, could benefit from embracing the UN. Third, the onset of the Asian financial crisis in 1997, followed by the meltdown of Russia while IMF held its hand in 1998, brought the reappearance of "financial architecture reform" to the world policy agenda after two decades without major institutional change. This time, the developing countries were demanding a bigger voice in international policy reform and it was hard to argue against their view; nevertheless, the G7 response maintained its centrality by selectively inviting certain finance ministers and central bank governors to meet with them in a new Group of 20 (G20).[19] Fourth, the "9/11" bombing of the World Trade Center in New York shook the confidence of the developed world in its own physical security, raising the attractiveness of pending possibilities to reach out in an expression of solidarity with the developing world.

I do not want to suggest Monterrey was a North-South love-in. Relations were always delicate among governments and with the specialized multilateral institutions, in particular with WTO. The degree of delicacy as regards WTO is perhaps worth noting as an extreme example (with the other institutions it was rather just under the surface). Allow me one anecdote to give you a sense of this.

[18] For that, and a discussion of backsliding after 2002, see Barry Herman, "The Politics of Inclusion in the Monterrey Process," in Jessica Green and W. Bradnee Chambers, eds., *The Politics of Participation in Sustainable Development Governance* (United Nations University Press, 2006); also available as DESA Working Paper No. 23, United Nations (ST/ESA/2006/DWP/23), April 2006.

[19] The G20 first met in 1999, after the G7 tried meetings with different configurations of middle-sized economies (G22, G33). Besides the G7, the members include Argentina, Australia, Brazil, China, India, Indonesia, Republic of Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, and Turkey. The finance minister of the rotating Presidency of the Council of the European Union and the head of the European Central Bank attend as well. "To ensure global economic forums and institutions work together," the heads of IMF and the World Bank and the chairs of the two Bretton Woods ministerial committees also attend (See www.g20.org). The latter notwithstanding, the G20 have sufficient weight and influence to assure that any policy consensus they might reach is also adopted by those ministerial committees.

In 2001, the Chairman of the Trade and Development Committee of WTO, Ambassador Nathan Irumba (Uganda), while in New York, invited the Bureau of the FfD Preparatory Committee to come to the WTO in Geneva and have an informal inter-governmental and inter-institutional meeting to help advance FfD preparations. The Bureau had already met with the Executive Boards of the IMF and the World Bank. It only made sense that it also meet with the WTO. A WTO colleague privately described the Trade and Development Committee as less a negotiating forum than a "church meeting," but the Bureau saw it as an opportunity and went anyway. The first meeting at WTO was with the Director-General, Michael Moore, accompanied by Ambassador Stuart Harbinson (Hong Kong, China), the Chair of the General Council, which is the committee of the whole that oversees WTO activities between ministerial meetings. Senior WTO management also participated. The discussions were very friendly but also frank. After that, it was all downhill. The inter-governmental meeting began with WTO staff giving briefings on the current state of negotiations in the different WTO committees, which lasted for about an hour. The Chairman then said thank you and adjourned the meeting. The Chair of the UN committee, Ambassador Jørgen Bøjer (Denmark), rose to complain that the UN delegation had come all the way from New York to have a meeting and now they were not having a meeting. The WTO Chair said, in effect, "That's right. We are not ready to talk to you." And no interchange on substantive matters took place.

Conclusion: Use the UN Opportunity to Start a New Reform Process

It is now seven years later. WTO negotiations are stuck. The organization continues to go through the motions of negotiations even though the negotiating authority of one major party, the United States, has expired and will not be renewed before 2009 when a new US president is in office. The IMF has run out of "paying customers," in that when Turkey repays its last outstanding loan, there will be very few (and small) non-concessional loans still outstanding. This may only be temporary, but several countries have repaid their loans before they were due and all former customers are seeking a large enough cushion of foreign exchange reserves to prevent having to return to IMF for help under its traditional conditionality. The World Bank is still recovering from the presidency of Paul Wolfowitz and the distrust he sowed in borrowing countries. Meanwhile, the US financial crisis that began in the summer of 2007 has caused bank failures in Europe as well as in the US, and is raising questions once again of the need for international financial architecture reform. This time, developing countries are not yet victims and are concerned to stop the crisis from spreading to them. They also want to protect their overseas financial assets invested in the developed world. Taking all these factors together, perhaps it is again time for a *political* meeting on international economic reform at the UN.

The G7 or G8 will not be able to solve what it seems fair to call a crisis of international economic cooperation. It will not do for the G8 to unilaterally decide who should speak for the rest of the world in discussions with them on global economic policy. Indeed, nobody elected the G8 to carry out global economic policy leadership. And even if the 7 original countries were the dominant economic powers in the 1970s, they do not have

quite the same exclusive centrality today, and it is even less clear that they will be the right club 10 years from now. Moreover, while there is a certain logic in a two-stage structure for global economic policy oversight, there needs to be a global legitimating process for selecting the "executive committee," as well as a mechanism for the committee to report back to the world as a whole and take on board the views of all relevant stakeholders in an appropriate global forum. Such a process need not always lead to the globally best decisions, but the contending interests would be able to grapple together more fairly and openly.

Is such a global governance structure possible? Yes, in principle, but it would be a stretch to realize it any time soon. An "Economic Security Council" created by and reporting to the United Nations, taking a coherent and effective approach to all aspects of international economic policy to benefit development and global well being is conceivable. Unfortunately, the confidence of governments and peoples in the UN just does not now exist for creating such an organ and asking the UN to serve as the forum to which it would report. But such confidence could be created in time if governments acted in concert to make the UN more effective. A less attractive alternative is to build a new global body elsewhere. Doing nothing solves nothing. In any event, small states as well as big states would have to believe in the ability of the process to develop mutually supportive policies to advance key economic goals, as well as for the world as a whole to vet them thoroughly so as to actually commit themselves to action when they adopt them.

As in the run-up to Monterrey, the UN has again created an opportunity to give a political impulse to a confidence-building process on global economic reform. As in 2002, there is a political need for it again today. The General Assembly decision to hold a high-level intergovernmental FfD conference in Doha, November 29 – December 2, 2008, could bring together many heads of state, as well as financial, trade and foreign ministers, although this level of participation is far from assured. To help prepare for that meeting, the General Assembly is undertaking a review in the first half of 2008 of the policy measures in the Monterrey Consensus. As of this writing, the meetings have had a positive tone and involved a number of responsible officials from capitals.

The success of Monterrey in 2002, however, came after an important period of cross-fertilization between UN delegates and their finance and trade ministry colleagues. There was even a "Philadelphia Group," drawn from the offices of executive directors of the Bank and Fund from European countries and also Canada, and UN delegates from New York, who would meet in Philadelphia halfway between New York and Washington for lunches and to coordinate views. There was also some but not enough interaction between foreign and finance ministry staff of developing countries. For Doha to work as well as Monterrey, these channels of inter-ministry communication need to be rebuilt. But they also need to be built for the first time with representatives from the WTO, who should get over feeling that the UN is never a useful forum.

While inter-ministry discussions can still be strengthened in the run-up to Doha, there is not enough time to develop a set of concrete reform proposals and get a consensus on

them among UN representatives, let alone across ministries. However, there is enough time to agree to start the conversation in a serious way.

Postscript: A Post-Doha Follow-up Mechanism

The world is not ready for a global conference to redesign the international system. It is not even ready for a preparatory body to lay the groundwork for such a conference. It should be recalled that it took 5 years from the collapse of the Bretton Woods system in 1971, when the US delinked the dollar from gold, to agreement on the design of the post-Bretton Woods system in 1976 (as expressed in the vote on the Second Amendment to the IMF Articles of Agreement). As in the 1970s, the first step today is for the realization to spread that the problems will not be resolved with small adjustments in the major trade and financial institutions that leave the overall structures unchanged. This will have to be followed by an intensive period of discussion of reform proposals, until a consensus develops around one plan or another. Adopting the new structure is the last major step, although further reforms and revised practices will surely follow, as the "kinks" are worked out of the new structure.

Perhaps the world will soon be ready to start an intergovernmental conversation about the need for a major reform in the international system. One proposal that could facilitate such a discussion was recently put forward. It is enticing in the modest and vague way of diplomacy at its best. The proposal was made by Ambassador Eduardo Galvez, Multilateral Policy Director in the Ministry of Foreign Affairs of Chile. To quote from his presentation at the General Assembly's FfD review meeting on systemic issues on March 11, 2008:

> ***Creation of an integrated multi-stakeholder Forum, Council, or a Committee on FfD***
>
> - Composition
>   - Representatives of governmental organs of the UN (GA and ECOSOC), IMF, World Bank, and WTO
>   - Representatives from specialized agencies, i.e. ILO, UN Funds and Programs
>   - Civil society and the private sector
>
> - Objective: to change the nature of the existing "dialogues" of the UN and the Bretton Woods Institutions and WTO for an **integrated review** of the chapters of the Monterrey Consensus.

Galvez is essentially calling on FfD stakeholders to shape his rough idea into a plan to take forward from Doha. It is a call that deserves to be answered.