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Report

Will the BRICS provide the Global Public Goods the world needs?

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Key messages

- Global governance is a global public good that is undersupplied, and this harms development.
- Global decision making on trade, climate and finance issues has stalled over the last decade in part because of the rise of BRICS (Brazil Russia Indonesia China South Africa) vis-a-vis developed countries and the US in particular.
- The trade and climate change regimes share some similarities, with the WTO and UNFCCC processes both being democratic. Although the outcomes of recent negotiating rounds to formulate new global rules are viewed mildly positively, there remain a number of areas of unfinished business in both areas including major failings in climate mitigation. It is unclear whether or how these will be resolved in the near to medium future.
- The formulation of global rules for finance remains in its infancy and have been overtaken by the introduction of new products and technology. One could envisage that in the future progress on formal rule-making could proceed along similar lines to that of the global trade regime: with agreement on limited sectoral agreements which is being elaborated on overtime.
- The BRICS are increasingly pro-active in global governance processes. Whilst their willingness to engage is strong, they are yet to speak with one voice on specific issues. Their differences with the established powers have so far led to a vacuum in the provision of global governance public goods.
- Other groupings could act as a stepping stone towards global governance: the EU can be used to provide positive incentives in the area of climate negotiations, the G20 can be used to build trust in financial and monetary governance, and regional groupings are increasingly being used to govern trade.

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Abbreviations

Abbreviation	Description
AU	African Union
APEC	Asia Pacific Economic Community
ASEAN	Association of South East Asian Nations
BIS	Bank for International Settlements
BCBS	Basel Committee on Banking Supervision
BCSA	Bilateral Currency Swaps Arrangements
BRICS	Brazil Russia Indonesia China South Africa
CSIS	Centre for Strategic and International Studies
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateralized
CDM	Clean Development Mechanism
CSTO	Collective Security Treaty Organization
CEPA	Comprehensive Economic Partnership in East Asia
CRA	Contingency Reserve Arrangement
DFQF	Duty Free and Quota Free
ECA	Economic Commission for Africa
ETS	Emission Trading Mechanisms
EU	European Union
FSB	Financial Stability Board
FSF	Financial Stability Forum
FAO	Food And agriculture Organization
FTA	Free Trade Agreement
GATT	General Agreement on Trade and Tariffs
GFC	Global Financial Crisis
GFC	Global Financial Crisis
GPG	Global public goods
GVC	Global Value Chains
GHG	Green House Gas
GDP	Gross Domestic Product
IFC	International Finance Corporation
IMF	International Monetary Fund
IPE	International Political Economy
LDC	Least Developed Country
MEF	Major Economies Forum

MFN	Most Favoured Nation
NT	National Treatment
NEPAD	New Economic Partnership for African Development
NAMA	Non-Agriculture Market Access
NDT	Non-Discriminatory Treatment
OECD	Organization for Economic Co-operation and Development
PTA	Preferential Trade Agreements
US	Regional Trade Agreements
SCO	Shanghai Co-operation Organization
SVE	Small and Vulnerable Economies
SDT	Special and Differential Treatment
SDR	Special Drawing Rights
SSM	Special Safeguard Mechanism
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
USD	United States Dollars
WB	World Bank
WTO	World Trade Organization
WWII	World War II

Executive summary

The demand for global economic governance is increasing in a globalising and increasingly interlinked economy. Yet global governance, a global public good, is currently undersupplied – and this (e.g. lack of global rules on trade, finance and emissions) is harming development. This Report examines the role of BRICs and other groupings in providing global public goods in the future.

The report first establishes that that global decision making on trade, climate and finance has been stalling the last decade in part because of the relative rise of BRICS / emerging markets vis-a-vis developed countries and the US in particular. This is evident from an examination of the stalemate in the trade and climate change negotiations. We find that the differences between the BRICS and the established powers have so far led to a vacuum in the provision of global governance public goods, which is concerning, but the details differ by types of rulemaking.

The trade and climate change regimes share some similarities, with the WTO and UNFCCC processes both being highly democratic. Although the outcomes of recent negotiating rounds to formulate new global rules are viewed mildly positively, there remain a number of areas of unfinished business. It is unclear whether and how these will be resolved in the future at a global level, particularly in the area of trade.

The formulation of global rules for finance remains very much in its infancy. Rapid change in both the market products (derivatives etc.) and the technology (automatic trading systems) outstripped the global ideology of 'light touch' regulation. One could envisage that in the future progress on formal rule-making could proceed along similar lines to that of the global trade regime: with agreement on limited sectoral agreements being subsequently expanded in terms of membership.

The BRICS have become increasingly pro-active in global governance processes. This includes occupying an increasing number of leadership positions in international organisations (e.g. the WTO and UNIDO). BRICS are also in the process of setting up joint arrangements and institutions (e.g. BRICS bank), although the depth of this co-ordination can be questioned. Indeed, current co-ordination amongst BRICS still seems underdeveloped.

Thus, countries interested in progressing global economic governance cannot rely on fast action by the BRICS alone. We examine the potential role of other groupings and argue they might play a useful role to act as a stepping stone towards global governance: the EU can be used to provide positive incentives in the area of climate negotiations, the G20 can be used to build trust in financial and monetary governance, and regional groupings are increasingly being used to govern trade.

1 Introduction

The debates on the future of global economic governance have been particularly acute after the global financial crisis. Entrusting global economic governance from G7/8 to the G20 in order to include emerging powers has been marked as a milestone in global governance. Despite this change, significant challenges remain and gaps still need to be filled to solve global governance. Failure to progress at the multilateral level has led to major concerns that the international community will underprovide much needed governance for global public goods (GPGs) which are crucial for developmental progress. Recognising this stalemate, it is necessary to revisit what can be done to progress towards more effective and adequate provision of the governance of GPGs. In particular, whilst there is a current tendency not to conclude formal global rules (e.g. restrictions on carbon emissions or global trade rules) due to especially rapid and large shifts in global economic power, how can progress be made? Will the BRICs provide global economic governance in a rapidly changing world? What international bodies and institutions can be of help with this process?

The prevailing intellectual climate has pointed to the 'gridlocked' nature of global economic governance (Goldin, 2013), where the author cites misaligned incentives, short termism, free-riding, lack of enforcement mechanisms, co-ordination failure and a trade-off between 'legitimacy' and 'effectiveness' in global institutions – code for saying that the United Nations is representative and therefore legitimate, while the IMF and World Bank are the opposite. But some even argue that the UN, especially the composition of the five permanent members of the security council, is not legitimate as it only represents the geopolitics of 1945 but not of today (Tharoor, 2011). The only place nations tend to have an equal footing is the General Assembly, which lacks binding power.

Several commentators have long been asking the question: are nation-states and globalisation of the world economy truly compatible (Wolf 2001 and Rodrik 2012)? Danny Rodrik's proposed 'Globalisation Paradox' argues that hyperglobalisation, nation-state and democratic politics cannot co-exist, he asks the question: How do we manage the tension between national democracy and global markets?Rodrik thinks there are three options. We can restrict democracy in the interest of minimizing international transaction costs, disregarding the economic and social whiplash that the global economy occasionally produces. We can limit globalisation, in the hope of building democratic legitimacy at home. Or we can globalize democracy, at the cost of national sovereignty.'

According to this, governments need to understand the inevitable trade-offs between hyperglobalisation, nation-state system and democratic processes. Therefore they need to make a conscious choice about which concepts they want to emphasize. They should also decide what needs global governance and what does not – in other words, they need to pick out only the most important issues that need global actions and leave out the ones that do not require global attention (Goldin, 2013). In addition, leaders need to beware of the efficiency and legitimacy of the trade-off argument and try to keep the global rule making bodies as small as possible, while ensuring to use ‘variable geometry’ to allow different combination of countries around the table for different issues. Lastly, it is also crucially important to include and engage the emerging powers to the highest level of global governance to ensure their interests are incorporated in to the architecture. This report discusses some of these issues in detail.

The current emphasis in global economic governance is on rule-making and co-operation in the areas of trade, internal macro-economics and tax. In the area of climate, it is related to carbon dioxide emissions. There are some interesting parallels that can be drawn between progress on economic and environmental rule-making at a global level; this includes, for example, the way in which global negotiations have stalled. Thus, this report examines global governance of trade, finance and climate change.

Overall, this paper aims to explore the following questions in relation to economic and environmental global governance: (i) How far have we advanced with regards to formal global rule making processes and why is it stalling? (ii) What are the reasons for this: political, institutional or other? How do interests diverge or converge amongst actors? And (iii) to what extent are BRICs or new institutions filling this vacuum? How are different forms of co-operation at international and regional levels evolving?

The structure is as follows. Section 2 reviews the existing literature on global public goods and identifies some of the major issues in relation to the debate on the provision of global economic and environmental rules. Section 3 discusses recent progress with regards to formal, as well as informal, rulemaking in relation to trade, finance and climate change regimes. This is with a view to understanding the main actors and their interests in these areas, particularly the role of MICs/BRICS and the extent to which their interests converge or diverge from the major developed economies, notably the US (section 4). Section 5 suggests possible ways forward to better engage with and learn from the BRICS and analyses the potential new roles of formal international organisations and bodies in the years ahead (e.g. UN, etc.) as well as informal groupings (e.g. G20). Section 6 concludes the paper.

2 Global economic governance as a Global Public Good

It is useful to consider global economic governance as a global public good (GPG) that is crucial for development, this will help us to understand why GPGs tend to be underprovided. This chapter first reviews the concepts of public goods (2.1) and global public goods (2.2). Their characteristics have implications on their optimal provision. We discuss the potential importance of GPGs for development in section 2.3.

2.1 What is a public good?

A pure public good must exhibit two characteristics (Morrissey et al, 2002; te Velde and Morrissey, 2005). First, the good is non-excludable: once it has been provided, no agents can be excluded from enjoying its benefits. As long as it is difficult or costly to exclude, private providers will not find the market attractive - they cannot exclude non-payers from deriving benefit and therefore cannot recover the costs of production. Consequently, there is a role for the public sector in providing the good, as the public sector can use non-price mechanisms to finance provision, or at least co-ordinate the provision. Second, the good must be non-rival in consumption: consumption by one person does not diminish the amount available to others, therefore 'extending consumption to more users creates benefits that cost society nothing' (Kanbur et al., 1999: 61). As the private sector would under-supply a non-rival good, there is a role for the public sector to increase its provision, for instance, by providing a subsidy for production.

In practice, goods are impure public goods as they exhibit neither characteristic completely. The discussion about public goods is thus one about degree of excludability and rivalry. The fundamental point about public goods is that they will be under-supplied if provision is left to the market, in turn leading to a market failure. This arises for two reasons. First, the investment cost of provision could exceed the returns for an individual agent. This essentially follows from the inability to exclude potential beneficiaries, which implies that some or all of the beneficiaries will not pay for the benefits, that is, they will free ride. Second, even if charging for the benefits raises the possibility of exclusion, it may not be desirable from society's point of view if the social benefit exceeds the private benefit. This will be the case if benefits are non-rival, or if there are significant external benefits.

Whilst the provision of public goods offers the same level of consumption to everybody, this does not mean that everybody derives the same level of utility from this. In terms of utility, not all public goods are equally beneficial to all agents.

2.2 What is a global public good?

Traditional discussions of public goods were at the national (or state) or community level – the government would provide security within its borders, or a local community would provide its own street lighting or policing. However, the spill over or spatial range over which benefits (or costs) are meaningful can extend from the local to a truly global level. Some authors used the concept of global public goods to encompass a broad range of development activities (Kaul et al., 1999). Others use narrower definitions of global public goods (Kanbur et al, 1999). For convenience, distinction is limited to national and international public goods (Morrissey et al, 2002).

A further distinction is to identify types of public goods by 'sector' of benefit. Typically, five sectors are considered (Kanbur et al, 1999; Morrissey et al, 2002):

- Environment,
- health,
- knowledge,
- security and
- governance.

This paper is mostly interested in governance as a form of GPGs. Governance of GPGs include the set of rules governing international economic relations such as trade, cross-border finance and the environment.

Many commentators agree that a rules-based system (and the WTO) is a useful public good and that this should be provided (Dulbecco and Laporte, 2005; Staiger, 2005, Collier, 2005). One notable example is a trade system based on trade rules as embodied by the WTO rules. Member states of the WTO agree to sign up to certain trade rules (e.g. tariffs and non-tariff barriers in trade in goods, rules on trade in services). The WTO is also the forum to negotiate on trade-distorting subsidies in agriculture and other sectors.

Global governance initiatives that provide environment GPGs are also relatively well established, e.g. the Montreal and Kyoto Protocol and the Global Environmental Facility (Barrett, 2005). Global financial governance (cross-border flows, tax) is embodied in institutions such as the IMF, World Bank, the G20 or OECD (for tax and investment) although there is a lack of formal rules at a global level.

There have been rapid changes in all of these areas. For example, trade and international finance have increased over time as a share of national economies (with some hit during the financial crisis of 2008-2009) and climate change has become an urgent issue (IPPC, 2014). At the same time, GPGs that govern these remain underprovided. The challenges are becoming greater: financial crises have greater impacts, tax evasion and avoidance have grown in importance and a temperature rise of four degrees is likely compared to a safe two degrees.

The development of global rules is costly and time consuming. Because they contain characteristics of GPGs, individual countries are unlikely to provide them at a sufficient level. Moreover, there are of course further challenges related to transparency, flexibility and legitimacy of global rule setting. The form also matters as different forms can lead to different benefits derived from the GPG.

A key difficulty with GPGs compared to PGs is that of establishing a legitimate supra-national authority. PGs can be provided and co-ordinated nationally and whilst GPGs can sometimes be provided nationally they need to be co-ordinated globally which requires supra-national structures.

2.3 The impact of global economic governance on development

There is a literature on the importance of global environmental rules, global trade rules and global financial governance for development.

For example, Cantore et al. (2014) discuss the impact of global rules on carbon dioxide emissions for Africa. A deal cutting emission would help to raise Africa's GDP by 6 per cent by 2050.

There is also general agreement that a deal on trade facilitation would benefit the WTO membership[1]. Countries would gain from streamlined customs procedures: while the estimate of gains worth US$1 trillion annually from current trade facilitation negotiations may not be realistic, one study suggests that it is more likely to gain US$68 billion annually in GDP. Whatever the actual total is, the qualitative benefits are the same: all countries gain, especially with the additional offer to the poorest countries for more time, space and money to implement commitments.

Finally, there is an agreement that a deal on tax evasion can help stem the illicit capital outflows which are estimated to be twice the level of aid to developing countries[2].

When these global economic governance public goods are underprovided it is the poorest countries that often lose out the most. Therefore we need to understand if and why progress on multilateral rule making is stalling because this has implications for the poorer and most vulnerable countries.

[1] http://community.businessfightspoverty.org/profiles/blogs/dirk-willem-te-velde-what-is-at-stake-at-this-week-s-wto-negotiat
[2] http://www.odi.org.uk/opinion/7467-g8-2013-tax-revenue-developing-countries-development

3 Progress in Global Rule Making

The scale of global integration achieved through trade and financial channels in recent decades is unprecedented. However, there are major challenges in relation to whether global institutions and the international economic architecture required to govern these processes have developed in tandem. Since the global financial crisis (GFC), new stresses have become apparent. It is becoming increasingly clear that globalisation is in a new process of transition and institutions need to adapt. As argued by Keane and te Velde (2010), institutional arrangements and international agreements consolidated and created since 1945 for global economic governance are facing new challenges and opportunities in the light of the rise of newly industrialised and emerging economies.

Five years after the GFC erupted, some areas of ‘globalisation management’ - notably the financial sector - have been closely scrutinised, resulting in some new regulations, albeit from a very low level. Other regimes - notably trade - are still following pre-crisis-era agendas (Keane and Page, 2013). There are risks of continued perceptions of illegitimacy if the new emerging actors and their interests are not effectively included within existing institutions and formal rule making processes (Keane and te Velde, 2010). In addition, there are risks of potential redundancy if existing institutions are unable to adapt and deal with the challenges posed by both the level, pace and shifts in the drivers of globalisation that has occurred. Instability and insecurity would damage the weakest countries the most.

New forms of cooperative relationships towards global economic governance are unlikely to evolve unless the structures, objectives and norms of these institutions are better aligned with the preferences of emerging powers within a multipolar world rather than one dominated by a hegemon (formerly the US).

This section reviews the current regimes and rules that govern the spheres of trade, climate and finance. We take stock of the progress in formal rule-making to date and highlight some of the major sticking points. This serves as an introduction to the following section which reviews the extent to which other forms of cooperation have emerged to address limited progress at the multilateral level.

3.1 Trade

The World Trade Organization (WTO), and the global trading system more broadly, have received praise for helping to avoid the degree of protectionism that undermined global efforts to recover from the great depression of the 1930s (Keane and Page, 2013). However, negotiations for a new round of multilateral trade liberalisation - the Doha Round - are generally recognised as having reached a hiatus. Although agreement was just about reached at the 9th WTO Ministerial in Bali in early December 2013 on a small package known as the 'Bali Agenda', its content is more limited than that originally envisaged, and there still remains some sticking points. This section briefly runs through the evolution of the global trade regime, negotiation processes, and some of the main sticking points and areas of contention.

The starting point of the global trade regime can be traced back to the 1947 General Agreement on Trade and Tariffs (GATT) which was created and formed as a mechanism through which its founding members could agree to reduce customs tariffs and facilitate trade amongst them, further to increase since the Great Depression and WWII. Between 1948 and 1994, the GATT provided the rules to govern world trade. As the globalisation process accelerated in the 1990s, however, it became clear that a broader framework was needed to better govern trade and investment processes.

The Marrakesh Declaration established the WTO in 1994. The WTO has a broader scope and remit than GATT, namely to regulate trade in goods and services, and organize trade negotiations between its members and settle any disputes that arise. Its members agreed to uphold principles such as Most Favoured Nation (MFN) meaning non-discrimination among nations; national treatment (NT) with non-discriminatory treatment (NDT) between imported goods and domestic goods; transparency - all trade legislation must be notified to the WTO; and Special and Differential Treatment (SDT) to developing counties.[3]

The rule-based system of governance adhered to by WTO members is based on a system of one vote per member and all members must agree on all new agreements. The system is therefore highly democratic in principle, although in practice negotiations may often boil down to a limited number of countries and stand-offs in positions. This has increasingly been the US and EU versus newly emerging economies. In order to better understand how and why these stand-offs are occurring it is important to understand the main differences between the GATT and the WTO.

3.1.1 Negotiation Processes

The scope of the GATT negotiations was largely confined to manufactures because at that time, it was clear that the only effective way of curbing trade restrictions was through international reciprocity - a country's liberalization being presented as the price for achieving liberalization in other markets (Collier, 2005). The coordinating function of the GATT around reciprocity provided an international public good.

The major difference between the GATT and WTO, and hence the creation of the Doha round is that reciprocity between developed and developing countries came into the fore. This is because, as discussed by Collier (2005), by the time GATT was transformed into the WTO, intra-OECD trade in manufactures was virtually barrier free. Hence, the future trade agenda shifted towards OECD liberalisation vis-à-vis developing countries; developing country liberalisation vis-à-vis the OECD; and intra-developing country liberalisation.

[3] The creation of the WTO on the 1 January 1995 marked the biggest reform of international trade since after WWII and sought to rectify the failed attempt in 1948 to create the International Trade Organisation, as part of the Bretton Woods system. See Keane and te Velde (2010) for further discussion.

The agenda also shifted so as to focus on liberalisation and disciplines in sectors other than manufactures such as agriculture and services. Developing countries, particularly emerging economies, were expected to make concessions in their manufacturing sectors in the Doha round officially launched in 2001. This was because of perceptions that they had benefitted from the 'public good' of open world markets, and hence also had to contribute to new liberalisation. Developed countries in turn, were also supposed to undertake liberalisation in their agricultural sector.

One major challenge to overcome, as discussed by Evenett (2008), is that during the Doha Round WTO members strived to combine a series of disparate accounts into one package - the "Single Undertaking" - that all members would sign up to. In some respect this has been unfortunate: it has ignored the other - and often-more-flexible - WTO agreements that can also advance common goals, over time. The principle of single undertaking means nothing is agreed until all is. Because of this disjunction some authors have called for this "one size fits all" approach to be reconsidered in light of country specificities and with a view to increasing differentiation across countries in terms of their interests.

3.1.2 Key Sticking Points

The main points of contention regarding the Doha round were related to specific issues on agricultural trade and related rules and principles which uphold the core principles of the multilateral trade regime. The breakdown of negotiations for the Doha Round in 2008 essentially boiled down to disagreement between the US and India regarding agricultural trade liberalisation. Although some argue that the Doha Declaration puts an excessive emphasis on the economy of yesterday (e.g. agriculture) rather than the economies of tomorrow (e.g. services and manufacturing), liberalisation in the agriculture sector in developed countries is requested by developing countries because of their existing comparative advantages, as opposed to future structures. However, developed countries have been reluctant to liberalise market access, reduce subsidies and decouple farm support (Hufbauer, 2006).

The US in particular, has been singled out by Bhagwati (2008) as acting as a selfish rather than altruistic hegemon and as the main adversary through its refusal to cut its trade-distorting agricultural subsidies. Moreover, despite its refusal to budge, it has instead singled out India for its request to utilise an enhanced special safeguard mechanism (SSM) to be used in case of an import surge.[4] Thus, the US pointed the finger at others for stalling the round whilst failing to fully consider its own role at that time.

As argued by Narayanan (2013), former Ambassador to the WTO for India, one of the main reasons why developing countries had agreed to the Doha Round was because of the agreement to implement the built-in agenda in Article 20 of the Agreement on Agriculture for liberalisation of the agricultural sector; incorporation of the 'less than full reciprocity' principle in the negotiation mandate for Non-Agricultural Market Access (NAMA); and, the postponement of negotiations for Singapore Issues (competition, investment and government procurement). Developing countries have therefore been hesitant to abandon the Doha Round, and consider discussions on new issues such as trade facilitation as unacceptable. However, there is a general agreement that there should be an early harvest of issues of importance to the LDCs, such as cotton and DFQF – Duty Free Quota

[4] Concerns arise given that two-thirds of India's population are in rural employment.

Free (although in practice even the LDCs are divided as to how this could be best achieved).

Developed countries have been perceived to be actively seeking to shift the discourse away from a focus on what was agreed to be negotiated in the Doha round to that of the 'Bali Agenda'. They are perceived to be selling trade facilitation. This shift in negotiation tact has been pin-pointed to have occurred in 2009 (Narayanan, 2013).

The former Ambassador of South Africa to the WTO, Faizel Ismail has highlighted a number of trends which have emerged since the Doha impasse of 2008.These include the new discourse related to the Bali Agenda and discussion of GVCs according to Ismail (2013) makes simplistic assumptions that imports create exports. Other country representatives in the WTO including those from Small and Vulnerable Economies (SVEs) to some extent concur, and refute the assumption that technical assistance on trade facilitation will solve the problems facing developing countries.[5] Moreover, the approach is considered a vehicle on which to get Singapore issues such as services back on the table, whilst leaving the agricultural sector out of it. What remained on the table for the 9th WTO Ministerial held in Bali December 2013, and was agreed by members was considered to be major compromise and a face-saving exercise. Table 1 presents some of the main features of the Bali Agenda (now known as the Bali Package) and where agreement was reached.

To some extent, the main agreement reached by all parties was a commitment to continue negotiations for the Doha Agenda, with recognition that only some elements of this were agreed under the Bali package, including trade facilitation.[6] Nevertheless, this was the first multilateral trade agreement since 1995 and the creation of the WTO. The text on trade facilitation is legally binding and due to be adopted by the General Council by July 2014, and on ratification by two thirds of the membership. However, commitments on financial resources have not been specified. Estimates on the potential economic effects of the benefits of agreement on trade facilitation - assumed to be worth approximately one trillion - are also generally recognised as being very optimistic and based on unrealistic assumptions (ICC 2013; Hufbauer et al. 2013).

[5] Statement made by Ambassador Marion Williams, permanent representative of Barbados to the WTO, reported by Mohamadieh (2013).

[6] See the Ministerial Statement on the Bali Package available here: https://mc9.wto.org/draft-bali-ministerial-declaration

Table 1: Progress and sticking points on trade negotiations

	Progress	Sticking Points	Divergence in Positions
Trade	○ The Doha round subsequently became the Bali Agenda. ○ What was agreed at MC9 includes ten texts which comprise the Bali Package; these include in relation to: ○ Trade Facilitation; General Services; Public Stockholding for Food Security Purposes; Understanding on Tariff Rate Quota Administration; Export Competition; Cotton; Preferential Rules of Origin for Least Developed Countries; Operationalisation of the waiver concerning preferential treatment to services and services suppliers of least developed countries; duty-free and quota-free market access for least developed countries; and a monitoring mechanism on special and differential treatment.	○ Liberalisation in the agricultural sector and food security issues (holding of public stocks). ○ Outstanding issues include food security and the issue of public stockholding, although there is a formal commitment to address these. ○ Still no binding commitments on export subsidies in agriculture although this is a priority area for the post-Bali work programme.	○ Regarding the single undertaking and further liberalisation, there is a clear divergence in positions between developed countries and emerging economies (e.g. US versus India). The developed countries wish to move further and faster than developing countries. ○ Agreement has been reached on the Bali agenda, and in particular resources made available for trade facilitation. No divergence in positions is apparent. ○ Like-minded countries are negotiating for an international services trade agreement. ○ Still disagreement of treatment of US and EU subsidies vs Indian safeguards.

Source: The authors

3.1.3 Relevance of the WTO for the future.

There is a tendency of the current wave of mega-plurilaterals to include their own reference to dispute settlement mechanisms, as well as include rules which go well beyond those agreed at the WTO, including on WTO-Plus issues such as finance, social and environmental standards, as well as public procurement. Some have even gone so far as to suggest that these developments necessarily mean that the WTO must adopt more of a bottom-up approach and incorporate such agreements into the multilateral rule-based system (Wignarajara, 2011). Table 2 presents the evolution of the number of preferential trade agreements (PTAs) and regional trade agreements (RTAs) signed by the BRICS, and the US and EU from 2000 to date. The EU can be seen to have the largest number of RTAs and PTAs in force.

Table 2: Number of summary table of PTAs

Country	2000 FTAs	2005 FTAs	2010 FTAs	Present number of FTAs
EU	17	24	33	38
US	6	10	15	18
Brazil	4	4	5	5
Russia	13	14	15	16
India	3	7	14	16
China	1	5	10	11
South Africa	3	4	5	5

Note: Totals are cumulative; date of entry into force used. Source: WTO database.

There are concerns related to these types of agreements given their potential for trade diversion, for non-tariff barriers to increase rather than decrease, and of their combined effect on the international trade regime more broadly. One could envisage, if concluded, different spheres of deepening trade and economic cooperation emerging between countries organised or differentiated by regional or like-minded groupings.

In addition to the new wave of mega PTAs being negotiated as summarised in Box 1, the US and EU are leading talks between more than 20 advanced and emerging like-minded economies regarding services in trade liberalisation. Because of these developments, some authors have suggested that the overall message is that the west has given up on the grand multilateralism that defined the postwar era. More strikingly still, each of the proposed new agreements would leave China on the sidelines. The exclusion of the world's second-biggest economy is more than a coincidence (Stevens, 2013).

There are already calls from some major economies to expand its rule making functions. This includes calls from Brazil, for the remit of the WTO to be expanded to cover such issues as exchange rate management. This is one area which is perceived to be inadequately addressed at the multilateral level which is discussed later in this chapter in relation to finance. Hence, Brazil is actively seeking to use the WTO as a forum to fill an international regulatory gap.[7] The issue of finance and exchange rate regimes has been termed by Page (2011) as a 'borderline issue' where the remit of the WTO impinges on what some perceive the remit of other institutions, such as the International Monetary Fund (IMF). Other borderline issues include in relation to the trade and climate change regimes, which we discuss in the following section.

[7] See Pereira and Allard (2013).

Box 1: Major PTAs under negotiation

EU-US Transatlantic Trade and Investment Partnership: This deal is intended to deepen relations between the US and EU and move further in areas such as services and investment.

Trans-Pacific Partnership: The successful conclusion of the Trans-Pacific Partnership talks would include members of the Asia Pacific Economic Community (APEC), or at least incorporate those members willing to deepen trade relations and update the preferential trade agreement that already exists between some members of APEC. The agreement is considered by the US to serve as a counterweight to increased Chinese influence in the Asia-Pacific region.

East Asia Free Trade Area: A wave of FTAs has been signed by the Association of South East Asian Nations (ASEAN) with developed East Asian trade partners such as Japan, Korea and China. These agreements are known as the ASEAN+3 agreements. These agreements may be consolidated in the future through the creation of an East Asian Free Trade Area or Comprehensive Economic Partnership in East Asia (CEPA).

3.2 Finance

Whereas there are global rules and institutions under the trade and climate change regimes to coordinate the actions of all players and provide a public good, this is much less the case in relation to finance. Although the mandate of institutions such as the IMF is to oversee the international monetary system and monitor the economic and financial policies of its member countries, it lacks the rule making function of both the trade and climate change regimes and enforcement mechanism of the trade regime. It has also been heavily criticised in terms of its legitimacy. Unlike the institutions charged with governing the trade and climate change sphere, its governance structure is far from democratic. Bodies to govern international finance include the IMF, WB, OECD (on tax), the Financial Stability Forum and the G20.

As discussed in some detail by Keane and te Velde (2010), the governance structure of the IMF started becoming problematic as soon as the first wave of crises hit the developing country periphery during the 1990s. The IMF was heavily criticised for its interventions in and its role as de facto lender of last resort during the 1990s was perceived to have simply compounded moral hazard problems; instead of taming financial instability, it was accused of stoking it. This led to the bizarre situation in the 00's when IMF members, particularly in Asia, but also elsewhere, preferred self-insurance through the accumulation of foreign exchange reserves, rather than rely on any assurances that the fund gave.

Pertinent questions were therefore raised as to how the IMF functions, its remit and, more importantly, its governance. As a result, it is fair to say that prior to the GFC of 2008 the IMF was having a real crisis of legitimacy: without any financial fires to fight, what was its role in global economic governance? The GFC has given it a new lease of life, but it has also raised new issues to do with resources and, by implication, governance. The fund has been lending again to crisis-affected economies, but this time its clients range from developed to developing economies because there is no longer a clear distinction between 'periphery' countries. And its policy has changed on such issues as the use of capital controls to curb hot money, which it had staunchly ruled out when the Asian financial crisis was raging. Hence, if the 1980s represented a silent revolution for the IMF towards a common set of norms (the Washington Consensus) this decade seems to have brought global convergence on the need for alternatives to these.

The G20 which has emerged as an informal grouping to resolve finance coordination issues and comprises finance ministers from the major developed countries and selected emerging economies is itself symptomatic of a lack of global governance of finance. As argued by Woods (2010), G20 members needs to push for more drastic reforms of the IMF in order to avoid the institution being marginalized by emerging powers. This includes both in relation to authority and location (so as to avoid being Washington centric), as well as such aspects as the range of currencies included in the IMF's basket of special drawing rights (SDRs). However, even if reform of IMF voting rights and the expansion of its reference currencies was reached, the basic point remains – there is no global authority on rule making or enforcement in relation to finance.

3.2.1 Sticking Points

Although some progress has been made on reforming the governance structure of the IMF, progress remains slow. The Eurozone crises which followed the GFC demanded more immediate action. This includes in relation to reform of the banking sector. In this regard, there seems to have been much more movement, as the number of emerging economies included in the informal groupings that govern the banking sector has increased rapidly in the years following the GFC. However, there remains a number of contentious points in relation to how the architecture for global finance is evolving.

As discussed by Scholte (2002) the group of ten advanced economies (G10) have met regularly in Basel since 1962 to discuss monetary and financial matters. In response to this, a group of 24 developing countries was established in the early 1970s as a Southern-based counterpart, although it has far less policy impact. In comparison, the G7 group of industrialised nations has met regularly since 1975. The group of G7 and G10 countries established a working group called the Basel Committee on Banking Supervision (BCBS) in 1975 to explore issues related to global finance. This group created the Basel Capital Accord in 1988: a framework to assess the capital position of cross border banks. In 1997 core principles for assessing the capital position of transborder banks was also established. The G7 established the Financial Stability Forum (FSF)[8] in 1999 to facilitate information exchange and cooperation related to the supervision and surveillance of commercial financial institutions. However, the creation of three working groups has been amongst civil servants rather than at the ministerial level (Griffith-Jones and Young, 2009).

[8] Now known as the Financial Stability Board.

Box 2: Summary of progress on Basel

Basel I: With the end of the petrodollar boom and the ensuing banking crises of the early 1980s, this desire for a common banking capitalization standard came to the forefront of the agendas of the Basel Committee's member states. Six years of deliberations followed before the G-10 (plus Spain) came to a final agreement: The *International Convergence of Capital Measurements and Capital Standards*, known informally as "Basel I" was written to provide adequate capital to guard against risk in the creditworthiness of a bank's loan book. It proposes minimum capital requirements for internationally active banks.

Basel II: In response to the banking crises of the 1990s, the Basel Committee decided in 1999 to propose a new, more comprehensive capital adequacy accord. This accord, known formally as *A Revised Framework on International Convergence of Capital Measurement and Capital Standards* and informally as "Basel II" greatly expands the scope, technicality, and depth of the original Basel Accord. It creates a more sensitive measurement of a bank's risk-weighted assets.

Basel III: In the aftermath of the GFC, the Basel Committee of Banking Supervision embarked on a program of substantially revising its existing capital adequacy ratios. The resultant capital adequacy framework is called Basel III. It includes an increase in banks equity ratios. The objectives include strengthening global capital and liquidity regulations with the goal of promoting a more resilient banking sector, as well as improving the sectors ability to absorb shocks.

Source: Baylin (2008); KPMG 2013

This situation has changed dramatically in recent years as a result of the effects of the GFC which has revealed clear failings in existing governance structures to monitor, supervise and enforce rules related to the behaviour of global financial institutions. The oldest superstate agency for global finance – the Bank for International Settlements (BIS) dates back to 1930 and has had its voting membership to include an increasing number of national central banks in recent years (Scholte, 2002). As discussed by Griffith-Jones and Young (2009) the BIS expanded its membership in 2006 to include Central Bank governors from Mexico and China on its board of directors.

Nevertheless it remains that the governance of global finance resides in different permanent institutional structures, and operates within a complex web of non-state private actors. Because of this, alternative structures are sought as well as the appropriate means of enforcement of agreed rules, which are yet to be agreed on. The G20 has pushed the international financial standard setting bodies to review their governance and as a result of the G20 Summit in November 2008, a number of institutions expanded their membership to developing and emerging economies (See Table 2).[9]

However, the main limitation is that these bodies do not yet include membership of the smaller emerging economies. Because of this there are concerns that the exclusion of such countries may lead to distorted and biased reforms which could adversely affect the excluded countries. Issues of concern to Commonwealth members which include SVEs are related to: legitimacy; fair representation of all countries; responsiveness; flexibility; as well as transparency and accountability.[10]

There remain as yet unanswered calls for a Global Financial Regulator. Although the appetite for the creation of a new multilateral institution is there, the willingness of the international community to create new rules as well as institutions is rather more limited. This is despite the need for global regulations to address the severe market failures associated with unregulated global finance, which as shown by the

[9] See Griffith-Jones and Young (2009).
[10] See Griffith-Jones (2009).

GFC, and subsequent crises since then, to undermine national and global financial stability.

Table 3: Membership reforms since the G20 called for reform in 2008

Global Financial Regulatory Body	Previous Membership	Previous Membership from Developing Countries	Time of Expansion	Expansion to include Members From
International Organisation of Securities Commissions Organisation (IOSCO)	Australia, France, Germany, Hong Kong, Italy, Japan, Mexico, Netherlands, Canada, Spain, Switzerland, UK, USA	Mexico	February 2009	Brazil, India, China
Basel Committee on Banking Supervision (BCBS)	Belgium, Canada, France, Germany, Italy, Japan, Luxemburg, Netherlands, Spain, Switzerland, Sweden, United Kingdom, United States.	None	March 2009	Australia, Brazil, China, India, Korea, Mexico, and Russia.
Financial Stability Board (FSF/B)	Australia, Canada, France, Germany, Hong Kong, Italy, Japan, Netherlands, Singapore, Switzerland, UK, USA.	None	March 2009	Argentina, Brazil, China, India, South Korea, Mexico, Russia, Saudi Arabia, Turkey, Spain, European Commission

Source: Adapted from Griffith-Jones and Young (2009) and Griffith-Jones (2009).

Since the GFC, the FSF has been increasingly called on to improve global financial stability by coordinating the way in which the world's major economies implement their own financial reforms. Its name has been changed to the Financial Stability Board (FSB). At present, the FSB is not an independent legal entity but acts under the auspices of the Bank for International Settlements (BIS), an international organisation that assists central banks in promoting financial stability and serves as an international central bank itself; it has no enforcement authority, but instead has been argued to derive its legitimacy from the cooperative participation of its member nations.[11] This may change in the future as G20 Leaders recently granted the FSB authority to organize itself as an independent legal entity.[12]

Table 4 summarises some of the main areas of progress and sticking points in relation to global finance. Given the progress made to date in relation to Basel as well as the expansion of membership of the informal baking groups that govern some aspects of global finance, one could posit that the future evolution of the global financial architecture will develop along similar lines to the global trade regime: initially beginning with sector agreements between a core group of countries that subsequently evolves in terms in membership and rules, overtime. It is fair to say that we are still at the very incremental stages regarding global rule-making processes for finance. Finance is also a good case study in how quickly a regulatory approach can get left behind by change (derivatives, algorithms for trading etc.).

Table 4: Progress and sticking points on finance negotiations

	Progress	Sticking Points	Divergence in Positions
Finance	• IMF: Some shift in the type of policy advice given. Ongoing reform of governance. No dramatic shift in mandate. No rule-making function. • Sectoral agreements between developed countries are making progress, given the implementation of Basel III. • G20 has raised the issue of taxation and need to better govern the activities of MNEs (which now account for an est. ~70% global trade).	• Governance structure and mandate of the IMF. The world revolves around the use of the dollar yet the US is no longer a global hegemon. • Agreements reached under Basel do not include developing country representatives. • The G20 group of finance ministers although acting for the best interests of the global community does not adequately represent them. How their decisions are subsequently translated into actions and enforced is rather more questionable.	Developed countries (EU and US) compared to developing countries: the former are demanding more stringent regulation, whilst the EU and US are reluctant, or struggling to do so.

Source: The authors

3.3 Climate Change

There are some similarities between how the trade and climate change regimes are governed as discussed in Keane et al. (2010). However, there are some fairly major differences related to current negotiation processes. This includes more recent developments whereby formal rule-making procedures are being increasingly side-

[11] See: http://blogs.law.harvard.edu/corpgov/2012/07/20/fsb-reports-regulatory-reform-is-advancing-but-slowly/
[12] *Ibid.*

lined for more informal groupings of groups of likeminded countries. In relation to formal rule-making procedures, the primary institution charged with the coordination of emissions reductions is the United Nations Framework Convention on Climate Change (UNFCCC) established in 1992. The objectives of the UNFCCC includes the stabilisation of GHG concentrations at a specific level to prevent anthropogenic interference with climate system. The principles that underpin the UNFCCC include:

(i) Protection of the climate system on the basis of equity;
(ii) But in accordance with common but differentiated responsibilities and respective capabilities; and
(iii) Measures to combat climate change, including unilateral ones, should not constitute means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.

Under this framework the Kyoto Protocol (1997) bound developed countries to undertake emissions reductions. Countries are classified into different groups, which have different responsibilities. Developed countries have an obligation to adopt national mitigation policies and limit their GHG emissions. The richest members of the developed country group agree to provide new and additional resources to assist developing countries in their GHG inventory processes, but this latter group has no binding commitments.

The instruments made available to assist developed countries in meeting their emissions reductions targets include:

- Emission trading mechanisms (ETS) between developed countries;
- joint implementation measures, within developed countries; and
- The Clean Development Mechanism (CDM).

The use of these instruments has been taken forward by some developed country members such as the EU to a considerable extent. Other major emitters such as the US however, are still yet to secure national agreement on the adoption of such measures. Developing countries such as India and China have benefitted substantially from investments motivated by the establishment of the CDM.[13] In fact, they have benefited so much that major players such as the EU have sought to limit their access to its ETS via the CDM. We discuss this below since it helps to shed light on the current disjuncture in negotiation processes for a new global agreement on climate change.

3.3.1 Negotiation Processes

Negotiations under the UNFCCC process have centred around getting agreement on the post-Kyoto emissions reductions framework, which expired in 2012.[14] Negotiations for a new international agreement broke down most spectacularly in 2009 at the Copenhagen Climate Change Conference (COP17) where a clear divide became apparent between the developed and developing countries. At that time, discussions centred on the adoption of binding emissions reductions targets by the emerging countries. Since this call was rejected on the basis of the principle of common but differentiated responsibilities - as enshrined in the Kyoto protocol - it has subsequently led to the continuation of negotiations across different tracks as

[13] See Keane and Potts (2008).
[14] See Keane et al. (2010) for further discussions.

has become apparent in subsequent negotiations (COP18), and the latest round of talks held in November 2013 in Warsaw, Poland (COP19).

The different negotiation tracks which have emerged include: countries that support an extension of the Kyoto protocol under formal UNFCCC processes; and those countries which seek to reach common positions across a number of areas, including finance, negotiated under the Durban platform.[15] The overarching objectives of the negotiations at COP19 in Warsaw (which occurred towards the end of November 2013) centred on an attempt to bring together the different tracks so as to stay on track with a view to forging a new international agreement. This is to be signed in 2015 and come into force by 2020.

The new international agreement sought is one that must entail substantial emissions reductions in greenhouse gas emissions by all major economies as well as commitments from developing countries. However, there remains a number of uncertainties regarding what form a new legal agreement will take. These are in spite of the outcomes of the most recent COP19 negotiations. Although somewhat modest, the outcomes of COP19 are generally viewed positively by most commentators, and include the following statements:

- *Establishes* the Warsaw international mechanism for loss and damage, under the Cancun Adaptation Framework, subject to review at the twenty-second session of theConference of the Parties (November–December 2016) pursuant to paragraph 15 below, to address loss and damage associated with impacts of climate change, including extreme events and slow onset events, in developing countries that are particularly vulnerable to the adverse effects of climate change (hereinafter referred to as the Warsaw international mechanism).
- *Urges* developed country Parties to maintain continuity of mobilization of public climate finance at increasing levels from the fast-start finance period in line with their joint commitment to the goal of mobilizing USD 100 billion per year by 2020 from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources, in the context of meaningful mitigation actions and transparency of implementation.

It is hoped in the future that a new international agreement will be created under the auspices of the UNFCCC and have legal force – but this is by no means guaranteed. It is also unclear how new and additional resources committed to address the challenge of climate change will be disbursed.[16] The smaller, poorer and more vulnerable members of the international community want firmer commitments on the resources made available for them to both adapt to and mitigate the effects of climate change. They also want more ambitious emissions reduction targets.

One of the key messages from the United Nations under Secretary General and Executive Secretary of the UN Economic Commission for Africa (ECA), Mr. Carlos Lopes is that “climate change offers Africa an array of incredible investment opportunities that can reap dividends.” Moreover, that: “offering an African climate development policy can respond to the unique vulnerabilities and opportunities the continent faces, while positioning it to influence negotiations and outcomes.”[17] Whether the international negotiation apparatus can deliver this, including in relation to

[15] See Keane (2012) for further information.
[16] As argued by Keane, J. Page, S. and Kennan, J. (2009) in this sense the climate change regime could learn from the experience of disbursements of aid for trade to date.
[17] See: http://www.uneca.org/media-centre/stories/good-preparations-strengthen-africas-negotiating-positions-cop19-experts#.UouvCKNFDIU

the provision of climate finance, remains unclear. The world is not on track for the UNFCCC meta-goal of 2 degrees.

3.3.2 Sticking Points

The main sticking points in relation to climate change do not only relate to the targets rules regarding differentiation and compensation and the legal framework of any new agreement, but also regarding the negotiation process. As discussed by Bodansky (2010), the COP17 conference in Copenhagen was the first meeting where success depended on addressing developing as well as developed country emissions. Second, the two most important players — the United States and China — do not agree on the fundamental architecture of a future legal regime.

The US wishes to see the end of the Kyoto Protocol and the adoption of binding emissions reductions targets by all countries. Others such as the EU, however, consider the continuation of the Protocol as a precursor to getting a new global agreement by all countries, secured by 2015 and to enter into force by 2020. China does not want to limit its emissions under a new binding international agreement, although it has signalled its commitment to reduce emissions under more informal negotiations, such as those undertaken in the Durban platform. There are also cases of collaboration between cities in China and the US in relation to learning from emissions reduction schemes which is occurring outside of the formal negotiation process at the multilateral level.[18]

The point to note here is that the adoption of binding emissions reductions targets by all countries, which could be coordinated by the UNFCCC as a type of global public good is being held up primarily because of the issue of overall emissions reductions targets and their distribution across countries, as well as the costs of adaptation and mitigation. Because the major sticking points issues are related to differentiation and compensation, there are some similarities between trade and climate change regimes. Table 3 summarises some of the progress made and major sticking points for formal rules to govern the climate change regime and emissions reductions.

Table 5: Progress and sticking points on climate change negotiations

	Progress	Sticking Points	Divergence in Positions
Climate Change	• Progress is being made but under different negotiation tracks. • The ultimate objective is to secure a new international agreement on climate change by 2020.	• Emission reductions targets: these do not go far enough to mitigate the effects of climate change on SVEs. • The issue of common but differentiated responsibility: to what extent should the commitments by the emerging powers match developed	• The stand-off seems to be between developed and developing countries: the former appear unwilling collectively to commit to the emissions reductions to mitigate anthropogenic climate change.

[18] For example, see: http://carnegieendowment.org/2013/07/24/new-focus-for-u.s.-china-cooperation-low-carbon-cities/ggf3?reloadFlag=1

	• It is unclear however, whether this agreement will be global and with legal force (e.g. under the UNFCCC process). The alternative is that it remains a looser coalition of willing parties, but with no legal force.	countries? • Financial resources to mitigate and adapt to climate change; which institution will be in charge of disbursements.	• This is in addition to an unwillingness to commit to the resources required for other developing countries to adapt to it. • Developing countries as a group are split as vulnerable island economies demand stronger commitments on emissions reduction targets.

Source: Zhenbo Hou, Dirk Willem te Velde and Jodie Keane

3.3.3 Future Negotiations

Outside of the formal negotiations process, new alliances are emerging between countries, as well as cities, to devise creative solutions to the challenges posed by global climate change and its mitigation. This includes initiatives being championed by the G20. These looser groups may be able to secure new alliances and commitments to actions and resources. However, the problem that arises from a proliferation of uncoordinated actions is that of the free-rider problem: climate change may not actually be mitigated globally.

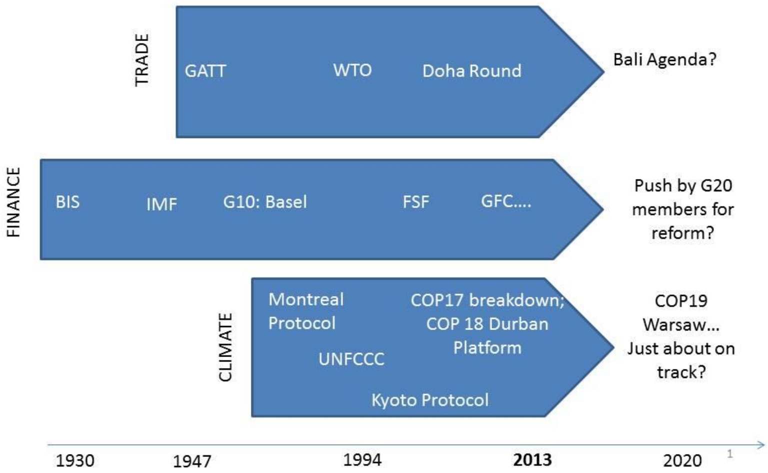
As discussed in some detail by Bodansky (2010) far from seeing the open-ended, consensus decision-making process under the UNFCCC as a liability, some states appear to view it in positive terms, as a means of relieving pressure on them from developed countries to assume emissions reduction commitments. He also notes that proposals to pursue climate change negotiations in the G20, the Major Economies Forum (MEF), or some other institution with a more limited membership will suffer from the same problem: they might provide a promising way forward if the only problem were obstructionist countries but, to the extent that there is no meeting of the minds between the United States, China, and the European Union, then moving the negotiations into another forum won't solve the problem.

3.4 Summary of progress

Informal groupings and coalitions of like-minded countries are making faster and deeper progress in their negotiations process particularly in the area of trade, where regional trade negotiations and other plurilateral agreements are making considerable headway. There are also other areas where mutual agreement has been reached in the sphere of climate change negotiations, including between partners operating at a sub-national level (e.g. California and China) which are otherwise unable to make progress within formal negotiation processes at the multilateral level.

Figure 1 presents an illustrative example and overview of negotiations for global rules to date.

Figure 1: Progress in negotiations for Global Rule



There are some similarities, as well as differences between the governance structures of the trade, climate change and finance regimes reviewed in this chapter. The trade and climate change regimes share more similarities than differences, with the WTO and UNFCCC processes both being highly democratic. To some extent the most notable sticking points and divergence in positions between 'developed' and 'developing' countries are also similar. Although generally the outcomes of the most recent rounds of both the trade and climate change negotiations to formulate new global rules are viewed positively by most commentators, there remains a number of areas of unfinished business. It is unclear whether or how these will be resolved in the future, particularly in the area of trade.

The formulation of global rules for finance remains very much in its infancy. One could therefore envisage that in the future progress on formal rule-making could proceed along similar lines to that of the global trade regime: with agreement on limited sectoral agreements being subsequently expanded in terms of membership, overtime. This appears to be the process to date, given the expansion of membership of the Basel committee, and general inability to make progress on reforming the Bretton Woods institutions, notably the IMF.

4 The BRICS and global governance

This section examines the different attitudes of BRICS (Brazil, Russia, India, China and Soyth Africa) countries towards their roles and responsibilities in relation to global economic governance. It argues that the policy responses from BRICS could be better understood based on their self-perceived and evolving role in the global order. This section will work through three sections to examine the BRICS and global governance. We begin by providing a brief overview of their perceptions towards global economic governance, and where they advocate for reform. We then drill down and provide further information regarding their perceptions in the specific areas of trade, finance and climate change. Finally, we provide information as to how the BRICS are engaging with formal institutions, which includes through personnel. The results of this analysis suggests that the BRICS are increasingly and pro-actively participating in the global governance processes.

4.1 Views on global governance by the BRICS

For most of the last two hundred years, developed countries have written the rules of the international order and have involved empire, colonisation and the control of territory. Whilst some of the developed countries began to weaken after 1945 through the break-ups of empires and decolonisation, their interests were still dominant in the development of international institutions, as observed in the voting rights in the IMF and the World Bank as well as the leaderships and ideologies that used to capture these multilateral organisations. Therefore, some go as far as to argue that what we see after 1945 is not the control through empires but through the rule of the game (Held, 2013).

'Global governance' is defined by the US National Intelligence Council and the EU Institute for Security Studies as: "all the institutions, regimes, processes, partnerships and networks that contribute to collective action and problem solving at an international level." (EUISS, 2010.) Multilateral institutions are defined more narrowly: international bodies that constrain the freedom or support action of sovereign states, for the benefit of the common good. Most multilateral institutions (such as UNFCCC and WTO) are formal, rules-based bodies. But informal bodies such as the G20 can also be called multilateral, when peer-group pressure modifies the behaviour of their members.

Global governance as we know it today has been constructed by the US, which emerged as the only economy to be strengthened after the Second World War (WWII) (Eichengreen, 1996). The discussions and negotiations that took place at Bretton Woods in New Hampshire in 1944 was embedded in economic multilateralism, which led to the establishment of various multilateral institutions such as the IMF, World Bank (WB) and the GATT (now WTO). These institutions underpin the post war order and serve as the referees for the 'rules of the game' to ensure international economic co-operation, or global (economic) governance.

At the macro level, the Bretton Woods institutions have supported a unique set of circumstances that have allowed a set of actors to benefit from forming companies, trading and investing with each other, transcending borders. Over time, they have helped to create a macroeconomic environment conducive for general prosperity to develop, in turn created a self-reinforcing circle of global interdependence. Although none of the emerging markets participated in the Bretton Woods negotiations, it is almost impossible to envisage the rise of these countries without participating in such an open and interconnected economic system. Hence, the preferences of the emerging powers and incentives to maintain the fundamentals of current system should not be underestimated.

Until the GFC of 2008, the club model of governance has been the standard feature of global governance (Held, 2013). Rich and industrial countries were able to make decisions on major issues on the world economy through e.g. the G7/8, or the GATT/WTO. The old club model has lost some of its dominance in recent years, as has been discussed in the previous section; however, the need for international co-operation has never been greater. Are the BRICS stepping up to this challenge or are they serving stumbling blocks towards a renewed impetus for formal global rule making? In the following section we review some of the apparent attitudes and motivations of the BRICS towards global economic governance.

4.2 The attitude of the US towards the rising powers

As the world's only hegemon in recent history, and remaining superpower, the United States' attitude towards rising powers is central to our discussion. Its approach in managing the occurring power from the West towards the East has implications as to how the existing international order might develop in the future. A large amount of literature, in particular after the GFC of 2008, has focused on the relative decline of the United States (Quinn 2011, Foot and Walter 2011, Ikenberry 2008). Traditional international political economy (IPE) theories point to an inevitably confrontational and problematic future (Kindleberger, 1973; 1986). There are few analyses that posit how the transition process might take place, as well as how the incumbent superpower should interact with the emerging powers led by the BRICS in negotiations for the future development of global economic governance.

Some authors argue the current US approach to rising powers, which actively engages them as equals in informal fora with little 'hard' rules, while being passive or even reluctant in formally reforming international institutions where it has a primary role (veto), underscores its lack of sincere commitment in engaging in any hand over of leadership role in the international system (Vezirgiannidou, 2013). Such approach also exemplifies its own commitment to sovereignty and freedom of action in world politics. The rising powers know this too. The US is not yet sharing power. It is not clear whether the BRICS have a clear strategy in responding to the decline in US power, but their increasing frequency to speak as one voice on global stage and to set up new institutions such as the BRICS development bank suggests a serious threat to the existing order.

The US stance towards global norms since 1945 has been marked by selectivity as well as inconsistency. Selectivity has been evident in climate protection (compare

US acceptance of the Montreal Protocol but rejection of Kyoto), macroeconomic policy surveillance (strong insistence on surplus country responsibilities but low willingness to accept adjustment costs itself), and humanitarian intervention (used to justify intervention in some countries but not others) (Foot and Walter, 2011). One of the best examples is the fact that the US has promoted the principle of economic openness in the major post-war economic regimes, but in practice chose not to apply this principle to agriculture and textiles in the 1950s. It became a heavy user of 'administrative protection' from the 1970s, yet still insisted that other countries reduce protective barriers that disadvantaged American firms and workers[19] .

In fact, neither China nor the United States exhibit consistently high levels of behavioural conformity across a range of global normative frameworks relevant to important areas of foreign and domestic policy (Foot and Walter, 2011). The stances of both countries towards such framework differ substantially. For China, there has been a broad trend towards gradually rising levels of behavioural consistency, but with some important exceptions. For the United States, there has been no equivalent trend in either direction, but instead what is apparent is a general tendency towards important behavioural inconsistencies at particular times, accompanied by a willingness to defend these as justified whilst insisting that other countries abide more strictly by global behavioural norms. There is also a broad tendency for both China and the United States to exhibit lower levels of behavioural consistency in areas of high domestic social and political significance.

As far as the reform of shareholder process of the major Bretton Woods institutions are concerned, Ferdinand and Wang (2013) notes that the US seems to be adopting a delaying strategy to slow down the pace for reform. On paper, the IMF board of governors approved a proposal for further governance reforms that was described by the former Managing Director Dominique Strauss-Kahn as 'the most fundamental governance overhaul in the Fund's 65-year history and the biggest ever shift of influence in favour of emerging market and developing countries to recognise their growing role in the global economy.'[20] In practice, this would translate into including China, Brazil, Russia and India within the Fund's ten largest holders. China will have 6.071 per cent of the total voting power and become the Fund's third largest member after the United States and Japan.

Nevertheless, as of February 2013, only 70.39 per cent of quotas had been committed to the reform, and a minimum of 85 per cent is required. Crucial to this process, the US is yet to endorse this process, since extra appropriations have not been approved by Congress. This leaves the US as the only major economy not to have ratified the change. Because the US quota share is more than veto threshold of 15 per cent, even if all the rest of the countries formally agree to do so, the reform would still be jeopardised. Such annoyance on the BRICS side is clearly demonstrated in their press release at the G20 summit in St Petersburg, where the 'BRICS Leaders also expressed their concern with the stalling of the International Monetary Fund reform process. They recalled the urgent need to implement the 2010 IMF Quota and Governance Reform…'[21]

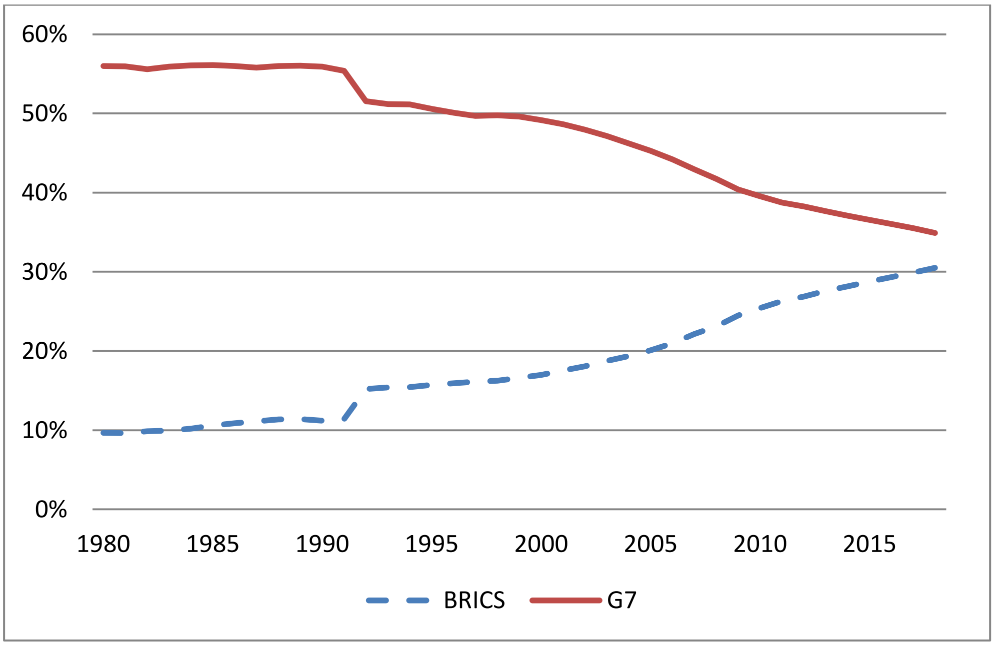
[19] P278, Foot and Walter (2011)
[20] 'IMF Executive Board approves major overhaul of quotas and governance', IMF press release, Nov. 2010
[21] http://pib.nic.in/newsite/erelease.aspx?relid=99138

4.3 What are attitudes and motivation of the BRICS towards global governance?

The recent phenomenal growth in BRICS has led to their increasing weight in the world economy as shown by Figure 1. This performance stands in a strong contrast to the decline of the advanced economies. Hence, BRICS have a sense of confidence in terms of engaging with multilateral institutions. Nevertheless, it would be misleading to treat the BRICS as one monolithic block. A more useful exercise is to examine the attitude of each country which comprises the BRICS towards some of the most pressing global governance issues.

We suggest that it is only those countries who have the most to gain from an improved relative position in the current system would play a more pro-active role in participation. We review the perceptions of the BRICS sequentially beginning with Brazil in the following sub-sections. We also provide information as to how they are engaging with the formal and informal global governance institutions, including through the provision of personnel.

Figure 2: Share of World Gross Domestic Product (GDP) (PPP)



Source: IMF 2013

4.3.1 Brazil – a bridge between the new and old powers?

Brazilian foreign policy demonstrates two interesting aspects that deserve attention. Its rhetoric and overt positioning is framed around the idea of Brazil as a value-creating actor. In practice however, there are significant value-claiming characteristics at the core of its approach to regional and global affairs.

Brazil’s claim as a 'bridge' between the South and the North, allows its diplomats to establish the country as a critical coalition organiser and ideational leader for southern actors looking for major changes in global governance systems, and a central interlocutor for northern actors trying to cope with pressure from the South. Brazil's ambitions are simple: focusing more on its own improved relative position, rather than a complete reformulation of the international system (Burges, 2013). In this sense, the position of Brazil is very close to China's foreign policy stance as an evolutionary rather than revolutionary power.

Brazil is already one of the New QUAD[22] in the WTO negotiations and despite its impartiality, the election of Mr. Roberto Azevedo as the new Director General of the institution enhances Brazil's role as a mediator between the North and the South. To some extent the agreement reached on the Bali Agenda can be seen as a minor victory for Mr Azevedo. There is another Brazilian – Mr José Graziano da Silva, who is serving as the Director – General of the Food and Agricultural Organisation (FAO) of the United Nations. Before that, Mr. Rubens Ricupero who was Brazilian led a major multilateral institution; he served as the Secretary General of United Nations Conference on Trade and Development from 1995 and 2004.

4.3.2 Russia – uninterested in global governance unless it is security related

With the possible exception of national security, Russia is not very active in global economic governance. To start with, Russia is less engaged than China in global economic governance because it has fewer global economic interests (Grant, 2012). According to Konstantin Kosachev (recently retired chairman of the Duma's foreign affairs committee), most countries are driven by the need for natural resources and markets. But neither factor applies to Russia. For instance, it took Russia nearly 19 years to negotiate its accession package[23] and become the WTO's 156th member in August 2012. In comparison, China has been a WTO member since 2001, Brazil, India and South Africa since 1995.

Secondly, Charles Grant at the Centre for European Reform in London (Grant, 2012) points out that China's leaders know what kind of an economy they want – a diversified economy with companies that produce high value added goods that they then can invest overseas. Russia's leaders do not agree on the kind of economy they want and in any case have to cope with many powerful vested interests that oppose modernisation.'

Russia also suffers from the 'large country complex' that could be very counter-productive in participating in multilateral institutions. Large countries naturally incline to realism, whereas weaker and smaller states tend to see the benefits of multilateral institutions. Weaker states want these institutions to protect them against bullying or coercion by strong countries. More recently, some Russians fretted that Georgia, as a member of the WTO, might block Russia's accession to that organisation – which it nearly did. Traditionally, Russia tends to think that small states or those that once were in the Soviet Union are rather less sovereign as they traditionally lied within Russian's sphere of influence (Grant, 2012).

Oddly enough, Russia differs from the rest of the BRICS on climate change negotiations. This is primarily because the collapse of heavy industries in the 1990s means that Russia's emissions levels in 2010 were still 40% below 1990 levels. Hence, Russian leaders ratified the Kyoto Protocol in 2005 as a bargaining chip: it only required that Russia promise not to exceed its 1990 level of emissions. In the run-up to the Dec 2011 Durban climate change conference, China, India, Brazil and South Africa all argued for the prolongation of the Kyoto protocol beyond its expiry date at the end of 2012; they like the protocol since it does not require them to cut emissions. Russia, like Canada and Japan, opposed the protocol's

[22] New QUAD refers to the most important four players in WTO negotiations. They are India, Brazil, United States and the EU).
[23] http://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm

prolongation, on the grounds that neither the US nor developing countries were constrained by it (Grant, 2012), whilst they are.

Most importantly, the key to understanding Russia's attitude towards global economic governance is to examine Russia in the context of a declining power rather than an emerging power. Russia today has much fewer global interests than it did in the days of the Soviet Union. For example, it is no longer an important player in Africa or Latin America. Moreover, Russia has sought to focus more on regional bodies such as the Custom Union with Belarus and Kazakhstan, the Collective Security Treaty Organisation (CSTO) and the Shanghai Co-operation Organisation (SCO).

This has led to some commentators viewing Russian foreign policy as a holding game: designed to limit further losses and to sustain and promote conditions that in the long-term will allow Russia to re-emerge as a great power in a pluralistic international system (Macfarlane, 2006). Groupings such as the "BRICS" serves Russia well as it enables it to leverage the vibrant dynamism of the rest of the group and dilute Russia's image as a declining power. It should be remembered that Russia hosted the very first BRIC Summit at Yekaterinburg, Russia on June 16, 2009.[24]

The Russian Presidency in the G20 summit at St Petersburg in September 2013 should have been the golden opportunity for Russia to put its own mark on global economic governance. Unfortunately, the agenda was dominated by the Syrian crisis, where Putin seized the opportunity to build an international coalition to resist Obama's call for military action against Syria.[25] The Ukraine crisis threatens to pollute Russia's global standing and might provide incentives for BRICS to become BICS.

4.3.3 India – battling with multiple identities on the world's stage

India's role in global governance can be highly contentious at times. This view may seem counter-intuitive at first, given its democratic system, the English language and its early association with most of the multilateral institutions.[26] However, the highly heterogeneous nature of Indian society, its divided political system and tradition as one of the champions for the Third World could make India's accession as a responsible stakeholder in multilateral institutions a distant future.

There has been a lively but polarised scholarly debate that either sees India as a 'natural ally' of the West, or as an unreformed and revisionist Third World-ist power. The key to really understanding India's behaviour lies in examining with whom it is negotiating. Rising India, even though it has a closer relationship with the West today than it has for many years, remains a negotiating partner that resorts frequently to distributive strategies, uses moralistic framing and resists bandwagoning (Narlikar, 2013).

In the WTO for example, India, along with Brazil, the US and the European Union are members of the key negotiating group – new QUAD. However, India is largely blamed for its role in creating the Doha deadlock since July 2008, Narlikar (2013) argues that its behaviour actually suggests that the country is perhaps not reluctant to be a responsible power *per se*, but that it instead sees itself as owing its

[24] http://www.brics5.co.za/about-brics/summit-declaration/first-summit/
[25] http://www.bbc.co.uk/news/world-us-canada-23982181
[26] For example, India is a founding member of the GATT.

responsibility to different constituencies. The conceptualization of these responsibilities is still evolving.

The other on-going concerns related to India's engagement with the BRICS grouping also relates to its underlying rivalry with China. Despite the growing economic ties between the two Asian giants, there has been an on-going border dispute with the potential for it to be extremely destructive for bilateral relations. In October 2013, Indian Prime Minister Manmohan Singh signed a border defence co-operation agreement with his Chinese counterpart Premier Li Keqiang to improve communications between their armies in order to reduce military tension on the India-China border. Nevertheless, despite the promising rhetoric, the two governments stopped short of a permanent peace settlement. Instead they have vowed to work towards a fair, reasonable and mutual acceptable settlement to the India-China boundary question'.[27] The lack of a permanent peace settlement prevents the Chinese government from lending money directly to India, but it might be circumvented through multilateral channels through a potential BRICS Development Bank.[28]

4.3.4 South Africa – a legitimate leader of Africa?

South Africa is the latest addition to the BRICS acronym. At the invitation of the then Chinese President Hu Jintao in Sanya, Hainan province, South Africa formerly joined the club in April 2011 and therefore changed the acronym to BRICS. Nevertheless, questions have arisen as to whether the South African economy is too small to be justified as a BRICS member. For example, according to the IMF, its GDP in 2012 at constant price level was about one fifth of the size of Russia, India or Brazil and one twentieth of China.[29]

However, South Africa's inclusion into the BRICS club can be strategic in the following ways: first of all, it is the only African country in the club (although even that could prove to be contentious as countries like Nigeria, the most populous country on the African continent, could argue they are the true representative for Africa; also the recent re-basing of Nigeria's GDP means South Africa is not longer the biggest economy in Africa); second, South Africa makes the outreach of BRICS truly global and opens a gate way to Africa. Finally, the country is arguably one of the most abundant members of natural source endowments: with 10% of the world's oil reserve, 40% of its gold ore and 95% of platinum.[30] There is strong demand from BRIC countries for these resources.

Few can cast doubt on South Africa' determination in the pursuit of global recognition as Africa's leading state. Such policy objectives have guided the foreign policy of former administrations. Including various governments such as those of Smuts, Vorster, Mandel and Mbeki, though the basis of this claim has shifted over time. Recent developments include:

- Former South African President Mbeki's much claimed New Economic Partnership for African Development (NEPAD),membership of the G20,
- the leadership role it plays in African Union (AU),
- Africa's only representative in WTO 'green room' negotiations,
- successfully hosting the World Cup in 2010.

[27] http://www.bbc.co.uk/news/world-asia-india-24633991
[28] From a meeting with experts from the South African Institute of International Affairs (SAIIA) in November 2013.
[29] World Economic Outlook Database, IMF, April 2013
[30] http://www.brics5.co.za/about-brics/south-africa-in-brics/

All of the above serve to strengthen the view of South Africa as a regional manager and protector, which has been further emboldened by the invitation to join the BRICS.

According to Alden and Schoeman (2013), South Africa's willingness to project itself in global economic governance can often be constrained by three factors: the unresolved issue of the South Africa identity; a host of domestic limitations linked to material capabilities and internal politics; and the divided continental reaction to South African leadership. These three factors inhibit South Africa's efforts in translating its international ambitions and global recognition into a concrete set of foreign policies. The most significant challenge of all arises from South Africa's often contested claim as the leading nation in Africa and yet there are disturbing signs that the South African economic capacity to sustain this position is diminishing, as Nigerian middle class continues to rise and the oil revenue is sustained.

Such rivalry is further evident in South Africa's almost failed effort in installing their candidate Ms Dlamini-Zuma as the chair of the AU commission (it was decided in a four day marathon election), with Bolaji Akinyemi, a former Nigerian foreign minister, referring to an 'unacceptable defeat for Nigeria's status and policies in Africa' and calling for Nigeria to 'fight off this leadership challenge.'

In addition, there are questions over South Africa's weak institutional capacity in conducting its foreign policies and therefore playing a significant role in the arena of global economic governance. For instance, as noted by Alden and Schoeman (2013) the turf battles fought between the Department of International Relations and Cooperation and the Department of Environment almost threatened the very image of responsibility and coherence that Pretoria was seeking to cultivate during the climate change negotiations (COP-17) that were hosted in Durban during 2011.

As far as global governance is concerned, South Africa's future challenge is to balance the global status conferred to it through being associated with the BRICS and the G20, with its regional status in the African Union. This means determining its foreign policy priorities and ensuring that the administration speaks with a single voice.

4.3.5 China – an evolutionary but not revolutionary power

Though traditionally suspicious of international organisations, China has become more active about global economic governance in recent years, especially since joining the World Trade Organisation (WTO) in 2001. As the largest exporter and the second largest importer in the world economy, its government realises that the benefits of globalisation far outweighs the costs associated with the process. More so, the Chinese leadership recognises that it can rely on multilateral institutions as an external anchor to continue and deepen its reform process (Lamy, 2011). The reform process adopted as part of its accession to the WTO are a case in point.

However, this does not automatically imply that China is entirely content regarding the current arrangement of the multilateral institutions. Just like other powers, China wishes to extract as many benefits as possible from its engagement with the international order while giving up as little of its decision-making autonomy as possible (Kahler, 2013). China acknowledges that the current global governance structure primarily represents the interests of the wealthy countries, but it also makes no secret that it wants to reform the system so as to better reflect the interests of the emerging powers, as well as with regards to its own interests. Chinese officials see their country as an evolutionary, *rather than revolutionary* power in the international system.[31] .

Most crucially, President Xi and Premier Li have set themselves ambitious targets of doubling 2010 level's GDP by 2020 – in itself a challenging task that is going to keep the government occupied for the next decade. It is perhaps fair to argue that officials will only be interested in global governance reforms if it brings national prestige or if helps to accelerate domestic reforms and is mutually supportive through a reverse mechanism by signing up to internationally binding rules/organisations, such as the WTO or climate rules.

[31] P64 Grant Charles, 'Russia, China and Global Governance'; Centre For European Reform (2012)

5 Providing global governance in the future: BRICS and other options

Future global governance negotiation needs to accommodate the interests of the BRICS, despite the fact that the emergence of such a grouping has been a relatively recent phenomenon. No one had heard of the BRICS until recently; the term was invented only in 2001 to refer to the most promising destinations for investment being coined initially by Jim O'Neil of an investment bank. The BRICS are still in their embryonic phase. There is much scope for consolidating intra-group economic cooperation before acting as one political entity. For example, the agreement in 2013 on the contributions towards the US$100 billion Contingency Reserve Arrangement (CRA) to contain the negative spill-over effect caused by the tapering of the Federal Reserve's Quantitative Easing programmes have demonstrated their willingness and ability to act collectively to provide the much needed assurance for the world economy.

This Chapter discusses the extent to which countries interested in a better provision of global economic governance can rely and work with the BRICS to provide global economic governance (Section 5.1) or work with other options (Section 5.2). It makes an attempt to consider the various alternatives for providing governance GPGs. This is related mainly to different forms of co-operation at international and regional levels.

5.1 Emerging forms of engagement by BRICS

There is evidence to suggest that the BRICS are unsatisfied with the current forms of global cooperation in the areas of trade, climate change and finance and they (at least the BICS) are demonstrating increasing willingness and ability to engage and shape the negotiating process and even outcomes, but evidence suggest although their willingness of engagement is strong, their ability to affect outcomes remains limited.

We examine the changing attitude of BRICS towards governance GPGs in two different forms – firstly through the creation of new institutions such as the BRICS development (5.1.1) and secondly through the provision of staff for leading international organisations (5.1.2). This provides some albeit limited reason for optimism.

5.1.1 Contingency Reserve Arrangement (CRA) and the BRICS development Bank

The BRICS Summit in Durban has helped to institutionalise the grouping between the BRICS countries – Brazil, Russia, India, China and South Africa – by establishing some of the technical mechanisms for cooperation. For example, it agreed to a US$100 billion Contingency Reserve Arrangement (CRA), a reserve pool to buffer the BRICS from temporary reserve liquidity shortages. The BRICS have also agreed to set up a Business Council to act as a bridge between senior government officials and business leaders, currently chaired by Patrice Motsepe the CEO of African Rainbow Minerals. The Durban Summit attracted more than 500 senior business leaders – a reflection of their strong interest.

The Contingency Reserve Arrangement (CRA) and the BRICS Development Bank presents direct competition to the IMF and the World Bank. The CRA is a reserve pool that aims to provide short term liquidity to countries that are short of foreign reserves – an extremely important tool to fight capital flights that is associated with the Fed's tapering scare. At Durban, the BRICS leaders agreed to cap the size of the fund at US$100 billion and six months later at the G20 summit in St. Petersburg, they agreed on their contribution to the scheme with China contributing US$41 billion, Russia, Brazil, India each contributing US$18 billion each and South Africa contributing US$5 billion – a proportion of contribution reflecting the relative weight of their economies.

The challenge in realising the potential of such a reserve arrangement remains unknown unless the reserve pool is activated. Similar attempts in the past in improving regional financial governance – Chiang Mai Initiative (CMI) that in 2000 created a region-wide network of bilateral currency swaps arrangements (BCSAs) among ASEAN Plus Three member states. However, the viability of such a financial safety net came under scrutiny during the global financial crisis 2008-09, when central banks of South Korea and Singapore decided to activate new temporary US$ 30 billion BCSAs with the US Federal Reserves, indicating a lack of confidence in the CMI system (Dent, 2013). In 2009, CMI was upgraded to Chiang Mai Initiative Multilateralized (CMIM) to become common funding forex pool of initially US$120 billion.

More challenges remain on the BRICS Development Bank since it would need a physical structure to operate. Decisions on the shareholding structure, membership, staffing, and location of headquarters and whether private companies can invest in this bank all remain to be decided.[32] Such complexities would have to be dealt with in the 6th BRICS summit in Brazil 2014. Since India and Brazil insists each country contributes the same amount in order to avoid turning it into a China dominated bank, but worries over whether South Africa step up remains a significant concern. More importantly, the BRICS Development Bank would be considered a failure if it simply replicates the characteristics of other major multilateral financial institutions with obsolete donor-centric lending conditions instead of being based on the requirements of the recipient countries.

[32] http://www.thehindu.com/business/Economy/g20-finance-ministry-asks-orf-for-stance-on-brics-bank/article5554469.ece

5.1.2 Current trends – towards an active co-ordination of headships?

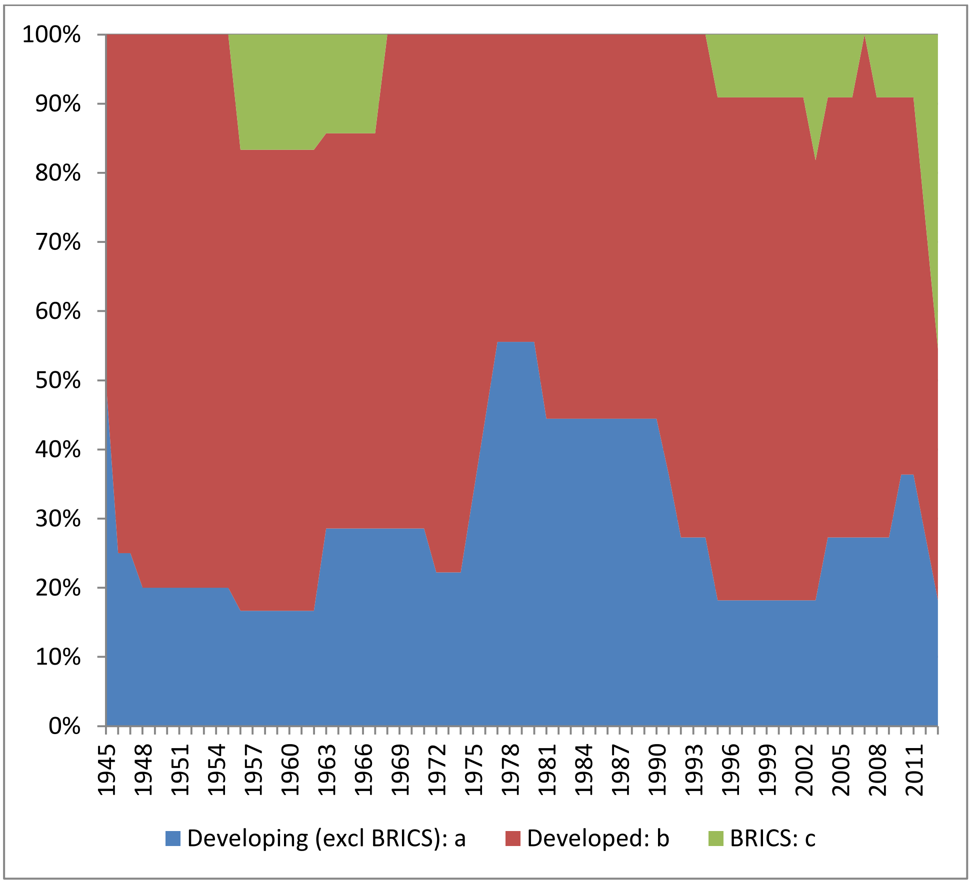
Although it remains a prestige factor for the BRICS to continue to campaign for their higher voting share in the IMF and the World Bank, another way of gaining more influence could be to place their personnel in key positions within existing institutions that govern economically.

A further indication of whether BRICS are more serious in engaging in global governance issues is the extent to which they engage in careful intra-BRICS co-ordination to maximise their success in gaining headships in multilateral organisations. Whilst the BRICS failed to agree to back a common candidate for either the World Bank or the IMF in 2011-2012, there are signs that BRICS might have begun to co-ordinate the headships of some of the multilateral institutions in 2013. This trend is thought-provoking, as it could give an indication of how the BRICS are going to steadily increase their influence in the future.

Here we have investigated the nationalities of the respective heads of organisations or key posts from a number of key organisations including UNIDO, WTO, IFC, World Bank, WB Chief Econ, IMF, IMF Chief Econ, FAO, UNCTAD, UNEP, UNFCCC and categorised their past post holders into three groups namely developing countries, developed countries and BRICS countries.

As shown in Figure 3, we find that as a percentage, appointees from developed countries have constituted the largest share of the appointments. Developing countries have also contributed a significant proportion. The most interesting pattern however, lies in the upshot of the proportions of BRICS appointees starting from the late 2000s onwards, which includes Justin Yifu Lin serving as the first ever non-Western chief economist of the World Bank, succeeded by Kaushik Basu from India in October 2012.

Figure 3: Percentage of heads from BRIC and developed countries in Global Economic Governance Institutions



Source: author's compilation[33]

At the World Trade Organization (WTO), Mr. Roberto Azevedo became the first ever Brazilian to lead the WTO when he, supported by all the major developing countries[34], was able to defeat Mr Blanco of Mexico, who was supported by the EU, Japan and the US. Optimists pointed to the fact that a Brazilian might help to solve the deadlock within the 'new Quad' (the EU, US, India and Brazil), if Brazil took this as an opportunity to further enhance its role as a bridge between the global south and the global north. On the other hand, Brazil has sometimes itself been seen as an obstacle to progress in multilateral trade talks. Hence, getting Brazil to compromise will be a true test for Mr. Azevedo's impartiality as the Director–General of the WTO.

Two months later on 25th June 2013 Chinese Vice Minister of Finance, Mr Li Yong, was elected to the Director-General post of the United Nations Industrial Development Organisation (UNIDO), becoming the first ever person from mainland China to head an UN agency (People's Daily, 2013). Despite the fact that major countries usually have a claim on international posts when they have been members of the organisation, occupying a top post in a multilateral agency is still a

[33] This graph presents proportionally how the persons in these leadership roles were distributed across developed countries, BRICS and developing countries. These organisations and posts were chosen primarily because of their prominence in the global economic governance. Although the historical data provides one with scope of the analysis, a wider set of organisations would be more desirable. See Appendix for detail.

[34] http://www.theguardian.com/world/2013/may/21/azevedo-head-world-trade-organisation

very rare phenomenon for China. Until recently, scepticism about western leadership on global governance meant that China tended to keep a low profile, a tendency reinforced by a self-perception that China is still a developing country that is preoccupied by its own domestic development agenda (Wang and Rosenau, 2009). Nevertheless, as Chinese businesses are becoming increasingly outwardly orientated, many voices within China are also arguing for the government to strengthen its role in global governance in order to shape global policy debates (Cai and Yang, 2012).

The significance of these two recent developments could go well beyond the WTO and UNIDO. It might be too premature to argue that these are coordinated moves by the BRICS countries to replace the existing powers by inheriting the responsibilities in global governance, but one could certainly infer their intentions from their respective policy-makers' statements. For instance, the election of Mr Azevedo as the Director-General of the WTO led its foreign minister Antonio Patriota to herald '*a global order in transformation [with] emerging markets [showing] leadership*.'[35]

Two days after Mr Li Yong's election at UNIDO, Mr Wang Yi – China's Minister of Foreign Affairs – spoke about his government's intention to:

'*provide a Chinese solution to global governance by making a meaningful contribution to global public-goods provision in order to tackle the common challenges faced by humanity in the 21st century*'[36].

According to Professor Yan Xuetong of Tsinghua University, this is the first time that China's policy-makers have openly spoken about their intention to provide global public goods[37]._If such an intention is substantiated, it will represent a remarkable departure from China's previously non-interfering approach in international affairs.

Furthermore, since the US, Canada, Australia, and the United Kingdom all withdrew from UNIDO, Mr Li might find the agency less geopolitically complicated. Moreover, the agency's current membership[38] now better reflects the very constituency that UNIDO seeks to assist: developing countries. Yet it remains supported by the remaining wealthy donor countries, such as Germany, South Korea, and Japan. According to David Runde at the Centre for Strategic and International Studies (CSIS) in Washington DC, the key task for Mr Li is to leverage China's resources in order to invigorate UNIDO as an effective and financially sustainable agency. If this were to be achieved, the international community could then adjust its perception of UNIDO, as well as of China's role in global economic governance.

The Directors-General of WTO and UNIDO are also a 'good fit' in these organisations, providing balance between the global responsibility required, and the home country's self-interests: Brazil being a 'new Quad' member in the WTO negotiations clearly sees the benefits of a concluded Doha Development Round talks, and China being one of the most successful late industrialising economies, is also keen to transfer its industrial policies abroad. Consequently, it is of no surprise that Brazil and China have taken the lead in making these steps. As discussed

[35] http://www.theguardian.com/world/2013/may/21/azevedo-head-world-trade-organisation
[36] Speech by China's Foreign Minister Wang Yi on 27th June 2013
http://www.unido.org/member_states.html
[37] http://www.yicai.com/news/2013/07/2839996.html
[38] http://www.unido.org/member_states.html

earlier, these are the two countries from the BRICS that are focused more on their improved relative position within the multilateral global economic governance system, rather than a complete reformulation of it. Questions remain, however, about whether the BRICS can continue to find their niche in providing global public goods, and therefore become constructive in global economic governance.

5.2 Options to provide global economic governance

There are other options for developed countries to advance the provision of Global Economic Governance in addition to working with BRICS directly. This includes through developing more effective collective action and thus helping to reform existing multilateral institutions (Maxwell, 2005). This would inevitably have to be undertaken on an issue specific basis, and through developing coalitions of the willing. There are already some examples of effective collective action as we have seen with regards to some of the recent progress in global rule making reviewed. But there also remain some areas of divergence and it is not yet clear how these will be resolved.

Table 6 provides a summary on the views of the BRICS, EU and G8 countries on the key areas of global economic governance reviewed in this paper (based on public statement in the media and official documents).

Table 6: Positions Across Key Areas by Different groups

	Trade rules	**Climate rules**	**Financial regulation**
EU	Not responsible for deadlock in liberalisation	Leader on climate issues, working with LDCs/SVEs	Split inside EU on some issues (FTT): e.g. Eurozone UK /Luxembourg
United States	Used to be an ambitious liberaliser, but less attention paid to trade issues in recent years	Not supportive of the Chinese suggestion to revert back to 1992 rules that give different regulations for developing and developed nations.	Yet to implement Basel II or Basel III.
BRICS	Disparate views	The BRICS countries agreed to the Durban Platform for Advanced Action and pledge support for COP19 at Warsaw; BASIC: Urged for a clear roadmap towards the provision of US$100 billion of annual funding by 2020.	Weak role in negotiation; Brazil joins India, China, and South Africa who have already adopted the Basel III framework. Russia has postponed implementing the framework until January of 2014.

China	Committed to the multilateralism at the WTO but also open-minded about plurilateral negotiations.[39]	BASIC member Will participate in a legally binding post 2020 agreement if consensus is reached; Aligns with the G77 on Common but Differentiated responsibilities; Would like to see developed nations mitigate first, then developing nations will follow; In support of the loss and damage mechanism.	Implementing Basel III; Disappointed by the lack of progress in reform process in the IMF or World Bank;
India	Supportive of a 'small package' focused on LDC issues.	BASIC member In support of the loss and damage mechanism; Would like to see developed nations commit to mitigation levels, and then developing nations will follow.	Implementing Basel III
South Africa	Also supports a small package that would give LDC suppliers preferential treatment in developed countries; Supports the sharing of information by customs agents to promote trade facilitation.	Strayed from the BASIC plan to advocate for a new legal agreement by formally demanding the new global agreement on climate change be in the form of a protocol with targets, commitments and actions for all parties.	Implementing Basel III
Brazil	Blocked DFQF	BASIC member	Implementing Basel III
Russia	Focused primarily on lifting trade restrictions that are harming domestic producers; Few experts needed to navigate the WTO framework.	Little interest	
G8	The 2013 agenda included EU-US trade rules, but no competence on trade.	Not on the agenda for 2013 London Summit, possibly due to more urgent issues such as Syria (See Falkner's paper). But hoping to sign a treaty in 2015 to replace Kyoto.	Created much momentum on tax rules, which was then taken over by the G20.
G20	Consensus building, potentially bringing together developed and BRICS positions.	Weak commitment towards 'creation of a universal climate agreement by 2015'.	Setting quota reform, steering the FSB, discussing monetary policies etc.

Global negotiations are stalling in some areas and within existing negotiating fora because the declining share of the developed world's weight in the world economy

[39] http://www.ft.com/cms/s/0/cd4e632a-5daf-11e3-95bd-00144feabdc0.html#axzz2nBvOXu00

means it is increasingly difficult to get agreement by all countries on common issues, because of perceived differentiated responsibilities. Emerging powers led by the BRICS have acquired increasing confidence in vetoing any agreement that is put forward on the table, although they are still short of providing any viable alternative in the provision of governance GPGs. The good news is that the BRICS are not neglecting the existing institutions, as they continue to demonstrate their willingness to engage in these organisations by inserting their nationals in leadership positions.

In order to encourage the multilateral world not to slip into a fractionalised world, there is a very urgent need to engage the BRICS in global governance reform processes. This seems to be most urgent in the area of finance, compared to other areas. The BRICS have demonstrated a greater willingness to act as one block on selective global negotiations. Their dissatisfaction with the current pace of the existing reforms is clear. Increasingly, there are signs to suggest they are running out of patience – creating parallel institutions like the CRA and the BRICS development bank underscores their impatience with the pace of reform for the IMF and World Bank's shareholding structures.

Our analysis has also singled out the United States and its attitude towards the rise of the BRICS as problematic and argues for accelerated pace within the US congress in passing the necessary legislation on the reform of IMF and World Bank's shareholding structures.

When faced with a common threat, the global financial crisis highlighted what the US leadership and co-ordinated policy making can do to containing a spreading of 'beggar-thy-neighbour' policies. Nevertheless, when faced with differentiated responsibilities in global governance in multilateral trade negotiations and climate change negotiations, it seems to be much harder to reach agreements. What the world would want to truly avoid is the G7 vs BRICS resulting in a split in global governance fora that would jeopardize almost everything the post-war liberal order has tried to attain over the last 60 years.

So what are other options to progress on global governance apart from working with BRICS directly (reviewed above)? Maxwell (2005) develops an eight– step programme for a more effective collective action:[40]

1. Keep the core group small.
2. Develop trust-building measures from the beginning.
3. Use the same core group for multiple decisions.
4. Encourage network closure.
5. Choose the right issues.
6. Deploy positive incentives to encourage compliance.
7. Deploy negative incentives to punish defection from the collective.
8. Establish the institutions that will manage these interactions and relationships.

The role of the EU for example is too small for making major decisions on global governance but this grouping can be used to provide **positive incentives** (in climate and financial governance). For example, in climate negotiations it can lead by

[40] http://journals.rienner.com/doi/abs/10.5555/ggov.2005.11.4.415; http://www.simonmaxwell.eu/blog/review-of-divided-nations-why-global-governance-is-failing-and-what-we-can-do-about-it-by-ian-goldin.html

example by being environmentally sustainable and promoting climate finance. Within recent multilateral trade negotiations, it avoids the adoption of extreme positions (it is not the most protectionist or most free trade advocate) and does not perform a leadership role, although it could help by removing agiruclture subsidies further. In finance the EU can play a useful role as some of the major differences at global level also occur at the EU level. If the EU can agree on financial governance this would provide a positive signal to the rest of the world.

The G20 seems a useful grouping that can increasingly be used for **trust-building** (in areas such as financial governance). Major global financial, fiscal and monetary issues are being discussed at the G20, some showing considerable progress (co-ordination on fiscal and monetary stimulus) others providing a context that might be better than the alternative (there might be devaluation wars, or unchecked tapering without the G20). The G20 has also been used to promote the case of concluding the WTO Doha round, but without much success the G20 does not seem the best forum for this. Te Velde and Houe (2013) argue that the G20 had success in promoting global development by introducing new issues into the debate with the G20 level helping to build trust. Climate governance has been limited to the economics of climate change.

Regional groupings (e.g. US-EU, TTIP) will increasingly be used to **keep the core group small** and agree on trade issues. Such regional groupings can become stumbling blocks towards global agreements and marginalise a range of developing countries. Hence, such groupings will only be helpful in providing governance GPGs ande confirm Maxwell’s first principle if they have built-in mechanisms to multilateralism.

6 Conclusions

We examined how the provision of governance GPGs is changing in a rapidly changing world. We examined the current status and sticking points in global trade, climate and financial governance negotiations and examined the different attitudes and motivations of each of the BRICS countries plus the United States towards global governance reforms. After mapping out the BRICS and other stances towards global trade, climate and financial governance reforms, we examined to what extent the BRICS possess the willingness as well as the ability in engaging in global governance and more significantly, what they have achieved so far towards contributing to global governance – through firstly an co-ordinated approach in providing candidates for leadership roles in selected international organisations and secondly through the creation of new institutions such as the Contingency Reserve Arrangement (CRA) and the BRICS development bank.

Whilst the BRICS remain unsatisfied with the current forms of global cooperation in the areas of trade, climate change and finance and they (at least the BICS) are demonstrating increasing willingness and ability to engage and shape the negotiating process and even outcomes, evidence suggest that although their willingness to engage is strong, their ability to affect outcomes remains limited. Out of frustration, the BRICS have begun the process of establishing their own global institutions to rival exisiting institutions, which they regard as suffering from both legitimacy and effectiveness deficits. In the meantime, there is a vacuum in the provision of global public goods and other groupings can play a useful role to act as a stepping stone towards global governance when BRICS are ready. For example, the EU can be used to provide positive incentives in the area of climate negotiations, the G20 can be used to build trust in financial governance, and regional groupings can be used to govern trade.

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Appendix

Table A1: Selected summary of behavioural patterns across five issues are:

	Macro policy	Trade	Climate change	Financial Regulation
What are the global norms?	International surveillance over macro policy choices especially over exchange rate, G20 Balance in adjustment responsibilities between surplus and deficit countries	Multilaterali sm under the WTO	General agreement of anthropogenic harm 1992; 1997 Kyoto: mandatory targets for advanced countries, national plans for developing countries; Use of market mechanism where possible	Financial stability norm (minimum bank capital standards). Competitiveness norm (level playing field). Decentralized, market based regulation
Main features of the normative framework	Increasingly binding rules against unfair exchange rate policies; soft principles in other areas. Highly contested exchange rate rules; weak enforcement. Persuasion and peer pressure through multiple forums. (US-China strategic and economic dialogue).	WTO negotiations Dispute settlement mechanism Further liberalisation	UN-based. Soft at first; more specific from 1997 for developed world Highly contested disruptive aspects Weak enforcement.	Soft, voluntary, increasingly specific, technocratic standards; third norm more contested. Decentralised, weak enforcement Near-universal formal convergence (Basel 1); menu of options and differential implementation (Basel 2)
Levels of US consistency	Low (1); higher on (2), primarily as regards other surplus countries.	Regional treaties such as the TPP TAP	Low generally; becoming higher in post-2006 period, but not Kyoto-compliant	High on Basel 1, moderate and partial on Basel 2 (delayed implementation)
Level of Chinese consistency	Initially moderate but not constraining; declining as constraints increase (1). Irrelevant until 2000s, now low (2).	Regional treaties such as ASEAN plus 3 and RECP	Little required of China, but has introduced domestic legislation, especially since 2007. 2009 promised a carbon mitigation strategy.	Low but rapidly improving on Basel I; gradual, partial implementation of Basel 2 on similar timetable to United States

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