

Committee for Development Policy

**Global Governance and  
Global Rules for Development  
in the Post-2015 Era**



United Nations



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**Policy Note**

**Global governance and global rules for  
development in the post-2015 era**



United Nations  
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## DESA

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## Foreword

As we quickly approach the target year for achieving the Millennium Development Goals (MDGs), Member States of the United Nations have initiated a process to identify approaches to development strategies and goals for the post-2015 era. Guided by the principles identified in the outcome document of the 2012 United Nations Conference on Sustainable Development (Rio+20), progress has been made in the intergovernmental deliberations on defining a set of sustainable development goals and on developing a financing strategy for sustainable development.

At the same time, the members of the Committee for Development Policy (CDP)—an expert body of the Economic and Social Council composed of 24 members serving in their personal capacity—have been providing intellectual leadership on the possible contours of the United Nations development agenda for the post-2015 era. Previous work of the Committee focused on the delineation of the national strategies necessary for achieving the internationally agreed development goals. At its plenary meeting in 2014, the Committee shifted its attention to the international dimensions of the development agenda. In particular, it considered how global governance and global rules could be strengthened to make them more conducive to development in the post-2015 era. For the CDP, MDG 8 on the global partnership for development—addresses global governance in an incomplete way. In the Committee's opinion, intergovernmental cooperation is at the centre of the global partnership for development, and its role in the achievement of global development goals goes beyond the resources and technical assistance it can provide. Intergovernmental cooperation is also required when global policy decisions are taken and when global rules and norms are set, especially by multinational institutions that are in need of reform. The Committee argues that strengthening global governance and global rules is necessary in order to manage the increasing interdependence among countries more efficiently, to reduce existing inequalities, and to guarantee the necessary policy space for countries to pursue their own priorities within the limits given by interdependence.

Existing proposals to reform the current global partnership are not truly comprehensive. The present Policy Note provides important input towards filling this gap. An expanded version of the 2014 report of the



Committee for Development Policy to the Economic and Social Council, the Note elaborates the arguments presented in that report and includes additional detailed information and analysis. It provides practical policy recommendations on the way forward and on strengthening the role of the United Nations in achieving sustainable development worldwide. I am confident that Member States, development practitioners and the international community at large will consider the findings contained in this Note an insightful contribution to their discussions on how to promote a sustainable world free of poverty and a life of dignity for all.

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Under-Secretary-General for Economic and Social Affairs  
United Nations  
May 2014*

## Summary

Intergovernmental cooperation is at the centre of the global partnership for development. It has a vital role to play in the achievement of global development goals, in terms not only of the resources and technical assistance it can provide, but also in the areas of policy decision-making and norm-setting. Global governance encompasses the totality of institutions, policies, norms, procedures and initiatives through which States and their citizens try to bring more predictability, stability and order to their responses to transnational challenges. Effective global governance can only be achieved with effective international cooperation. Neither the existing proposals to strengthen global governance nor the global rules to support development are fully satisfactory; they have also not received sufficient attention by the intergovernmental processes addressing the development agenda for the post-2015 era. This Note presents comprehensive yet practical recommendations on how international cooperation, through its various institutions, arrangements and rules, could be reformed and strengthened to achieve and sustain development gains beyond post-2015.

It argues that international cooperation and the resulting governance mechanisms are not working well. First, the current global governance system is not properly equipped to manage the growing economic integration and interdependence among countries, both of which are compounded by the current globalization process. Globalization tends to accentuate interdependencies among countries. Second, global governance structures and rules are characterized by severe asymmetries in terms of access, scope and outcomes. While developing countries must abide by and/or shoulder the effects of global governance rules and regulations, they have limited influence in shaping them. Meanwhile, the unbalanced nature of globalization implies that important areas of common interest are currently not covered, or sparsely covered, by global governance mechanisms, while other areas are considered to be overdetermined or overregulated by a myriad of arrangements with different rules and provisions, causing fragmentation, increased costs and reduced effectiveness. These deficiencies have contributed to the generation of asymmetric outcomes among countries and have had important implications for inequality at the national level as well. Finally, current approaches to global governance and global rules have led to a greater shrinking of policy space for national Governments, par-

ticularly in the developing countries, than necessary for the efficient management of interdependence; this also impedes the reduction of inequalities within countries.

Five principles are critical to guiding the reforms of global governance and global rules:

(i) *Common but differentiated responsibilities and respective capacities*: This principle calls for recognizing differences among countries in terms of their contribution and historical responsibilities in generating common problems, as well as divergences in financial and technical capacities, in order to address shared challenges. This principle also acknowledges the diversity of national circumstances and policy approaches—a diversity which should be embedded in the architecture of global governance as an intrinsic feature of the global community, not as an exception to general rules.

(ii) *Subsidiarity*: Issues ought to be addressed at the lowest level capable of addressing them. This principle implies that some problems can be handled well and efficiently at the local, national, subregional and regional levels reducing the number of issues that need to be tackled at the international and supranational level. Subsidiarity suggests an important role for regional cooperation in addressing issues of mutual concern.

(iii) *Inclusiveness, transparency, accountability*: Global governance institutions need to be representative of, and accountable to, the entire global community, while decision-making procedures need to be democratic, inclusive and transparent. Robust governance implies mutual accountability, verified by transparent and credible mechanisms and processes to ensure that agreed commitments and duties are fulfilled.

(iv) *Coherence*: Definitions of global rules and processes need to rest on comprehensive approaches, including the assessment of possible trade-offs, so that actions in different areas will not undermine or disrupt one another, but instead be mutually reinforcing. Enhanced coherence is also needed between the international and national spheres of policymaking. This also requires improved coordination among various stakeholders and enhanced information sharing.

(v) *Responsible sovereignty*: This principle recognizes that policy cooperation is the best way to achieve national interests in the global public domain. It also requires Governments and States to be fully respectful of the sovereignty of other nations so as to fulfil agreed policy outcomes.

After laying out these core principles, this Note then examines how the principles could be applied to strengthen key areas of international

cooperation that are in need of reform. It identifies deficiencies in their respective governance structures and makes recommendations on how to address the shortcomings based on the five principles introduced above.

In the final section, the Note considers the role of the United Nations in the global governance architecture. It argues that the General Assembly, with its universal membership and democratic decision-making process, should function as the main political forum for managing global challenges, in close interaction with the Economic and Social Council and its subsidiary bodies on economic, social and environmental issues. For the Organization to utilize its distinct advantages, however, Member States need to strengthen its position in global governance. In particular, the Note suggests that the Economic and Social Council take on greater responsibility for advancing the global governance reform agenda, and that it provide guidance to the United Nations system in addressing current governance deficiencies in areas requiring improved international cooperation. These areas include the environment, international monetary and financial architecture, capital and labour flows, trade rules and inequality. Moreover, the Council's ability to coordinate and guide should be supported by appropriate follow-up and monitoring mechanisms for bridging the gap between commitments made and their implementation. The layout of such a system will require special attention in relation to the quantification of targets, data collection, and definitions and indicators measuring representativeness, inclusiveness, transparency and coherence of global governance.

The implementation of the post-2015 development agenda ultimately depends on the political will of Member States. Success will depend on whether all countries contribute to the reform of global governance and use their policy space to implement policies for achieving common goals. The probability of failing will remain high if global challenges continue to be approached from the narrow national perspective. It is therefore urgent that States cooperate in creating the conditions that will facilitate implementation of the current and future United Nations development agenda.

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## Abbreviations

The following abbreviations have been used:

<b>AEITs</b>	automatic exchanges of information on taxation	<b>LDCs</b>	least developed countries
<b>ASEAN</b>	Association of Southeast Asian Nations	<b>MDB</b>	multilateral development bank
<b>BIT</b>	bilateral investment agreement	<b>MDGs</b>	Millennium Development Goals
<b>CDP</b>	Committee for Development Policy	<b>MFN</b>	most favoured nation
<b>CFC</b>	chlorofluorocarbon	<b>MP</b>	Montreal Protocol
<b>DSM</b>	dispute settlement mechanism	<b>NGOs</b>	non-governmental organizations
<b>ECOSOC</b>	United Nations Economic and Social Council	<b>ODA</b>	official development assistance
<b>EU</b>	European Union	<b>ODS</b>	ozone depleting substances
<b>FCL</b>	Flexible Credit Line	<b>OECD</b>	Organization for Economic Cooperation and Development
<b>FDI</b>	foreign direct investment	<b>OWG</b>	Open Working Group
<b>FSB</b>	Financial Stability Board	<b>RCPs</b>	regional consultative processes
<b>G8</b>	Group of Eight	<b>RTA</b>	regional and bilateral preferential trade agreements
<b>G20</b>	Group of Twenty	<b>SDGs</b>	Sustainable Development Goals
<b>GATT</b>	General Agreement on Tariffs and Trade	<b>SDRs</b>	special drawing rights
<b>GDP</b>	gross domestic product	<b>SDTs</b>	special and differential treatment measures
<b>GHG</b>	greenhouse gas	<b>TIEAs</b>	tax information exchange agreements
<b>GPGs</b>	global public goods	<b>TNC</b>	transnational corporation
<b>GVCs</b>	global value chains	<b>TRIPs</b>	Agreement on Trade Related Aspects of Intellectual Property Rights
<b>IEG</b>	international environmental governance	<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>ILO</b>	International Labour Organization	<b>WTO</b>	World Trade Organization
<b>IMF</b>	International Monetary Fund		
<b>IOM</b>	International Organization for Migration		



# Global governance and global rules for development in the post-2015 era

## I. Introduction

The Millennium Development Goals (MDGs) are an expression of the broader United Nations development agenda agreed to at several United Nations conferences and summits convened over many decades (United Nations, 2007). These goals, as well as the broader United Nations development agenda, underscore a global consensus, a shared vision of inclusive development, based on the three pillars of sustainable development: economic, social and environmental. They have also been instrumental in drawing attention to development as a global priority and have become reference points for development policy debates and practices worldwide. Yet, the MDGs address issues of global governance in an incomplete and limited way. Goal 8, the global partnership for development, is often recognized as the least satisfactory of the MDGs. In fact, the Committee for Development Policy (CDP) had already noted that the “MDG narrative... leaves out much of the important economic policy agenda of developing countries in international negotiations. Issues of asymmetric power and lack of voice in international rules related to trade, investments and finance as well as policy space and control over national economic policies are barely reflected in the MDGs. While they do include a specific goal on the building of a global partnership for development (Goal 8), its wording is weak and lacks quantitative targets in several aspects” (United Nations, 2012a, p.13).

Intergovernmental cooperation is at the centre of the global partnership for development and has a vital role to play in the achievement of global development goals, not only in terms of the resources and technical assistance it can provide, but also in policy decision-making and norm-setting. Existing proposals to strengthen global governance and global rules to support development do not seem to be truly comprehensive and have not received sufficient attention by the international community in discussions on the development agenda for the post-2015 era.

The “institutional view”, as embodied by various reports of the United Nations System Task Team and the Secretary-General, seems to reduce the tasks of the global partnership for development to goal setting, monitoring and the provision of means of implementation (with participation from several actors in addition to Governments), without, however, considering the adequacy of the rules and institutions that shape the environment where economies operate.

Deliberations at the General Assembly Open Working Group (OWG) on Sustainable Development Goals (SDGs) include consideration of the issue of governance, but its discussions are focused on rule of law, largely applicable to national contexts (particularly “failed” States) and in post-conflict situations. When transposed to the global level, the concept seems to apply to means of implementation, accountability and monitoring, with few isolated suggestions on the areas of technology transfer, trade and official development assistance (ODA).

Lastly, the High-level Panel of Eminent Persons on the Post-2015 Development Agenda seems to reduce the global partnership to a collection of multi-stakeholder partnerships contributing to the implementation of each specific goal.

All these conceptions are incomplete at best, and reflect the insufficient attention that current discussions on the post-2015 agenda have given to global governance. The present report aims to help fill this gap. It will look more specifically at how international cooperation, through its various institutions, arrangements and rules, could be reformed and strengthened for achieving and sustaining development gains in the post-2015 era.

The remainder of the report is organized as follows: Section II identifies the shortcomings and areas that need further strengthening in the current system of global governance. It also puts forward the necessary principles that should guide the reform process. Section III looks more closely at selected areas of global governance. On the basis of the guiding principles identified in the previous section, Section III also indicates the direction that reforms should take. Section IV examines the role of the United Nations in global governance. It recognizes key important features of the Organization in terms of its universality, inclusiveness and transparency. It stresses that the achievement of sustainable development worldwide requires a stronger and more effective United Nations at the centre of global governance, as opposed to a loosely defined, uncoordinated multi-stakeholder approach.

## II. Global governance and global rules: why do they need reform?

Scholars have used the term “governance” to denote the regulation of interdependent relations in the absence of overarching political authority, such as in the international system. It encompasses the institutions, policies, norms, procedures and initiatives through which states and their citizens try to bring more predictability, stability, and order to their responses to transnational challenges. While the importance of global governance has been acknowledged, we are witnessing the increasing need to manage global problems more effectively in the face of increased interdependence.

Effective global governance cannot be achieved without effective international cooperation. Besides being a manifestation of international solidarity, international cooperation is a means to promote common interests and shared values and to reduce the vulnerabilities generated by increased interdependence. It is also a legal obligation. Already in 1945, Member States of the United Nations recognized the centrality of “international cooperation in solving international problems of an economic, social, cultural, or humanitarian character, and in promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language, or religion” (United Nations, 1945, Article III). With the adoption of the Universal Declaration of Human Rights in 1948, and the subsequent international treaties that put the Declaration into effect, there is legal obligation for States to facilitate the realization of human rights by all individuals through international cooperation. While the fulfillment of human rights is the primary responsibility of individual States, there is also an international obligation for States to remove those obstacles that are beyond the reach of individual nation states and that impede the creation of the conditions and social arrangements necessary for the fulfillment of human rights (Fukuda-Parr, 2006). Meanwhile, the Declaration on the Right to Development (United Nations, General Assembly, 1986) explicitly calls on States to act collectively, as well as individually, to create an enabling environment for development, particularly by removing obstacles and creating opportunities (Ibid., Preamble, articles 1, 2, 4, and 7).

International cooperation and the resulting governance mechanisms are not working adequately or effectively. Responses to common challenges have been mostly taken at the national level, with global responses

being insufficient, incomplete or simply non-existent. Moreover, there has been growing tension between decision-making processes at the national and global level as local challenges “have become an integral part of global stakes” (Severino and Roy, 2009, p. 9). Domestic policies can have significant (positive and negative) spillover effects on global well-being, depending on the weight of a given economy and the pattern of its integration into the global economy. Thus, a main question is how to reform the institutions responsible for global governance. In this regard, three main issues emerge: (i) the current global governance system is not properly equipped to manage the growing integration and interdependence among countries; (ii) the current system is characterized by marked asymmetries in terms of access, processes and outcomes; and, (iii) global rules have led to a shrinking of the policy space of national Governments, particularly of developing countries, in ways that impede the reduction of inequalities within countries and is well beyond what is necessary for an efficient management of interdependence.

### *Interdependence and global public goods*

The current globalization process tends to accentuate interdependencies among countries, widening the scope of global public goods (GPGs). Public goods and services are characterized by their non-rival consumption—peace and security, for example—and whose consumption is non-excludable. In other words, once they are supplied, public goods, such as early warning systems, benefit everyone. Typically, social or collective net benefits accruing from the provision of public goods are larger than private or individual benefits, leading to an undersupply of these goods by the market. GPGs are public goods that generate benefits (or costs) with global reach or of a transnational nature (i.e., regional and subregional). Accordingly, GPGs require collective action among countries, coordinated by Governments, to be delivered in sufficient quantities and in an efficient manner (Kaul, Grunberg and Stern, eds., 1999; World Bank, 2008). A strong relationship exists between GPGs and development agendas: failures in one domain can produce setbacks in the other (United Nations, Committee for Development Policy, 2013).

Currently, GPGs are insufficiently supplied, creating negative consequences for all. Meanwhile, the supply of global public “bads” (emission of greenhouse gases, tax havens, biodiversity losses, human trafficking,

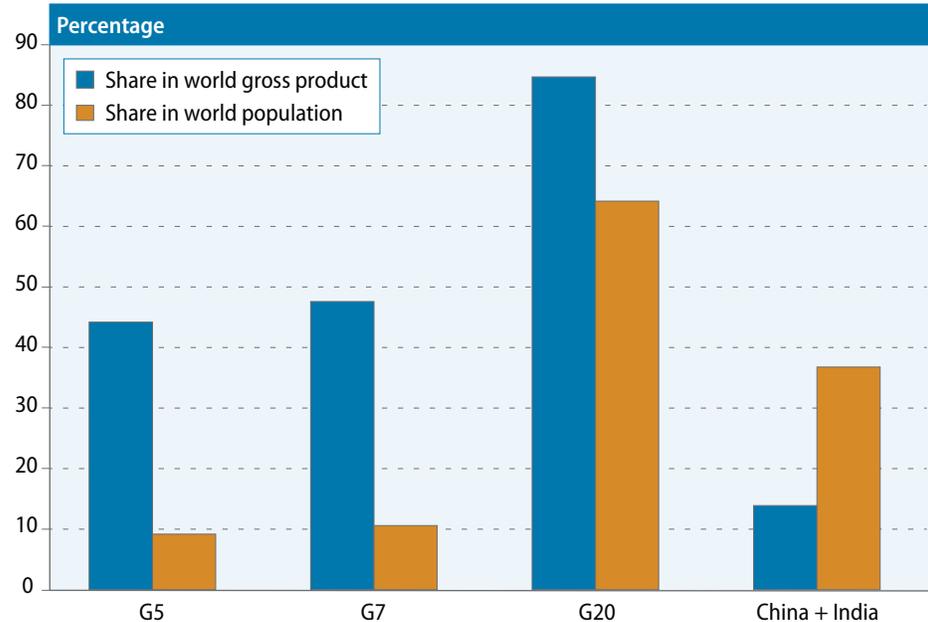
etc.), resulting from a lack of or ineffective collective action, is not adequately constrained or properly regulated. Some areas of common interest, such as commodity markets and migration, are sparsely or not at all covered by global governance mechanisms. Others are overdetermined or overregulated by a myriad of arrangements with different rules and provisions, causing fragmentation, increased costs and reduced efficiency. International trade is a case in point with the mushrooming of bilateral and regional free trade agreements that have differing rules of origin and standards requirements.

### *Globalization and its asymmetries*

Global governance structures and rules are characterized by severe asymmetries. There are marked *asymmetries of access* to the various decision-making processes, with developing countries having to abide by and/or shoulder the effects of rules and regulations over which they have limited influence. While resolutions by the United Nations General Assembly reflect the rule of one country, one vote, they do not create binding obligations. Representation of developing countries' shares in International Monetary Fund (IMF) quotas does not reflect their shares in the world economy today, and the moderately ambitious 2010 reform has not yet been implemented. In any case, decisions on global monetary cooperation seemed to have bypassed the IMF and taken place in the "G sphere"—the 1985 Plaza Accord, the 1987 Louvre Accord and, more recently, the Group of Seven, for example. The creation of the Group of Twenty (G20) in the aftermath of the 2008 crisis includes some major developing countries and, in principle, may be a better reflection of power distribution in the world; these countries account for about 85 per cent of global gross domestic product (GDP) and about 65 per cent of the world's population (figure 1). However, the vast majority of developing countries are excluded. In reality, the G20 represents a continuation of a pattern that could be called "elite multilateralism" (Ocampo, 2011), a framework that raises serious concerns about representativeness, inclusiveness and accountability.

An important force shaping governance at national and international levels is big corporations, which lobby for laws and policies that serve their interests. For example, in the preparation of the Transatlantic Trade and Investment Partnership, the Commission of the European Union has held at least 119 closed-door meetings with large corporations and their

Figure 1  
Share in world gross product and world population,  
selected country groupings, 2012



Source: World Bank, World Development Indicators online database.

Note: World gross product calculated on the basis of current United States dollar market exchange rates.

lobbying groups, but has only held a handful of meetings with trade unions and consumer groups (Transnational Institute, 2014). Some counterweight to corporate power is provided by public interest non-governmental organizations (NGOs). While today some NGOs have very significant influence, resources at their disposal are relatively small when compared to those of large corporations.

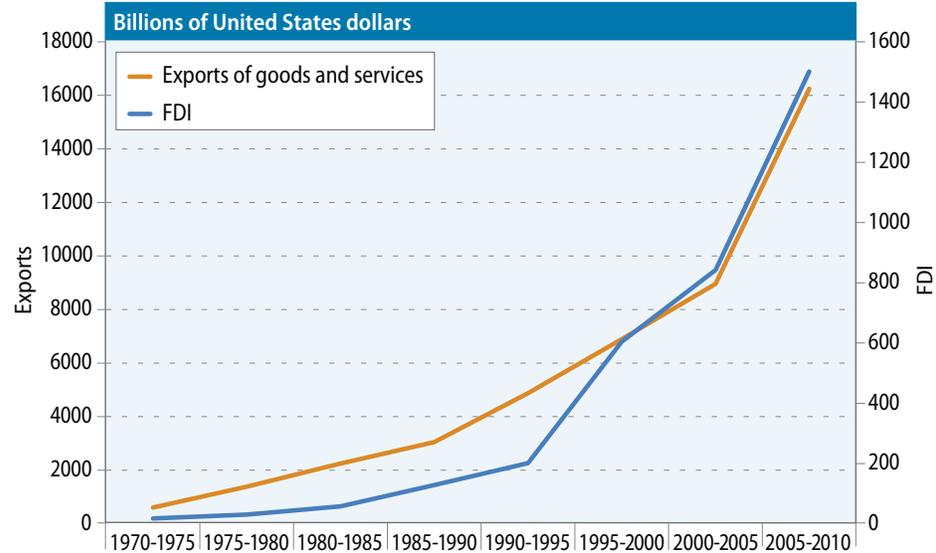
The current global governance structure also reflects the asymmetric character or the *unbalanced nature of globalization*. There have been important processes that facilitate the mobility of capital and of goods and services; other processes have restricted access to knowledge and innovation. There are only timid attempts to facilitate skilled-labour mobility and severe restrictions on the migration of unskilled labour. In fact, the average annual world inflows of foreign direct investment (FDI) jumped from US\$ 200 billion in 1990-1995 to US\$ 1500 billion in 2005-2010, a seven-fold increase. The corresponding figures for world exports of goods and services recorded a four-fold increase, from US\$ 4.8 trillion to US\$ 16.2 trillion. Meanwhile,

the annual average net migratory outflows from developing countries are estimated to have increased from 12 million people in 1990-1995 to 17 million in 2005-2010 (figures 2.A and 2.B). The increasing mobility of capital has been associated with declining taxation on capital and corporations both in developed and emerging countries (Devereux, Lockwood and Redoano, 2008), while labour, the fixed factor of production, and consumers (most of whom are also workers) shoulder most of the tax burden. This is very costly, as tax revenues are the main source of revenue mobilization for financing delivery of public services and social protection.

Asymmetries in both decision-making and various processes related to global governance have important implications for *asymmetries of outcomes*. Within-country inequalities are primarily the responsibility of national Governments and national societies. Yet, global rules and cooperation, or the lack thereof, may facilitate or constrain government action at the national level. Thus, initiatives to promote internationally agreed minimum social standards in developing countries generate a positive effect, to the extent that they are supported by financial and technical resources provided through international cooperation. For example, international research institutions, supported by public funds, were active in agricultural innovation in developing countries in the past, leading to the Green Revolution of the 1960s and 1970s, which saved millions of people from starvation. More recently, the development of vaccines and improved medical treatments for tropical diseases as well as for global pandemics such as HIV/AIDS (United Nations, Committee for Development Policy, 2013) has greatly assisted countries in improving health conditions at the national level. At the same time, stringent patent protection increases the cost of essential medicines in developing countries, making it more difficult for them to improve the health of their populations, particularly the poor. Lack of international tax cooperation facilitates tax avoidance by transnational corporations (TNCs) and rich individuals and reduces the pool of resources available for Governments to implement poverty reduction and redistributive policies. In general, the forces pushing towards rising inequality have prevailed in recent decades, as reflected in the falling share of wage income and the rising share of capital income in most economies (figure 3), among other developments. Inequalities do not self-correct; instead, they perpetuate and reproduce over generations, cumulating and combining to recreate systematic disadvantages for particular groups and individuals.

Figure 2  
Mobility of capital, goods and services, and labour

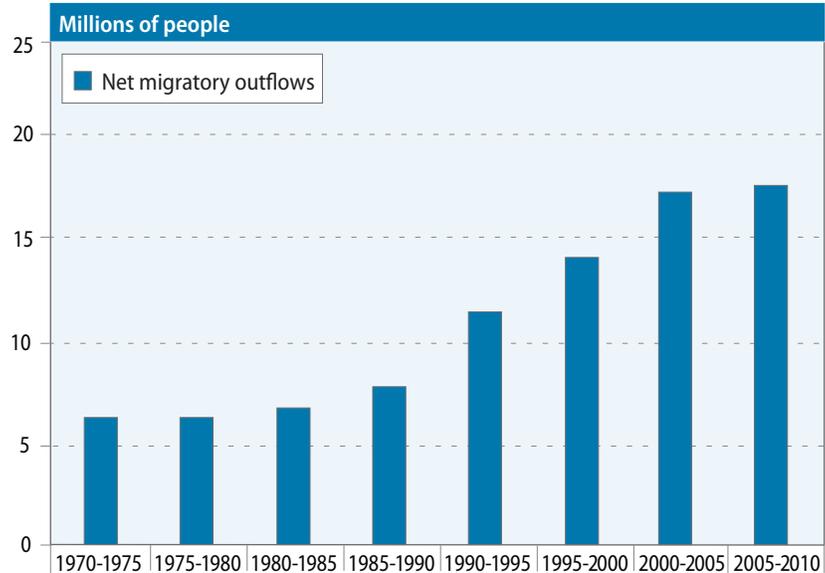
Figure 2.A: World FDI inflows and exports of goods and services, 1970–2010



Source: World Bank, World Development Indicators online database and UNCTAD, UNCTADStat online database.

Note: Annual averages.

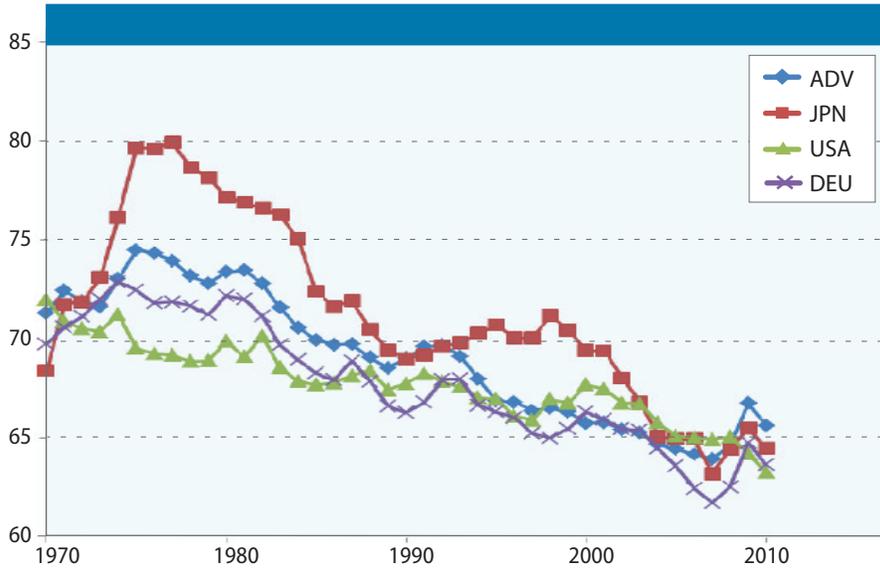
Figure 2.B: Developing country net migratory outflows, 1970–2010



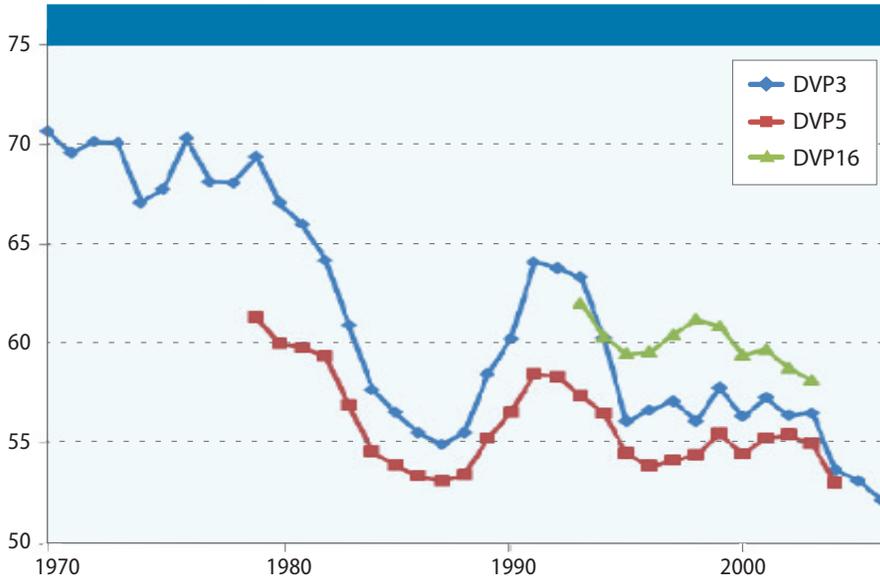
Source: United Nations, Department of Economic and Social Affairs, Population Division (2013). *World Population Prospects: The 2012 Revision, DVD*.

Note: Net migratory outflows are estimates.

Figure 3  
**Share of private sector adjusted wages in national income, selected developed countries, 1970–2010**



**Share of adjusted wages in national income, selected developing countries, 1970–2010**



Source: Stockhammer (2013), p.1 and p.3.

Note: Adjusted for self-employment, unweighted averages.

ADV: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Spain, Sweden, the United Kingdom of Great Britain and Northern Ireland and the United States of America.

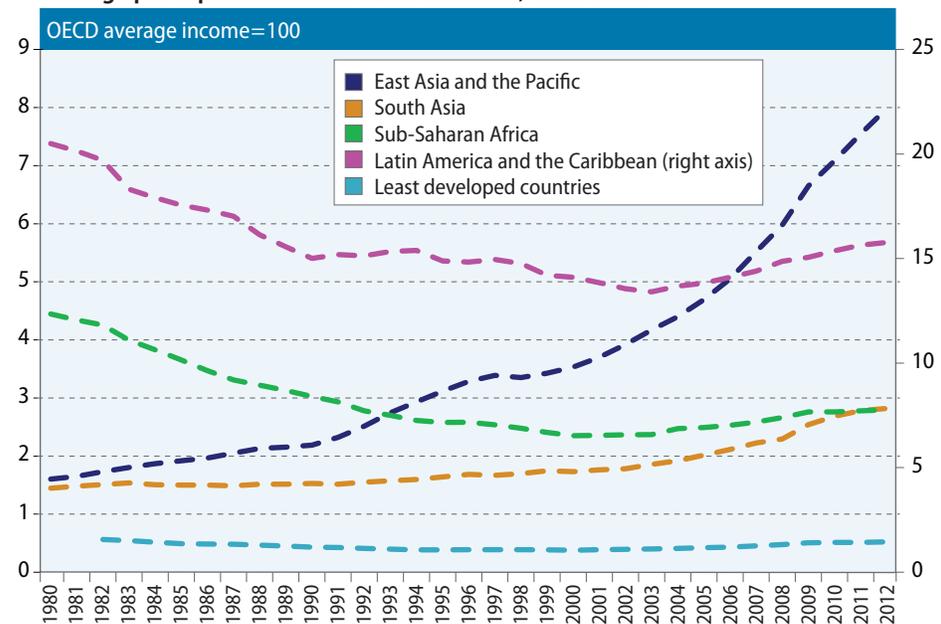
DVP3: Mexico, Republic of Korea and Turkey.

DVP5: DVP3 plus China and Kenya.

DVP16: DVP5 plus Argentina, Brazil, Chile, Costa Rica, Namibia, Oman, Panama, Peru, Russian Federation, South Africa and Thailand.

While interdependence has increased, inequalities among countries have persisted and, in some cases, amplified. Countries and people have thus been left behind, participating at the margins of the global economy and/or unable to realize its potential benefits. At the global level, the income gap between the developed and the developing countries remains considerable; it has even deteriorated in the case of sub-Saharan Africa, Latin America and the least developed countries (LDCs) in the last two decades of the twentieth century, though with some improvement over the past decade (figure 4 and box 1). Those countries that succeeded in lowering the gap seem to have opted for strategic participation in international trade and tactical association with foreign investors, thereby promoting domestic backward and forward production linkages and the accompanying dynamic structural transformation of the economy from low- to higher-productivity sectors. These achievements often rested on the adoption of a wide range of policy instruments and innovative institutional arrangements. But many developing countries have not been able to do this, and continue to be trapped at low- or middle-income levels.

Figure 4  
Average per capita income of selected developing regions as a share of average per capita income of OECD countries, 1980–2012



Source: World Bank, World Development Indicators online database.

## Box 1

## Increased inequalities amidst increasing interdependence

Increased interdependence between countries has been accompanied by persistently high and sometimes increasing inequality—both among and within countries—in income, wealth, capabilities, voice and power.

In 2010, high-income countries, accounting for only 16 per cent of the world's population, enjoyed 55 per cent of global income (at market prices). Low-income countries enjoyed just above one per cent of global income even though they contained 72 per cent of global population. In sub-Saharan Africa, average gross domestic product (GDP) per capita was \$2,014<sup>a</sup> in 2010, compared to GDP per capita of \$27,640 in the European Union and \$41,399 in North America (United Nations, 2013a).

By some measures, international inequality in income is falling. For instance, based on a population-weighted Gini coefficient (which takes each country's per capita GDP as a point in the distribution), international income inequality has been declining since the early 1980s. Statistically, most of this decline has been due to the rapid growth of China (United Nations, 2013a). However, other measures show a less rosy picture. For instance, the absolute gaps in per capita income between high-income and low-income countries have increased, from \$18,525 in 1980 to close to \$32,900 in 2007, before falling slightly to \$32,000 in 2010 (United Nations, 2013a).

Within countries, income inequality between households deteriorated in the 1980s and 1990s in most countries (73 out of 105 developed, developing and transition economies) and persisted in the 2000s (income distribution worsened or did not change in 57 out of 105 countries) (Cornia, 2013). Rising inequality in household income (as measured by the Gini coefficient) is correlated, in both developed and developing countries, with rising globalization (as measured by indicators of foreign trade, foreign direct investment, portfolio investment, income payments to foreign nationals, import barriers, tariffs, and capital-account restrictions) (United Nations Development Programme, 2013).

The changing distribution of income between labour and capital is one of the drivers of inequality in personal and household income, as capital is much more unevenly distributed than labour. Longitudinal data on this aspect of income inequality is not so widely available, but there is evidence for 16 developed countries that the average labour share declined from about 75 per cent

(cont'd)

<sup>a</sup> All dollars (\$) are United States dollars.

**Box 1 (cont'd)**

of national income in the mid-1970s to 65 per cent just before the 2008 financial crisis; for 16 developed and emerging economies, labour's share declined from about 62 per cent of GDP in the early 1990s to 58 per cent just before the crisis (United Nations Development Programme, 2013). Globally, the share of wages and mixed incomes (or incomes of the self-employed) in GDP has declined since 1980; the same pattern is observed in Asia, with the decline being quite sharp after 2000 in China and East Asia, particularly in high-income countries in East Asia (Malaysia, Republic of Korea) (Chandrasekhar and Ghosh, 2013). The fall in labour's share of income is correlated with increasing financial globalization and external account openness (United Nations Development Programme, 2013).

In addition to the overall fall in labour's share, the gap between top and bottom earners has increased in the majority of developed and in many developing countries, for which there is data (United Nations, 2013a; Piketty, 2014). Moreover, there are persistent gender gaps in quality of employment, with women more likely than men to be in vulnerable employment (United Nations, 2012b).

Underlying the inequality in income is an inequality in wealth. The 2013 Credit Suisse Global Wealth Report shows that global wealth has more than doubled since 2000, reaching a new record-high of \$241 trillion. The average wealth per adult has reached \$51,600 per adult; personal wealth for the world as a whole increased by 4.9 percent from the year 2000. However, the bottom half of the global population owns less than 1 per cent of total wealth, while the richest 10 per cent hold 86 percent of the world's wealth; the top 1 per cent alone account for 46 per cent of global assets. The countries with the most wealth per adult over \$100,000 are in North America, Western Europe and among the rich Asia-Pacific and Middle-Eastern countries. Sixty-eight per cent of world population has wealth below \$10,000; in 2013, 30 per cent of the population in developed countries fell into this category and more than 90 per cent of the adult population in India and Africa. In some low-income African countries, the percentage of the population with wealth below \$10,000 is close to 100 per cent (Credit Suisse AG, 2013).

Inequalities in income, wealth, health, education and employment are especially pronounced for social groups with less voice and power, such as women, youth, older people, disabled people and indigenous people (United Nations, 2013a). These forms of exclusion intersect: for example, women experience disadvantage not only on the basis of their gender, but also of their ethnicity and culture, as well as their age. Thus, there are persistent inequalities in capabilities, as measured, for instance, by education and health outcomes across social groups.

### *Interdependence and policy space*

The above discussion takes us to the third main issue underlying the need for reforms in the current global governance system—the noticeable shrinking of policy space. The policy paradigm of deregulation and liberalization that has characterized the current globalization has led to constraints on government action and has promoted market mechanisms as the best approach to resource allocation and distribution. While some constraints to national policy space are necessary to guarantee an efficient functioning of the global economy, the reduction of the policy space of developing countries seems to have been exaggerated and applied in an unequal manner.

Global trade rules, for instance, while helping to make trade flows take place and expand in a predictable manner, have not been sufficiently flexible to allow for the implementation of national policies that facilitate structural change in developing countries. Indeed, recent evidence indicates that developed countries are using industrial policy more often than developing countries, especially since the financial crisis in 2008 when the United States of America and several European countries used various forms of stimulus and protective measures to bail out private firms. Large subsidies to agricultural producers in developed countries are probably the most emblematic case of the widespread use of industrial policies to support the competitive position of specific sectors vis-à-vis foreign competitors. This situation raises the concern of possible asymmetries in the use (or abuse) of industrial policy between the developed and developing countries under the World Trade Organization (WTO) regime.

There has been a noticeable trend towards the standardization of rules and disciplines, usually those prevailing in developed countries. Standardization has coincided with and facilitated the fragmentation of production and distribution worldwide and the emergence of global value chains (GVCs) as a main business model. GVCs have also contributed to the explosion of regional and bilateral preferential trade agreements (RTAs), which often go beyond what has been agreed at the multilateral level, further constraining policy space, and spreading over areas well beyond trade flows, such as labour and environmental standards and capital-account regulations. Further policy constraints originate in bilateral investment agreements (BITs), which regulate bilateral investment flows and go well beyond the obligation of providing prompt, effective and adequate compensation in case of expropriation. By encompassing financial flows,

including short-term flows, under the concept of “investment”, BITs restrict the capacity of countries to regulate volatile capital flows.

### *Principles for reform*

Moving forward, strengthened mechanisms for global collective action should be built around the principles that support the development efforts of developing countries and environmental sustainability. Key principles of global governance include the following:

*Common but differentiated responsibilities in accordance with respective capabilities:* This principle embodies equity in the formulation of international law. It recognizes differences in the contribution and historical responsibilities in the generation of common problems as well as the divergences in financial and technical capacity across countries in order to equitably address shared challenges. It requires all States to participate in internationally agreed response measures for tackling common problems, while each country’s contribution to the solution should be compatible with its individual capabilities. The principle also implies that recognition of the diversity of national circumstances and of policy approaches should be embedded as an intrinsic feature of the global community, not as an exception to general rules. In other words, global governance should cater to the fact that countries have a variety of initial conditions, and they will adopt a variety of pathways to achieving global development goals (Girvan and Cortez, 2013). The increased divergence among developing countries and the emergence of economic powers among them may complicate the political economy of finding acceptable solutions to current problems. The difficulty in reaching an agreed solution to lowering carbon emissions is a case in point. Nonetheless, the principle of matching responsibility with capability should be at the base of global governance to ensure equity. Accepting the differences in countries’ capabilities is a way of incorporating emerging powers in the sharing of responsibilities.

*Subsidiarity:* This principle suggests that issues ought to be addressed at the lowest level capable of addressing them. It implies that some problems can be handled well and efficiently at the local or national level, reducing the number of issues that need to be tackled at the international and supranational level. In this sense, the report of the High-level Panel of Eminent Persons on the Post-2015 Development Agenda rightly recognizes

an important role for national Governments in meeting the challenges for the post-2015 development agenda. At the same time, in the case of spillover effects from one country to another, or in the case of GPGs, international cooperation is imperative for addressing these concerns. But subsidiarity also sees a role for regional cooperation to address issues of global concern. In fact, the creation of any given global governance arrangement can be based on existing regional or subregional institutions and capitalize on their experiences and approaches in policy coordination and cooperation. Regional governance structures can thus be considered as building blocks for global governance structures. A greater role of regional institutions in global governance also facilitates the participation of developing and small countries, thus enabling more democratic global structures.

*Inclusiveness, transparency, accountability:* Global governance institutions need to represent and be accountable to the entire global community; moreover, decision-making procedures need to be democratic, inclusive and transparent. Absent these characteristics, global governance institutions will lack universal legitimacy and their effectiveness will be compromised. As already called for in the 2002 Monterrey Consensus (United Nations, 2002), developing countries need to have greater voice in relevant decision-making processes as well as in the formulation of global standards, codes and rules. Moreover, robust governance implies mutual accountability, which can be verified by transparent and credible mechanisms and processes to ensure that agreed commitments and duties are being fulfilled. As such, accountability depends on a clear definition of commitments and on agreed indicators and targets. But effective accountability is more than that; it also implies policy change and strong follow-up mechanisms to ensure compliance. Thus, accountability is not an end in itself, and it does not stop in the review processes it entails. Rather, it is an instrument for achieving agreed results.

*Coherence:* This principle calls for a holistic and comprehensive approach in defining global rules and processes, including the assessment of possible trade-offs, so that actions in one area will not undermine or disrupt progress in others; indeed, processes in all areas should be designed to reinforce one another. Enhanced coherence is also needed between the international and national spheres of policymaking. Coherence requires improved coordination among various stakeholders and enhanced information sharing. The recognition that the only durable development is

sustainable development, and that the ultimate goal of international cooperation is the promotion of global sustainable development reinforces the importance of enhancing coherence across economic, environmental and social governance structures at the global, regional and local levels.

*Responsible sovereignty:* This principle should guide Governments to better exercise their policymaking sovereignty in an increasingly interdependent world. It implies the recognition that policy cooperation is the best way of achieving national interests in the global public domain. It also requires Governments and States to be fully respectful of the sovereignty of other nations so as to fulfil agreed policy outcomes (Kaul, 2013). Responsible sovereignty is necessary for the efficient delivery of the global public goods that are relevant for the management of interdependence and the achievement of global sustainable development.

Section III below identifies deficiencies in the current global governance framework and recommends approaches for addressing these shortcomings, according to these principles, in selected areas that require improved international cooperation.

### III. Strengthening global governance and global rules

#### *Global governance and the environmental agenda*

The concept of sustainable development is built around three pillars that, for many years, have been perceived as separate silos. This framework has implied that environmental policies have been settled either in isolation from economic and social policies or have been designed in a way that has not promoted important changes in the other two pillars. This approach has failed to reduce environmental damage while at the same time risks social and economic gains.

International environmental governance (IEG) is complex. It includes agreements, international organizations, policy instruments, financing mechanisms, rules, procedures and norms. IEG also impacts other areas of global governance besides the environment, such as international trade. Outside the treaty realm, institutions have voluntarily developed mechanisms, such as the environmental and quality standards of the International

Organization for Standardization and codes of conduct for corporate social responsibility developed by various corporations.

Yet, in general, environmental degradation, particularly in areas that transcend individual countries, has not stopped. The phasing out of production of ozone depleting substances under the Montreal Protocol (MP) is arguably the only example where negative impacts are reversing. Overall, however, the environment continues to show signs of degradation (United Nations Environment Programme, 2013a). Environmental indexes for biodiversity loss and desertification continue to increase, while climate change remains possibly the most dangerous of all environmental threats. Regardless of countries' commitments to reduce greenhouse gas emissions (GHG), there is a significant gap between actual GHG emission trends and the pathways needed to keep the increase in global average temperature below 2°C to prevent dangerous climate change. Clearly, international efforts to reverse and prevent environmental degradation have been inadequate, have not been developed in the right direction or do not truly address the causes of environmental decline (Afionis, 2012).

The MP is often described as the international environmental agreement par excellence. The MP successfully led to the phasing out of 95-98 per cent of all chlorofluorocarbon (CFC) use (Gareau, 2010; Andersen, Halberstadt and Borgford-Parnell, 2013). Success is often attributed to a combination of factors, including the economic opportunities for certain multinational firms that were made available in phasing out CFCs. Big chemical corporations supported the MP, once they realized the economic opportunities that could result from phasing out the use of the ozone depleting substances (ODS). This raises the question regarding whether the MP approach could be used to address other environmental problems.

The technical and socioeconomic differences between the substitution of CFC and other ODS by other substances, and the changes that are needed to reduce GHG emissions, biodiversity loss and land degradation are significantly larger in terms of the wide range of stakeholders involved, the costs, and the levels of scale and intensity of required actions. This implies that the magnitude of organizational, technological and behavioral changes needed to overturn the global environmental damage goes beyond the ones observed in the MP. Environmental sustainability requires deeper changes in current production and consumption patterns—changes that

constitute important threats and challenges for the way international corporations operate in energy, mining and chemical sectors, among others. Thus, global environmental problems reveal a deeper crisis in current approaches to growth, production and consumption, and in the presumption of no limits to the exploitation of natural resources.

### *Moving forward*

The formulation of the post-2015 development agenda requires a new international consensus to incorporate environmental sustainability as an integral part of the development process. Greater acceptance of the concepts of green economy and sustainable development emerging from the follow-up to the Rio+20 Conference seems to indicate that there is progress in moving towards this consensus. However, further efforts are needed to fully modify the current economic model of development that wrongly assumes there are no ecological limits to growth. In this regard, and based on the principles discussed above, the following is required.

First, dramatic changes in sustainable consumption and production patterns are urgently needed. Advances in technology have enabled higher efficiency in resource use, and these advances need to be available worldwide. Technological innovation is essential to creating sustainable complementarities between production and the environment. However, there is a limit to enhancing efficiency. Thus, reducing the ecological footprint of current patterns of production of goods and services will not be enough to ensure environmental sustainability. Unsustainable lifestyles, particularly among the richer segments of the population, place enormous pressures on the environment (Allwood and others, 2013). According to current estimates of the ecological footprint, it would take three to four Earths for the average consumption level of the current world population to reach the level of average individual consumption in the United States of America (Wackernagel and Reese, 1996). GHG emissions could be 3.8 times as high as the level of current emissions if developing countries were to consume the same level of fossil fuels (measured in per capita terms) as consumed in developed countries (Intergovernmental Panel on Climate Change, 2007). The poorer segments, meanwhile, are unable to meet minimally required food, health care, shelter and educational needs. Taking the principles of inclusiveness and coherence into account, changing

consumption patterns will require focusing on demand, meeting the needs of the poorest, and changing lifestyles and excessive material and energy consumption by the richest. It also requires a new paradigm of success that is not based on increasing consumption.

Second, it is necessary to move from per capita GDP as the measure of development to sustainable development indicators. So long as per capita GDP is the main indicator of development, the eradication of poverty, the promotion of equity and addressing the physical limits of growth will remain of secondary importance. Development goals must include environmental sustainability, poverty eradication and the reduction of inequalities as the focus of policy attention. Agreed targets in these fields must guide the actions of international development institutions, especially international financial institutions. Actions directed towards meeting agreed targets would increase the coherence of global governance for the environment. In this regard, public policies are needed to stimulate public, social and private investments that will reduce GHG emissions and pollution, restore ecosystem services, prevent biodiversity loss, and enhance energy, material and resource efficiency. These environmental objectives need to be consistent with job creation, poverty eradication, improved equity and the recognition of the strategic role of local producers and communities in sustainable agriculture, fisheries and resource management. The economic transition also requires different methodologies for estimating the costs of practices that place social benefits ahead of private profits.

Third, it is important to recognize that environmental problems do not have frontiers. Countries compete for foreign direct investment (FDI) by lowering environmental standards, while multinational corporations look for countries in which to place their investments on the basis of lax or “business-friendly” environmental standards. The IEG needs to develop a system—recognized by the World Trade Organization (WTO) and incorporated into bilateral investment agreements and free trade agreements—that promotes and enforces internationally agreed standards, regulations and codes of conduct on FDI, thereby discouraging investment and development activities based on lack of effective environmental protection regulation. Applying the subsidiarity principle discussed above, global governance arrangements should rely on regional or subregional structures or approaches of governance that need to be coherent across regions. European Union (EU)-wide environmental policies to mitigate

climate change (including emission trading as well as EU-wide regulatory approaches) can offer lessons for other regions. Such experiences could be emulated in other regions and eventually scaled up at the global level. The new international role of the United Nations Environment Programme brings enormous opportunities in this matter.

Fourth, applying the principles of inclusiveness, transparency and accountability implies that the recognition of the linkages between environmental and human well-being leads to acknowledgement that the fundamental right to a healthy environment is a human right. Environmental law, jurisprudence and environmental governance are central to resolving problems of environmental justice. The recognition of environmental problems in current international justice institutions and even the possibility of an international environmental court are key considerations in strengthening global environmental governance (United Nations Environment Programme, 2013b). Today there is no dedicated international body with delegated authority to enforce international environmental regulations. The protection of fragile ecosystems, the sustainable use of natural resources in the global commons, and the improved management of transboundary resources are areas of special concern in the development of a global mechanism for environmental governance.

Finally, the increasing differentiation among developing countries is a new feature of the current international landscape. Mechanisms of global governance for sustainable development, particularly in reaching a new international consensus in the United Nations Framework Convention on Climate Change, will have to give proper interpretation to the concept of common but differentiated responsibilities. In this regard, it is necessary to recognize the variety of development trajectories across countries and determine responsibility based on historic emissions, current and projected total and per capita emissions. In this regard, capacity to innovate and access to technology are crucial for reducing the wide developmental gaps that exist between developing and developed countries. This requires strengthening the capacity of developing countries to develop, review and implement education, science, technology and innovation systems oriented towards nationally relevant responses to the challenges they face in relation to climate change, the preservation of biodiversity and the reduction and prevention of desertification. Therefore, it is important to recognize that the increasingly globalized protection of intellectual property rights is impacting developing

countries' abilities to develop the necessary capabilities in basic research, education, public health and environmental protection (Maskus and Reichman, eds., 2005). A new international system is needed based on the recognition of the links between international public goods and transfer of technology. Similarly, the principle of common but differentiated responsibilities should be taken into account in the provision and allocation of financial resources to support sustainable development strategies. While estimates vary tremendously, there is general agreement that high levels of resources are needed. Several financing mechanisms have been discussed in recent years, but serious commitments are still to be made if environmental sustainability is to be effectively integrated into a new development paradigm. In the allocation of resources, clear priority should be given to the poorest countries with greater vulnerabilities to environmental degradation, as well as to those more likely to be affected by climate change. Additionally, the allocation of resources to meet traditional development goals, such as access to water and sanitation, electrification, etc., should be made compatible with and take into account the sustainable management of natural resources, both as a policy for poverty reduction and as a strategy for adaptation to climate change.

### *International monetary and financial architecture*

The recent financial crisis—which originated in the North Atlantic but had worldwide ramifications for both developed and developing countries—underlined the need to deepen the reforms of the international monetary and financial architecture. Several initiatives have been undertaken since the crisis to strengthen prudential financial regulation and supervision, to improve countercyclical financing and to enhance macroeconomic policy cooperation. In contrast, steps to strengthen and improve the international monetary system have been more limited, those aimed at creating an international debt workout mechanism have been entirely absent, and only small steps have been taken to reform the governance of the system.

### *Financial regulation and supervision*

Under the leadership of the Group of Twenty (G20) and the Financial Stability Board (FSB), which was created at the London Summit in April 2009, financial regulation and supervision has been strengthened and the regulatory perimeter has been expanded to include agents and transactions

poorly regulated before the crisis (D'Arista and Griffith-Jones, 2010). Countercyclical prudential regulations—now generally referred to as macroprudential—were introduced, following proposals that had been made before the crisis (Griffith-Jones and Ocampo, 2010). The principle that standardized derivative contracts should be traded in exchanges was established, thus potentially increasing the transparency and reducing the counterparty risks of these transactions. In addition, consumer protection was enhanced, particularly in the United States, among other reforms.

The reforms increased capital and liquidity requirements, including an overall (risk-unweighted) capital requirement of 3 per cent. Systemically important agents (“too-big-to-fail” institutions, for example) were made subject to stricter rules, which included the obligation to simplify the structure of financial conglomerates and to draft “living wills” that address their potential bankruptcy. Parallel to global processes, national and regional regulations have been adopted in the United States and Europe to strengthen prudential regulation and to adopt macroprudential frameworks. But the uneven progress of these reforms and inadequate coordination of reforms between the two epicentres of the crisis may lead to important differences in regulatory frameworks.

Overall, efforts so far have been incomplete and insufficient to respond to the challenges posed by the current stage of global economic interdependence. Furthermore, the introduction period for these new norms began in 2013 and extends through 2019—an excessively long transition period—and some have already been weakened under the pressure of major financial institutions.

### *Capital-account regulation*

Absent from the reforms proposed by the FSB was any consideration of the risks associated with cross-border capital flows. The issue is particularly critical for emerging and developing countries, as capital-account volatility plays a major role in determining boom-bust financial cycles and, therefore, macroeconomic risks and fluctuations. This issue was, nonetheless, taken up by the International Monetary Fund (IMF).

The guidelines proposed by the IMF (International Monetary Fund, 2011) and the IMF institutional view on the use of these regulations (International Monetary Fund, 2012) accept that capital-account

regulations are part of the toolkit of macroprudential instruments, and should be seen as a complement and not as a substitute for macroeconomic policy. However, both (particularly the guidelines) view capital-account regulations as what might be called interventions of last resort—i.e., policies that should be introduced only after all other options to manage booms have been exhausted. In contrast to this view, they should be conceived as part of a continuum that goes from regulation of domestic finance in domestic currency to domestic financial transactions in foreign currencies and cross-border flows, which should be regulated in a way that is consistent with the characteristics of different financial systems and the policy objectives of macroeconomic authorities.

### *Official countercyclical finance*

The financial crisis generated the most ambitious response of official countercyclical financing in history, including a rapid expansion of IMF financing and that of multilateral development banks (MDBs). Both benefitted developing countries, but IMF financing also helped some developed countries. This was accompanied by the largest issuance of special drawing rights (SDRs) in history. At the regional level, these efforts were reinforced by old and new mechanisms in Europe and by the Chiang Mai Initiative of ASEAN Plus Three (comprised of the ten ASEAN countries plus China, Japan and the Republic of Korea). At the national level, these actions were complemented by the expansion of financing by the major central banks and by an unprecedented increase of swap lines among central banks; this benefitted not only developed but also a few emerging economies.

Increased IMF financing was facilitated by a major redesign of its credit facilities in 2009-2010. This included the creation of a new preventive facility, the Flexible Credit Line (FCL), for countries with solid fundamentals but with risk of contagion, doubling the size of other credit lines, facilitating the use of stand-by facilities with preventive purposes, and determining that non-compliance with structural conditionality benchmarks could not be used to stop programme disbursements. In August 2010, the Precautionary Credit Line was created for countries with sound policies but which do not meet the requirements of the FCL. It was later transformed into the Precautionary and Liquidity Line, to allow countries to use it to obtain funds of rapid disbursement for six months. The IMF also reformed its

concessional facilities for low-income countries, which moved from a single design to a menu of options, based on two factors: countries' debt vulnerability, and macroeconomic and public finance management capacity.

Additional official financings benefitted high- and middle-income countries to a larger extent than low-income countries (Griffith-Jones and Ocampo, 2012). This imbalance was worsened by reductions in ODA, following their peak in 2010 (United Nations, 2013c). Moreover, the World Bank's insufficient capitalization has compromised its capacity to provide adequate external financing to developing countries in the future. Finally, the expansion of official financing was smaller than the initial contraction of private-sector financing, indicating that official resources can only moderately smooth out boom-bust cycles in private financing, and that the main instrument to reduce the volatility of external financing should be capital-account regulations, particularly regulation on inflows during the boom phase of the financial cycle.

### *Absence of a debt workout mechanism*

A major deficiency in the response to the financial crisis was the absence of steps to create a regular institutional debt workout mechanism for sovereign debts, similar to those that help manage bankruptcies in national economies. The major mechanism currently in place is the Paris Club, but it is limited to official financing; in the case of low-income countries, it has been complemented since the late 1990s by the Heavily Indebted Poor Countries and the Multilateral Debt Relief initiatives. For private obligations, the system has relied on ad-hoc mechanisms, such as the Baker and Brady Plans of the 1980s, but has essentially depended on traumatic individual debt renegotiations. Solutions generally come too late, after over-indebtedness has had devastating effects on countries; solutions are also horizontally inequitable, as they do not treat all debtors or all creditors with uniform rules.

A major attempt at reform took place in 2001-2003, when the IMF proposed the creation of a sovereign debt restructuring mechanism. These negotiations failed, but led to the spread of collective action clauses in international debt contracts. However, experience indicates that voluntary debt renegotiations pose serious problems in terms of aggregation of credit contracts and court demands by non-participants. This major gap in the international financial architecture has, therefore, come back to the global agenda in recent years.

### *Macroeconomic policy cooperation*

Officially, the IMF is the major multilateral instrument of macroeconomic policy dialogue and cooperation. However, most forms of macroeconomic cooperation have tended to take place in ad-hoc arrangements outside the IMF. The original Bretton Woods international monetary arrangement collapsed after the United States unilaterally abandoned the convertibility of the dollar for gold in 1971, and the later collapse of the system of adjustable parities established at Bretton Woods. It was replaced by a “non-system”, characterized by the central role played by the domestic fiduciary currency of the major economies (particularly the U.S. dollar), with countries being able to adopt any exchange-rate system they choose, so long as they guarantee a stable system (rather than stable exchange rates) and avoid manipulating the exchange rates—with no agreement, however, as to what “manipulation” means.

This system has faced several problems. First of all, the monetary policy of the major reserve-issuing country is adopted without taking into account its spillover effects on the rest of the world. Second, most advanced economies have opted for a flexible exchange-rate regime. However, exchange-rate volatility increases during crises, without any clear contribution to the correction of underlying imbalances. Third, the major emerging economy, China, continues to have limited exchange-rate flexibility, most major oil-exporting countries peg their currencies to the dollar, and most European countries lack exchange-rate flexibility among themselves. As a result, the system lacks sufficient adjustment mechanisms.

The major problem of the international monetary system continues to be the asymmetry between the need for deficit countries to adjust during crises and the lack of any pressure for surplus countries to do so, which generates a deflationary (or, more properly, recessionary) bias in the adjustment process (Keynes, 1942-1943). The system faces two additional deficiencies: (i) the problems generated by the dependence of the international reserve system on a national currency; and (ii) those problems associated with the need that emerging and developing countries face to accumulate large amounts of foreign-exchange reserves as “self-insurance”, in the absence of proper global regulation and insurance against capital-account volatility (Ocampo, 2010 and 2011). To the extent that reserve accumulation reflects strong current accounts, it also contributes to the generation of a global recessionary bias. Despite these problems and several

proposals under consideration (see below), no steps have been taken to reform the system. The most important action was the largest issuance of SDRs in history, agreed to in 2009, for the equivalent of US\$ 250 billion.

Mechanisms of macroeconomic policy cooperation have been strengthened but have not been particularly effective. G20 macroeconomic cooperation worked relatively well in the early stages of the crisis, when it assumed the form of a Keynesian consensus. But at the Toronto G20 summit in June 2010, consensus had already eroded, as several developed countries decided to give priority to public sector debt sustainability over supporting the recovery. Meanwhile, multilateral and bilateral IMF surveillance was strengthened to a level never experienced before. But peer review pressures and surveillance are weak forces; this is particularly reflected in the limited attention given to the spillover effects of developed countries' expansionary monetary policies on emerging markets (and associated currency wars), and the incapacity to prevent austerity in the euro area from generating new global imbalances.

### *Moving forward*

Several proposals for reform of the international monetary system were placed on the global debate early in the crisis (Zhou, 2009; United Nations, 2009a; Boorman and Icard, eds., 2012). Undoubtedly, the most promising way to reform the international monetary system, and to improve its stability and equity characteristics, is to fully employ the SDRs, which remain one of the most underutilized instruments of international economic cooperation.

Placing SDRs at the centre of the international monetary system could free the system from having to depend on the monetary policy of the leading country, whose policy tends to be managed without taking its international repercussions into account. By issuing SDRs in a countercyclical way, new SDR allocations during crises would have the potential of reducing the recessionary bias associated with the asymmetric adjustments of surplus and deficit countries. SDR allocations could also reduce the need for precautionary reserve accumulation by developing countries, and would represent a lower cost than self-insurance (Erten and Ocampo, 2014).

Policy space for developing countries should be enhanced by: fuller use of capital-account regulations; further improvements in unconditional counter-financing mechanisms, including through the expansion of regional

financing networks; a better system of macroeconomic policy cooperation; and the creation of an effective international debt workout mechanism.

Needless to say, these actions have to be matched by changes in the governance of the system to “broaden and strengthen” the participation of emerging and developing countries in “international economic decision-making and norm-setting”, as called forth by the Monterrey Consensus (United Nations, 2002, para. 92). This issue involves at least three elements.

The first element is the design of a more representative apex organization than the G20, possibly by transforming it into the Global Economic Coordination Council proposed by the United Nations Commission of Experts on the International Monetary and Financial System (United Nations, 2009a).

The second element is further reform of the voice and participation of developing countries in the Bretton Woods institutions and the FSB. However, even the limited 2010 IMF quota reform has not been fully completed, owing to the fact that the United States contribution has not been approved by its Congress.

The third element is the design of a multilayered architecture, with active participation of regional and subregional institutions—in a sense, reproducing the denser architecture that characterizes the system of MDBs. The essential advantages of the denser architecture are that it provides both more voice and more alternative financing opportunities for emerging and developing countries.

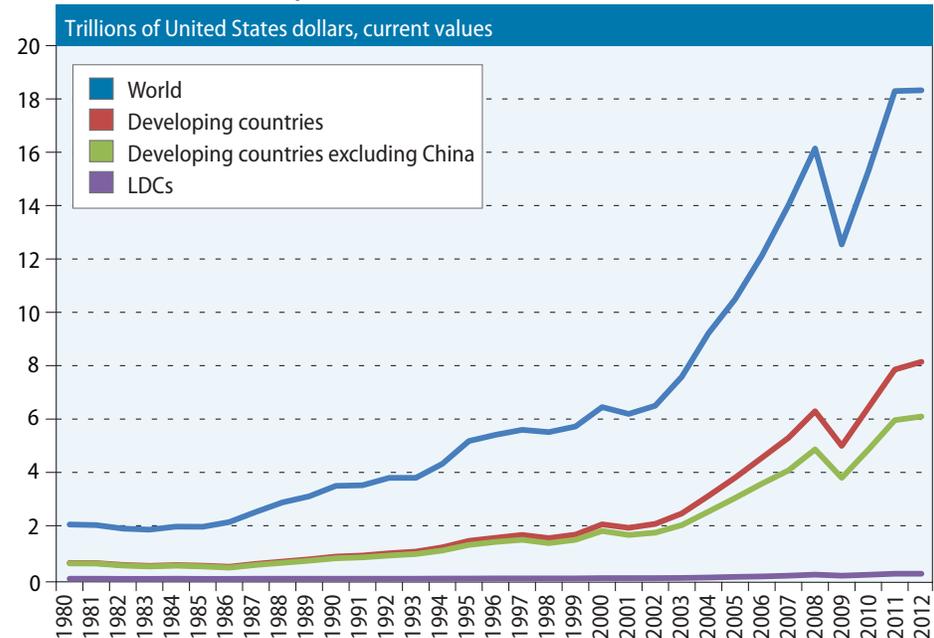
### *International trade rules: fostering development and preserving policy space*

Development requires dynamic structural change based on continued technological upgrading of productive capacities and economy-wide increased productivity. International trade provides opportunities for realizing economies of scale, potential for increasing the efficiency of production, and facilitating the transfer of technology. The adequacy of global trade rules has to be assessed in terms of their efficiency in maintaining stable and predictable trade flows and in providing a transparent regulatory framework to the advantage of all participants. The framework includes not only the rules negotiated multilaterally but also those disciplines agreed among regional and bilateral partners.

Overall, the system has succeeded in keeping trade open and predictable, and flows have grown steadily, with occasional sharp contractions, as in the aftermath of the 2008 crisis. As a group, developing countries have increased their participation in world trade (figure 5), a trend that is most noticeable in manufactures. However, at the individual country level, trade performance has been rather diversified, and not all countries are participating in world trade and receiving its benefits.

From the individual country perspective, integration into the global economy should not be an end in itself, but rather a strategic component of the path to development. Yet, as liberalization has progressed, the policy space of developing countries has been reduced. While both the WTO and the General Agreement on Tariffs and Trade (GATT) have recognized that countries are at different stages of development and therefore have different financial and trade needs, the pre-WTO regime included provisions that could be used to support structural change, while the WTO regime is increasingly moving towards flexibilities that facilitate the implementation of its rules, rather than supporting structural change. Moreover,

Figure 5  
World merchandise exports, 1980–2012



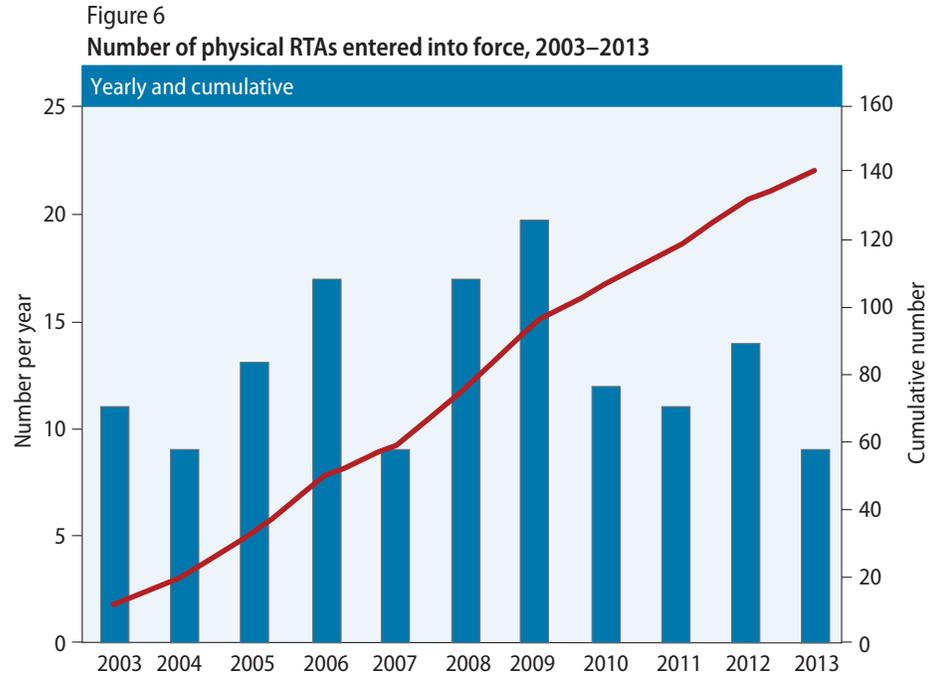
Source: UNCTADStat.

while certain flexibilities in terms of allowed policy tools are still available for developing countries, and in particular for least developed countries (LDCs), some of those currently enjoyed by developed economies (agricultural subsidies being the most notorious example) are off-limits, which introduces an important element of inequity in the system.

### *Preferential trade agreements and bilateral investment agreements*

The increased popularity of GVCs as the preferred business model to organize production and distribution has contributed to the mushrooming of regional and bilateral preferential trade agreements (RTAs). The RTA proliferation contributes to undermining the principle of most favoured nation (MFN), one of the pillars of the multilateral trading system. As of November 2013, there are 250 RTAs in force, of which over 140 came into force after 2003 (figure 6). RTAs often go beyond what is agreed at the multilateral level. These practices raise concerns when RTAs are contracted by partners of asymmetric economic and political power. In fact, a greater number of WTO-plus and WTO-minus provisions, as well as provisions on areas beyond the current scope of WTO, are found in RTAs among partners of different levels of development than in those contracted between partners of similar levels of development (World Trade Organization, 2011). Some RTAs extend disciplines to capital flows that effectively reduce the capacity to minimize financial instability associated with cross-border capital flows. In their quest for greater market shares in developed countries, developing countries are giving up policy space beyond what is envisaged by WTO rules. But it is not clear what they actually gain in return, since RTAs tend to exclude products of export interest to developing countries, such as agricultural and food products and labour-intensive manufactures.

Further policy constraints originate in bilateral investment agreements (BITs), which regulate bilateral investment flows, and go well beyond the obligation of providing prompt, effective and adequate compensation in case of expropriation. A typical model BIT prohibits performance requirements; it defines investment not only as physical investment but also intellectual property, financial assets and, most importantly, legal and contractual rights. The latter implies that changes in the national laws (for social or environmental reasons, for instance) that may impose unanticipated costs or additional obligations on the foreign investors are considered



Source: World Trade Organization (2014), chart 13, p. 54.

as breach of contract and expropriation of the foreign investor's contractual rights (regulatory takings) and require compensation (Cotula, 2007).<sup>1</sup>

RTAs and BITs may undermine systemic consistency and increase coordination costs in view of varying and divergent requirements such as rules of origin, phytosanitary measures and other technical requirements (labelling, etc.). They may also create other difficulties for developing countries if some of the flexibilities they enjoy in WTO expire or become no longer permissible under the WTO regime, but are considered an integral part of the regulatory environment negotiated with the foreign investor. For instance, flexibilities under the WTO Agreement on Subsidies and Countervailing Measures, many of which are relevant for export processing zones, are to be phased out by December 2015 and/or when a country graduates from Annex VII status (Waters, 2013).<sup>2</sup> Thus, under the

<sup>1</sup> It is interesting to note that no two developed countries have stand-alone BITs (i.e., one which is not an integral part of an RTA) with one another (excluding with the former economies in transition that joined the EU).

<sup>2</sup> Annex VII countries are LDCs and countries whose per capita income is lower than \$1,000 measured in 1990 U.S. dollars.

regulatory taking provision, a developing country may end up having to compensate foreign investors because it had to reform its subsidy system to comply with WTO disciplines.

In any case, it seems contradictory that developing countries may resist the imposition of limits to their policy space at multilateral forums to relinquish that space at the bilateral or regional levels. A possible explanation is that by resisting constraints at the multilateral level (as a group) but granting concessions at the bilateral level, a country may boost its attractiveness for FDI vis-à-vis other competing destinations.

### *WTO decision-making: power asymmetries?*

The proliferation of RTAs also coincides with the difficulties in advancing the multilateral trade negotiations. The Doha Round has been pronounced dead several times in the past, and despite the recent Bali agreement, it has a visibly declining vigour. The Bali deliverables (trade facilitation, some items in agriculture, and development issues) are a far cry from the initial ambitious agenda and are surrounded by controversies. Overall, there is a great deal of discontent with the lack of a true development orientation in the Round. Developing countries' concerns have not been properly addressed, while tighter disciplines are being considered. These outcomes may reflect the marked asymmetry in economic and political power among members, despite the formal equality (i.e., one country, one vote) in terms of decision-making rights. Yet, decisions are not taken by vote, but by consensus, which would imply, in principle, the right by any country to block any decision. However, there are problems on how consensus is forged in some instances and there is a relative lack of transparency in some key aspects of WTO operations. In this regard, applying the principles of inclusiveness and transparency discussed above, the consensus system should be used in a manner that fully respects the views of developing-country members and procedures should be established for smaller, issue-based meetings, with authorization coming from all members and the meetings being governed by transparent rules.

Asymmetries in power and capacities are also reflected in the use of the dispute settlement mechanism (DSM), certainly not with respect to the transparency of the process and the independence of its rulings, but rather due to issues of access and actual use of remedies (retaliatory measures) against faulty parties that are unable or unwilling to act on a

given ruling. Few small- and low-income countries have initiated disputes; Bangladesh is the only LDC that requested consultations. The costs of using the system are high and require a great deal of awareness and knowledge of WTO disciplines, which is lacking in many developing countries, LDCs in particular (Girvan and Cortez, 2013). In fact, the system seems to be dominated by developed countries: a total of 40 per cent of cases were between developed countries, while another 22.2 per cent of cases involved developed countries requesting the investigation of middle-income countries (Lee, Shin and Shin, 2014).

*Special and differential treatment:  
the right approach to development?*

To a large extent, trade agreements in multilateral, regional and bilateral spheres have evolved in a manner that: (i) largely reflects the needs and interests of the production sectors and big business in the dominant economies; (ii) covers new areas; and (iii) provides deeper disciplines as business models have changed, new practices have emerged and the organization of production have become increasingly complex and internationally fragmented. Development concerns in GATT/WTO legal texts are addressed through special and differential treatment measures (SDTs). There are a total of 139 SDT provisions in the agreements adopted at the conclusion of the Uruguay Round (World Trade Organization, 2013). Many more followed. But in general there is a great deal of dissatisfaction with the SDTs, and the measures have failed to deliver as anticipated. The value of preferential market access has been compromised—not only by progressive liberalization, but also by a wide range of complex rules-of-origin requirements—and greatly offset, if not reversed, when preferential treatment accorded to competitors under RTAs are also taken into account. Meanwhile, conditionalities associated with adjustment programmes by the international financial institutions have constrained the use of some SDTs by developing countries, while most of the provisions are just indicative of best endeavour, or policy guidelines, and are not subject to enforcement through dispute settlement.

Recent trends seem to indicate that the system seems to be moving away from differential treatment for developing countries as a group to preferential treatment based on specific, individual needs. While this

may be a practical solution in view of greater diversity among developing countries, and in tandem with the principle of common but differentiated responsibilities, the new approach has not yet been tested. A number of problems will likely emerge, including difficulties related to country classification based on needs, the selection of needs eligible for assistance, and monitoring the extent and modalities of additional resources committed (Cortez and Arda, 2014). Moreover, there is a risk that while new disciplines will be binding, the provision of the technical assistance they require will not. This can already be seen in the recently negotiated Agreement on Trade Facilitation.

Another source of concern is the enhanced reciprocity that the new trend entails, particularly if rules are not flexible enough to accommodate different country needs. It would also imply a breach of the principle of common but differentiated responsibilities and of the very principles of WTO, as the legal texts state that developing countries should only undertake commitments that are compatible with their level of development. In fact, these trends seem to suggest that the principle of less than full reciprocity, which has been another important pillar of the multilateral trade regime, has been eroded.

### *Moving forward*

Trade rules, at a minimum, should not perpetuate or intensify current asymmetries. Accordingly, the overall transparency and fairness of the DSM could be further improved if the trade policy reviews—which provide an assessment of the state of trade policies—of member countries with the largest shares of world trade could be geared towards the identification of WTO-incompatible practices that are harmful to the export interests of developing countries, in particular of the smaller countries and/or of those countries without established WTO legal competence. In this regard, WTO could evolve from being a members-driven organization to taking on a greater role in overseeing and enforcing the disciplines contained in its various agreements to the greater benefit of developing countries' members and in accordance with the principle of common but differentiated responsibilities.

Strengthening multilateralism offers the best option for developing countries in addressing the issue of reduced policy space and exercising

their collective bargaining power to their benefit. With respect to fragmentation brought about by RTAs, two complementary initiatives are suggested: one is “bottom up”, the other is “top down”.

The bottom-up initiative would imply a multilateralization of RTA disciplines that would bring some order to the pattern of deeper disciplines (Bhagwati and others, 2011). Yet, not all disciplines may be best placed under global governance, and one-size-fits-all rules are not ideal in all circumstances, as discussed above. In the case of the EU, for instance, the principles of subsidiarity and proportionality have guided what has been brought under EU governance while it imposes disciplines to control for negative spillover effects from individual country actions, including beggar-thy-neighbour policies among members (the supranational level is involved to the least extent necessary) (Baldwin, 2014).

The top-down initiative would imply the negotiation of a code of conduct to anchor policy action in the negotiations of RTAs and BITs. One possibility could be a revision of GATT article XXIV, beyond what is being envisaged by the Doha Round, so as to reflect the evolving nature of RTAs (going beyond tariff liberalization). Similar observations apply to GATT article V on economic integration in the area of trade in services. This option would also entail giving WTO a stronger overseeing responsibility. In fact, reforming article XXIV has already been suggested to ensure the supremacy of WTO rules *vis-à-vis* RTA rules so as to improve coherence and consistency in the world trade regime (e.g., Picker, 2005; Davey, 2011) and to protect policy space in developing countries (Lang, 2006). Another option to be considered is a stand-alone agreement on basic investment rules or a code of conduct for foreign investors and host countries. The UNCTAD Investment Policy Framework for Sustainable Development, with its set of core principles for investment policy, is one step on this direction. Either way, these options may offer a much needed policy anchor to limit “unilateral investment incentives and bilateral concessions over behind-the-border policies” (Blanchard, 2013, p. 17), increase coherence and compatibility with WTO rules and offset negative consequences of existing power asymmetries in negotiating such agreements. Existing agreements would then need to be modified or adjusted to be compatible with the rules or code of conduct agreed multilaterally.

With respect to the multilateral disciplines, as WTO continues to move the liberalization frontier from “at the border” to “behind the

border”, further exemptions may be needed in view of the varying development levels and needs of WTO membership. If deviations are needed, then some of the rules may not necessarily be in line with developing countries’ interests. Increasing participation by developing countries and LDCs in the multilateral trading system may then strengthen the system itself, but not necessarily promote the development of these countries, or, at a minimum, be developmentally neutral. Of greater concern, this tendency may give further weight to the relevance of the question whether the policy package implicit in WTO agreements is in fact appropriate for economies at an early stage of development.

Thus, the way forward is not necessarily to make the SDTs more effective and operational. SDTs are in fact the second best solution to the quest for development. What matters is not so much to have SDTs, which are deviations to the rules, but to negotiate trade rules that are sufficiently flexible and supportive of development so that no deviation is needed (Cortez and Arda, 2014). Currently, just a few developing countries are actively engaged in negotiating rules (Brazil and India being the obvious examples, among others). Many developing countries seem to concentrate their energies in negotiating SDTs, which in the current WTO context mean little more than additional implementation periods and (non-binding) provisions for technical assistance. Developing countries would be better off negotiating rules that are suitable to their development trajectory. This is one of the greatest advantages of belonging to WTO: the possibility to influence rule making. Thus, efforts need to be scaled up to improve the negotiating capacity of developing countries, particularly of the LDCs, and the more advanced or “trade-savvy” developing countries could play an active role in that direction. Moreover, treating trade as a means to development implies that developing countries should be negotiating trade disciplines with the objective of maximizing development, which would also improve the coherence of the global governance for development.

As Rodrik (2001) eloquently argued, increasing trade flows and expanding market access do not necessarily imply moving up the development ladder, particularly if greater access is obtained at the expense of policy space beyond what is necessary for the efficient management of interdependence. The development objective thus gives further weight to the idea of approaching the WTO as the institution that manages diversity and not as one that imposes uniformity.

### *International tax matters: enhancing cooperation in a world of high capital mobility*

While the increase in trade in goods is the bedrock of globalization, the most rapid expansion has been in the area of finance. Over the span of the three decades between 1980 and 2012, capital flows grew five times faster than exports. Most capital flows have been directed towards the service sector, including banking. At the same time, while there have been substantial efforts to establish global frameworks for the regulation of trade in goods, much less has been done to coordinate trade in financial services and associated flows. The increased mobility of capital and the ease of shifting profits and savings across territories as corporations and individuals take advantage of disparities in institutional and regulatory environments, as well as the lack of transparency in international transactions, place a serious burden on national tax systems. Those systems must strike a balance in meeting the dual objective of mobilizing government revenue on the one hand, and facilitating trade and retaining and attracting investment capital and savings on the other. The proliferation of tax havens, safe havens (secrecy jurisdictions) and offshore financial centres has made matters even more complicated. It is in this context that developments in globalization become highly relevant for tax cooperation.<sup>3</sup> There are four issues that are relevant to this discussion.

First, there is increasing evidence that average taxation on capital income has declined over time in developed as well as emerging countries (Devereux, Lockwood and Redoano, 2008). This raises the question of whether the decline in tax on capital is the result of deliberate attempts by countries to unilaterally use their tax policy to attract foreign capital and savings—a harmful type of competition by which countries would be undercutting each other with a race-to-the-bottom approach.

Second, the increasing mobility of capital and the ease of incorporation of enterprises in foreign territories raise a concern not only about multinational corporations engaging in profit shifting, taking advantages of loopholes in tax policy and other regulatory frameworks, but also regarding the lack of coordination of taxation and regulation across countries. This has important implications for efficiency and equity. The problem is

<sup>3</sup> The expressions “tax haven” and “safe haven” are related but have different meanings. “Tax haven” refers to low or no taxation, while “safe haven” encompasses broader aspects of secrecy and regulatory arbitrage provided to investors.

exacerbated by the lack of transparency in the global financial services, and especially in safe havens (Shaxson, 2011). Profit shifting results in substantial losses in government revenue in developing countries, which undermines their efforts to mobilize domestic revenue for development financing. Moreover, safe havens facilitate illicit flows from developing countries, which constitute a major drain on domestic saving and undermine domestic investment. More effective international cooperation on taxation and increased transparency in the global financial system can help alleviate these problems and advance the development financing agenda.

The third issue is that there is no level playing field in the globalization process, and developing countries—particularly LDCs—are at substantial disadvantage in the allocation of capital and savings. In particular, several developing countries suffer large losses owing to profit-shifting practices of multinational corporations operating in the natural resources, manufacturing and service sectors, while at the same time they face severe hemorrhaging through capital flight and other forms of illicit financial flows (African Development Bank and Global Financial Integrity, 2013; Ndikumana and Boyce, 2011; Shaxson, 2011).

Lastly, from a global perspective, taxation policy can play an important role in advancing global initiatives. In particular, taxation can generate valuable resources to finance global public goods such as mitigation and adaptation to climate change and the fight against major endemic diseases. Moreover, targeted taxation can help discipline the production of global public bads. Achieving these goals requires a high level of coordination and political commitment by national Governments.

The existing national, regional and global initiatives geared towards fighting tax evasion through improved tax cooperation and increased transparency have produced limited and uneven results. For multilateral frameworks, the implementation is especially hampered by the lack of coordination among countries, lack of mechanisms of accountability to penalize failure to cooperate, and inadequate technical capacity in the case of developing countries. In this context the work of the United Nations Committee of Experts on International Cooperation in Tax Matters (a subsidiary body of the Economic and Social Council) offers a useful framework for addressing these challenges. In particular, the Committee can play an important role in guiding the design of interventions aimed at enhancing technical capacity in developing countries with regard to complex matters

in taxation, such as the handling of transfer pricing by international institutions, as provided for in the United Nations Practical Manual on Transfer Pricing for Developing Countries (United Nations, 2013b).

In addition to multilateral frameworks to advance cooperation in taxation matters, countries continue to establish bilateral agreements to promote common interests in the area of taxation. However, bilateral agreements also have their limitations. One important challenge is that operators in tax havens are able to take advantage of the complex layers of secrecy and intricate legal machinery to make detection of criminal financial activity difficult and prosecution even harder. Moreover, tax evaders are able to stay one step ahead of the regulator and the investigator. They are able to shift shell companies, bank accounts and other transactions to territories that are not yet covered by treaties. As a result, tax information exchange agreements (TIEAs) have not yet produced a significant decline in tax evasion or meaningful repatriation of funds. Their initial impact seems to be a relocation of funds or redirection of new illicit financial flows towards jurisdictions that are not party to TIEAs (Johannesen and Zucman, 2012).

### *Moving forward*

Coordination of efforts to fight tax havens is challenging because not all tax havens are created equally. The set includes both large and small offshore financial centres, including some in poor nations (Rawlings, 2005). Determining how to sequence global action is difficult. Yet, the effectiveness of efforts to fight tax evasion is bound to be limited in the absence of a concerted global approach to take on safe havens at once through a “big-bang” style multilateral intervention (Elsayyad and Konrad, 2012). But the question remains as to how to organize such big-bang combat against all safe and tax havens, especially given the difficulties in forging a consensus among all stakeholders on a comprehensive, ranked list of safe and tax havens.

Notwithstanding the above, the limited success in combating tax evasion is largely due to lack of effective implementation and enforcement of existing frameworks; accountability needs to be improved and this is where efforts should be concentrated going forward. In this context, a few areas are worth highlighting. The first is in the area of exchange of information, which is critical to dismantling the tradition of secrecy. In this respect, in addition to efforts to establish and enforce TIEAs, countries

should push for institutionalizing automatic exchanges of information on taxation (AEITs). In the same vein, countries and international institutions must swiftly endorse and enforce mechanisms to increase accountability and transparency in the corporate sector, especially with regard to large multinational corporations. Thus, the global community must rally behind efforts to institutionalize rules on country-by-country reporting, as well as unitary taxation of multinational corporations, to enable all countries to collect taxes on all taxable activities taking place in their territory by every taxpayer, regardless of geographical location. In addition to the establishment of effective monitoring mechanisms, including clear and measurable goals and targets to track progress in the area of international cooperation in taxation, action is required on two other related fronts: (i) strengthening of the role and operational capacity of the Committee of Experts on International Cooperation in Tax Matters, including its conversion into an intergovernmental subsidiary; and, (ii) the promotion of an international convention against tax avoidance and evasion.

While there are large potential gains from taxation aimed at financing global public goods and controlling global public bads, the implementation of such tools faces substantial challenges at both technical and political levels. The biggest challenge is building a global consensus and mobilizing support from individual Governments and institutions around these innovative taxation instruments. This challenge arises partly from the fact that it is difficult to quantify and apportion the benefits accruing to each member country. Individual countries may therefore avoid the first-mover disadvantage associated with the free-rider problem. Moreover, global initiatives to mobilize additional tax revenue and to use taxation as a disciplining instrument against global public bads are constrained by the lack of a global institution entrusted with coordination and execution of such initiatives. So far, proposals for the creation of an international authority in charge of global taxation have not made any headway. Here, the principle of subsidiarity can offer some guidance, as a more feasible avenue would be to work with existing institutions and capitalize on experiences at the regional level in policy coordination. In this context, the EU can offer fertile ground for implementation. Indeed, there is already a substantial degree of coordination on valued-added tax administration among EU members that could offer some lessons for the way forward. Such experiences could be emulated in other regions and eventually scaled up at the global level.

International cooperation on taxation has important implications for official development assistance (ODA) as a means of helping developing countries reach and sustain high growth rates and accelerate progress towards their social development goals. Coherence would be considerably improved if the debate on assistance to developing countries moved beyond increasing budgetary allocations to foreign aid, and considered ways to help developing countries mobilize domestic resources. In fact, international tax cooperation can help countries graduate from ODA. In particular, it can help developing countries increase their tax revenue by curbing tax evasion by multinational corporations, negotiating a fairer share in natural resource rents, stemming illicit financial flows, and collecting tax on private assets held abroad by their residents.

The donor community can help through two main interventions. The first—as with international tax cooperation in general—is to adopt and effectively implement measures aimed at preventing tax evasion and related illicit practices by multinational corporations operating in developing countries. The second action is to provide technical assistance to developing countries in the design and implementation of tax reforms, as well as the monitoring and prosecution of financial crimes, including by establishing and strengthening specialized institutions, such as national financial intelligence units. By scaling up global efforts to fight against tax evasion and other forms of financial crimes, and by supporting domestic institutional reforms in developing countries, the donor community can better help these countries reap the benefits of globalization, or at least minimize its negative effects.

### *Managing labour mobility: a missing pillar of global governance*

One of the most visible signs of the process of globalization is the increase in international migratory flows. In 2013, there were about 232 million migrants in the world, which represents over 3.2 per cent of the world population. The percentage does not seem exceptionally high, especially when compared to the proportion of other cross-border economic transactions. However, the social and political relevance of migration goes beyond numbers: migration involves not only production factors, but people—social agents that have rights, motivations and goals.

The international mobility of people is taking place in a regulatory context that is limited and fragmented and that gives ample room for recipient countries to impose their national choices and policies; meanwhile, the room to manoeuvre is very limited for sending countries. In most cases, those policies are too restrictive when it comes to labour immigration, especially with regard to unskilled workers. This restrictive tone contrasts, first, with the increasing liberalization of other economic flows, which illustrates the unbalanced nature of the globalization process currently under way. Since globalization benefits mainly those factors that are mobile (capital over labour and skilled over unskilled workers), restrictive policies on migration tend to accentuate the asymmetries of the international order. Second, the restrictive tone of migratory policies is contrary to the need for labour in developed countries, given the countries' stagnant demographics and ageing populations; it also conflicts with the pressure on young people in developing countries to seek employment and personal growth.

Migration can potentially improve the efficiency and well-being of the overall international economic system, as both theoretical and empirical studies have confirmed (Walmsley and Winters, 2005; World Bank, 2006, among others). History shows, moreover, that migration can, in certain circumstances, be an important force in correcting international inequalities and reducing international wage differences between host and home countries (Hatton and Williamson, 1998 and 2005). In terms of a potential increase in global well-being, the effects of a more liberal regime are, even in their most modest estimates, comparable or superior to those that would result from liberalization of trade in goods (Anderson and Martin, 2005; World Bank, 2006). Additionally, migration is an effective although notably selective means of increasing the possibilities for individuals to better themselves, improving individual income, health, education and living conditions. It is, therefore, an important development factor, especially if we believe that people (not just countries) matter (Clemens, 2010). Of course, migration can also entail costs, not only for the countries of origin (breaking of family structures and loss of human capital, for example) and for the recipient countries (reducing social coherence and increasing congestion in the provision of social services), but also for the migrants themselves. All these costs need to be considered and, to the extent possible, minimized through adequate policies in both countries of origin and host countries.

The recent economic crisis has only worsened the vulnerable situation of many groups of migrants. The economic downturn has led to increased unemployment among migrants (above and beyond that of the native population), stricter conditions for new residents in countries hit by the crisis, and a containment—albeit a limited one—in remittances that migrants send to their families (Alonso, 2013). In addition, and this is the most worrying effect, the crisis has stirred up unease about immigration, causing discriminatory and xenophobic reactions even in countries with well-established democracies. All these factors confirm that international migration should be part of any development agenda and regulated by adequate global mechanisms.

### *A fragmented and disorderly international order*

The importance of migration and the aggravation of the conditions in which it is produced suggest the need to regulate the phenomenon in a coherent way. Initiatives undertaken to date have had very limited success. As a result, what exists are a fragmented set of poorly supported rules and a group of international institutions with partial competencies, overlapping one another with informal mechanisms for dialogue and multiple and varied agreements at a bilateral and regional level (Betts, ed., 2011; Ghosh, ed., 2000).

In the specific case of labour mobility, some international conventions were promoted, but all of them harvested limited support (box 2). A few universal legal instruments also have a bearing on migration. The most important are the fundamental treaties on human rights, listed in box 2, which contain clauses against the many kinds of discrimination. These treaties oblige countries to respect, protect and fulfil human rights of all people, including migrants, regardless of their citizenship status.

In addition to these binding treaties, the status of migrants was tackled by various world summits and their programmes of action promoted by the United Nations. Among them, the Cairo Programme of Action of the International Conference on Population and Development (1994) was the one that most comprehensively considered migration; but migration was also addressed by the Vienna Declaration and Programme of Action on Human Rights (1993), the Beijing Platform of Action of the Fourth World Conference on Women (1995), and, more recently, the Durban Declaration and Programme of Action, approved by the World Conference on Racism, Racial Discrimination, Xenophobia and Related Intolerance (2001).

## Box 2

**Conventions and agreements relevant for labour mobility**

Several international conventions have been negotiated to regulate migration, with limited success. That is the case of the International Labour Organization Convention 97 (1949), ratified by 49 countries, whose central purpose was to tackle labour discrimination against migrants; the ILO Convention 143 (1975), ratified by 23 countries, whose goal was to tackle illegal migration and the clandestine movement of people; and the United Nations International Convention on the Protection of the Rights of all Migrant Workers and Members of their Families (2003), that was endorsed by 47 countries and tries to harmonize some basic principles concerning labour migration.

Additionally, two other conventions should be mentioned, even if they are not strictly related to labour migration: first, the Convention Relating to the Status of Refugee (1954) and its Protocol (1967), which aim to regulate the forced movement of people and conditions for granting asylum; and, second, the Convention against Transnational Organized Crime (2003), with the Protocol to Prevent, Suppress and Punish Trafficking in Persons (2003); and the Protocol against Smuggling of Migrants (2004).

Human rights treaties and conventions also have implications for regulating the status and protection of migrants. The most general of all are doubtlessly the United Nations Charter of 1945 and the Universal Declaration of Human Rights of 1948. However, there are six other regulatory frameworks that are relevant to migration: the International Convention on the Elimination of All Forms of Racial Discrimination (1965, signed by 170 countries); the International Covenant on Civil and Political Rights (1966, signed by 154 countries); the International Covenant on Economic, Social and Cultural Rights (1966, signed by 151 countries); the Convention on the Elimination of All Forms of Discrimination against Women (1981, signed by 180 countries); the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (1987, signed by 139 countries); and the Convention on the Rights of the Child (1990, signed by 192 countries).

The United Nations Secretary-General has promoted diverse initiatives in relation to migration. In 2003, he created the Global Commission on International Migration, which elaborated a comprehensive report that was launched in 2005. In 2006, and in response to the request by the General Assembly (resolutions 59/241 and 60/227), the Secretary-General

prepared a report on international migration and development that was presented at the first High-level Dialogue on Migration and Development, organized by the General Assembly with the aim of discussing the effects of international migration and its regulation among Governments, international organizations, civil society and the private sector. In 2013, a second high-level dialogue took place.

Finally, as a result of the first high-level dialogue, and as an attempt to overcome the inertia of the United Nations framework and the unwillingness of Member States to create a formal intergovernmental organ for regular debates on this issue, the Global Forum on Migration and Development was promoted as a platform for informal and non-binding dialogue. The Forum aims to exchange experiences and discuss relevant policies and practical challenges. Between 2007 and 2013, as many as six meetings were organized on themes related to migration.

There have also been several other initiatives to promote regional dialogue on migration, some of them focused on specific aspects of human mobility. Rather than oriented to “norm-dissemination”, these regional consultative processes (RCPs) have been primarily engaged in “practice dissemination”, attempting to define common standards of good practices relating to regional migration.

The institutional landscape on migration is equally complex and disorderly, with several institutions having partial and overlapping mandates on migration. For example, the International Labour Organization is specialized in the rights of migrant workers; the United Nations High Commissioner for Refugees focuses on the conditions of the refugee and asylum-seeking population; the Office of the United Nations High Commissioner for Human Rights is tasked, among other things, with defending the rights of migrants who have been the victims of traffickers; and the United Nations Educational, Scientific and Cultural Organization, the United Nations Population Fund and the Office of the United Nations Against Drugs and Crime all have mandates involving some specific areas related to migration. Although without normative powers, the Department of Economic and Social Affairs, the United Nations Development Programme and the World Bank are also partly involved in migration. Lastly, the International Organization for Migration (IOM) is specialized in this field, although its mandate is limited and does not belong to the United Nations system. All of these institutions are part of the Global Migration Group

(formerly the Geneva Migration Group), which was created with the purpose of facilitating coordination at the international level.

### *Moving forward*

The disorderly and fragmented nature of governance of migration has efficiency costs, since it is more difficult to contemplate the externalities that the national policies generate for other countries. Migration is a global phenomenon, and it requires global responses.

The difficulties of building a global regime in this field rest on two main asymmetries. The first relates to the asymmetries of power between sending and recipient countries, the latter being in a better position for regulating migration. The second is the asymmetric way in which the benefits and the costs of the migratory process are distributed. While benefits are mainly private (captured to a large extent by migrants), the costs are social, affecting both home countries (loss of human capital) and host countries (challenging social cohesion and the access to social services). While beneficiaries in host countries are mainly foreigners, those who may lose out are citizens and voters; this explains why recipient countries are so reluctant to give up their autonomy to regulate in this area. Without question, there are benefits to citizens in host countries that are not always recognized, including contributing human capital, filling jobs that citizens are no longer willing to take, helping to smooth out the effects of population ageing, and making social security and tax contributions. Nevertheless, there is a consensus that more adequate international rules and governance of migratory processes could increase the positive effects (and reduce the negative ones) of migration, sharing its benefits more fairly and guaranteeing the rights of those involved more effectively (Martin, Abella and Kuptsch, 2006; Alonso, 2013).

In order to overcome resistance to building a global regime, a two-track process might be put in place, combining the definition of a framework of minimum standards at the global level with a dynamic of more comprehensive bilateral and regional agreements. The framework should be based on the principles that previous conventions on labour migration have established. It should provide a balanced framework that: (i) recognizes the right that countries have to define the rules of access of non-nationals to their territories, while preserving the greatest possible freedom for people to choose where they want to live and work; (ii) guarantees the rights of people

who emigrate, regardless of their administrative status, and allows those in a regular situation to achieve a dignified life in the host country without any discrimination; (iii) accepts that all people have the right to stay in their home country, holding Governments responsible for the consequences of governance that may provoke mass emigration of their citizens; (iv) maximizes the benefits resulting from emigration both for the migrants themselves as well as for the countries involved; and, (v) establishes mechanisms to compensate those that are damaged by the migratory process.

Taking into account these general principles, countries should reduce unnecessary obstacles to migration. However, given that countries face different conditions, that process should be carried out gradually and flexibly, moving towards a progressive liberalization of migratory policies while allowing regulation to be adapted to the circumstances of individual countries. A way to define this process of dialogue and negotiation is by using a system based on a request-offer type of negotiation, similar to that used to liberalize services through the General Agreement on Trade in Services, with countries negotiating on the basis of positive lists of liberalized services, adapted to the conditions in each country (Trachtman, 2009).

At the same time, regional agreements on migration should be encouraged, in some cases taking advantage of the existing regional integration mechanisms. The fact that there is a greater similarity between economies in regional frameworks means that deals on migration would be more feasible. This could facilitate the path to global governance, even if through denser and more diffuse structures and with a set of agreements that would not necessarily be uniform.

Mechanisms of informal dialogue, both globally and regionally, should continue to be supported. RCPs may create a dynamic of coordinated solutions, based on constant exchange of information, addressing issues, dissemination of good practices and formulation of non-binding codes of conduct. These networks might facilitate the environment for more formal supranational agreements.

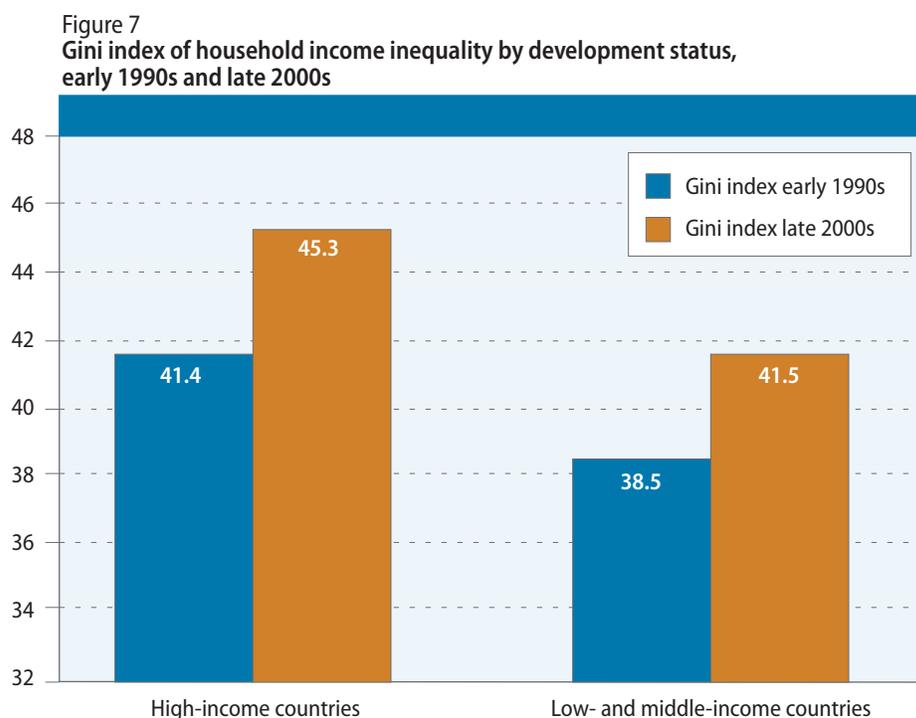
Finally, regarding the institutional structure to govern labour migration at the global level, the most viable alternative is to start with the IOM, changing its mandate and statute to transform it into a multilateral body integrated within the United Nations system. Since in the last few years the IOM has been increasingly active in the work processes of the

United Nations, much of the work here has already been started. In any case, the IOM should add a standard-setting and monitoring mandate to its current operational mission.

### *Addressing inequality: why good global governance matters*

The subsections above have addressed issues of global governance and inequality between countries. Here we address the links between global governance and inequality within countries.

Experience in recent decades has shown that economic growth has been accompanied by rising inequalities within countries, in both developing and developed countries (figure 7), including not only inequalities among households in terms of income but also in terms of wealth, and multiple economic and social inequalities in relation to gender, ethnicity,



Source: UNDP, 2013, Figure 3.1.

age and location (United Nations, 2013a; United Nations Development Programme, 2013a; Piketty, 2014).

For instance, despite the fact that Africa's economic growth has been consistently above 5 percent on average since 2002, the Africa Progress Panel (a group of 10 eminent world leaders led by Kofi Annan) indicated in its 2012 Africa Progress Report that class, gender, regional and rural-urban inequalities are on the rise in many African countries. Among the social groups adversely affected are: households living in poverty in rural and urban areas and in inhospitable agro-climatic zones; food crop farmers, particularly those operating on a small scale or assisting with family farm enterprises; workers in the informal sector, the unemployed (particularly youth who have dropped out of school). Adversely affected groups constitute the majority of the population in Africa.

Growth and rising inequalities are also present in several Asian countries. Inequality increased in countries that account for more than 80 per cent of Asia's population. For developing Asia as a whole, the Gini coefficient rose from 0.39 to 0.46 between the 1990s and the 2000s (Wan, 2013). The pattern of growth has favoured urban areas over rural, certain regions over others (such as coastal areas versus inland areas in China), and capital over labour. Growth has also favoured the more skilled over the less skilled and the more educated over the less educated. In rural areas, access to non-farm sources of income has been a factor in differential incomes.

A few countries, including 18 in Latin America and 4 in South-east Asia, have managed to reduce domestic inequality in the period 2000-2010. Latin American countries have expanded social sector spending substantially since the early 1990s, and the more successful countries also adopted more vigorous education, health and social protection policies (Cornia, 2013). However, while these measures have reversed the growth in inequality in the region and led to a substantial reduction in some countries, inequality remains high and its reduction has recently tended to stagnate in several countries.

The barriers that current levels of inequality pose for achievement of the Millennium Development Goals and for sustainable development in the post-2015 world are by now well-recognized. Such inequality was the subject of one of the eleven global consultations instituted by the United Nations in preparation for the post-2015 development agenda. The significance of growing inequality between people has also been recognized

by the corporations that contribute to the World Economic Forum's global risk assessment (World Economic Forum, 2014), which in 2014 found income disparity to be the risk most likely to have an impact on a global scale in the next decade. Inequalities between people reduce the sustainability of economic growth, diminish the productive potential of those who suffer from them and deprive their societies of their full contribution. Moreover, inequalities threaten national cohesion and create insecurity. "Equitable societies promote social capital, social cohesion and stability, trust and tolerance and thereby innovation, economic growth and sustainable development", notes the Chairpersons' summary statement at the Addressing Inequalities in the Post-2015 Development Agenda: Public Dialogue and Leadership Meeting, held in Copenhagen in 2013, hosted by the Governments of Denmark and Ghana (Chairpersons' summary statement, 2013).

Domestic inequality is influenced by national actors and systems of national governance as well as international actors and global governance. To reduce inequalities in income, wealth, capabilities and voice requires better policies at the national level. But improvements in global governance are also required, so as to prevent the establishment of global rules and institutions that generate and/or perpetuate inequality, and to allow Governments the policy space for financial, trade and fiscal policies that support reduction in inequality.

Poor global governance makes it difficult to reduce inequality within countries and can worsen existing inequalities by creating systemic risks that are then downloaded to countries and people with the least capacity to absorb them. Thus, lack of effective global governance in the use of environmental resources means that a large part of the damage created by countries and people who generate high levels of per capita emissions of greenhouse gases are shifted to lower-income countries and people with low levels of emissions per capita, who lack resources to mitigate the damage.

The financial crisis that erupted in 2008 also amply illustrates this creation and transfer of risk. It was a North Atlantic crisis, linked to poor regulation of international banks and financial companies in developed countries, but it spilled over, via international financial markets, into many developing countries, whose policies had played no part in the genesis of the crisis. Some highly paid employees in the financial sector in London and New York lost their jobs, but so did many millions of other

people. Between the onset of the crisis and 2012, an estimated 28 million people became unemployed, bringing the global total of unemployed to 200 million. Over half of the increase was in high-income industrialized countries, but developing countries have been increasingly affected, accounting for 75 per cent of the newly unemployed in 2012 (International Labour Organization, 2013). The youth unemployment rate is particularly high, globally standing at 12.6 per cent in 2013, compared to an adult unemployment rate of 4.6 per cent (Ibid., 2013). A study for selected developed countries found that the growth in youth unemployment during the economic crisis raised the Gini coefficient considerably (Morsy, 2012).

Pressure to maintain the confidence of private investors in international financial markets and to comply with conditions attached to loans from the IMF and other international financial institutions has led many Governments to introduce cuts to public expenditure, often falling on basic public services and social protection, not only in Europe, but also in developing countries (United Nations Entity for Gender Equality and the Empowerment of Women, 2014). Basic public services and social security transfers are, of course, vital tools for the reduction of inequality. The capacity of Governments to use them for this purpose has been undermined. As a consequence, new obstacles to progress made in gender equality have emerged, tending to intensify the amount of unpaid work that women have to do to care for families and communities, and making it more difficult for women to cushion their children against the impact of the crisis in many developed and developing countries (Ibid., 2014).

Even in times of no financial crisis, the asymmetric governance of international markets in goods, finance and labour is conducive to inequality among people and undermines the capacity of Governments to reduce inequality through fiscal and regulatory measures. Trade agreements undermine the fiscal capacity of Governments through loss of tariff revenues, which are difficult to replace with revenue from taxation on large corporations because of international capital mobility and lack of effective international tax cooperation. The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) makes it harder for Governments to provide access to essential medicines. Trade and investment agreements operate “behind the border” to restrict the policy space available to Governments to foster structural change, including movement to more inclusive patterns of growth, based on economy-wide increases in labour productivity.

The current structures of asymmetric global governance that make the international movement of capital much easier than the international movement of labour have a number of other adverse impacts on equality. The prospect of capital flight puts pressure on Governments to adopt an over-restrictive fiscal stance, starving basic services of the money they need to ensure everyone has access to good quality services (Stiglitz, 2000). Moreover, capital flight can lead to sharp devaluation of the currency, pushing up prices with particularly adverse impacts on low-income households. In addition, competition to attract FDI is reported to lead to downward pressure on minimum wages and labour standards (United Nations Development Programme, 2013).

### *Moving forward*

Reforms of global governance to support enlargement of the policy space for all Governments to secure sustainable reductions in inequality should therefore:

(i) *Strengthen fiscal capacity.* Higher tax-to-GDP ratios and greater progressivity in taxation and expenditure have been associated with reductions in inequality. Fiscal policy has powerful redistributive potential. Global initiatives need to be taken to: (a) reduce tax avoidance and evasion, including a United Nations Convention to combat both practices; (b) introduce new globally agreed measures, like the financial transactions (Tobin) tax; and (c) change the norms against which tax policies are evaluated, so as to encourage Governments to design progressive fiscal policies. Enhanced and more efficient international tax cooperation is necessary to guarantee positive outcomes in this direction.

(ii) *Facilitate better regulation of finance and capital flows.* Reductions of inequality in the period 2000-2010 were associated with stronger controls on banks and non-bank financial institutions, and controls on international mobility of capital were instrumental in allowing some countries to avoid large swings in economic activity and employment. The recent financial crisis made it clear that global financial reforms are essential. Though some reforms have been adopted, more are required.

(iii) *Enable better cooperation in macroeconomic policy so that the fiscal space to promote greater equality within countries is not undermined by recessionary bias in the international monetary system.* The current prevalence of recessionary bias undermines progress to reduce inequality.

(iv) *Support implementation of internationally agreed social and labour standards, thus also securing greater coherence between global economic governance and the global system of human rights obligations.* In fact, reductions in inequality in some Latin American countries has been associated with policies that did more to comply with these standards, such as increased health and education expenditures, increases in the minimum wage, strengthening of wage bargaining institutions, and improved social protection. The International Labour Organization conventions and human rights treaties set out rights that apply to everyone—citizens and non-citizens alike—and progressively implementing these conventions and treaties is an obligation of all United Nations Member States. Following the principle of responsible sovereignty, countries should also have the obligation to ensure that the policies of any one Government do not damage the capacities of other Governments to realize these rights. Rules and disciplines deriving from international trade and investment agreements have some provisions that make it harder for Governments to meet international social and human rights standards (an example is TRIPS). More must also be done to secure the adherence of non-State actors, such as corporations, to internationally agreed social and labour standards. Implementation of these standards is particularly important for international migrants, who frequently live in countries of which they are not citizens. Moreover, in the context of pluri-ethnic and multicultural societies, a strategy for sustainable development needs to recognize the rights of indigenous communities to land, natural resources, ethnic identity and cultural heritage, as well as their right to participate in relevant decision-making processes.

#### **IV. Global governance for development**

Global governance has become a domain with many different players (Alexandroff, 2010; Weiss, 2009) including: multilateral organizations that have a universal character, such as the United Nations General Assembly; elite multilateral groupings such as the Group of Eight (G8) and the Group of Twenty (G20) (Ocampo, 2011); different coalitions relevant to specific policy subjects (such as climate change); informal multilateralism (as exemplified in financial standard-setting bodies) and regional formations (for example, those relating to trade and investment agreements). Also included are activities of the private sector (e.g., the Global Compact)

non-governmental organizations (NGOs) and large philanthropic foundations (e.g., Bill and Melinda Gates Foundation, Turner Foundation) and associated global funds to address particular issues) (Anheier, 2000). Participation of several actors is noticeable, for instance, in public health with the emergence of global health partnerships (United Nations, 2009b).

In this increasingly complex system of global governance, questions arise on how effective these institutions have been in identifying and handling global issues, especially from a development perspective and how these institutions fulfil desirable criteria such as effectiveness, representativeness, participation and transparency, and coherence. This is of particular importance for addressing ongoing and emerging challenges for meeting the Millennium Development Goals (MDGs) in 2015, for securing the reforms for global governance identified above, and for sustainable development in the post-2015 era. In this respect, promoting a global economic governance system with the right balance between legitimacy and effectiveness, built around the principles laid out in Section II of this report, is an essential element in achieving these goals.

Currently, the system of global governance does not meet these criteria. The representativeness, opportunities for participation, and transparency of many of the main actors are open to question. Decision-making processes at the International Monetary Fund and World Bank, for instance, do not give major developing countries a share of voting power corresponding to their increasing relevance in the world economy, while other developing countries seem to have very little or no weight at all. The G20 is a self-appointed group where the participation of Governments of emerging market economies is on their own account, and not on the behalf of other developing countries. NGOs, while providing key impetus and innovative approaches to tackle development issues (Bradford, Jr., 2005), often have governance structures that are not subject to open and democratic accountability. The lack of representativeness, accountability and transparency of corporations (George, 2014) is even more important as corporations have more power and are currently promoting multi-stakeholder governance with a leading role for the private sector (Pingeot, 2014).

Against this background, “the United Nations emerges as an actor with distinct advantages, including the equal representation of its 192 Member States [now 193] under the United Nations Charter” (Deiss, 2010), as an institutional framework for monitoring the implementation

of the internationally agreed development goals, including the MDGs, and the post-2015 development goals for achieving sustainable, equitable and inclusive growth. Nevertheless, the key question remains whether the United Nations will function as the main political forum for dealing with socioeconomic issues at the global level, playing a key and effective role in managing global challenges, or whether Member States will leave this role to other forums, including selective, elite multilateral groupings, and multi-stakeholder processes.

Currently, it seems that the United Nations has not been able to provide direction in the solution of global governance problems—perhaps lacking appropriate resources or authority, or both. United Nations bodies, with the exception of the Security Council, cannot make binding decisions. Further, the United Nations system is very fragmented, with scarce resources thinly distributed between competing agencies, each having its own agenda and governance processes. As a result, most global issues do not move forward as expeditiously as needed: there is little progress on climate change or the broader sustainability agenda, and most development goals are only voluntary commitments, with few enforcement mechanisms.

### *The role of the United Nations*

For the United Nations to utilize its distinct advantages, it must strengthen its position in global governance. Its intellectual history suggests that the Organization is the source of many ideas that have led to human progress and to agreed global development goals, particularly through a series of United Nations conferences convened since 1970, and more recently through summits, starting with the 1990 World Summit for Children (Ocampo, 2013). For example, “the concept of human rights, and ideas about social and economic development and environmental sustainability have guided the UN’s work in different countries” (Dutt, 2012). If this has been the strength of the United Nations, the weakness has been its accountability mechanisms and even a deficient monitoring of international commitments (Ocampo, 2013).

There have been several proposals on how to enhance the Organization’s central role in global governance, as an essential element to achieving a broad development agenda including all dimensions of sustainable development. The key issue here is finding the right balance between

representativeness and participation on the one hand, and effectiveness on the other. However, the very condition that generates the greatest legitimacy of the United Nations among all international institutions—the principle of one country, one vote—also makes it quite difficult to get things done. The divergent interests, conflicting incentives and differing values and norms of Member States can seriously impede the ability to move from broad consensus to agreement on operational policymaking and coordinated delivery of measures on the ground.

As a possible way forward towards more effective global governance, the United Nations Commission of Experts on Reform of the International Financial and Monetary System (United Nations, 2009a) recommended to the General Assembly the creation of a new universal, constituency-based economic governance body within the United Nations—a Global Economic Coordination Council at a level equivalent to the General Assembly and the Security Council. This Council would be a democratically representative alternative to the G20, and would aim to “promote development, secure consistency and coherence in the policy goals of the major international organizations and support consensus building among Governments on efficient and effective solutions for issues of global economic governance” and “help set the agenda for global economic and financial reforms” (Ibid.). The new Council would thus secure a more coherent and effective response of the United Nations on issues related to global economic governance. The Commission also put forward an alternative proposal of a body similar to the Intergovernmental Panel on Climate Change, but dealing with economic and social issues. These proposals deserve greater attention. However, there has been no action in this regard; instead the focus has been on reforming the United Nations Economic and Social Council (ECOSOC), the existing mechanism within the United Nations for economic policy coordination.

When ECOSOC was created as one of the main United Nations organs, it was expected to take over the function of coordinating economic and social policymaking across the world and within the United Nations system. However, it has not been able to fulfil this function very effectively, owing in part to the ambiguous relationship between the General Assembly and ECOSOC. Its responsibility for international and social cooperation was to be discharged under the authority of the General Assembly, giving ECOSOC few of the powers the Charter of the United Nations grants to

the Security Council (Steven, 2012), which operates independently of the General Assembly. In practice, ECOSOC responsibility has been reduced to the coordination and monitoring of social, economic and environmental issues and related activities of the United Nations system.

ECOSOC has played no role in coordinating and providing guidance for the post-2015 development agenda so far. Instead, the post-2015 process has been largely coordinated directly by the Secretary-General, who sought inputs from within the United Nations system (coordinated by United Nations Department of Economic and Social Affairs), the High-level Panel on Eminent Persons on the Post-2015 Development Agenda, a global conversation with a broader set of actors (coordinated by the United Nations Development Programme), and the Sustainability Development Solutions Network, in which corporations play a leading role (Pingeot, 2014). In turn, at the intergovernmental level, the General Assembly has merged this discussion with the agenda on sustainable development agreed at the 2012 United Nations Conference on Sustainable Development (Rio+20), through the Open Working Group on Sustainable Development Goals. This Open Working Group has emphasized, at its sixth session, “that the United Nations remains the forum for a broad, development-focused discussion of the international financial and economic system, notably in the context of a reinvigorated ECOSOC”. To what extent ECOSOC will provide more than a discussion forum remains to be seen.

### *Moving forward*

There have been periodic initiatives to strengthen ECOSOC, including at the 2005 World Summit, which led to General Assembly resolution 61/16 creating the Annual Ministerial Review and the biennial Development Cooperation Forum. The most recent strengthening of ECOSOC by the General Assembly was the adoption of resolution 68/1 of September 2013, based on the follow-up to resolution 61/16, and given special impetus by the outcome of Rio+20. At Rio+20, Heads of State and Government recognized the key role of ECOSOC in achieving a balanced integration of the three dimensions of sustainable development, elevating the Council’s function as a platform for sustainable development. The annual ministerial meetings of the High-level Political Forum will take place under the auspices of ECOSOC, while the Forum’s meetings at the level of Heads of State will be convened every four years under the General Assembly. This framework

raises the visibility of the follow-up to the Sustainable Development Goals (SDGs) and the future post-2015 development agenda (which will hopefully be one and the same) by including high-level government representatives in its deliberations. It also creates a novel mechanism of coordination between the General Assembly and ECOSOC.

ECOSOC, as a principal body for the follow-up on the implementation of the United Nations development agenda, should take on the responsibility for advancement of the reform agenda set out in Section III. It should provide guidance to the work of the entire United Nations system in addressing deficiencies in the current governance in areas requiring improved international cooperation, such as the environment, international monetary and financial architecture, capital and labour flows, trade rules, and inequality. This includes reviewing and improving upon the coherence of existing structures as well as filling the gaps in global governance. These issues should be part of the Council's annual programme of work under the main overarching themes of promoting the balanced integration of the economic social and environmental dimensions of sustainable development, as well as the post-2015 development agenda.

However, if the Council is to be the principal body for the follow-up on the implementation of the United Nations development agenda, its ability to coordinate and guide should be strengthened by appropriate follow-up and monitoring mechanisms for bridging the gap between commitments and the implementation of these commitments. For this, a United Nations led monitoring and accountability mechanism with quantifiable targets and indicators needs to be established for both countries as well as United Nations agencies working on this agenda (United Nations, 2014).

This accountability mechanism would focus on the three dimensions of sustainable development (economic, social and environmental), while taking into account principles that support the development efforts of developing countries and environmental sustainability as presented in this report. It would systematically assess and monitor the effectiveness, representativeness, participation and transparency and coherence of global governance in achieving internationally agreed goals (currently the MDGs, and, in the future, the SDGs and the post-2015 development goals). Such a monitoring and accountability mechanism would provide an important basis for regular discussion of the evaluation at a high political level on how to further improve the outcome of the post-2015 development agenda,

both in countries and within the United Nations system. The layout of such a system will require special attention in relation to the quantification of targets (means vs. ends/outcomes), data collection (the availability of data and/or the need for new data sources), and definitions and indicators measuring representativeness, inclusiveness, transparency and coherence of global governance.

Implementation of the post-2015 development agenda ultimately depends on the political will of Member States to carry it through. Therefore, success will depend on whether all countries contribute to the reform of global governance and use their policy space to implement policies that promote the three dimensions of sustainable development in an integrated manner. However, national States have tended to commit themselves to those solutions that are in their narrow national interest or do not interfere with what they perceive as their national sovereignty, and/or those from which they are expecting to maximize their national interest at the expense of others, either by domination or by free-riding (Kaul, 2013). While global challenges continue to be viewed from this narrow perspective, the probability of failing to address them will remain high. The need for responsible sovereignty, one of the five principles presented in Section II above, is more than relevant in this context. In this regard, ECOSOC should take an initiative on how to operationalize this principle. Responsible sovereignty is, no doubt, a necessary condition for States to cooperate in creating the conditions for the realization of internationally recognized rights and freedoms and to act according to the other key principles of global governance put forward in this report: common but differentiated responsibilities, inclusiveness, transparency, accountability and coherence. Likewise, the relevance of the United Nations in global economic governance largely depends on how much Member States are willing to strengthen the Organization, so that it may become a more effective factor in global economic governance for implementing a post-2015 development agenda for the benefit of all.

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