Asia-Pacific Research and Training Network on Trade

The role of developing countries in global economic governance

By Peter Lloyd

No. 117/August 2012

ARTNeT Working Paper Series

Asia-Pacific Research and Training Network on Trade (ARTNeT) is an open regional network of research and academic institutions specializing in international trade policy and facilitation issues. IDRC, UNCTAD, UNDP, ESCAP and the WTO, as core network partners, provide substantive and/or financial support to the network. The Trade and Investment Division of ESCAP, the regional branch of the United Nations for Asia and the Pacific, provides the Secretariat of the network and a direct regional link to trade policymakers and other international organizations.

Disclaimer:
The opinion, figures and estimates are the responsibility of the authors and should not be considered as reflecting the views or carrying the approval of the United Nations, ARTNeT members, partners or authors' employers.

ARTNeT Working Paper Series
No. 117/August 2012

The role of developing countries in global economic governance

*By Peter Lloyd**

Please cite this paper as:
Lloyd, P., 2012. The role of developing countries in global economic governance. ARTNeT Working Paper No. 117, August, Bangkok, ESCAP. Available from www.artnetontrade.org.

*Professor Emeritus, Department of Economics, University of Melbourne, Parkville, Vic. 31010, Australia. The technical support of the United Nations Economic and Social Commission for Asia and the Pacific and ARTNeT Secretariat is gratefully acknowledged. This paper draws upon some of the analysis in Lloyd (forthcoming). Author is grateful for comments received from participants at the ARTNeT Seminar held on 9 February 2012 at UNCC, Bangkok and would like to acknowledge constructive comments on an earlier version of this paper received by two referees and by colleagues Robert Dixon and Donald MacLaren. Any remaining errors are the responsibility of the author, who can be contacted at tel: +61 3 83445291, fax: 61 3 83446899, email: pjlloyd@unimelb.edu.au

Contents

Introduction 6

1. The changing place of developing countries in the world economy 7

2. The voice of developing countries in world governance 8

3. The WTO - Doha Development Round negotiations 11

4. UNFCCC – climate change negotiations 14

5. Greater voice brings greater responsibility 16

References 23

Annexes 25

The role of developing countries in global economic governance

Peter Lloyd

Abstract

The paper reviews critically the arguments concerning greater voice for developing countries in global governance. It supports the arguments for greater voice but argues that greater voice brings with it greater responsibilities in terms of the actions and commitments from developing countries. The two main illustrations are the multilateral trade negotiations in the WTO and the negotiations concerning climate change in the UN. In both case, it is argued, developing countries must assume greater responsibilities if these negotiations are to be concluded. This can be done in a way which yields net benefits to the developing countries themselves.

Key Words: global economic governance, developing countries, WTO, UNFCCC
JEL Code: F13

Introduction

It is commonly argued that developing countries should be given a greater role in the multilateral organisations that are responsible for the management and regulation of the world economy. This view has been made most frequently in relation to the Washington Consensus organisations, the International Monetary Fund (IMF) and World Bank, but it has also been made in relation to the World Trade Organisation (WTO), United Nations (UN), Bank for International Settlements (BIS), and the Group of Twenty 20 (G-20). At Yekaterinburg in June 2009, after their first summit meeting, the large emerging economies in the BRIC group (Brazil, Russian Federation[1], India, China) called for establishment of an equitable, democratic and multipolar world order. The particular demands for a greater role differ among the organisations because they each function differently in terms of their voting rights and modus operandi. The common element is a call for a greater say in the decision-making, a greater "voice", in these organisations.

There are two strands behind this argument. One is the long-standing view among some developing countries or advocates on their behalf that these organisations have not taken sufficient account of the interests of this group of countries, and conversely that they have pursued to an excessive degree the interests of the major developed countries, particularly those of the USA and EU. The second strand is that the developing countries as a group have become substantially more important in the world economy as measured by the relative size of their GDPs, the value of their international trade in goods and services, and other dimensions of their participation in the production and investment activities of the world economy.

This paper reviews these arguments critically. The main theme is that developing countries should indeed be given a greater role in all of these organisations but that greater voice carries with it a greater responsibility in terms of the actions and commitments from developing countries.

Section 2 examines the changing place of the developing countries in the world economy while Section 3 looks at the place of developing countries in world governance in three multilateral organisations; the IMF where the case for greater participation has been most debated, the World Bank and G-20. Sections 4 and 5 then consider the WTO and the United Nations Framework Convention on Climate Change (UNFCCC) respectively. This paper focuses on these two institutions because the current negotiations being held in these two organisations, relating to world trade market access and other trade and trade-related issues and to the mitigation and adaptation to global climate change respectively, are the two most important negotiations relating to world governance to take place for at least twenty years. Moreover, they affect all developing countries. Both sets of negotiations have made little progress over many years. Section 6 sums up.

[1] The classification of Russian Federation is troublesome. The UN does not consider Russian Federation a developing country and in the UNFCCC it is an Annex I (developed) country. But the IMF classifies it in the group of developing and emerging economies.

1. The changing place of developing countries in the world economy

Table 1 shows the share of all developing countries as a group in global GDP. It reports GDP measured in current prices and at nominal (market) exchange rates and GDP measured at purchasing power parity rates. The figures are reported for the decadal years 1980, 1990, 2000 and 2010. Developing countries are taken to be all emerging and developing countries, that is, all countries except the "advanced economies", as classified by the IMF.

These figures show clearly the steady growth in the importance of developing countries in global production in the last two decades. This holds for both series. The share of developing countries is considerably greater when GDP is measured at purchasing power parity rates because goods and services prices are consistently lower in developing countries when converted at market exchange rates. In terms of GDP measured at PPP rates, China is now the second largest economy in the world and India is the fourth largest.

As a consequence of the more rapid growth of developing countries, there has been a significant convergence of income levels between the poorer and the richer countries in the world.[2] This is a new and very desirable feature of the world economy. If convergence continues, it will increase further the relative importance of developing countries in the world economy.

For the important group of large emerging economies comprising Brazil, China, India and Russian Federation this rapid growth has been projected to continue. Goldman Sachs coined the term BRIC in 2001 for this group of countries. In a later set of forecasts, Goldman Sachs (2007) has projected BRIC GDPs (in constant dollars and at nominal exchange rates[3]) to 2050. Their projections show a very rapid increase in their share of global GDP. China is projected to become the world's largest economy by 2030 and to be almost twice the size of the US economy in 2050. India may catch up with the US by about 2050. Collectively, the BRIC countries are projected to be as large in aggregate output as the G-7 group of major advanced economies by 2035. While these projections may not of course be realised, they are widely regarded as plausible. They imply that these countries will be come much more important in all commodity and asset markets.

Table 1 shows that the rapid growth of output from the developing countries has been accompanied by a growing share of world trade in goods and services in the last two decades. Indeed, in 2010, China is the largest goods exporter in the world and the second largest importer (after the USA, WTO, 2011, Appendix Table I). Output growth is also reflected in their growing share of global emission flows. Sections 4 and 5 respectively draw upon these changes in world trade and emission flows. Similarly, developing countries have become much more important in world asset markets. In some markets, they account for more than 50 per cent of global total assets; for example, in foreign exchange reserves and assets held by sovereign debt funds. This dimension is relevant to some aspects of the debate about reforming the international monetary system.

[2] For general discussion, see Estevadeordal and Taylor, 2008 and Spence, 2011.

[3] Measuring GDP at PPP exchange rates would increase the relative size of the BRIC economies but it would also lower the future growth rate as the prices of non-tradeables increase in these economies.

2. The voice of developing countries in world governance

This section reviews the voice of developing countries in three multilateral organisations, the IMF, the World Bank Group and the G-20.

The most specific demands of developing countries and their advocates are those relating to the IMF and the World Bank. Developing country members of the IMF and World Bank have long complained about conditionality of loans granted. Loan conditions have been used to drive borrowers towards a more open and less regulated policy stance.

This dissatisfaction reached a peak with opposition to the "Washington Consensus" view of the IMF and World Bank during the 1990s. While the term is sometimes treated inaccurately[4] as synonymous with market fundamentalism, it embraced a package of disciplined macroeconomic policies, the use of markets accompanied by privatization and deregulation, and liberalisation of trade in goods and capital.

Developing countries subject to IMF and World Bank loan conditions and prescriptions did not have a uniform view of the policies they wanted to follow. Their views and policy preferences varied with the countries and the circumstances. What they wanted in general was much greater flexibility in reform policies, including the ability to follow policies outside the Washington Consensus such as restrictions on short-term capital movements and state-owned public utilities and price controls, and the freedom to decide for themselves. One of the most contentious cases was the Argentinian crisis of 1999-2002. The World Bank imposed financial and fiscal austerity which led to the crash of the Argentinian bond market and a severe financial crisis. In the Asian Crisis of 1997-98, Asian borrowers complained that the Fund misdiagnosed the nature of the crisis and prescribed inappropriate contractionary fiscal and exchange rate policies and freedom of capital movements.

These concerns over IMF policy prescriptions led to concerns over the under-representation of developing countries in the governance of the Fund. Under-representation of developing countries in the quotas and voting power of the IMF has been recognised for a long time. A Member's quota determines its obligations to provide financial resources to the IMF for it to lend to other members, and it is the principal variable determining its borrowing rights and SDRs. The original quotas were determined by a formula which weights five variables: GDP at current market prices, foreign exchange reserves, current account payments, current account receipts and a variability measure of current receipts. The IMF has a weighted voting system. A Member's voting power depends on its quota