

Globalization and the Challenge to International Institutions By Ngaire Woods

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[\(BACK TO LIST\)](#)

Introduction

Globalization, as already defined in this volume, describes dramatic changes in the transactions and interactions taking place among states, firms and peoples in the world. It describes not just an increase in the flow of goods, services, images, ideas, and people, but a change in the way production, distribution, consumption, and other activities are defined and undertaken. State borders no longer contain and define identities, products, and actors' possibilities. Boundaries are still crucial, but so too are transnational opportunities both for politics and for commerce. As a result, an increasing range of activities require some form of management and regulation at the international level. For this reason, states create international institutions.

This chapter examines the challenges globalization poses to states and the international institutions they create, focusing in particular on recent crises and their implications for existing organizations. Section one describes the myriad of institutions which have emerged in past two decades. Section two outlines the new and difficult challenges these international institutions face, illustrating with the case of globalization in finance. Section three details the problems this poses for governments, not just about how to reform the system, but also about who should reform the system. Section four investigates some of the obstacles to necessary reform. Section five outlines the new tasks that governments, through international institutions, need to fulfil in a globalizing world and section six examines the factors which determine whether these tasks are likely to be fulfilled. The conclusion suggests that although globalization necessitates a reform of international institutions, the requisite reforms are severely hampered by specific political interests not just of states but also of transnational and private actors within states.

1. Globalization and institutionalization

Over the course of the twentieth century, a combination of technological advances and government policies have led to a dramatic increase in the interconnectedness of governments, societies, and private actors in world politics. As the possibilities of travel and communication have opened up to a wider range of people and to a wider range of places, new problems have emerged which most nation-states cannot manage without coordination and cooperation with other governments. For example, drugs and other criminal activities can now move more easily across borders, as can infectious diseases and various kinds of environmental problems such as acid rain or nuclear spillout. At the same time new kinds of interdependence have emerged which also require governments to act together. The globalization of

capital markets, for example, has meant that governments are yet more susceptible to effects from financial crises in other parts of the world. This was illustrated in 1997, when policy-makers discussed how to prevent 'contagion' across the world economy as East Asia suffered an economic crisis. Equally, the language of 'contagion' has been applied to security crises and ethnic or tribal violence which in the 1990s showed an equal propensity to spread - be it in the Balkans, or around the Great Lakes of Africa.

One way in which governments have sought to manage and regulate problems arising from transnational activities is through international - or better-said 'inter-governmental' - organizations. This has led to a steady increase in the number of international organizations. At the end of the 1990s, over 250 international organizations (IOs) existed in a world of just over 180 states. This compares to around 30 IOs which existed at the turn of the century in a world of less than 50 states.⁽¹⁾ More broadly, international relations have become characterised by increasing numbers of treaties, regimes, and other cooperative arrangements among states.⁽²⁾ Together, these arrangements comprise an increasingly institutionalized world politics.

More radically, increasing institutionalization has opened up an arena of politics in which other agencies can play a larger role. Some describe this as the emergence of a new 'global politics'.⁽³⁾ The globalization of politics permits non-state actors to play a part in forming preferences, making decisions, and influencing outcomes at the international level. Among these actors are multinational corporations and international non-governmental organizations (NGOs). The latter have increased in number from an estimated hundred at the turn of the century to over 5,000 at the end of the 1990s.⁽⁴⁾ For international institutions this has posed a considerable challenges since many NGOs have demanded recognition in international institutions. These NGOs, claiming a transnational or a sub-national constituency,⁽⁵⁾ have carved out a role for themselves in several organizations,⁽⁶⁾ not to mention having taken a lead in pushing international negotiations on some specific issues such as the environment.⁽⁷⁾ It is now the case that NGOs can participate within some international fora, such as the World Bank's Panel of Inspection hearings on environmental issues.⁽⁸⁾ As Jan Aart Scholte has detailed in chapter seven, these developments have both positive and negative potential.⁽⁹⁾

The problem for states has been how to coordinate their responses and policies in response to globalization so as more effectively to ensure economic growth, security and stability within their own borders. The institutions they have created to do this job now face increasing burdens and challenges, as the transnational flows they are attempting to regulate, facilitate or mitigate become larger and more difficult to control. Adding to the problems of management is the fact that globalization is affecting different parts of the world in highly uneven ways. In some parts of the world, globalization brings a promise of integration into a thriving world economy and society, in others globalization is increasing inequality and the prospects of chaos, disorder and poverty.⁽¹⁰⁾ Not all states wish to participate in international organizations, and when states do participate, there is a difficult question as to how much influence any one state should enjoy. One view suggests that international organizations should be

structured in ways that reflect the global hierarchy of power among states. By contrast, critics argue that institutions so structured will no longer be effective in a globalizing world since the tasks they face require a different form of power: soft, persuasive power, as opposed to hard, coercive power.⁽¹¹⁾ This chapter returns to this issue below. First, however, the new challenges faced by international institutions will be elaborated, using the example of globalization in the international financial system.

2. The challenges for international institutions: the case of globalized finance

In international finance globalization has powerful implications for governments and for the international institutions they have created. Globalized international financial markets are more open, more liquid and more internationally integrated than ever before. Equally importantly, globalization describes a change in governments' perceptions of these markets as more powerful and more limiting of government autonomy than in any previous era. For this reason, globalization has turned governments' attention to the role and nature of international financial institutions - and not for the first time this century.

In the aftermath of the second world war, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (which became part of the World Bank) were created in order to ensure stable and equitable growth in the world economy. The IMF would ensure stable exchange rates and adjustment by countries with liquidity problems. The World Bank would channel (predominantly) private sector funds into investment projects which would ensure growth and development. Yet since the 1970s the foundations of the so-called 'Bretton Woods' system have been swept aside and financial deregulation in the industrialized countries has converged with economic liberalization in developing countries to produce more global capital markets.

It is worth noting that several kinds of government policy have furthered globalization. In the 1960s deregulation in industrialized countries led to the emergence of a 'Eurocurrency' market whereby borrowers could issue bonds in currencies other than their national currency (leading to the currency competition detailed by Benjamin Cohen in chapter four). In 1971, the United States came off the gold standard, causing a breakdown of the Bretton Woods exchange rate regime. In 1972 the Chicago Options Exchange was established, a first step towards the huge growth in derivatives trading in the 1980s. Finally, as commercial banks based in the United States and Europe globalized their clientele they opened up new sources of finance for governments across the developing world - sowing the seeds of the debt crisis of the 1980s. In brief, a combination of new technology and US (and other industrialised countries') policies unleashed a globalization of financial markets and currencies within which new actors and new transactions flourished.⁽¹²⁾

Governments responded in a variety of ways to the challenges and threats of the new system. Policy coordination was discussed by leading industrialized countries hankering after the stability of the old exchange rate system. More actively, governments looked to a variety of international institutions in order to seek solutions and stability. These institutions included the Bank for International Settlements (BIS)⁽¹³⁾, the International Monetary Fund (IMF)⁽¹⁴⁾, the Group of Ten (G-10)⁽¹⁵⁾ and World Bank⁽¹⁶⁾, the Group of Seven (G-7),⁽¹⁷⁾ European institutions, and a host of other less formal fora for discussion of regulation in the world economy. During the 1980s these institutions acted in concert with the US Treasury and Federal Reserve to shore up threats posed to banking and economic growth in the industrialized world: managing, for example, the debt crises of Latin American and Eastern European countries which threatened major international commercial banks.

In the 1990s a wave of new financial crises caused world economic policy-makers to think about how to respond to new faultlines in the world economy. At the end of 1994, the Mexican peso plummeted (depreciating by 50 percent within one week) causing reverberations in Washington DC and New York, as well as in other Central and South American countries worried about a 'Tequila' effect - a contagious loss of confidence in economies across the region which would cause the crisis to spread.⁽¹⁸⁾ In the case of Mexico, the US Treasury and the IMF were able rapidly to put together a large assistance package in order to shore up confidence in the Mexican economy - a reaction facilitated by the magnitude of US interests in Mexico.⁽¹⁹⁾ However, the Mexican case immediately raised concerns about whether the IMF had adequate resources to bolster confidence in Mexico and what would happen if other countries had currency crises. Who would bail them out? Was the IMF to be given a new role in crisis management? And if so, where would the requisite resources come from?

Policy-makers' concerns about financial instability proved well-founded. In 1997 a financial crisis sparked by the devaluation of the Thai baht spread across East Asia. This was soon followed by a crisis in the Russian rouble in the summer of 1998. As discussed by Benjamin Cohen, these crises led many countries to consider alternative exchange rate arrangements: from floating currencies, to currency boards or dollarization. A further financial disaster within the United States - the collapse of an investment group called 'Long Term Capital Management' (LTCM) - focused attention yet more closely on the need to reform the 'global financial architecture'.

All the crises of the 1990s highlighted the vulnerability of national financial systems and the need for countries participating in the global financial system to have strong standards of accounting, prudential regulation, disclosure, exchange and so forth. Equally, the crises demonstrated the capacity of private sector actors including banks, investment houses, security brokerages, hedge funds and asset managers to create turmoil. As these actors create profit centres out of currency, derivatives, and emerging market security trading departments, and take large positions in leveraged instruments on proprietary accounts, their frenetic trading activities create what one analyst has described as a 'global whirlpool'.⁽²⁰⁾ The inability of governments to calm some of the 'whirling' was displayed in Mexico, East Asia, and Russia.

This has led to a serious reevaluation of international regulation and institutions.

3. The challenges for governments: who should regulate and how?

In the late 1990s a flurry of proposals on global financial reform focussed attention on two issues: first, who should be in charge of reforming the system?; and second, what should the new system look like, e.g. a larger, more powerful IMF, or a new global banking regulator? These questions echoed similar debates in other areas of international relations where intervention has been undertaken. For example, in the wake of crises in Somalia, Rwanda and Bosnia, there has been much debate about who should sit on the United Nations Security Council,⁽²¹⁾ as well as about what the security system should look like, e.g. should the Military Staff Committee (MSC) be revived and a standing force created,⁽²²⁾ and should security be redefined to include environmental and demographic concerns?⁽²³⁾

In the international financial system, the question of who should influence reform in the wake of crises in the 1990s, was taken up by the US Treasury which moved swiftly to invite 22 countries to take part in a discussion of reform (the so-called G-22). Other governments, however, soon complained that the initiative was too US-dominated. The French Minister of Finance argued that discussions should be undertaken in the IMF's Interim Committee which at least represents all members of the IMF.⁽²⁴⁾ In a separate proposal the British Chancellor of the Exchequer, Gordon Brown, argued for an over-arching 'Standing Committee for Global Financial Regulation' which would bring together the IMF, the World Bank, the G-10, and other national and international regulatory institutions.⁽²⁵⁾ In the end, the G-7 created a 'Financial Stability Forum' (FSF) in February 1999, comprising themselves and representatives of the IMF, the World Bank, the Basle Committee on Banking Supervision, the International Organizations of Securities Commissions, the International Association of Insurance Supervisors, the BIS, the OECD, the Committee on Payment and Settlement Systems, and the Committee on the Global Financial System (formerly the Euro-currency Standing Committee).⁽²⁶⁾

The membership of the forum highlights two things. First, the members reflect the great variety of institutions which has emerged in the international financial system, including networks of regulators and supervisors. Second, the membership of the FSF reflects the degree to which the system is run by the leading industrialized countries. In June 1999, the G7 broadened representation in the forum by inviting senior representatives from Hong Kong, Singapore, Australia and the Netherlands to participate. However, it has been clear from the start that a more universal membership is out of the question. More central to negotiations on the composition of a reform-discussion group has been the question of how power should be shared between the United States and Europe. Competition between the two was highlighted at the IMF/World Bank meetings of Spring 1999 when US Secretary of the Treasury Robert Rubin suggested reviewing the constituencies within which countries are grouped in the IMF: a proposal

swifly rejected by the German Finance Minister recognizing that it could only result in a reduction of the European countries' positions.⁽²⁷⁾ Discussion as to reform will thus proceed in a forum dominated by the leading industrialized countries, in spite of the fact that globalization has geographically expanded the regions affected by capital flows, as well as the nature and depth of issues and reforms that any international institutions has to deal with.

The nature and shape of a reformed system has yet to be established. Ideas for a global financial regulator, global bankruptcy court, global money and a global central bank have abounded as the depth of the challenge of globalization has been recognized. However, as Barry Eichengreen has pointed out, they are unrealistic since the length of time and effort required to bring about a single currency and a Central Bank in Europe shows that 'it is fantastic to think that this process could be replicated on a global scale in a few years'.⁽²⁸⁾ Furthermore, as crises recede (whether in international finance or international security) so too does the zeal with which policy-makers promulgate ideas for reform. They also come to recognise the vested interests with whom they will need to clash in order to take even modest steps in a new direction. In international finance, the nature of conflicting interests demonstrates how difficult it is to create or to reform inter-governmental arrangements and organizations.

4. Vested interests and international institutions: obstacles to regulation and reform

The international financial crises of the 1990s involved private sector creditors whose loans - whether to governments or the private sector in borrowing countries - went bad as confidence in the government or currency evaporated (as in Mexico, Thailand, Korea, Russia and so forth). Furthermore, the investments were overwhelmingly of a short-term portfolio character, making the effects of a loss of confidence yet more immediate and damaging. Prior to the first of these crises (Mexico in 1994), policy-makers had been complacent about loans (whether short or long-term) to the private sector, assuming that since they did not involve governments, they did not pose a threat to financial stability. They were wrong. The crises of the 1990s demonstrated that large short-term capital flows, whether to private or public borrowers, could jeopardise international financial stability. For this reason, in each case intervention was required - using taxpayers' money to bailout private sector creditors.

Public intervention in the 1990s created a strong political backlash which pressured Finance Ministers and Central Bankers seriously to reevaluate the alternatives to such intervention. In 1996 the G-10 published a report on the resolution of sovereign liquidity crises arguing for a series of measures which would improve the capacity of debtors to adjust and to deal with a sovereign liquidity crisis: adjusting the rules within which international institutions intervene and reapportioning some of the costs and burdens of adjustment onto private sector creditors.⁽²⁹⁾ The private sector's response was swift: a counter-report, authored by William Cline, was published by the Institute of International Finance (a Washington DC-based lobby-group and research organization for international bankers and investors). The IIF report rejected most of the G-10 proposals, arguing that crises could be averted with increased transparency and information flows from borrowers and a modicum of self-regulation by the private sector. Subsequent

crises, however, have increased political pressures for a tougher line to be taken with creditors.

At the G-7 Summit in Frankfurt in June 1999, Ministers agreed principles governing the future involvement of private-sector creditors in the resolution financial crises, including advocating that the IMF lend moral and financial support to countries imposing capital controls or suspending debt repayments. They also supported the G-10 proposals for majority voting and sharing clauses which prevent individual creditors from resorting to lawsuits or other means of obstructing settlements - hence creating an atmosphere conducive to restructuring negotiations. All of these measures, if implemented, would impose a greater cost on creditors lending to a country which is subsequently forced to reschedule its debts.

The pressures on private investors to shoulder some responsibility for crisis management is already having some effect. In the recent case of Brazil, for example, the IMF negotiated an assistance package which included private creditors as well as governments. The problem for policy-makers was to patch up a crisis in the private sector (because it threatened wider financial stability) which involved a very large (and increasing) number of lenders. Each private sector creditor had an interest in 'taking the money and running'. Yet if all creditors stayed the course, a crisis could be averted or at least managed with less cost to all. Initially, industrialized countries' governments threatened to compel foreign banks to participate in an assistance package. The private lenders, however, argued that compulsory participation would cause many of them immediately to move to reduce their exposure, thus exacerbating the problem. The end-result was a compromise agreement with the voluntary participation of the private sector. The difficulties inherent in managing such crises have forced policy-makers to look harder at ways to prevent crises.

In seeking to prevent crises policy-makers have bolstered the capacity of the IMF. They increased the Fund's resources by requiring member countries to contribute more through two mechanisms: the 'New Arrangements to Borrow' introduced in November 1998 which expands the countries contributing to this special fund beyond the G-10 members; and by a quota increase approved in January 1999. Furthermore, governments expanded the IMF's capacity to act by enabling it to extend contingent credit lines (CCL) to provide countries with strong economic policies with short-term financing as a precautionary line of defense against balance of payments problems that might arise from a crisis in another country (so-called 'international financial contagion'). These CCLs were approved by the IMF's Board in April 1999.

The other key reforms policy-makers have promulgated concern information, supervision, and regulation. On information dissemination, the IMF has taken a lead, although on matters of supervision and regulation it has only limited capacity and expertise and hence other international institutions have been called upon. Under direction of the G-10, for example, the 'Basle Committee on Banking Supervision' (formed in 1975 and comprising the central governors of the G-10 members plus

Luxembourg) have drafted new proposals aimed at requiring banks to apportion more resources to cover their own risks. In 1999 the proposals included capital standards not just on banks' loans but also on their operational risk (i.e. covering anything from a hurricane knocking out computer systems to staff fraud). Needless to say, banks have strongly rejected the proposals.⁽³⁰⁾

Even if effective, however, the Basle Committee proposals cover only international banks, leaving the vast and growing array of other creditors relatively unregulated. For this reason, policy-makers have begun to look at ways to moderate the destabilising potential of offshore financial centres, non-bank financial institutions, and transactions involving highly leveraged institutions (HLIs or so-called 'hedge funds'). They have widened the data disclosed to the Bank for International Settlements and guidelines have been drawn up regarding bank dealings with HLIs, and general trading activities of banks and securities firms.⁽³¹⁾ Additional forms of regulation are also being examined.⁽³²⁾

Government policies are now also coming under scrutiny. The IMF argues that governments need to develop and adopt internationally accepted standards or codes of good practice for economic, financial, and business activities. A first step in this direction was the creation of a Special Data Dissemination Standard in the IMF in 1996. This is a set of guidelines on the dissemination of economic and financial data to the public for countries seeking access to international capital markets. In 1999 the Executive Board of the Fund agreed that the standard should be strengthened and that the Fund should undertake to monitor it. The Fund is also promulgating a 'Code of Good Practices on Fiscal Transparency' and a code of good practices on 'Transparency in Monetary and Financial Policies'. These codes mirror the 'best practices' and 'core principles' guidelines which have been written by the Basle Committee on Banking Supervision for banking institutions.⁽³³⁾

For governments, new codes of practice relating to economic policy reflect a new more intrusive reach of institutions. Governments are now being required not just to justify particular macroeconomic indicators or results, but to shape their domestic policies so as to comply with international standards. In the section below, this extension of the reach of international institutions is discussed further.

A final issue raised by the financial crises of the 1990s is capital controls - or how much control governments can or should have over short-term investments to and from abroad. There is now wide support for the idea that governments might in some way try to raise the barrier to short-term flows of finance and thus mitigate the problems being caused by globalization. In particular Chile's experiment with taxes to limit short-term foreign borrowing by all domestic entities has attracted attention. In the wake of recent crises even the IMF has relaxed its previous hostility to such measures. In 1999 the Fund is reviewing how financial integration ought to be 'managed' and what role capital controls might play. Private sector creditors remain strongly opposed to any such measures.

The political result of globalization in capital markets has been to highlight the potential and actual roles of international institutions but also the clash of interests between the private sector and governments in industrialized countries. Previously, the public and private financial sector enjoyed a fairly cosy, if occasionally tense, relationship. In the mid-1980s, for example, in dealing with the Latin American debt crisis, the US Treasury and the IMF were able to coordinate a fairly small number of influential banks in a strategy for managing the crisis (the `Baker Plan'). In the 1990s, however, the number of private sector actors has grown enormously as new kinds of investors, mutual funds, pension funds and such like have entered the global finance market. The old implicit understandings and shared culture which facilitated cooperation between public and private sector (such as on Wall St in the US and in the City of London in the UK) are no longer effective.

New fragilities associated with globalized capital markets are forcing governments and international institutions to carve out a new role for themselves. In international finance, the new role requires governments and inter-governmental institutions to exercise authority over the private sector, and over domestic regulation within other countries. Crucially, however, the authority traditionally enjoyed by governments (and inter-governmental institutions) may no longer be effective in trying to fulfil these new tasks.

5. The new intrusive reach of international institutions

In a globalizing world, powerful governments are increasingly requiring international institutions to delve into the domestic details of politics, norms, values and organization within states. In the 1990s, this phenomenon was noticeable not only in international finance but in areas as diverse as trade and security.

In international trade, as described in chapter three, the requirements of a more global trading order have led not just to the creation of a more powerful international organization (the World Trade Organization) but to the negotiation of rules and standards in matters previously considered clearly `domestic' and not international. Where negotiators once worked to reduce tariffs and protectionist barriers, they are now concerned with a wide range of economic policies and practices, most of which are still widely considered the preserve of national governments.

In the realm of global security, international institutions have also become more concerned with what happens within states, as opposed to addressing what goes on between states. The change has occurred because governments now face a threat from conflicts which spill over boundaries and engulf contiguous

countries and even regions. The new threat of spreading conflicts has come about partly as the result of the end of the Cold War which contained warring parties within a rudimentary balance of power. In equal part, however, the new threat is due to the ease with which belligerents, arms, refugees, aid agencies, propaganda, and reporting can cross borders and regions. The widening and deepening of global communications, travel, and cross-border activities permits violence and instability to spread quickly. This requires guardians of security in any one country to pay close attention to what is happening within the boundaries of other countries. Most recently, the fear of spreading conflict has catalysed international interventions in Cambodia, the former Yugoslavia, Somalia, Rwanda and Haiti. As UN analysts have noted, these interventions reflect 'the growing willingness to address, rather than ignore, fundamental problems within the borders of war-torn states'.⁽³⁴⁾ In the early 1990s there was much talk of a 'new interventionism' engaging security institutions in domestic issues of human rights, democracy and governance.⁽³⁵⁾

In a similar way, in international finance, the possibility that a crisis in one country will spillover into others has created the spectre of global instability caused by events in one (not necessarily very large) country. This spectre has driven policy-makers to focus their attention on the domestic policies of countries integrated into the global financial system. Just as good governance and democracy are seen as preventatives in the security realm, so too sound economic policy is seen as an important moderating influence in the international financial system. This has led to the proposals discussed above for international standards in areas such as banking regulation and supervision, auditing and accounting, corporate governance, and bankruptcy laws. The implication is that globalization requires international organizations to enforce a much deeper level of policy integration or convergence, nudging the international institutions ever more deeply into the preserve of national governments' economic policy-making.

The common problem faced by all international organizations in a globalizing world is one of governance: can inter-state organizations, usually dominated by a small number of states, effectively influence and implement international standards and norms across and within a wide range of countries?

6. The effectiveness of international institutions in a globalizing world

Traditionally, the effectiveness of international institutions created by states has been explained either in terms of reciprocity and mutual interests which states hope to gain through the institution, or in terms of coercion exercised by the dominant state or states in the institution. The realist view of international order proposes hierarchy as a positive ordering element in the international system. The potential for international institutions to play an independent or autonomous role is relegated to the sidelines.⁽³⁶⁾ Institutions are described as a way for powerful states to reduce or share the costs of maintaining a particular order. Hence, the effectiveness of a multilateral organization will depend primarily upon the

relative power and commitment of its more powerful members.⁽³⁷⁾

In contrast to this view, others argue that international organizations reflect shared purposes and interests, not just of states, but of peoples, and of interest groups within states.⁽³⁸⁾ One such case is the European Economic Community as it emerged in the period following the second world war.⁽³⁹⁾ Furthermore, once institutions are created by powerful states, even if the powerful state's position declines, the institutions may well continue, as they did in spite of a decline in US hegemony in the 1970s.⁽⁴⁰⁾ On this view, multilateral institutions exist to promulgate rules which reflect shared aims, and to ensure rules are enforced through the participation and mutually recognized interests of all parties. As a result inter-state organizations enjoy some modicum of autonomy. Their effectiveness, however, depends on the continuing commitment of all members to the institutions' aims, and their willingness to participate in the enforcement of them.

The challenge in an increasingly globalized world is of a different order. While previously international rules covered a limited range of issues (such as foreign policy, defence and some matters of commerce), globalization has widened and deepened the international agenda encroaching on areas which governments and electors have jealously guarded as their own. The extent of political issues which are influenced by international agreements or cooperative regimes grows larger by the day, seriously challenging the autonomy of state leaders. The challenge is particularly pronounced in countries who do not enjoy a dominant position within international institutions. They risk becoming increasingly powerless in the face of standards being set by a small number of powerful states. For international organizations whose jurisdiction is expanding, this poses a deep question of legitimacy: on what grounds can they legitimately formulate policies for distant communities?

The legitimacy question was raised sharply in the 1990s in the above-mentioned areas of security, trade and finance. For example, the IMF attempted to require 'forceful, far-reaching structural reforms' from countries in order to correct weaknesses in domestic financial systems and 'to remove features of the economy that had become impediments to growth (such as monopolies, trade barriers and nontransparent corporate practices)'.⁽⁴¹⁾ These conditions go far beyond the kinds of macroeconomic targets previously required by the IMF. They drive deep into a country's domestic economic policies. Politically, this has caused commentators to ask how legitimate this is. For example, Marty Feldstein, in his examination of the IMF's response to the crisis in East Asia wrote in *Foreign Affairs*: 'The legitimate political institutions of the country should determine the nation's economic structure and the nature of its institutions. A nation's desperate need for short-term financial help does not give the IMF the moral right to substitute its technical judgements for the outcomes of the nation's political process'.⁽⁴²⁾

The issue here is a difficult one. The IMF is charged with the role of safeguarding the stability of the

international monetary system. Yet in a globalizing world, this is increasingly difficult to do without incursion into the domestic policies of countries. Likewise, as argued in the previous section, in trade, and international security, it is difficult to manage problems created at the regional or international level by increasing flows of goods, people, crime, and violence (and the associated changes in perceptions and politics), without addressing domestic social, economic and security policies. The problem here is that what we might call 'deeply domestic' policies and outcomes can not be altered purely by external pressure or *fiat* from abroad. The only agency which has the capacity to ensure that human rights, environmental standards, or banking supervision guidelines are systematically respected within any country is the state and the government of that country.

International institutions are now being called upon by their dominant members to find ways to deepen all their member-governments' commitments to international standards so that international rules become vigorously applied *within* all states' borders. This is difficult for existing organizations which are hierarchically organized, with a small cohort of powerful countries making the rules and ensuring that the rules are kept to. In the past, this was a means by which powerful states could enforce norms and rules among states. Globalization, however, requires institutions to enforce within states. The new task for multilateral organizations is to bring together governments so as to persuade them of and coordinate internationally-agreed-upon policies. If they do not, governments will simply alter their behaviour for short-term incentives, and revert to their previous national policies as soon as those incentives are exhausted.

So how can international institutions be more effective in implementing international standards? The key is legitimacy: as they encroach more upon the policies of elected governments international organizations will need to be seen to respect basic principles of democracy. The governments they persuade will have to be able to explain to their own electorates why it is that the rules of international organizations represent their interests and ought legitimately to be implemented. International institutions, in other words, will have to point to more than the power of their dominant members as an argument for obedience from other states. In the first place, inter-governmental organizations will have to pay greater attention to representing all states and ensuring their participation in the formulation of new norms.⁽⁴³⁾ Beyond this, as discussed in chapter seven, institutions will have to consider what role non-state actors and transnational groups might play.

The record suggests that the inter-governmental organizations mentioned in this chapter are aware of the need to widen their membership and to alter their ways of working. It is equally clear however that they are reluctant to go very far in changing their structures. The BIS opened its doors in 1996 to Brazil, China, Hong Kong, India, Mexico, Russia, Saudi Arabia, Singapore, and South Korea. It bears noting, however, that this change in membership has not been equally by a change in influence. The real work of the BIS is still done by its Board which comprises just the G-10 Central Bankers. In the United Nations Security Council, some very modest changes in procedure were undertaken in the 1990s,⁽⁴⁴⁾ and many members have accepted that the membership of the Council should be enlarged, at least to include

Germany and Japan as permanent members and probably also representatives of developing countries.⁽⁴⁵⁾ However, the Council remains dominated by the Permanent Five members (China, Russia, the US, France and the UK) who not only have permanent seats but also enjoy an effective veto over Security Council decisions.⁽⁴⁶⁾ The blocking of reform is due essentially to the unwillingness on the part of the existing permanent members, and especially the United States, to permit any dilution of their rights.⁽⁴⁷⁾ The WTO has been created with equal representation of all countries, however, in reality the 'Quad' which dominated the GATT still dominate the organization (see chapter three). The IMF has opened up its work and procedures to a much greater degree of public scrutiny, and is just commencing a review of its voting structure which is weighted heavily towards the large industrialized countries.⁽⁴⁸⁾

The reason for such modest change is obvious. Powerful states are being asked to weigh up proven past effectiveness (through hierarchy which gave them control) against possible future effectiveness (through wider participation). It is only when existing institutions upon which they can stamp their will are manifestly ineffectual, that they will contemplate change. However, for as long as the hierarchically arranged institutions enjoy even limited effect, it is unlikely that their powerful members will give up any control or advantage. However, further change might occur at other levels of international governance.

One level of change which is occurring in the international arena concerns the networking of sub-state actors such as regulators, supervisors, and private agencies and the increasing reliance of existing inter-governmental organizations on these networks. It is notable, for example, that the Financial Stability Forum (described in section 3 above) set up by the leading industrialized countries to discuss reform of the financial system, includes the International Association of Insurance Supervisors (the IAIS which was founded in 1994 to bring together regulators from a wide range of countries) and the International Organization of Securities Commissions. The latter (IOSCO) comprises national securities commissions and is dominated by the US Securities and Exchange Commission. Self-regulatory bodies have been given associate member status in the IOSCO.⁽⁴⁹⁾ International lawyers suggest to us that these organizations represent a new kind of international regulation and enforcement, or even, as one scholar puts it: 'new vision of global governance: horizontal rather than vertical, decentralized rather than centralized'.⁽⁵⁰⁾

Other scholars have described this as part of a serious shift in authority from public to private sector actors.⁽⁵¹⁾ However these networks have yet to prove their effectiveness. Indeed, the IOSCO has failed in its attempts to develop capital adequacy requirements for its members. Furthermore, it would be wrong to overlook the fact that these new networks do not escape the hierarchy of power present in inter-state organizations - indeed, many participants argue that they largely reflect it.

Sub-state networks are not the only additional form of governance emerging in the international financial system. At the end of the 1990s, many states are showing increasing interest in regional institutions. The international financial institutions (or, better said, their most powerful members), however, have shown

little enthusiasm for such developments. For example, the countries of East Asia have debated whether a regional institution would better be able to prevent or contain currency and capital market crises in vulnerable countries, or to insulate the region as a whole from negative spillover effects from crises in Latin America or Russia. Indeed, they have made several proposals for an Asian Monetary Fund or the like. These proposals have been strongly opposed by the US Treasury and the international financial institutions who recognize immediately that a regional institution would lessen their own control and influence over monetary and financial affairs in the region. At the same time, however, existing institutions cannot ignore the fact that demands for regional bodies have been fuelled by the extent to which the existing international economic institutions exclude smaller, less powerful countries and economies from effective participation in policy and decision-making.⁽⁵²⁾

In summary, although complementary and competing governance structures are emerging, they do not constitute a solution to the problem of effectiveness which international organizations face in an increasingly globalized world.

Conclusion

This chapter has argued that globalization has been accompanied by an increased number of international institutions many of which represent attempts by states to cooperate and to regulate global issues multilaterally. Yet these new formal and informal organizations have not successfully found ways to manage the challenges and threats emerging as globalization affects finance, trade, and security. Institutional change is hampered by competition among states for power and influence and, in particular, an unwillingness on the part of dominant states to embrace a more participatory system. Change is also hampered by national and transnational non-governmental actors with vested interests in the existing system who therefore resist any attempts to reform it. What does this mean for the effectiveness of international institutions?

Institutions are now being used to effect a more intrusive level of regulation and policy coordination. This requires compliance not just from governments willing to sign agreements, but from their citizens. For this reason, institutions will not be effective while they rely on short-term incentives and the coercion of their strongest members in order to uphold global norms, laws and standards. Rather, international organizations will need to offer a wider range of governments an opportunity for genuine participation and these governments' citizens a better rationale for implementing internationally-agreed standards or norms. Many powerful governments have already recognized this imperative. However, as global regulation and reform encroaches more on the vested interests of specific groups within countries (especially in countries who dominate existing institutions), governments will face increasing resistance to change from national and transnational actors aware that any diffusion of their government's power in international institutions is likely to reduce their own influence over global regulation or standards.

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