

# Global Trends in the Shadow of the World Financial Crisis

## Challenges, Power Shifts and Options for Global Governance

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Two decades after the end of the Cold War, the world financial crisis marks an historic turning point which will have substantial geopolitical repercussions. It would be somewhat misleading, though, to compare the world financial crisis with the events that took place post-1989 – for the present crisis is not about the collapse of ideologies or political regimes. It does, however, have implications for the governance and leadership structures that had evolved informally after 1975 with the emergence of the Group of Seven (G7) following the end of the gold-dollar standard and the first oil crisis. From then on, the heads of state and government of the world's leading economies met on a regular basis, initially to discuss issues such as monetary stability, foreign trade policy and debt, and later with an increasing focus on security, development and climate policy. This self-styled "club of wealthy nations", comprising the US, Canada, Japan, the United Kingdom, France, Italy and Germany, was later enlarged to include the Russian Federation, becoming the Group of Eight (G8). In the wake of the world financial crisis, however, a new trend is emerging which poses major challenges to international politics: the growing influence of new multipolar configurations of power. This is particularly apparent from the G8's progressive loss of significance: the G8 is steadily being supplanted by the Group of Twenty (G20) in negotiations not only on

international financial system regulation but also on environmental, climate and trade issues. The G20 is an informal group, formed in 1999 and comprising the G8 countries, 11 economically powerful emerging and developing countries (including Brazil, China, India, Indonesia, South Africa and Turkey), Australia, and the European Commission. At the G20 summits in Washington in 2008 and in London in 2009, where the G20 met at the level of heads of state and government for the first time in its history, the world economic crisis dominated the discussions, whereas at the September 2009 meeting, climate protection also was an item on the agenda. Impending climate change is the third – and probably the greatest – challenge to political and socioeconomic governance structures in their present form.

We therefore begin this introduction by briefly outlining the ways in which these three key challenges are likely to impact on the existing world order. However, as the articles in *Global Trends 2010* show, four of which have been selected for this abridged English edition, a number of other – in some cases multisectoral – trends are emerging which will also have implications for global governance in future. We conclude by exploring various models of global governance which are being applied in the quest for solutions to global problems.

## Key global challenges

The world financial crisis was the most momentous and defining event of recent years. Besides sparking a debate about the need for better regulation of the financial markets [*cf. The World Financial System in Crisis*] and efforts to ward off a major recession, the crisis has raised a number of other questions: in view of the tense economic situation and fiscal bottlenecks, will the international community scale down its endeavours to find solutions to development and security problems? Will political issues that are crucially important for the future of humankind, such as the climate crisis, now be put on the backburner? How will the after-shocks of the financial crisis impact on the poorest countries, and will they impede progress towards the achievement of the Millennium Development Goals (MDGs)? Will the economic collapse trigger social upheavals that will encourage polarisation along ethno-political and religious lines, especially in transition societies?

Many of these questions are still unanswered due to a lack of reliable data. Nonetheless, there is evidence of a key trend emerging:

**Trend 1:** The world financial crisis is a major setback to socioeconomic progress in large parts of the world, demonstrating conclusively that neoliberal paradigms are a spent force. The economic consequences are being felt not only by the wealthy economies but also, and especially, by developing countries that are heavily dependent on foreign trade (especially commodities) and foreign capital inflows. The economic progress achieved in recent years, especially in Africa, is at risk of being reversed. Many emerging economies

will be weakened for a transitional period, although their significance as new drivers of the world economy will increase overall.

In the past, the G7/8 has often acted, in effect, as an informal world government – although this has aroused substantial misgivings on the part of the global South and especially India and China as emerging powers. These two countries are becoming increasingly assertive in reclaiming their role in the global configuration of power – and with good reason. According to various scenarios modelled by investment banks, consultancies and intelligence services such as the US National Intelligence Council, China's economy is poised to overtake the US economy as early as 2027, with India likely to follow suit by 2050.

**Trend 2:** The world financial and economic crisis has finally discredited the G7/8's monopoly on exclusive club rule. The resurgence of more multilateral approaches is reflected in the G20's assumption of key consultation and, in some cases, leadership functions.

This presumably irreversible power shift, however, will not inevitably lead to a form of universal multilateralism at United Nations level that would facilitate regulated cooperation among all the countries impacted by global problems. What we are witnessing, rather, is the progressive breakdown of ossified power systems and the emergence of new structures which more accurately reflect the real relationships of power. However, these new structures are not necessarily more inclusive in terms of facilitating participation by "weak" members of the international community.

Although attention has focussed primarily on the world financial crisis since 2008, the main challenge facing humankind in the 21st century is – and remains – the threat of climate change. Global warming above 2°C will have fairly predictable consequences such as more frequent droughts and sea-level rise. However, there is also a risk of non-linear changes occurring in the Earth system, which are more difficult to calculate but which would have particularly dramatic consequences. If specific "tipping points" are exceeded, radical and irreversible changes in humankind's conditions of life could occur. In a "world risk society" (Ulrich Beck), the impacts will be felt in every region, triggering transnational chain reactions. However, the associated burdens and risks will be shared out very unequally [*cf. Tipping Points in the Earth System and their Implications for World Politics and Economy*].

**Trend 3:** Climate change has become the main driver of global environmental change, with far-reaching implications for societies, economies and the international system. In vulnerable regions of the world, it is likely to trigger new conflict constellations as a consequence of food crises, a decrease in freshwater availability, storm and flood disasters, and crisis-induced migration.

Our political systems will undergo major tests of strength on a probably unprecedented scale, which is why preventive measures should focus especially on safeguarding human rights standards. It is also clear that in some cases, averting climate change will no longer be possible; instead, priority must be given to swift adaptation measures. Multi-lateral mechanisms to meet the ensuing costs must be established at an early stage due to the substantial time lag between the causes

and effect of climate change, the spatial distance between the countries driving climate change and those hardest hit, and the international community's particular responsibility in this area. Restructuring the world's energy systems must be a priority as a key problem-solving strategy.

More intensive use of renewable energies, which is entirely feasible in technological and economic terms, can establish the basis for sustainable development.

### Global trends with multisectoral impacts

In parallel to "casino capitalism", which has occasionally spiralled out of control, fundamental power shifts, and the challenges posed by climate change, other trends are emerging which have developed over decades and are also likely to impact on humankind's prosperity, security, opportunities for participation, and prospects of survival. They include conflicting trends in the development of violent conflicts, a new wave of rearmament, and the growing significance of religion as a factor in global politics. Other notable trends include rapid urbanisation, the now central role of migration in the economies and societies of the countries of origin and host countries, and the widening gap between "health societies", on the one hand, and world regions where infectious diseases are spreading rapidly, on the other. These trends with multisectoral impacts also include the globalisation of science and innovation processes.

**Trend 4:** Security, as a policy field, is characterised by shifting and sometimes inconsistent trends. Armed conflicts have been in

decline since 1993, but numerous countries continue to experience sporadic outbreaks of violence and are affected by fragile statehood; this applies especially to sub-Saharan Africa. In parallel, a decade of rearmament has been observed since the end of the 1990s. Multilateral arms control is in crisis, and a further proliferation of nuclear weapons is likely.

Armed conflicts will remain on the agenda in numerous crisis regions. The decrease in armed conflict that has been observed since 1993 is a positive sign, but in many countries, statehood and governance have eroded to such an extent that lasting peace appears to be an unlikely prospect. The worst affected countries are not expected to achieve the MDGs by 2015. However, fears that fragile statehood could constitute a significant source of transnational terrorism and nuclear proliferation must be regarded as exaggerated; a systematic link between them has not been demonstrated empirically.

Nuclear proliferation remains an ongoing threat – the crisis affecting multilateral arms control over the past decade is a bad omen. It remains to be seen whether the new US Administration under Barack Obama can reverse the trend here, as it has announced it will do. Nor has a clear line emerged in the international community's response to new and aspiring nuclear powers: whereas it is closely monitoring Iran's and North Korea's nuclear activities, it remains equivocal about Pakistan's nuclear programme. Overall, all the signs point towards global rearmament, after the 40% cut in military expenditure in the 1990s. This trend is apparent in all regions of the world, with North America and the Middle East leading the field [*cf. Military Security between Rearmament, Democratisation and Privatisation*].

Trend 5: The West has long underestimated the significance of religion as a factor in international and transnational relations. In the academic discipline of "international relations" in particular, exercise of power and willingness to cooperate have generally been analysed in terms of the rational calculations of a "homo economicus". By contrast, the assumption of power by Ayatollah Khomeini in Iran back in 1979 and the ending of the Soviet occupation of Afghanistan by mujahideen fighters were some of the first signs that global politics is crucially influenced by politico-religious identities and ideologies as well.

There has been considerable debate in the West recently about the "Shi'ite renaissance" in the Middle East. Less attention has focussed on the fact that a global revival of faith is sweeping the supposedly secular Western world as well. In the US, for example, there has been an upsurge of evangelical and charismatic movements in Protestantism, and these are now expanding into the Catholic, Muslim and Orthodox spheres of influence in Central and South America, West Africa, and Eastern and Central Europe.

Esoteric spiritual communities have also increased in significance. An analysis of internal armed conflicts over recent decades shows that the religious dimension is never the sole or even the dominant cause of conflict. However, religion is increasingly being instrumentalised by political and military leaders seeking to recruit violent actors to their cause and assert their legitimacy in ways which achieve a broad mobilising effect in the struggles for power and access to resources. But religion can also have a conflict-defusing effect: examples are the global interfaith dialogue inspired by Hans Küng

and others, and the role played by churches and faith communities in conflict mediation in many parts of the world.

**Trend 6:** The urbanisation process is steadily continuing. As of 2007, more of the world's people live in cities than rural regions, with most urban growth taking place in the emerging economies and developing countries. The rise of megacities, most of which are located in the developing countries, poses a major development challenge.

As highly dynamic entities, especially in the economic sphere, urban areas are increasingly emerging as drivers of global change. They thus constitute a new factor in world politics, reflecting the growing significance of the "local" level – although in terms of population size, some of these cities, such as Mexico City, Mumbai, São Paulo, Shanghai or Lagos, are in fact much larger than some countries.

Cities are facing a steady decline of their governance capacities and, indeed, their governability – accompanied by growing informality and an increasing number of stakeholders. The millions of newcomers to the cities need an infrastructure, the lack of which impacts negatively on socioeconomic development. Cities are seen as risk areas, displaying a high level of social and environmental vulnerability which will be exacerbated by the ongoing process of climate change – which is itself partly driven by urban growth. At the same time, cities offer immense potential for positive development, whose impacts can radiate around the globe. It is already apparent that some of the issues which are currently being discussed in terms of "global governance" will in fact prove to be "metropolitan governance" issues.

**Trend 7:** The number of international migrants has increased threefold since 1960. Although the proportion of migrants in the world population is fairly stable, the relative importance of migrants in the "ageing" industrial societies is increasing. Migration has become the central human factor in transnational globalisation and, in view of the substantial rise in the number of women migrants, is increasingly acquiring a "female face". As the dark side of globalisation, human trafficking has become a multi-billion-dollar industry.

In view of the increasingly unfavourable age structure in the industrial and service societies, a radical perception and paradigm shift has occurred in the migration discourse. There is a growing recognition that labour immigration is essential to maintain these countries' prosperity. Easier labour market access for skilled migrants, combined with increasingly stringent measures to curb illegal immigration and the influx of refugees, has thus become the preferred model in many Western industrial societies. Protection regimes for the politically persecuted and environmental refugees, on the other hand, remain underdeveloped.

Does migration harm or benefit the countries of origin in socioeconomic terms? This is a contentious issue. Despite the brain drain, middle-income countries are likely to benefit because migrants' remittances stimulate the economy and circular migration can result in a "brain gain". A more sceptical view must be taken of the situation in the poorest countries, however: in key sectors here, notably healthcare, the supply of skilled workers is drying up completely in some cases.

Trend 8: There continues to be extreme inequality of "life chances" between and within world regions and societies, with the gap continuing to widen in some cases. Sub-Saharan Africa in particular is lagging further and further behind; this region has bucked the global trend in that life expectancy here is decreasing, and as in South Asia, the health MDGs, for example, will not be achieved. In contrast, East Asia is a "winner region" – albeit accompanied by growing social polarisation.

A widening global gap between industrialised countries and emerging economies, on the one hand, and the poorer developing countries, on the other, can be observed in relation to the satisfaction of basic needs and health risks. For example, the number of undernourished people in all developing regions has risen again since 2003. Almost ten years after the Millennium Summit, clear winners and losers can be identified in relation to other key MDGs as well: for example, the number of people living in extreme poverty in the East Asia and Pacific region has decreased, but in sub-Saharan Africa and South Asia, the number remains at a high level and is likely to increase substantially in some cases as a result of the financial crisis. Whereas poverty-related diseases are still the main health concern in the developing countries, the emerging economies are witnessing greater alignment of disease patterns and health risks with those prevailing in the industrialised countries [*cf. Global Health Governance in Transition*]. However, despite the striking inequalities between the developing countries, on the one hand, and the industrialised countries and emerging economies, on the other, it must be borne in mind that the gap between rich and poor is widening within societies too [*cf. The World Financial System in Crisis*].

Trend 9: Scientific and technological progress is becoming increasingly "internationalised" in its organisation. This is an outcome of greater market openness, but it is also a response to global problems. The ongoing conflicts of interest over rules to protect intellectual property rights remain difficult.

Over the past decade in particular, the group of countries achieving strong performance in the field of science and technology has widened to include key players such as Brazil, China and India. Globally networked conurbations such as Shanghai, Bangalore, São Paulo and Johannesburg are providing knowledge-intensive business services for global value chains. However, the distribution of research capacities around the globe is still uneven. Health research is just one example of a scientific and technological field in which controversy over intellectual property rights has high conflict potential. The challenge is to establish a regulatory framework which creates incentives for research and development and encourages competition, while facilitating the transfer of development-relevant technology so that catch-up development can still take place.

## Options for global governance

How, then, can effective regulatory frameworks be established? In the past two decades, new models of global governance have emerged, largely in response to global and transnational problems. Alongside traditional forms of hierarchical governance by one hegemonic power in the international system, or institutionalised multilateralism, mainly via the United Nations, a number of

new horizontal governance mechanisms have evolved.

**Trend 10:** The hierarchical approach to global governance is increasingly being supplemented – and indeed in some cases supplanted – by new horizontal governance mechanisms. These may be exclusive or inclusive in terms of the participation of various actors. They often facilitate solutions to problems where multilateral processes have stalled and hegemonic approaches are likely to fail, but they are not a panacea: multilateral governance structures remain indispensable in order to maximise coherence and provide a legitimate framework for action.

Examples of these new forms of governance are private self-regulation and various club models such as the Group of Five (G5), G8 or G20, on the one hand (i.e. exclusive), and multi-stakeholder/multi-actor configurations such as public-private partnerships (PPPs) or forums, on the other (i.e. inclusive) [cf. Table 1].

**Table 1: Models of Global Governance**

	Hierarchical	Horizontal
Inclusive	Institutionalised multilateralism	Multi-stakeholder models (e.g. public-private partnerships, forums)
Exclusive	Hegemony, selective multilateralism	Private self-regulation, club models

Source: Authors' own diagram

In these "laboratories" of global governance, various forms of regulation, some involving private actors, have developed. However, this

"privatisation", although successful in some areas, reaches its limits when collective interests are involved, especially if they collide with powerful vested interests that may be motivated by profit-seeking. The disastrous consequences of world financial system deregulation vividly demonstrate that an effective regulatory framework is essential. The existing club models, too, are likely to reach their limits due to their lack of inclusivity, as the G8's expansion into the G20(+) shows. The international community will therefore have no option but to continue along the laborious path towards multilateral regulatory mechanisms and reform the international institutions – first and foremost the UN – to enable them to function effectively. For the policy areas which are the key focus of *Global Trends 2010*, the following outlooks emerge:

#### **Peace and security: no alternative to effective multilateralism**

The UN Security Council will remain the key governance institution in the field of peace and security, even though it is still in need of reform. In essence, it embodies the old power relations which emerged after the Second World War, rather than those that exist today. An expansion of the Security Council to include additional permanent or even semi-permanent members would not only increase its legitimacy but would also give a greater role to actors that are important participants in regional peacebuilding and are becoming increasingly significant at global level. In the security arena, a multi-tier structure is already emerging in the interplay between global and regional governance as a result of the "division of labour" with regional organisations. The development of hybrid models (e.g. UN-

NATO, UN-African Union) can also be observed. And although private security companies are increasingly opting for self-regulation, proper control of these companies is ultimately only possible through effective multilateralism.

### **Development and human rights: deficits due to a lack of international coordination**

In the human rights and development arena, a wide range of governance models can be observed. One interesting development is the growing engagement of private sector actors in the enforcement of human rights. However, voluntary self-regulation can only ever be a supportive element here, as direct human rights protection falls within the purview of governments. The exercise of human rights responsibilities by private actors also distracts attention from the lamentable fact that the newly established UN Human Rights Council is proving even less effective than its predecessor. Moreover, the "war on terror" has led to a dramatic erosion of human rights standards.

The establishment of public-private partnerships in the development arena has shown that alternatives to state provision of public goods can function effectively: a good example is the Global Alliance for Vaccines and Immunisation (GAVI Alliance), a PPP whose mission is to save children's lives and protect health by increasing access to immunisation. However, the ever-increasing number of international, government and private actors and programmes has also resulted in a severe lack of coherence, wasted resources and overstretched capacities, especially in the developing countries. Of particular relevance

here is the principle of harmonisation enshrined in the 2005 Paris Declaration on Aid Effectiveness, which obliges governments and international organisations to improve coordination of their joint endeavours in various policy areas, while the Accra Agenda for Action, adopted in 2008, calls for governments to engage in development policy dialogue with civil society organisations (CSOs) as well.

### **The world economy and global finance: from deregulation to club governance**

After the failure of attempts to move standard-setting for the world's financial markets towards horizontal and exclusive self-regulation, governments' capacities to act are now being restored via various forms of club governance; this also occurred after the dissolution of the Bretton Woods system. However, these clubs have an exclusive character, and participation in their discussion and consultation processes is restricted to their privileged members. Against this background, a key challenge for the second decade of the 21st century is to interlink these clubs with reformed international organisations, especially those of relevance to the world economy and international financial system. With the World Trade Organization (WTO) and the International Monetary Fund (IMF), the international community has two organisations at its disposal which have regulatory potential. However, the IMF is in urgent need of reform in two respects: firstly, to expand the rights of participation for members with few voting rights at present, and secondly, in order to set a new economic policy course; this, however, will necessitate a broader public debate.

### **Environmental and climate policy: expansion of existing regulatory mechanisms**

Environmental and climate policy is already notable for its relatively high level of regulation. In recent decades, a number of international regimes have been established in this field and have a good record of success. But the United Nations Environment Programme (UNEP) has never managed to fulfil the coordinating role originally intended for it. It is questionable whether a "World Environment Organization" could assume this role, especially if this required states to devolve some of their sovereignty. A more promising approach would appear to be the expansion of existing regimes, also with a view to making them more inclusive. Internationally recognised panels of experts, modelled on the Intergovernmental Panel on Climate Change (IPCC), could take a lead here. However, the climate protection regime will only be effective if populous emerging economies such as India and China can be integrated into the process alongside the "traditional" greenhouse gas emitters such as the US and other Western industrialised nations. Besides the objective pressure for action, it is likely to be the transnational public that will ensure that progress is achieved here.

Furthermore, countries that take the lead on environmental and climate policy are likely to benefit from competitive advantages in the global markets in the medium term, which also creates incentives. For climate policy to be successful, though, these incentives must be underpinned by a global economic governance regime that is geared towards climate-compatible development.

### **Outlook: which model(s) of global governance?**

The world financial crisis has cast the failure of a governance regime that is largely based on self-regulation and market forces into sharp relief. But which alternatives exist? There are increasingly vocal and justified calls for a return to stronger and more effective action by the state. Now more than at any time in the past two decades, the state is emerging as a key building block of global governance. However, in today's networked and highly complex globalised world, regulation by national governments soon reaches its limits.

In thematic areas where international organisations have not yet emerged, or remain ineffective due to programmatic failures or a lack of legitimacy in decision-making mechanisms, forums and club models are one way of achieving a balance of interests at international level and initiating learning processes. A great deal can be achieved through horizontal governance – and in an increasingly multilateral world, the associated consensus-building is of great importance, also in terms of peace policy. However, when it comes to the enforcement of rules and the mediation of disputes, multilateral and hierarchical models of governance, far from being obsolete, still have a key role to play. The task of strengthening international institutions and international law must go hand in hand with a reform of the UN system, and, indeed, the expansion of regional organisations. And finally, horizontal governance models – especially the more exclusive ones – must be brought back into line with the international

institutions, also as a means of enhancing these models' legitimacy.

One thing is clear: for the foreseeable future, there will not be "one" system of global governance. This overview of current trends shows that various forms of gover-

nance and regulatory models will continue to compete with each other at the various levels – global, regional and local/urban. This may not make the world any less complex but it could increase the prospects of achieving successful solutions to global problems.