

“The Turn of the Screw”: The Impact of Globalisation on Global Governance

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In 2017, Professor Wang Wen of the Chongyang Institute of Financial Studies produced an article for the Financial Times, in which he acknowledged a link between globalisation and increased demands on the process of global governance. Wen argued that “the engine of globalisation has shifted from developed to emerging economies” (Wen, 2017, online). Citing Chinese President Xi Jinping’s speech at Davos in January 2017, which charted the path of ‘new globalisation’, he stated that two major issues would need to be tackled going forward. Firstly, he argued that in order to secure the path to new globalisation, there would be a requirement “to challenge backward global governance concepts” (Wen, 2017, online). Wen highlighted the breadth of challenges faced by the current global governance system, which he argued is “incompatible and fragmented” with “rampant terrorism, energy and food security crises and the spread of infectious diseases” (Wen, 2017, online). Secondly, Wen looked at structural issues. He stated that “existing global security, trade and financial mechanisms, such as the UN, the WTO and the IMF, are struggling to respond to the ongoing crises around the world” (Wen, 2017, online). Wen asserted that as a result of a changing global power structure, stemming from the effects of new globalisation, there would be a need to “reshape global governance rules in accordance with the latest international structure,” (Wen, 2017, online) specifically, the better inclusion of developing countries and emerging economies.

Thus, this essay aims to use Wen’s argument as a framework for demonstrating how globalisation has created increasing demands on the process of global governance. Firstly, it will discuss how globalisation has increased demands on the governance of the “global commons”, in the form of range of challenge, which cannot be addressed by a single state actor alone. Secondly, it will discuss how new globalisation is accelerating change in the global power structure, so that the institutions and state groupings developed in the immediate aftermath of World War II are neither effective nor legitimate enough to deal with the challenges globalisation brings. Increasing demands are placed on the very structure and organisation of global governance, thus placing increased demands on the process of global governance.

However, in presenting this argument, it is firstly important to define “globalisation”, “new globalisation”, and “global governance”. Globalisation is viewed by many theorists as a compression of space and time, so that distant communities can, through heightened interconnectedness, interact more rapidly, thus bringing a sense of greater proximity. According to Karns, Stiles and Mingst, globalisation is “a historical process involving a fundamental shift...in the spatial scale of human social organisation that links distant communities and expands the reach of power relations across regions and continents” (Karns, Stiles, Mingst, 2009, p.4). These links, or this interconnectedness, has “over the last three decades...become increasingly evident in every sphere, from the economic to the cultural” (McGrew, 2014, p.16). Importantly, as Karns highlights, globalisation is a process and thus will continue to evolve. Despite popular sentiment that “globalisation is...in retreat” (Bhattacharya, Khanna, Schweizer, Bijapurkar, online), it could be argued that it is instead developing into a new form of globalisation. “New globalisation” is defined economically by its “multipolar and fragmented growth” as opposed to being driven by a single country operating as an economic pole. Politically, it is defined by its limited “convergence on the agendas of the world’s biggest economies” (Bhattacharya, Khanna, Schweizer, Bijapurkar, online).

Thus, in an increasingly connected world which lacks any central actor, there develops a need for “ordered rule and

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collective action” (Higgott, 2002, p.20). Global governance, provides this through “institutions and processes which seek to manage global problems. Global implies they transcend national and regional borders and involve many countries” (Goldin, 2013, p.4). Importantly, “it is not a global government; it is not a single world order; there is no top-down, hierarchical structure of authority...” (Karns, Mingst, Stiles, 2009, p.2). Instead, it involves a number of players who adhere to the “Rules of the Game”, most notably including Non Governmental Organisations, Inter Governmental Organisations and Multi-National Firms. In this context, “Rules of the Game” can be defined as “basic norms of political legitimacy, war and peace, and commerce” (Paris, R., online). In other words, the process of global governance including international summits, decision making, and decision application, should adhere to these basic norms.

Having defined globalisation and global governance, the essay will now look to demonstrate in line with Wen’s argument, how globalisation is increasing demands on the “global commons”, and in turn, on the process of global governance. Goldin defines the “global commons” as “natural assets that are outside national jurisdiction, such as the oceans, outerspace, and the Antarctic” (Goldin, 2013, p.48). In this respect, “the internet and cyberspace are...a global commons, as is peace and security” (Goldin, 2013, p.48). These commons place increasing demands on global governance due to the fact the problems that they bring “increasingly render domestic solutions inadequate” (Goldin, 2013, p.48). There are two commons that the essay shall focus on to demonstrate this: the global environment and cyberspace.

“In the course of modern rapid globalisation, a complex network of world-spanning supply...chains has emerged” (Wenz, online). Increased industry, production, and travel associated with this, are amongst the results of globalisation that have led to detrimental effects to the global environment, a product of increased emissions. Goldin argues that globalisation and its resultant effect on the climate has led to a situation which “urgently require[s] global interventions. No one country can possibly deal with climate change – it requires concerted action at the global level” (Goldin, 2013, p.45). He states that “in the area of climate change, the gap between challenge and action on global governance is particularly stark” with emissions in “virtually all countries...[continuing] on an upward trend” (Goldin, 2013, p.41). Thus, the challenge faced is that identified by Goldin, and supported by the Global Carbon Capture Storage Institution, that “the level of carbon dioxide...released into the atmosphere has increased significantly since the beginning of the industrial era” and as a result “the world will experience the effects of climate change” (Global CCS Institute, online).

However, whilst it is undoubtable that reduction of emission in a bid to protect the global environment presents the main challenge, and thus the main increased demand on the process of global governance, there also exists an additional demand. The leading economies developed at a time of limited or no regulation on their emissions and environmental impact, enabling them to enhance their economies without the requirement to consider any broader impact. Thus, global governance in respect of environmental regulation now faces the increasing demand of balancing the development and industrialisation of emerging economies with the requirement to manage global emissions.

These two challenges are best illustrated using the 1992 United Nations Framework Convention of Climate Change (UNFCCC), and specifically the Kyoto Protocol which fell under this. The UNFCCC has been at the core of efforts to reduce global emissions. Ratified by 195 countries, the Convention is a means by which for “countries to work together to limit global temperature increases and climate change, and cope with their impacts” (European Council, online). Under this Convention, the Kyoto Protocol was developed. In brief, the Kyoto Protocol “introduced legally binding emission reduction targets for developed countries” (European Council, online). Thus, it can be seen that this particular process of global governance attempted to both meet emission reduction targets, and balance this with allowing for the fair development of emerging economies.

However, arguably the demand on global governance to achieve this balance was too great. In 2007, 15 years after the development of the UNFCCC, global emissions actually increased by 38%. Within this global increase, the emissions of developing economies, particularly China, increased sharply (Clark, online). One of the key failures of this process was that the United States, one of the globe’s largest contributors to the emissions total, refused to ratify the Protocol, a result of its lack of binding targets on developing nations. As demonstrated, this allowed nations such

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as China and India to produce emissions without recourse. It should also be noted that the Kyoto Protocol was only finalised “halfway through its ten year life” in 1997. The demands on global governance had been to act quickly, to limit global emissions within specific targets, and to allow for the development of emerging economies. Arguably, the UNFCCC and its Kyoto Protocol had only achieved one of these, demonstrating that these increased demands were too great.

The next area that will be focused on to demonstrate the increasing demands globalisation places on the process of global governance, is the internet and cyberspace. Goldin states that cybersecurity is a “key challenge for local and global governance in the twenty first century” (Goldin, 2013, p.27), but this can be extended to cover the internet and cyberspace in its entirety. When the internet was initially developed for public use, it was assumed that due to its decentralised nature, the technology would be extremely difficult for governments to regulate (Deibert and Crete-Nishihata, 2012, p.341). It is this lack of certainty and understanding that has led to a range of increasing demands on the processes of global governance, which shall be discussed in this section.

The internet has presented a variety of opportunities for criminals and individual or state-backed hackers to operate in ways which could “cause the breakdown of essential infrastructure systems or [cause] significant financial damage” (Goldin, 2013, p.31). In February 2015, for example, the Russian cybersecurity firm, Kaspersky Lab, reported that a single hacking ring had stolen up to \$1 billion from over 100 banks in 30 different countries since the end of 2013 (Los Angeles Times, online). In the absence of a centrally managed global governance institution to address this issue, which clearly lacked geographical boundaries, there existed a governance responsibility gap. As a result, the banks themselves, coupled with information from the Financial Services Information Sharing and Analysis Centre, were forced to develop further security measures themselves. As Deibert argues, in instances such as this, “the private sector actors who own and operate the vast majority of cyberspace infrastructure are being compelled or coerced to implement controls on behalf of states” (Deibert and Crete-Nishihata, p.343). Thus, globalisation has in this area placed increased demands on global governance by arguably forcing different actors, in this case the Banks or multinational firms, to develop processes to address a global governance issue that cannot be met by single state actors or other public organisations.

This leads us to a further demand that globalisation has placed on global governance. That is, by forcing the development of institutions that can deal with issues than have never previously been faced, prior to globalisation. Deibert argued in 2012 that “global mechanisms and dynamics of growing cyberspace controls” were “missing” (Deibert and Crete-Nishihata, p.346). Institutions had indeed been developed for the purpose of internet governance, notably, the International Telecommunication Union (ITU) and the Internet Governance Forum (IGF) amongst others, but early on in their development, these organisations faced outside pressures, particularly political, to develop their process of global governance in a very particular way, emulating the regulations emplaced by certain states. For example, Russia and some of the former-Soviet States “have adopted a wide-ranging engagement with these forums to promote policies that synchronise with national-level laws” (Deibert and Crete-Nishihata, p.346), reinforcing its sovereign control over national information space. China has recently highlighted its belief that “global cyberspace should be governed by international institutions operating under the United Nations” (Deibert and Crete-Nishihata, p.346). Thus, it is apparent that one of the increasing demands globalisation places on global governance in the sphere of the internet and cyberspace, is one of developing institutions that can meet the security need, and satisfy single states across the globe without becoming too heavily subjected to political pressure in an unfamiliar, uncharted environment.

Referring back to Wen’s argument, the second area of global governance that he felt faced increasing demands as a result of the impact of globalisation, was its institutional structure and the processes it followed as a result of adhering to the aforementioned “rules of the game”. Wen argued that globalisation, particularly “new globalisation”, has precipitated change to the global structure. Specifically, globalisation has enabled a number of previously underdeveloped states to experience rapid economic growth. Most notably, an “increased flow of trade, capital, money, direct investment, technology, people, information and ideas across national boundaries” has assisted in the rapid development of Brazil, Russia, India, China and South Africa (BRICS). Representing over 3.6 billion people with their combined populations, the five nations’ Gross Domestic Product (GDP) represents 22 percent of the world’s GDP (School of Economics, online). Additionally, “the past two decades have seen the doubling of incomes

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every eight years in China and robust growth in the other BRICS” (Goldin, 2013, p.167). The five nations, minus South Africa, formed a grouping in 2006, adding South Africa in 2010 in order to add more weight to their political agendas. Thus, as a result of globalisation, a rapidly growing economic force has demonstrably become a developing political force. This structural change has reached such a point that institutions of global governance and the process of global governance face increasing demands.

The first increased demand on the process of global governance is that existing institutions face overt demands from emerging economies against specific policies which those economies view as unfair or detrimental. There are numerous examples of the BRICS nations, for example, acting overtly against the established western order, but the essay will focus on the establishment of the New Development Bank (NDB) and the impact that this has had on the established process of global governance. The NDB was established in order to mobilise “resources for infrastructure and sustainable development projects in BRICS and other developing countries to “supplement” the role of the World Bank and other regional financial institutions” (Bhadrakumar, online). Furthermore, it was established as a means by which to reduce “the continued dominance of the developed countries over...[global] financial institutions” (Bhadrakumar, online), a situation which stemmed from the post-World War II settlement, during which “allied countries gathered at Bretton Woods to create a new international financial order” (Wang, 2016, p.1) upon which today’s order remains largely built.

There are a number of demands that the creation of the NDB places on the existing process of global governance. Firstly, it places pressure on the current system to be more inclusive of emerging economies. It could be argued that “ideally, what the World Bank and the whole network of existing regional development banks would prefer is to continue to use BRICS money and keep the existing pattern of western hegemony” (Bhadrakumar, online), but the development of the NDB threatens this pattern. Arguably, it creates a situation in which the established institutions of global governance can no longer “use the international finance institutions to prescribe and impose economic policies on the developing countries” (Bhadrakumar, online) in a bid to promote their own economic and political interests.

Secondly, the development of the NDB places increasing demands on the current process of global governance by potentially undermining its exacting standards. There exists concern from International Development organisations and the United States Government that new institutions such as the NDB “will play by rules different than those of the World Bank” which could in turn “undermine the existing standards, goals, and values of these institutions” (Wang, 2016, p.8). Ultimately, in a highly competitive globalised economy, there is concern from some analysts that the development of the NDB “could undermine the ability of...the World Bank to uphold their standards” (Wang, 2016, p.9). The World Bank’s development of standards “aimed at minimising the harm of projects to vulnerable people and the environment” (Wang, 2016, p.9) serves as an example of this imbalance of standards between existing global governance organisations and the NDB. Whilst the NDB has stated its intention to “follow high standards in social and environmental protection” it has proved reluctant to publish details of the safeguards it is applying (Wang, 2016, p.9). Thus, the increasing demand on the process of global governance is one of continuing to adhere to the “rules of the game”, despite the lack of willingness of emerging players to do so.

Aside from direct challenges from emerging economies, the process of global governance faces increasing pressure to justify its legitimacy, in light of the shift in global power and the introduction onto the global stage of a broader range of states, groupings and organisations that wish to have influence. Guriev argues that the “leading role of the Group of Seven (G7) and, more broadly, of the Organisation for Economic Cooperation and Development (OECD) is no longer undisputed” (Guriev, online). He highlights that structurally, there is western over-representation in the IMF and World Bank, with the US, Europe and Japan having most influence. Given the aforementioned economic and political changes that have enabled the growth of the BRICS as an independent force, it could be argued that this western over-dominance represents a failure to ensure representational legitimacy and effectiveness in global governance. Thus, one of the increasing demands that globalisation has placed on global governance in this respect, is that of ensuring maximum participation and representation of emerging economies, thus ensuring legitimacy and results that positively benefit all states in the global system.

That global governance institutions recognised this increasing demand on their processes is best evidenced by the events surrounding the 2008 financial crisis. In the early to mid-2000s, the over-extension of lending in the United

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States in the form of subprime mortgages, coupled with the bundling of these mortgages into Collateralised Debt Obligations (CDOs) which were summarily overrated by United States financial institutions as “AAA”, caused a financial shock around the globe. “Exponential growth in computing processing power...[had been] exploited to extend the use of derivatives and swaps...into new...territories” (Goldin, 2013, p.15) and as such, banks across the globe were involved in CDOs structured on subprime lending. When interest rates rose and thousands of individuals defaulted on their multiple mortgages, it was not only the US-lenders who felt the effects (Goldin, 2013, p.13).

With the global reach of the crisis came a requirement for a global response, which had to include states outside of the G7 grouping, not only for legitimacy in decision-making, but also in order to successfully stabilise the global economy. Thus, globalisation placed the demand of rapid reform on the process of global governance, which in this instance, institutions responded to. The Group of 20 (G20) was revived, and there followed “proposals to redistribute voting rights in international financial institutions” (Guriev, online) to include the emerging BRICS economies. This translated into what Drezner terms a “thicker institutional environment”, addressing both the increasing demand of representational legitimacy, but also enabling the process of global governance to “supply needed services during a time of global economic crisis” (Drezner, 2012, p.14). Thus, the process of global governance at this specific time changed, allowing non-western states to become central players in global decision-making, as a result of increased pressure caused by globalisation.

Thus, to conclude, in line with Wen’s view it is apparent the globalisation indeed places increasing demands on the process of global governance in a range of ways. Firstly, it creates broad and varying global governance challenges in relation to the “global commons”, that must be carefully balanced with development and advancement. Additionally, globalisation has allowed for the creation of new “global commons”, such as the internet and cyberspace, with ambiguous and undefined global governance parameters. This had led to increased demands on certain sectors of the variety of global governance institutions, most notably in the instance of cyberspace, the banking sector and private firms. However, these ambiguous governance spaces have also opened global governance up to political debate and pressure, all of which have increased demands on the process of global governance to address these legitimately and effectively. If conducting further study, better understanding of the depth and range of these demands could be achieved by gaining further perspective on the broad variety of global commons that bring challenges to the process of global governance, as a result of globalisation.

Finally, Wen’s “new globalisation” has brought increasing demands of its own. New globalisation and the fragmentation of the western or centralised global governance system has led to a situation in which emerging economies have the ability to place overt and direct pressure on particular aspects of the process of global governance, but also to highlight the lack of legitimacy surrounding the post-World War II global governance system, and force change. Thus, globalisation has placed, and continues to place increasing demands on the process of global governance.

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