

**Faculty of International Relations
Working Papers**

9/2012

**Changing governance forms in the light of
advanced globalization**

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Volume VI



Vysoká škola ekonomická v Praze
Working Papers Fakulty mezinárodních vztahů
Výzkumný záměr MSM6138439909

Název: Working Papers Fakulty mezinárodních vztahů
Četnost vydávání: Vychází minimálně desetkrát ročně
Vydavatel: Vysoká škola ekonomická v Praze
Nakladatelství Oeconomica
Náměstí Winstona Churchilla 4, 130 67 Praha 3, IČO: 61 38 43 99
E 17794
Evidenční číslo MK ČR: 1802-6591
ISSN tištěné verze: 1802-6583
ISSN on-line verze: Prof. Ing. Eva Cihelková, CSc.
Vedoucí projektu: Vysoká škola ekonomická v Praze, Fakulta mezinárodních vztahů
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Changing governance forms in the light of advanced globalization¹

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Summary:

This paper characterises the globalization tendencies in the world economy. Furthermore, it points out the changes in the forms of economic governance, which in accordance with globalization have to adopt a global shape. In conclusion, some examples of potential elements of the global governance are suggested.

Key words: globalization, economic governance, EU, IMF, G20.

Změna forem governance s ohledem na pokročilý stav globalizace

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Abstrakt:

Studie se zabývá globalizačními tendencemi ve světové ekonomice. Dále upozorňuje na změny podoby ekonomické governance, které jsou v rámci globalizace tlačeny k jednotné podobě. V závěru jsou navrženy příklady možných prvků globální governance.

Klíčová slova: globalizace, ekonomická governance, EU, IMF, G20

JEL: F00, F02, F60

Tento příspěvek je publikován jako konzultace.

¹ This contribution was written within the University of Economics, Prague IGA project No. F2/24/2010 “EU Policies: concepts and changes vis-a vis the Lisbon Treaty“.

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Introduction

In the age of globalization a new structure of the world economy has been formed where economic activities take on a supranational, and later, global character. We will attempt to survey the main causes of, and tendencies within, the globalization process and their effect on the forms of economic governance. Finally, some types of institutions that serve as examples of a possible functioning type of global governance are introduced.

1. Globalization Development

Globalization represents a natural part of the development of the market economy. We could say that it is the market economy's highest phase. Charles. Oman, defines globalisation as *the increase of economic activities beyond national and regional boundaries that projects itself as accelerated movement of the goods, services, and ownership rights through business and investment flows and movement of people through migration flows* (Oman 1995: 5). Others (Bernášek 2002: 14-19) add that along with the *enlarging of the economic activity*, this *disperses into all territorial levels (regional and global)*. The dispersal occurs especially with the help of the activities of highly integrated (both internally and inter-company) transnational corporations, which weaken the links between economic activities and national economies.

The development of globalization is supported by several factors. Generally, in compliance with the free market character of the process, the driving force is represented by efforts to maximize market efficiency and to achieve stronger economic growth. In the liberal environment, growth leads to an increase in national and world wealth. Production and trade are internationally integrated. The costs of globally running businesses are lowered while the profit is maximized.

Companies, or nation states, strive for efficient production, which can be achieved mainly by the application of modern technologies. Technological changes began to be more dynamic already in the last third of the 19th century. But the real revolution took place only in the 1970s when the need of structural changes made companies abandon the concept of taylorism. Consequently, the relatively rigid production processes were replaced by lean production methods and those resulting from developments brought about by the knowledge economy. This, together with technological innovations, as well as the new structure of production lines had gradually enabled restoration of dynamics of economic growth. In addition to the factual changes in production conditions, the time factor, as well as decreasing distances have played a substantial role in increasing the mobility of production. This also has the effect of weakening their territorial dependence (Bernášek 2002: 19). The key role in this process was performed by the revolution in transportation, information and

communication technologies (Wolf 2005: 2). Economic development was facilitated by the transport and communications innovations of the end of the 19th century (i.e., railways, transatlantic telegraph, telephone connections, and the like.). The emergence of container transport, tankers, personal computers, internet, satellite connections, and so on, has further enhanced economic development.

Nation states, and their political development, have played an inconsistent role in the development of globalization. In the period, roughly from World War I to the end of World War II, the hitherto rapid progress of globalization slowed down. States' activities often had a destructive effect on the integration of the world economy (esp. during periods of war and recession.). Consequently, the 'development of the global market economy' phase of globalization has proven to be very frail. It was considerably dependant on the support and cooperation of states, which, out of necessity, remained territorial. (Wolf 2005: 1)

After World War II, revolutionary developments in transportation, information and communications technology supported substantial changes in the character of national economies. Individual countries became far more markedly open and liberalized. Liberalization belongs among the most important factors in the development of globalization. The elimination of obstacles to international trade, investment release, the reduction of internal and external economic regulations is topped by the rapid development of trans-nationalization in the world economy. This confirms the abovementioned theses about the increasingly supranational character of economic activity. The transnational corporations, which started to be established after World War II, have gained absolute superiority in the world economy. They have taken over a large proportion of manufacturing activities, as well as having imprinted their peculiar character on the organization and operation of the production, distribution and consumption processes in society.

2. Economic Governance under Globalization

Generally, governance refers to the manner, or act, of governing or exercising control or authority over actions taken and performed by different entities; i.e., a certain system of state or international affairs regulations (Governance 2000: 17) is involved.

In the economic and political spheres, governance can be defined as the process and institutions through which authority over the management of social and economic resources is exercised for the purpose of economic development. In the economic sense, governance is the capacity of governments to efficiently manage resources, and formulate, implement and enforce sound policies and regulations (Kaufman et al. 2002: 7).

Governance is exercised through both formal and informal institutions. They create an incentive system for the particular society, and shape the outcome for the economic activity concerned (Lloyd and Smith 2004: 6). Formal institutions include law, regulations and other binding provisions. Informal regulatory institutions come from the given culture, history and experience of the particular country or region. Thus, economic governance depends on the type of state, as well as on the nature of the particular society.

Individual states, though, do not act in isolation; therefore, governance cannot be permanently exercised only through the acts of individual countries. This is caused by the growing globalization, which influences changes in the characteristics of the global economic system. The first phase of globalization, in the period up until World War II, governance was realised at national level and it dominated corporate governance. Only certain economic activities exceeded national boundaries. It was international trade, especially, which played the most important role. Although economic relations expanded, they were established among the relatively closed separate economies of the nation states. Therefore, the need for global economic governance was also minimal at that time.

At a certain stage of development, though, good governance requires co-operation (or partnership) among individual governments, or among governments and other world economy players (big companies, transnational corporations, international organizations, etc.). A need for the development of governance forms at higher than national level arises as a consequence. This leads to the situation when economic governance can be understood as not only belonging to an individual national system, but more broadly in connection with international economic and political relations as a whole. Gradually, governance represents a complex phenomenon, functioning at all levels; from local, national to regional or inter-regional, up to the global level. (Governance 2000: 18).

3. New Governance Forms in Globalized Economy

Growing globalization and openness of national economies brought (influenced by Neo-conservative ideology) new forms of governance which had rejected the strong role of the state at national level. This had, however, been originally supported by Neo-Keynesian theory. According to the concept of the International Monetary Fund (so called Washington Consensus) the state's role in the economy has reduced privatization, deregulation and provision of the external economic balance.

Despite the new definition of state functions and resources (Satish 2000), governance itself could not be completely reduced, namely, because of new tasks arising at the globalizing phase. Not only the state, but also supranational

entities have to continue selectively, but effectively, in the process of completing and optimizing the operation of the market environment. This is achieved by the adjustment of the forms of competition, education and qualifications, as well as environmental protection, and the integration of the state into the international environment. The role of the state in these areas remains important. Nevertheless, governance with global reach is also increasingly required here.

Thus the newly required state-market relation characterized as the so called Post-Washington Consensus (Stiglitz 2003: 291-293) in the 1990s, seems to overlap with the area of global governance. If the state is a supporting element in this new concept, facilitating the smooth functioning of the market, then the relation between the state and the market gets into a more balanced position again in comparison with the neo-conservative concept contained in the Washington Consensus. The role of the state is weakened in many aspects, but it becomes stronger in others, and new forms of the state governance appear. However, correct economic governance cannot be performed only by the state under conditions of growing globalization. This, as has been mentioned before, impedes the development of globalization in some directions.

The need for establishing a model of new governance, which will offer solutions to global and regional problems, and which is based on functional, efficient multilateral co-operation of states, is becoming ever more urgent (Hnát 2009: 196). The states, then, pass part of their sovereignty over to, (or at least share it with) supranational or inter-governmental institutions, in situations where this would make for more efficient exercise of that power. Global governance, therefore, is a framework of principles, rules and laws necessary for tackling global problems. These principles, rules and laws are upheld by a diverse set of institutions, including international organisations and national governments. (Centre 2011)

The following paragraphs give some examples of the the development of supranational governance which has gradually drifted towards the global level.

3.1 European Union

A positive example of a developing structure as an inspiration for global governance model may be seen in Europe. Here, the European Union still represents a lower form of economic governance. The ES/EU structure was originally used for ensuring stability in Europe, while it now plays a regional governance role, with a wide radius; covering both the member and non-member countries of the European Union. At the same time, however, it has actual, as well as potential, economic relations with all other important regions in the world. In its international activities it combines strong economic power

with the so called soft power with respect to the political and security issues. The EU holds this position:

- It supports spontaneous integration of countries running under globalization;
- It supports convergence of economic models (e.g. through coordination of economic policy);
- It positively influences the legal order, democracy and human rights exercise;
- It creates diplomatic institutional base to solve economic and political conflicts.

Therefore, in the future, the EU can form the basis for ‘Good-Governance on a global scale (Hnát 2009: 196-199).

3.2 International Monetary Fund

In contrast to the EU, the IMF is one of those economic structures with worldwide reach.

Despite criticism, this institution has gradually transformed itself into an open and transparent institution, which takes measures to consolidate certain forms of global governance. The IMF supports the establishment and application of standards as the means of sound economic and financial management and corporate governance. Through setting the global rules, and insistence on their observance, it carries out the key task of its Articles which stipulate the stability and integrity of the international financial system, as these are a crucial conditions for the overall stability of the globalized world economy (IMF 2002). The IMF’s aid in the mitigation of the effects of financial and monetary instability is important once some states’ to shocks caused by global economic crises becomes evident. The IMF tries to reduce the risks arising from globalization for individual countries and regions of the world economy, such as those in the current financial crisis.

3.3 Group of Twenty

Another potential example of global governance is the group G20 (G20 2010). This formation came into existence as an informal group of 19 countries, plus the European Union. G20 has strong relations with the IMF and the World Bank. This means that G20 officially cooperates with Bretton Woods Institutions, and invites their representatives to its negotiations. In its activities, G20 demonstrates a certain formula for the creation of global governance. In particular, it includes some important units of local governance (i.e., the main countries – centres of the world economy, such as the USA, Japan, China), as

well as subjects of regional governance (i.e., the EU building continental integration in Europe). Finally, it concerns the important institutions providing governance in the important areas of the functioning of the world economic system (the IMF organizing an international monetary and financial system).

G20 was established in 1999 as a new mechanism for informal dialogue within the framework of the Bretton Woods institutional system. It helps to broaden the dialogue on key economic and financial policy issues among systemically significant economies, as well as to promote cooperation in order to achieve stable and sustainable growth which benefits all (G20 2010). The global influence of G20 is ensured by, among others, the fact that meetings take place not only among the traditionally most developed economies, as it used to be in the old G8, but among developed countries and emerging market states. Thus G20 monitors and influences activities in the countries and regions that really decide about the development and future of the world economy today. Despite the regional imbalance (G20 includes only two Latin-American countries and two African countries) it covers all economically active continents.

G20 was established more as a discussion forum than a decision-making authority, but in its declarations it tries to form a consensus on the international issues solved. G20 declared it would cover practically all the main aspects of the global economy and international financial system, and that it would make an attempt to transform the positive implications of globalization into higher income as well as improving opportunities in all parts of the world.

In the current global crisis, G20 has become one of the main platforms for dealing with the world's economic problems. The key issues which it has solved involve the coordination of the policies of the developed countries, as well as those of the new emerging market states. The discussion concentrates on the different impact of the financial support strategies, as well as the harmonization of the different viewpoints on the issue, namely those of the USA and the European Union. Another substantial problem in relations between the developed countries and selected developing countries is the issue of external imbalance. This can be seen in relations between the USA and China.

To summarize, not only will the changes, mentioned above, require some measures to be taken by individual countries, but in the long-term it will probably also call for a complex coordinated policy at global level. This policy can only be formulated and pushed through by such an international forum, as G20.

Conclusion

Globalization represents an integral part of the development of the current market economy. Thanks to globalization, the mechanism of the market

economy has exceeded the level of current international economic relations (trade, capital, etc.), and national economies have themselves stopped being the base for world economic process.

In addition to the development of market forces, globalization was boosted by the huge technological developments which have taken place. Globalization was also accelerated by economic liberalization, although this development has been complicated.

Today the role of the state in support of the market economy remains unquestionable. Nevertheless, under the new circumstances, the pressure on the previously national form of economic governance, (which has apparently changed into the supranational form) is intensifying.

To ensure economic and social welfare in the world, the coordination of economic and social development is starting to run more and more at global level. New roles are being taken over by some institutions; be it the European Union at a regional level, or the institutions which were created for the purpose of acting in the global sphere.(IMF, G20, etc.)

As a result of globalization, the institutions themselves are trying to promote such forms of global governance as will lead to a higher level of economic and political integration in the world. The institutions are also aiming to use globalization's potential for supporting economic growth and the maximization of economic benefit for most countries.

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