

# theirview

## The crisis in global governance

**Formal institutions are losing their legitimacy as the rising powers are unwilling to abide by the G-7's rules**

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is a civil servant. These are his personal views.

**G**lobalization needs global institutions of governance. As the G-20 leaders meet for the 10th time at summit level in Antalya, Turkey, on 15-16 November, this is perhaps a good time to reflect on the state of global governance.

The roots of globalization lay in the quest for empire, such as the Roman Empire in the ancient world, the Mongol empire in the Middle Ages and European empires in the modern. The combination of church and state meant that some of the early attempts at global governance were through religious institutions, such as the Papacy and the Caliphate.

The European Enlightenment and technological revolutions made the world more secular and intensified globalizing forces. The Concert of Europe following the Napoleonic Wars was the first secular attempt at global governance. It broke down because extant European powers could not accommodate a rising power. Germany was integrated into global governance only after two catastrophic world wars.

Participation in global governance in the industrial era hinges on economic size, a combination of demography and level of industrialization. Germany, Canada and Japan were automatic members of the G-7, rather than old maritime powers like Spain and Portugal, and mighty agrarian empires such as China and India. But the G-7 shared other attributes as well. They had high per capita incomes, were open economies and societies, and technologically dynamic. At the core of the G-7 Charter of 1975 was the notion of "shared beliefs and responsibilities".

Beginning from the 1970s, growth in several "developing countries" accelerated, even as it started moderating in G-7 countries. Mostly middle-income countries, their aggregate gross domestic product (GDP) now matches those of G-7 countries on account of demography. China and India, heirs of the mighty agrarian empires, may soon rival the US in

aggregate GDP, with Brazil, Indonesia and Nigeria following close behind. The question that arises is how will these emerging economic powers be integrated into institutions of global governance?

The G-7, like the Concert, is a nimble, informal institution dominated by summits where leaders sit across the table to thrash out global issues.

Formal, treaty-based inclusive institutions of global governance, that formulate rules of global engagement, such as the United Nations, World Trade Organization, International Monetary Fund, World Bank, United Nations Framework Convention on Climate Change, Bank for International Settlements and Financial Stability Board, on the other hand, are slow-moving bureaucratic silos devoted to single objectives. Despite their inclusive membership, they are mostly dominated by the G-7, through special bodies (such as the security council) or through shareholding structures. This reluctance to cede power to the rising powers arguably derives from their stranglehold on the international monetary system and technological innovation, ring-fenced by a stringent intellectual property rights regime. These formal institutions are consequently losing their legitimacy, as the rising powers are increasingly unwilling to abide by rules set by G-7 countries.

This has created a crisis in global governance, with formal treaty-based institutions becoming dysfunctional, reflected in stalemates in multilateral trade and climate change negotiations on the one hand and the rise of plurilateral arrangements such as the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and the BRICS (Brazil, Russia, India, China and South Africa) grouping on the other.

Where do we go from here, and can history be a guide?

First, the experience with Germany in the late 19th and early 20th centuries is a warning from history regard-



ing the perils of not accommodating rising powers within institutions of global governance. The G-7 reached out to co-opt major developing nations, especially the BRICS, into the informal global economic governance structure through the Heiligendamm process, and more recently by upgrading the G-20 to summit level. Further accommodation, however, would hinge on the ability of the rising powers to escape the middle-income trap, which they can do only by rebalancing their economies away from dependence on demand in the G-7 towards internal engines of growth.

Second, in its present form, the G-20 works as a coalition of pressure groups such as the G-7, BRICS and MIKTA (Mexico, Indonesia, South Korea, Turkey and Australia). Only the G-7 has a sense of shared responsibility. The BRICS still believe in "common but differentiated responsibilities" that puts the onus on the G-7 for equitable and optimal global outcomes. The rising powers are united not through any G-7 notion of "shared beliefs and responsibilities" but through opposition to extant hegemony as they all compete for the pole position in the new order.

Third, formal institutions need to be aligned to the informal governance structure, even as the G-20

needs to encompass non-economic issues. Any asymmetry in this regard would make the G-20 dysfunctional and irrelevant as the emerging powers might lose interest and form their own parallel institutions instead of taking greater responsibility for global outcomes through the G-20.

Fourth, the fragmentation of global governance has already begun through Chinese initiatives on Chiang Mai multilateralization, the Asian Infrastructure Investment Bank and the New Silk Road, BRICS initiatives on the New Development Bank and the Contingent Reserve Arrangement, and US initiatives on TPP and TTIP.

Fifth, postwar institutions of global governance have been dominated by powers that believed in open markets, open societies and internationalization. The new powers believe in keeping international markets open, as their economic rise is predicated on them, but few are open societies, and they are all highly nationalistic. Civil society in G-7 countries, on the other hand, increasingly sees itself as a victim of globalization, rather than as its original beneficiary.

The resolution of these five frictions is likely to shape the future of global governance.

Comments are welcome at [theirview@livemint.com](mailto:theirview@livemint.com)

# otherviews

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## Big data means better data for China

**M**ost of the accolades recently bestowed on Nobel-winning economist Angus Deaton have focused on his work in India. And it's true that by pioneering ways to improve the quality and precision of economic data, Deaton revolutionized our understanding of South Asia's grinding poverty and how to reduce it. Yet Deaton's work may have even greater relevance to China.

Take China's most recent gross domestic product (GDP) numbers, released last month. Some economists had hopes that the data might be more accurate than usual, after the Chinese government subscribed to a stricter standard employed by the International Monetary Fund. In fact, the claim that the economy was growing at a 6.9% annual rate struck most experts as suspiciously high.

Contradictions in the numbers were obvious to anyone with an elementary grasp of mathematics. The government reported robust 23.8% growth in telecommunications services through July. Yet

looking at more specific components—as Deaton would prescribe—reveals dramatic discrepancies. Instead of growing, the volume of fixed-line calls and length of mobile calls both declined.

The job of a modern policymaker is hard under the best of circumstances. In trying to wean the economy off an addiction to investment and debt, Chinese officials are struggling with one of the most complex and dangerous restructurings in modern economic history.

Bad information makes the task even more Herculean. The poverty and unreliability of Chinese data forced current Premier Li Keqiang to devise his now famous index to measure GDP using just three variables: electricity consumption, rail freight traffic and bank loans.

Historically, Chinese technocrats have often been reluctant converts to high-quality, regular and transparent data. In some cases, outside pressure has forced changes, as when the US Embassy's air-quality readings made a mockery of the

government's assurances about Beijing's skies. At other times, ordinary Chinese have rejected implausible official numbers, as with a national home-price index that became such a joke that the government had to abandon it in 2010.

What's changed is that the range and quantity of information available has grown exponentially. Despite their reputation as passive citizens, Chinese are now voracious consumers of good information. Their distrust of government rhetoric has fuelled a bustling market in privately produced data, such as the unofficial monthly purchasing managers' index produced by the Chinese financial media group Caixin.

This explosion in data presents the government with an excruciating choice. On the one hand, losing its monopoly over information means that the regime can no longer dictate the narrative about China for domestic and international consumption. Investors and the public now have better means to grade the lead-

ership's performance.

This can complicate policymaking: Contradictory data helped prompt investors to sour on the Chinese economy over the summer, forcing officials to scramble to halt a market rout. Vested interests, many of them influential Communist Party officials, resist the release of statistics that could reveal their privileged position.

On the other hand, challenging those vested interests is—or should be—a central element of the government's reform efforts. If China really wants to tilt the economy away from manufacturing and build a thriving service sector, it's going to have to allow companies rapid and easy access to ideas, data and information. Deaton has said that "democracies require good data." What Chinese leaders need to accept is that healthy economies do, too. **BLOOMBERG**

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