United Nations ST/SG/AC.6/2000/L.4

Secretariat

Distr.: Limited
24 March 2000

Original: English

Group of Experts on the United Nations Programme in Public Administration and Finance
Fifteenth session
8-12 May 2000

Globalization and economic governance

Report of the Secretariat

Contents

		Paragraphs	Page
I.	Introduction	1–2	2
II.	Economic globalization	3–6	2
III.	Economic governance	7–12	2
IV.	Economic role of the state and boundaries between states and markets	13–20	3
V.	Globalization and national economic governance	21–33	5
	A. Social policies	26–28	5
	B. Taxation policies	29–30	6
	C. Regulation, trade and investment policies	31–33	6
VI.	Global economic governance regimes	34–59	7
	A. Basic approaches	34–38	7
	B. Issues in global economic governance regimes	39–59	7
	1. Features of global economic governance regimes	39–43	7
	2. Economic globalization and specific global economic governance regimes	44–49	8
	3. International public policies	50–59	9
VII.	Conclusions and recommendations	60–67	10

00-36022 (E) 170400
0036022

I. Introduction

1. The Fourteenth Meeting of Experts on the United Nations Programme in Public Administration and Finance recommended that the United Nations engage in research and policy analysis on key issues and emerging trends in governance, including the effects and implications of a process of change propelled by globalization and technological developments. The present report, which covers the relation between globalization and economic governance, has been prepared in response to those concerns.

2. Sections II and III review conceptual approaches and recent issues in economic globalization and economic governance. Section IV addresses the role of different economic governance institutions in economic management. Section V analyses the impact of globalization on national economic governance regimes, while section VI deals with its effects on global economic governance regimes. Section VII contains conclusions and recommendations.

II. Economic globalization

3. The quantitative dimension of globalization is captured by such phenomena as the growth of foreign direct investment (FDI), international trade and the volume of transactions in international financial markets. Cross-border economic integration affects a wide variety of economic activities.

4. The quantitative dimension of globalization is usually described by using data on the growth of annual flows of FDI and merchandise trade in relation to gross domestic product (GDP), the growth rate of the stock of FDI, the increase in international financial flows, and the cross-border mobility of labour. Transnational corporations are a major agent of globalization.

5. The process of economic integration indicates new qualitative dimensions. Some aspects of global economic integration can be characterized as occurring in a relatively shallow form, primarily at the level of trade in final and intermediary products and the flow of financial assets. This is considered to be shallow because such flows directly affect only the most visible components of an economy. Deep integration, conversely, refers to cross-border activities that penetrate further back in an economy’s production chain.

6. The combination of quantitative and qualitative aspects of globalization helps to explain why the pace of globalization has accelerated in recent decades. Important influencing factors are technological innovations in communications and information technologies, productivity growth, rising incomes and consumption, and the liberalization of markets.

III. Economic governance

7. Economic governance is the organization of collective action with respect to the economy, specifically the production, distribution, consumption and investment of resources. Economic governance thus refers to policies, institutions and management systems. It includes all forms of organization of activities that comprise an economy, such as governmental organizations, private enterprises and households, as well as financial institutions and labour organizations.

8. The term “institution” refers to principles, norms and rules which affect individual and collective behaviour. The term “organization” describes the structuring of activities in organizational units. The institutional environment of economic regimes comprises the legal and regulatory frameworks, while governance institutions, such as the state, markets and hierarchies, refer to the principles, norms, rules and decision-making procedures which affect the behaviour of individual and collective economic agents. The analysis and design of economic governance regimes has to include both the institutional environment and the governance institutions.

9. The assignment of their respective roles to different governance institutions and the provision of adequate institutional environments is the core issue of economic governance regimes. The scope and form of government intervention in the economy requires a careful analysis of policy objectives, adequate public policies and the most efficient governance institutions.

10. Recent trends in the adjustment of economic governance regimes at the national level indicate the following main features:

(a) The increased use of market mechanisms as the main governance institution. This is reflected in strategies of privatization, marketization and deregulation;

(b) The privatization of formerly public sector activities and the extended use of market instruments and contractual arrangements in organizing public sector activities;

(c) The more restricted and selected use of government interventions. This includes a departure from organizing and controlling production activities to a more regulatory role of the state. The state concentrates on providing an "enabling environment" for private sector development;

(d) The reduction of public spending and taxation levels and the decentralization of economic functions to lower levels of government;

(e) The adjustment of social security systems and welfare state regulations in order to balance public expenditures and revenues.

11. These basic strategies started in industrialized countries but were also increasingly recommended for application in developing countries through policy advice and technical assistance arrangements.

12. The strong focus on markets as governance institutions has often been accompanied by the relative negligence of the institutional environment and the assignment of an adequate role for states/governments. Theories of a "minimalistic state" have often reduced the capacity for adequate public policy formulation and implementation. This biased approach concerning the relative economic role of states and markets has led to distortions and negative developments, especially in developing countries and transition economies. The one-sided focus on macroeconomic stabilization unduly neglects the essential role of the institutional environment and the role of the state as a governance institution in economic management.

IV. Economic role of the state and boundaries between states and markets

13. The adequate role of the state and markets in economic governance mechanisms is a core issue. The market is seen as a means of harnessing individual behaviour to achieve a societal goal, namely, efficiency in the allocation of resources and the achievement of economic growth and development. The market, under the specific conditions of perfect competition and symmetric information, is an effective instrument for organizing economic transactions.

14. The conceptual justification for a state role in economic activity is based upon the existence of substantial market failure, while the justification for expanding the domain of markets is the existence of government failure. Market failures are emphasized by those who see such phenomena as important conceptually and large empirically, and feel that they can be substantially overcome by appropriately designed and implemented state actions. Similarly, government failure is emphasized by those who see government agencies as inherently imperfect manifestations of collective action that distort the more efficient outcomes of markets. In both, the failures of one mode of collective actions is taken to be counterbalanced by the successes of the other. It is certainly possible, however, that both modes will succeed or fail together, and reinforce rather than offset each other. The possibility of an offsetting relation in some instances, and a complementary one in others may be the route to seeing how governance mechanisms can cope with both the strengths and weaknesses of globalization. An example is provided by the Asian financial crisis of 1997-1998. The removal of many government restrictions on international financial flows and international ownership of financial assets and institution was not accompanied by the appropriate prudential regulatory apparatus. The issue is partly one of a shift from state to market. Of even greater importance was the absence of a sufficient strengthening of government activities where needed.

15. Market failure occurs when markets, operating by themselves, are unable to achieve the most efficient allocation of resources. One common source of market failure is a departure from perfectly competitive conditions, such as the existence of monopoly power in production that allows firms to raise prices, restrict quantities and earn excess profits. Departures from perfect competition are common and only the most costly examples are thought worthy of special state action. A second source of market failure is macroeconomic instability. At one time, it was accepted that high levels of unemployment in recessions and inflation at the later stage of booms were necessary correctives to the natural workings of

business cycles. Now, it is thought that the application of appropriate policy tools by governmental and intergovernmental organizations can reduce both unemployment and inflation without weakening the dynamic growth mechanisms of market economies, although differences remain about which policy tools to employ and how to time their application.

16. Missing markets represent another class of market failure. The absence of a market for the purchase and sale of human capital is in contrast to the presence of markets for the trade of physical assets, such as buildings, machines and land. This missing market raises the risks of investing in human capital and is thought to lead to an aggregate underinvestment in the skills of a workforce. Governments have accepted some role in subsidizing human capital, such as free or low tuition to schools and universities, subsidized student loans and state supported or subsidized worker retraining and worker mobility programmes. Public health programmes and subsidized or state-provided health care also contributes to human capital formation, along with workplace health and safety.

17. The most widely cited examples of market failure are in the area of externalities and public goods. An externality occurs when some of the costs and/or benefits from a private transaction accrue to individuals or organizations that are not party to the transaction. Pollution from industrial processes or the use of consumer goods, such as automobiles, are common examples of negative externalities. Health care, especially with respect to communicable disease, is an example of a positive externality. When negative externalities exist, too much of a good is produced since the decision makers do not bear all of the costs, while with a positive externality, not enough of the good is produced since the decision makers do not appropriate all of the benefits. In both cases, the role for government would be to adjust the quantities by appropriate taxes or subsidies, by redefining ownership rights or perhaps by assuming control of production and/or distribution. Public goods are a form of output where almost all of the costs and benefits are external. A pure public good exists when it is not possible to exclude consumers from using the good or service in question because the costs of creating a rationing mechanism are too high, and when consumption of the public good by any individual or group of individuals does not detract from anyone else consuming the same good. The absence of a rationing mechanism means that producers cannot appropriate returns, while the absence of rivalry in consumption means that the marginal cost, and therefore the most efficient price, should be zero. Private producers would not produce such products and some alternative form of collective action is needed. There are probably no pure public goods but many activities have substantial public goods properties, such as the creation and dissemination of knowledge and national defence.

18. Government failure refers to government activities that impede the efficient allocation of resources. The existence of government failure implies the need for greater reliance on the market. One source of such failures is that economic decision-making requires a substantial amount of information, and the ability of government agencies to accumulate and act upon information is no better than and likely to be considerably worse than the market, where prices and quantities are presumed to sum up all the required information. A second source of government failure emanates from rent-seeking behaviour. In economic analysis, rents are profits that are in excess of those that would be realized under competitive conditions. Private firms can also engage in rent-seeking behaviour — such as achieving “first-over” advantages in products and technologies — but are always subject to having rents competed away by the entrance of other firms. Governments have the power to forbid competition.

19. The determination of the adequate role for the state and the market as governance institutions leads to a general description of basic economic functions of the state, such as:

(a) The state has to provide the adequate institutional environment in the form of legal and regulatory frameworks, especially the protection of property rights and the enforcement of contracts;

(b) The state should create an enabling environment for private sector development, especially the needed physical and human infrastructure;

(c) The state has to establish adequate regulatory frameworks. Economic regulations have to ensure fair competition and prevent concentrations of economic power. Social regulations have to protect the rights of individuals and groups;

(d) The state has to ensure the provision of public goods, whose characteristics prevent private provision;

(e) The state has to organize collective social security systems to cover basic risks;

(f) The state has to conduct effective macroeconomic policies (monetary, fiscal) to ensure sustainable economic growth;

(g) The state has to correct market outcomes in accordance with established social objectives (redistributive policies).

20. These basic state functions indicate the need for a strong, active state in economic governance. Sound spending, taxation and regulatory policies, effective institutions and strong management systems are imperative. Functioning markets require an active state. The state may reduce the scope of activities in certain areas but may strengthen the role in others. Policy advice advocating market fundamentalism and "minimalistic state concepts" distorts the real role of the state as an economic governance institution. Developing countries and transition economies, while extending markets as governance institutions, have to create strong state-based governance institutions. The neglect of the role of institutions and legal and regulatory frameworks has already negatively affected growth and development. The scope and form of government interventions, vis-à-vis markets and the private sector, have to be based on a rational determination of the basic economic state functions, and not on biased ideological approaches. This also includes the creation of adequate institutions and managerial capacities to implement public policies (matching roles and capacities).

V. Globalization and national economic governance

21. Economic globalization affects the degree of autonomy as well as the internal and external sovereignty of nation states in economic governance. Nation-state economic governance regimes have to adjust to the requirements of economic globalization. The prevalent form of political organization, the modern democratic and territorial state, faces discrepancies between policy regimes and instruments directed towards national markets and territories and the fact of emerging global markets and internationally integrated production networks. This creates problems for national economic governance regimes.

22. The external economic sovereignty of states (relations among states in the international economic system) and the internal economic sovereignty (relations between the state, the private sector and civil society) are affected. Internal economic sovereignty relates to the ability to formulate and implement public policies. The autonomy for policy formulation is restricted by external factors, which also reduce the degree of internal economic sovereignty and the degree of autonomy (taxation, competition, fiscal, social and exchange-rate policies).

23. National economic governance regimes can often no longer project their policy-making capacity over the territory within which global industries operate. In the global economy, investment decisions are influenced by existing national economic governance regimes. National policy regimes often compete for mobile capital and foreign direct investment.

24. Economic globalization thus leads to certain asymmetries between the political and economic territory. Nation states have to choose options to respond, such as the resort to global public policies or global economic governance regimes.

25. Economic globalization increases international competition. States must adjust their economic governance regimes accordingly. At the same time, states face limitations concerning the autonomy of economic governance options. This affects domestic policies, such as tax policies, as well as social and regulatory policies. Some examples may illustrate the emerging policy issues which require adjustments in national economic governance systems.

A. Social policies

26. A number of countries have experienced a growth in inequality of income, and there is some evidence of a widening income distribution on a global level. These inequalities have often been attributed to globalization in that a greater integration of the world economy would tend to reward factors of production that are more mobile, such as capital and educated labour, at the expense of those factors that are less mobile, primarily less-skilled labour. Extensive empirical research on the widening of the wage distributions has

emphasized three causes: the growth of outsourcing to developing countries has put downward pressure on wages for the less skilled, the rapid expansion of information technology has increased the incomes of information technology workers, and changes in government policies have reduced worker protection and made workers more vulnerable to market pressures. These three explanations, taken together, could form an integrated explanation of the impacts of globalization and associated changes in governance on a country's income distribution.

27. Major economic changes, even when the aggregate benefits are substantial, can impose costs on some groups and individuals. The standard remedy proposed by economic analysis is for the relative "winners" to transfer some of the benefits to the relative "losers". The expansion of various forms of income transfers and public provision of education and health services can be seen as a response by the governance mechanisms to the level of inequality generated. The issue being raised by globalization is whether the costs of maintaining these governance mechanisms impose competitive disadvantages on a country's enterprises and labour in an increasingly integrated world economy.

28. This fear appears to be exaggerated. For one thing, it is the quality of these inequality-reducing mechanisms that is at issue, not just their cost. Substantial and effective public investments in human capital formation can improve the international competitiveness of a country's productive inputs. The issue is whether private or public organizations are most effective in delivering the necessary services. In addition, governance mechanisms that address inequality, including those that address income issues and representation, may be essential for successful development and the avoidance of violent conflict.

B. Taxation policies

29. Concern about the impact of globalization on national taxing capacities are similar to the concerns raised about globalization and inequality, namely whether the increased mobility that accompanies international integration hampers nationally based systems. Two aspects of increased mobility are important. In general, the incidence of taxation is borne more heavily by the least mobile productive inputs, and to the extent that globalization increases mobility it places greater burdens on these sources of taxation, which are more closely tied to a single location. In addition, the enhanced mobility of consumers, through improved transportation and communications, increases the scope for comparative shopping for the most favourable tax jurisdictions. The explosive growth of Internet-based purchasing in the second half of the 1990s provides a dramatic illustration of this last phenomenon.

30. If globalization does undermine national taxation capacities, it may weaken countries in their attempts to deal with market failures and in the formulation of policies to enhance domestic comparative advantages. The differential effects of globalization on national taxing capacities also suggests that mechanisms for international tax harmonization should be given substantial attention.

C. Regulation, trade and investment policies

31. Fiscal tensions have forced many countries to cut back public expenditure. Economic globalization and increased international competition force governments to reconsider other national economic policies, beyond specific changes in tax and social policies, in order to strengthen their relative position in the global economic system. This relates to national regulatory and competition policies, industrial and technology policies, and policies of fiscal decentralization. National economic governance regimes need to design and implement policies that strengthen the comparative advantages of national industries in the international competition. National investment regimes influence the inflow of foreign direct investments, the regulatory regime for the financial sector influences capital flows, and trade and exchange rate regimes affect trade flows.

32. National economic governance regimes, especially in developing countries, need to build capacities to formulate adequate national policy responses to economic globalization as well as institution-building and managerial capacities for policy implementation. This increases the role of the state as a decisive factor in economic governance.

33. National governments have to shape national markets and create the conditions for effective participation in the international economy. Economic globalization places new demands on the state as an

economic governance institution, adding new dimensions to the traditional economic roles of the state. This requires states to reconsider all elements of national economic governance regimes, such as the institutional environment, the relevant role of different governance institutions, and the adequacy of organizational structures and management systems. Developing and transition economies especially have to adjust their economic governance systems in order to take advantage of economic globalization and to cushion against potentially negative effects.

VI. Global economic governance regimes

A. Basic approaches

34. National economic governance systems are directed at nation states and their corresponding national markets.

35. Economic globalization creates global markets, global production arrangements and increased trade and financial flows across national borders. The response to these developments are efforts to modify national regulatory regimes and to create regional and global economic governance regimes (governance beyond the nation state, global governance without a global government). The management of economic globalization thus requires national and international efforts.

36. Economic governance systems exist at the corporate, subnational, national, regional and global levels, and relate to different sectors.

37. At the global level, no global government with the corresponding coercive power of national governments to tax, spend and regulate exists. The international economic system comprises the national economies and the linkages between them. National domestic and international economic policies are directed at both elements. International linkages require specific management. Due to the lack of a global government, global economic governance regimes (international economic regimes, global regulatory regimes) have to fill the gap. These global economic governance regimes establish the principles, norms, rules and decision-making procedures which affect the behaviour of states (and the organizations within their jurisdiction) in international economic relations. Such global economic governance systems are based on intergovernmental agreements. International economic organizations administer the regimes.

38. The management of economic globalization and increased economic integration and interdependence require functioning global economic governance regimes which respond to new developments and reflect the interests of all nation states. This contributes to the reduction of anarchy and the creation of order in the international economic systems, thus increasing stability and predictability. Global economic governance regimes address issues of collective action at the global level. Institutional bargaining leads to constitutional contracts. Structural power affects the outcomes of institutional bargaining between multiple actors (states).

B. Issues in global economic governance regimes

1. Features of global economic governance regimes

39. Global economic governance regimes comprise the principles, norms, rules and decision-making procedures which guide behaviour in international economic transactions by describing or proscribing certain activities. Regime change is associated with alterations of principles and norms, while change within regimes refers to the modification of rules and decision-making procedures. The intergovernmental arrangements which establish the rules contain rules for ensuring compliance and for dispute settlement.

40. Global economic governance regimes are thus formed by nation states taking into account their respective power and interests. They are not completely neutral “rules of the game” but reflect existing power relations.

41. Economic globalization has increased the relative importance of global economic governance regimes. The effect of economic globalization on nation states’ economic governance is felt in the degree of national autonomy and external and internal sovereignty in economic governance. The capacity to apply the traditional public policy instruments, directed at the national territory and national markets, is restricted. National economic policies, both domestic and international, have to be adapted to the requirements of

global governance regimes. The participation in the formation of the "international rules of the game" becomes an essential element of national power and sovereignty. This does not change the basic fact that, even in the age of economic globalization, national economic governance systems remain essential but are restrained by international regimes. Growing economic interdependence, which refers to the mutual economic dependence of nation states, limits the external sovereignty of nation states. Economic globalization, associated with the "spatial reorganization of corporate activity through the reach of corporate industrial networks and their financial relationships", penetrates into domestic economic systems and limits nation states' internal sovereignty and autonomy.

42. Economic globalization differs from economic interdependence in that it internalizes in its own institutional structures. Economic activities that previously took place between national markets, that is, between distinct economic and political units, are now integrated.

43. The effectiveness of global economic governance regimes depends on the degree that the "established norms and rules of the game", despite the undeniable impact of the relative power distribution, reflect the interests of all states. International norms have to be internalized and reflected in national laws. Compliance with established norms and rules has to be internally and externally enforced (coercion against non-complying agents). The effectiveness of global economic governance regimes depends also on the degree of induced changes in state behaviour. The state, as a collective actor, has to ensure the compliance of all actors under its jurisdiction. Compliance, effective dispute settlement and rule implementation are conditions for effective functioning global economic governance regimes. Such regimes also need functioning monitoring systems, specific rules which govern systemic changes and adequate national implementation capacities. The extent of economic globalization and the reconciliation of asymmetric power relations are other important factors which ultimately determine the usefulness of international regimes in managing the globalized international economic system.

2. Economic globalization and specific global economic governance regimes

44. The linkages in the international economic system are primarily in the form of trade investment and financial flows. Global economic governance regimes in trade (World Trade Organization (WTO) regime) and finance (International Monetary Fund (IMF) regime) have emerged based on liberal economic principles. Economic globalization leads to tensions between national political sovereignty and autonomy and increased cross-border economic integration. This has led to a certain mismatch between economic and political structures. The distinction between international and domestic economic policies becomes more blurred. Cross-border economic integration creates difficulties for the national governance systems. The reduced autonomy of national governance systems encourages international cooperation to pursue mutual interests. These processes strengthen the need to form global economic governance regimes (internationally agreed norms and rules) to govern the complex system of economic interactions at the international level.

45. Global governance regimes can solve global collective action problems through contractual arrangements, based on institutional bargaining, thus reducing transaction costs. Economic globalization creates new dilemmas for collective action in existing trade and finance regimes. The governance regimes require institutional innovation, which alters the preferences and capabilities of states (changes in the international alignment of interests, new uncertain ties). Economic globalization thus demands stronger, more centralized rule-based global governance systems. Substantial asymmetries in bargaining powers still hinder the emergence of more equitable international norms. Global economic governance regimes, where regime formation is based on the decision-rule of consensus, may assist in overcoming these deficiencies.

Global trade regime

46. The global trade regime (WTO regime) is based on the removal of trade barriers and a limited degree of coordination of economic policies. The former General Agreement on Tariffs and Trade (GATT) was a framework for negotiating multilateral trade agreements. GATT took shape as a combination of multilateral tariff agreements plus substantive

obligations concerning the conduct of national trade policy. Principles of non-discrimination and reciprocity were the core norms of the regime (unconditional most-favoured nation and national treatment clauses). The absence of a constitution has not prevented institutional innovation. The linkages to domestic policies and domestic legal systems were rather weak. The earlier GATT model exemplifies a type of limited cooperation aimed at removing government intrusions (tariffs and quantitative restrictions). Domestic arrangements remain the prerogative of sovereign states and their constituents. The national treatment principle, however, required the evaluation of domestic policies. Economic globalization stresses the links between trade and investment in global production networks. New GATT rules and norms address such issues as trade in services, intellectual property rights, domestic regulatory regimes and trade-related investment measures. A revised dispute settlement mechanism strengthens the decision-making rules. The new global trade regime under WTO adds permanence to the institutions governing international trade. The new institutional framework is more able to avoid excessive exceptions and to police national policies. Recent experience has demonstrated a need to balance divergent national interests and to make decision-making more democratic and transparent. The global governance regime must, in the future, also address the investment and competition areas despite formidable difficulties to reach agreements on these issues.

Global finance regime

47. The monetary regime is rule-based, with potentially substantial powers of monitoring and enforcement. Increased international financial integration have undermined the universal role of IMF in policy coordination. The main task has been the integration of developing countries and recently of transition economies (use of the instrument of conditionality and international oversight of domestic policy regimes).

48. Internationally agreed rules governed exchange rates and foreign exchange restrictions (prevention of competitive depreciation and restrictions on current account convertibility). The collapse of the fixed exchange rate system exhibited the inherent weaknesses of the regime. Political constraints prevented coordination. The result was a more decentralized regime of flexible exchange rates.

49. The surveillance procedures apply at present exclusively to developing countries and transition economies. There are calls for a more explicit system of policy coordination (exchange rate stability as a public good). Economic globalization has increased capital mobility and financial integration. The principal instrument of IMF to provide financial resources conditionally needs to be adjusted. The monetary regime still has to address new issues arising out of deeper integration. The IMF regime needs to establish a more central role in formal policy coordination. Changes in the governance structures and processes of the regime are inevitable. The need for more global regulation of international financial flows is also obvious. The internal governance structures need adaptation in order to reflect better divergent national interests and avoid domination by individual countries.

3. International public policies

50. Global economic governance regimes are one essential response to economic globalization. Other related responses at the global level are the development of global public policies and the provision of global public goods.

Global public policies

51. Economic globalization extends beyond the creation of global markets and intensified trade investment and financial flows towards internationally integrated production systems. The existing global economic regimes in trade and finance do not regulate the new international production networks that increase the potential danger of "international oligopolies" emerging. There is the urgent need for new types of international public policies addressing these issues. International public policies have to pool and operationalize the state capacities for public policy formation. They need to re-establish a degree of symmetry between the political and economic geographies in those sectors affected by globalization.

52. Different strategic options are available to achieve this. Defensive intervention in such forms as protective economic measures, capital controls and other national regulatory measures could potentially return internal national economic sovereignty (degree of autonomy) to national governments.

53. Offensive intervention can take place through a variety of economic measures, such as tax reductions

or deregulation, to foster "national competitiveness" (tax competition). Other potential measures are subsidies, aggressive export strategies, generous export insurance guarantees and the tying of foreign aid to exports.

54. The use of such strategies with the sole purpose of gaining a competitive advantage will not advance integration but rather divert scarce public funds from other important public policy goals, especially in the social sphere.

55. Defensive and offensive strategies re-emphasize territoriality as the ordering principle of international economic relations. These strategies do not conform with economic globalization and amount to an attack on cooperative competition.

56. The third strategic option is global public policies. This approach is to realign the political with the economic geography, or in other words to reconcile economic globalization with internal economic sovereignty. This requires a willingness to accept the notions of global collective interests and international public goods.

57. Global public policies do not imply the establishment of a global government. The option of a global government is unrealistic from the perspective of political legitimacy and administrative effectiveness. Nation states will not abdicate external and internal national economic sovereignty. As indicated earlier, global economic governance as one response can not be equated with global government. The new strategy must delink some operational aspects of internal sovereignty (national economic governance) from its territorial foundation (the nation state) and its institutional and legal environment. This divisibility of sovereignty is embedded in the principle of subsidiarity. Global public policies are based on "soft international law" and are structured around legally non-binding international instruments. Implementation by nation states has to be accompanied by effective compliance monitoring and enforcement mechanisms.

58. The public policy formulation can be delegated to public sector actors at different levels of governance (for all stages of the public policy process, such as agenda setting, policy formation, policy implementation and policy evaluation). The formation of specific, functional transgovernmental networks needs also to involve non-state actors. The mix of state, non-state and multilateral actors will vary according to the issue area.

59. Specific public-private partnerships will supplement transgovernmental links between states. Democratic economic governance has to look for new institutions and instruments that reach beyond the political geography of the nation state. Economic globalization and economic interdependence will coexist in dominating inter-state relations. This is especially true for the economic relations between developed and developing countries. This will also affect the agendas of global economic governance regimes. Recent disputes about the linkages between trade and labour and environmental standards are an indication for the contending demands. Deregulation at the national level requires some reregulation at the international level. The current state of global economic governance is a loose set of global economic governance regimes, with gaps and missing links. Greater coordination and cooperation is imperative. Multigovernmental networks are a necessary but not sufficient condition. The formation of cross-national structures of interest formation and aggregation in the operationalization of internal sovereignty are the core features of global public policies, which can but need not take the form of global economic governance regimes.

VII. Conclusions and recommendations

60. The establishment of economic governance systems for individual economic sectors or the whole national economy requires (a) the creation of an adequate institutional environment, (b) the selection of relevant governance institutions, (c) the determination of the state's economic functions and the corresponding scope, form and size of government interventions, and (d) the creation of adequate organizational structures and managerial capacities. The analysis of existing and the design and implementation of new national economic governance regimes are an urgent and imperative task, especially for developing and transition economies, in order to cope with both technological developments and increased economic globalization.

61. The economic governance mechanism in many developing and transition economies lacks an adequate

and functioning institutional environment. The lack of legal and institutional frameworks prevents the effective functioning of markets. There exist insufficient systems of property rights protection and contract enforcement. This creates the need to strengthen the role of the state with regard to the provision of the adequate institutional environment aspect of economic governance. This is also necessary in order to create an enabling environment for private sector development.

62. The application of different economic governance institutions has to be based on a thorough evaluation of their respective potential and limitations (market and government failures). Measures towards marketization, privatization and deregulation can increase efficiency. These developments have to be balanced by the adequate use of the state as a governance institution. The one-sided focus on the market as a governance institution has often neglected the importance of state/government institutions in creating an enabling environment for private sector development. The state’s economic functions also include, in addition to providing the institutional environment and correcting market failures, the ensurance of distributional justice. The adequate use of the state as a governance institution necessitates capacities for public policy formation and implementation. Misdirected efforts to diminish the state’s economic role have often reduced the needed capacities, especially in developing and transition economies. Capacity-building in these areas of economic governance is essential for economic development. The reduction of the state’s role in production activities needs to be supplemented by efforts to increase the regulatory role.

63. Economic globalization reduces the internal economic sovereignty of nation states and restricts autonomous decision-making. The institutional environments and governance institutions as elements of national economic governance have to be adjusted to the new conditions. National economic governance strategies and policies have to ensure the positioning of national economies in emerging global markets and international production arrangements. Developing and transition economies need stronger policy analysis and formation capacities to design adequate national policies and institutions. Weak economic governance regimes in these countries contribute to the uneven distribution of the benefits from economic globalization.

64. Regional and global economic governance regimes are a response to economic globalization. They establish the principles, norms, rules and compliance mechanisms for international economic relations in different functional areas, such as trade, finance and investments. The elaboration of such international economic regimes, which are based on intergovernmental agreements, have to take into account and reflect the national interests of all nation states. Developing and transition economies have to create national policy development capacities to analyse and determine their specific interests in the shaping of the principles, norms and rules of global economic governance regimes. These countries need also to create adequate negotiating capacities to pursue their interests in international negotiations more effectively.

65. Economic globalization and deeper economic integration require new global regulatory regimes to deal with specific aspects of capital flows, foreign direct investment and competition. These regulatory regimes for international economic transactions can contribute to more stability and predictability and reduce the vulnerability of the weaker states in the international economic system.

66. The global economic governance regimes in functional areas are administered by international organizations (World Trade Organization, International Monetary Fund, World Bank). The decision-making structures of these organizations need to be democratized. There is a need for greater transparency and accountability with regard to policy formation in these institutions. The clear delineation of specific functions for the different global economic governance regimes and closer cooperation between them to ensure policy coherence are imperative.

67. The United Nations intergovernmental bodies (Economic and Social Council) should play a more active role in the consideration of issues related to national and global economic governance. The discussion on economic globalization should, beyond issues of international trade and development finance, address concrete elements of governance systems, such as institutional environments, governance institutions and managerial requirements. It has to be recognized

that the institutional aspects of economic governance need to supplement economic policy considerations (institutions matter).