

Leadership in Global Governance: Complexity and Innovation



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Questions:

- 1. What is the nature of current global risks and vulnerabilities?
- 2. Why is our current system of global governance inadequate?
- 3. What are key sources of innovation and types of leadership in global governance?

Key Points:

- ➔ 1. Our global system is characterized by increased global connectivity, expansion of markets, acceleration of technological innovation; but also by increased systemic risks, especially in the environmental and economic spheres.
- ➔ 2. Our global governance structure remains limited, fragmented, unable to match the new balance of power; it requires new engines of innovation. This is a key task.
- ➔ 3. Key drivers of global governance innovation include new ideas, institutional designs, the formation of new networks, and catalysts for coalition shifts. All those rely on entrepreneurship and leadership in various forms.

Outline

- 1. Global Challenges of Today and Tomorrow: complexity and multifunctionality
- 2. Global Systemic Risks
- 3. Current Limits of the Global Governance System
- 4. Innovation and Leadership
- 5. Some Examples

Michael Spence (2011) – Nobel Prize Winner in Economics

- The scope and depth of the interdependencies of the global economy have run well ahead of global governance structure (...) This mismatch between governance and the market creates, at the very least, tensions (...)
- Economic integration has its limits without a parallel process of building effective and legitimate supranational political institutions (...) The global economy is at a critical juncture (Spence 2011: 244-245, 259, Economic Nobel Prize winner).

1. Current Global Challenges

- ▣ The global interdependence (Spence 2011) and connectivity (Goldin 2013) embedded in the current phase of globalization are reaching their institutional limits. As shown by the global financial crisis of 2008, global markets are “weakly embedded” (Rodrik 2011b:xvi) and their legitimacy is eroding.
- ▣ Globalization generates complex and multi-functional risks

Case 1: Global Finance

- Speed of technological innovation and asymmetric deregulation politics lead to increased volatility and moral hazard
- Global coordination is slow and contentious
- Contagion during financial crises reaches unexpected levels (1997, 2008)
- State of International Monetary System is additional risk factor.



Case 2: Climate Change

- The climate change presents humanity with the most complex problem possible
- Difficult coordination among scientific areas, law, geography, and policy- and China-US
- Global collective action problem with uncertainty, timing asymmetry, cost-benefit asymmetry
- Requires energy and policy innovations



Climate Risks – ADB 2011, p95

Table 1 | Asian cities feature prominently in the list of cities most exposed to half metre sea-level rises

City	Exposed Population (2070) (000s)	City	Exposed assets (2070) (\$bn, 2001)
Kolkata	14,014	Miami	3,513
Mumbai	11,418	Guangzhou	3,357
Dhaka	11,135	New York-Newark	2,147
Guangzhou	10,333	Kolkata	1,961
Ho Chi Minh City	9,216	Shanghai	1,771
Shanghai	5,451	Mumbai	1,698
Bangkok	5,138	Tianjin	1,231
Rangoon	4,965	Tokyo	1,207
Miami, USA	4,795	Hong Kong, China	1,163
Hai Phong	4,711	Bangkok	1,117
Alexandria, Egypt	4,375	Ningbo	1,073
Tianjin	3,790	New Orleans	1,013
Khulna	3,641	Osaka-Kobe	968
Ningbo	3,305	Amsterdam	843
Lagos, Nigeria	3,229	Rotterdam	825
Abidjan	3,110	Ho Chi Minh City	652
New York-Newark	2,931	Nagoya	623
Chittagong	2,866	Qingdao	602
Tokyo	2,521	Virginia Beach	582
Jakarta	2,248	Alexandria, Egypt	562

Source: Nicholls, R.J., Hanson, S., Herweijer, C., Patmore, N., Hallegatte, S., Jan Corfee-Morlot, Jean Chateau and Muir-Wood, R. 'Ranking of the World's Cities most Exposed to Coastal Flooding Now and in the Future, OECD Environment Working Paper No. 1, 2007.

Case3: Energy Governance

- Energy and commodity markets are one of globalization's Achilles' heels
- During periods of resource scarcity, competition can become intense and weaken markets
- Oligopolistic structures in key markets and lack of global governance institutions increase the risk of competitive behavior

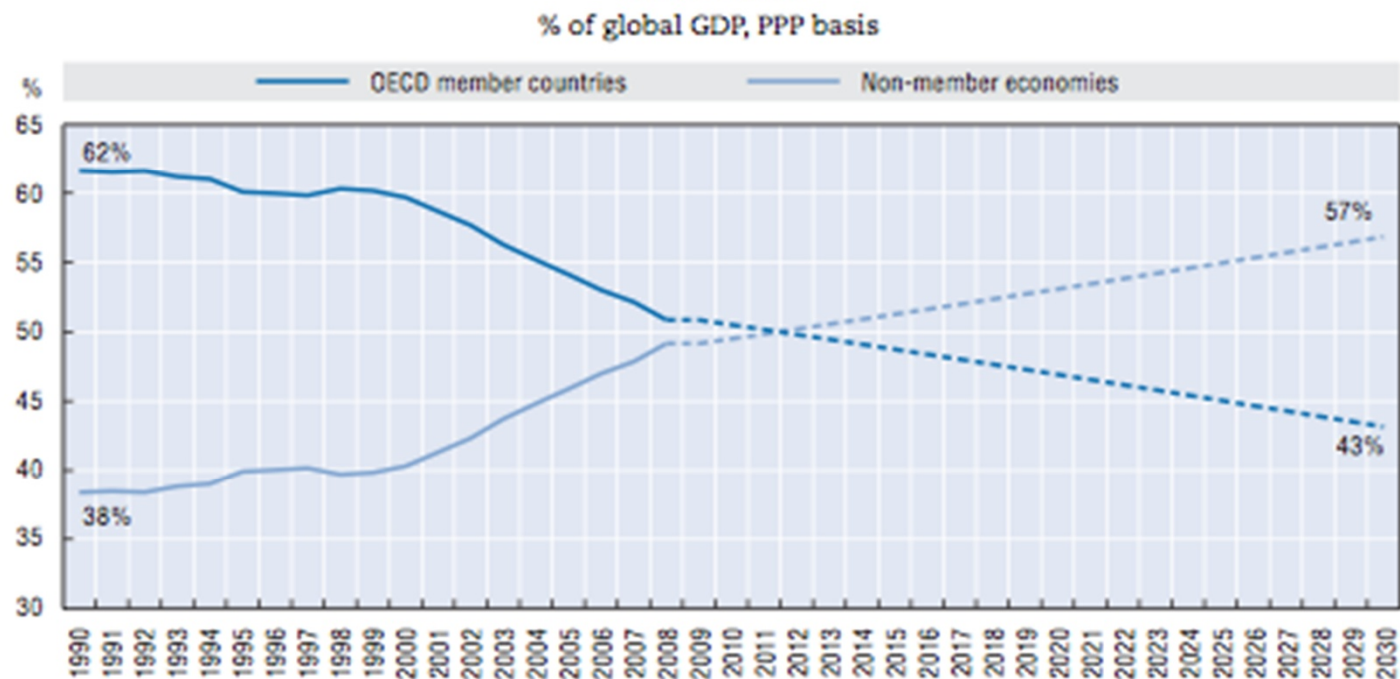


Two Other Global Dilemmas (2)

- Need to generate critical global public goods, including a stable trading system, a functioning global transportation system, a robust disease control system, a sustainable world environment, an agreed set of norms on global migration patterns, etc..
- Power shift: progress on global public goods or in the management of systemic risk now requires unprecedented cooperation between existing powers in the system (US, Europe, Japan) and new emerging powers (China, India,

1B. Great Power Transition

Figure 0.6. Share of the global economy in purchasing power parity terms, 1990-2030

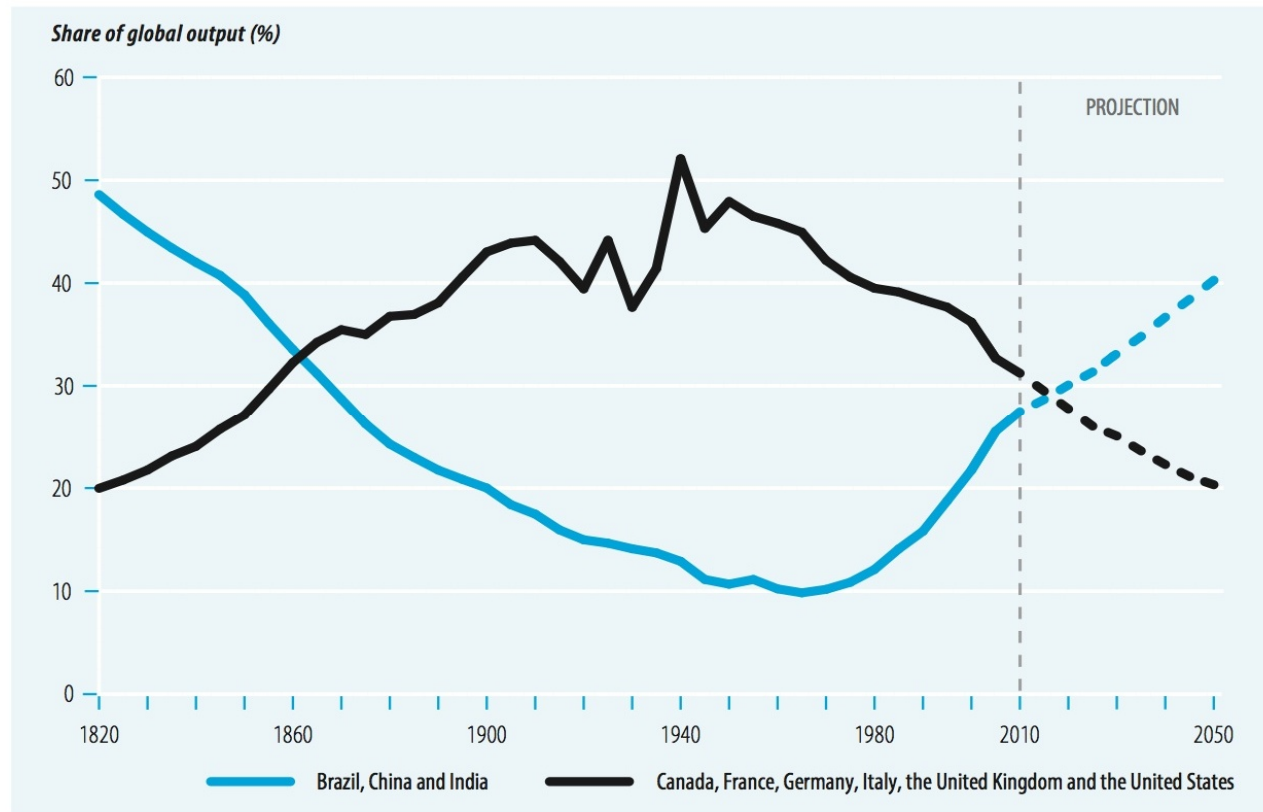


Note: These data apply Maddison's long-term growth projections to his historical PPP-based estimates for 29 OECD member countries and 129 non-member economies. Dotted lines indicate projections.

Source: Author's calculations based on Maddison (2007) and Maddison (2010).

UNDP 2013 HDR – G6 vs E3

1950



Note: Output is measured in 1990 purchasing power parity dollars.

Source: UNDP, Human Development Report 2013, Table 1.1. (2013) and UNDP, Human Development Report 2007, Table 1.1. (2007)

2. Dealing with Systemic Risk

- Systemic Risk: risk for the entire global economy and ecological system
- Case 1: critical failure or external shock → must adjust
- Case 2: optimization decisions of a small group of private actors under relatively permissive regulations have led to systemic-level breakdowns that affected entire nations and entire ecological systems without their prior consent or information → must preempt
- Ironically, the success of globalization and interconnectivity increases global systemic risks (more mutual dependence)

WEF Global Risks Report – January 2014

Box 1.1: What Is Systemic Risk?

Systemic risk is the risk of “breakdowns in an entire system, as opposed to breakdowns in individual parts and components”.¹ Systemic risks are characterized by:

- modest tipping points combining indirectly to produce large failures
- risk-sharing or contagion, as one loss triggers a chain of others
- “hysteresis”, or systems being unable to recover equilibrium after a shock

Note

¹ Kaufman, G. G. and K. E. Scott. 2003. “What Is Systemic Risk, and Do Bank Regulators Retard or Contribute to It?” *Independent Review* 7 (3): 371–391. See quote on p. 371.

Source

Goldin, I. and M. Mariathan. *The Butterfly Defect: How globalization creates systemic risk, and what to do about it*. Princeton University Press. Forthcoming Spring 2014.

Global Risks Report: World Economic Forum, January 2014 (p.9).

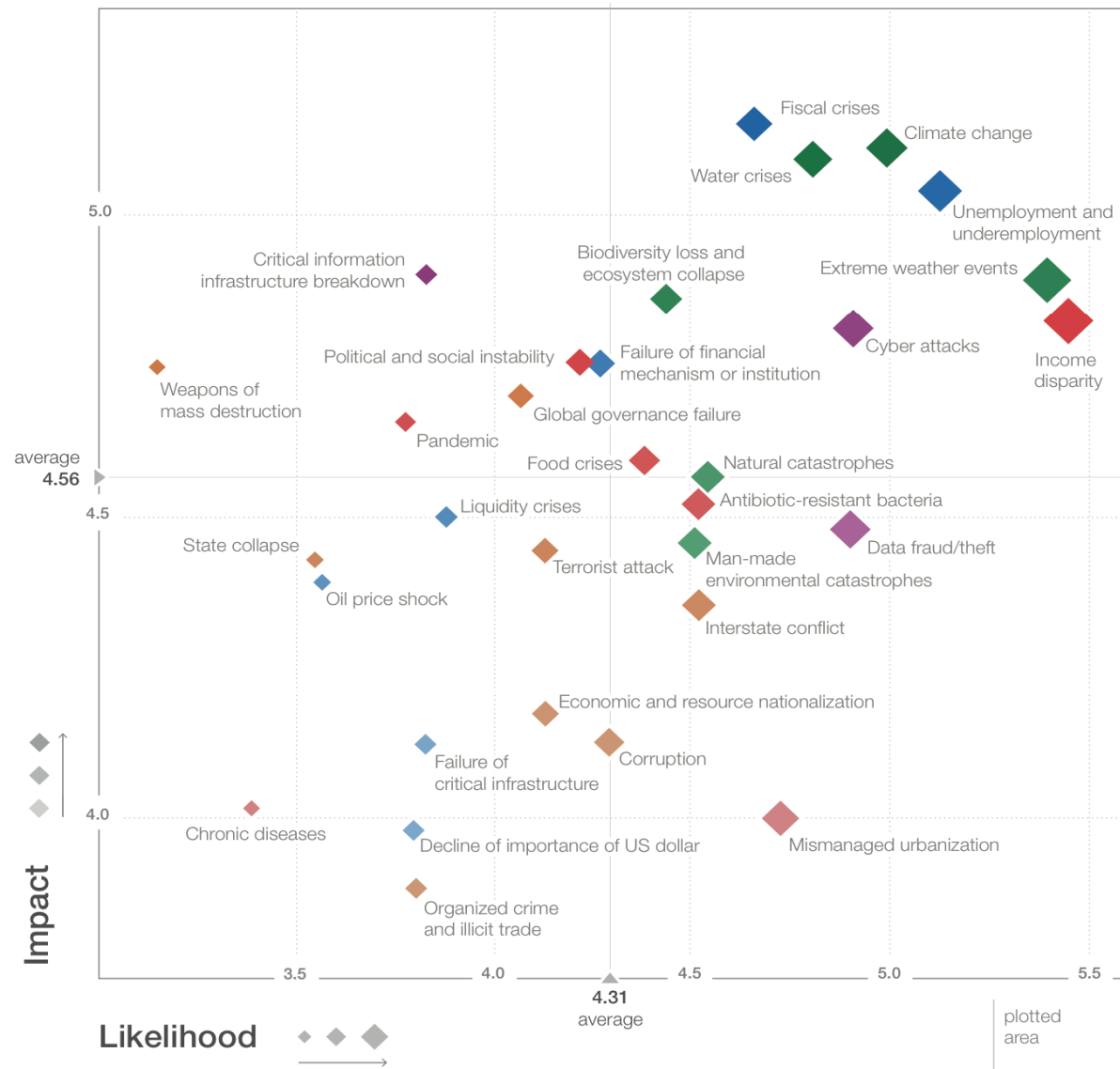
Table 1: Ten Global Risks of Highest Concern in 2014

No.	Global Risk
1	Fiscal crises in key economies
2	Structurally high unemployment/underemployment
3	Water crises
4	Severe income disparity
5	Failure of climate change mitigation and adaptation
6	Greater incidence of extreme weather events (e.g. floods, storms, fires)
7	Global governance failure
8	Food crises
9	Failure of a major financial mechanism/institution
10	Profound political and social instability

Source: Global Risks Perception Survey 2013-2014.

Note: From a list of 31 risks, survey respondents were asked to identify the five they are most concerned about.

Figure 1.1: The Global Risks Landscape 2014



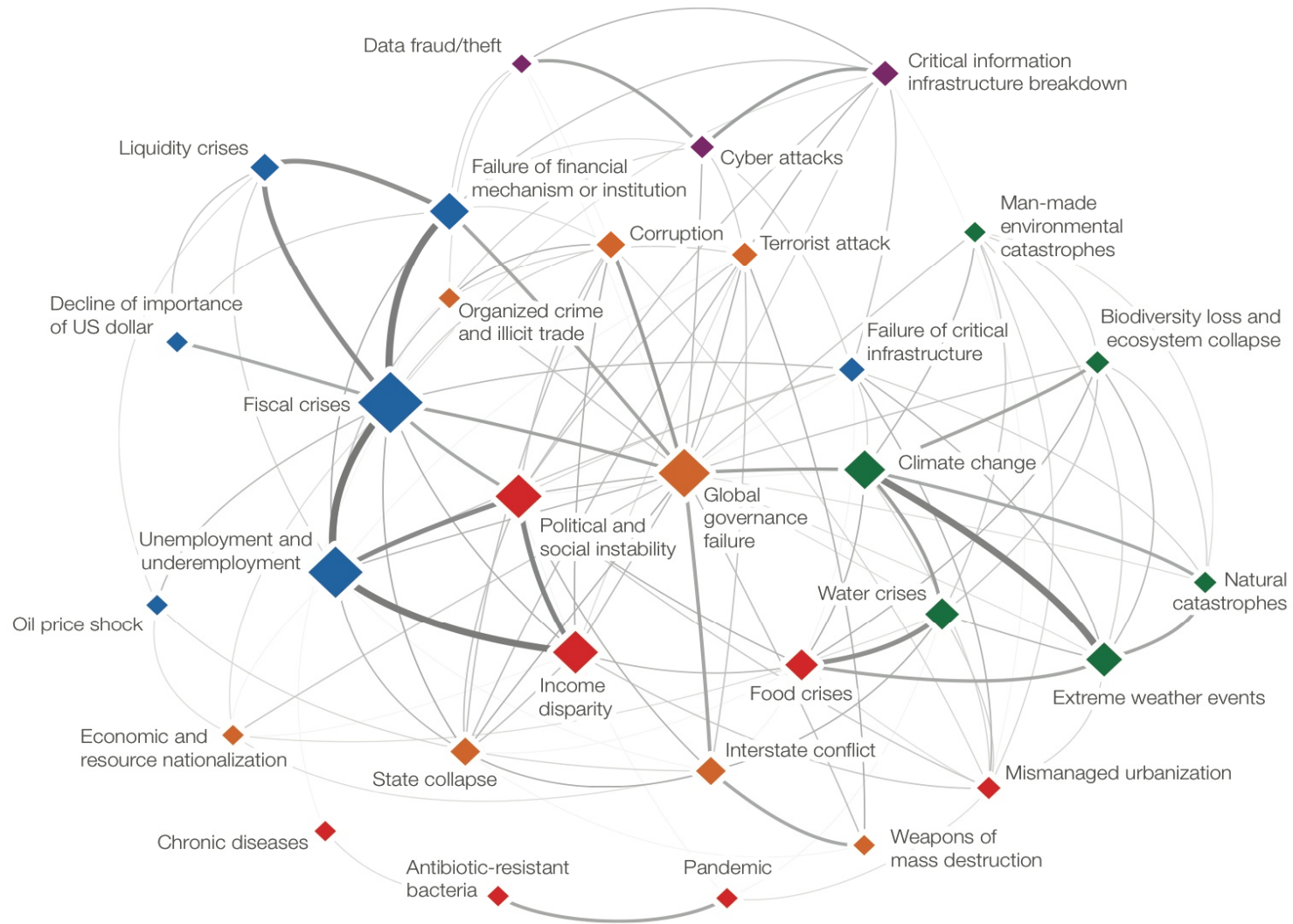
WEF-Global Risks over Time – p17

Table 1.3: The Evolving Global Risks Landscape (2007-2014)

Top 5 Global Risks in Terms of Likelihood

	2007	2008	2009	2010	2011	2012	2013	2014
1st	Breakdown of critical information infrastructure	Asset price collapse	Asset price collapse	Asset price collapse	Storms and cyclones	Severe income disparity	Severe income disparity	Income disparity
2nd	Chronic disease in developed countries	Middle East instability	Slowing Chinese economy (<6%)	Slowing Chinese economy (<6%)	Flooding	Chronic fiscal imbalances	Chronic fiscal imbalances	Extreme weather events
3rd	Oil price shock	Failed and failing states	Chronic disease	Chronic disease	Corruption	Rising greenhouse gas emissions	Rising greenhouse gas emissions	Unemployment and underemployment
4th	China economic hard landing	Oil and gas price spike	Global governance gaps	Fiscal crises	Biodiversity loss	Cyber attacks	Water supply crises	Climate change
5th	Asset price collapse	Chronic disease, developed world	Retrenchment from globalization (emerging)	Global governance gaps	Climate change	Water supply crises	Mismanagement of population ageing	Cyber attacks

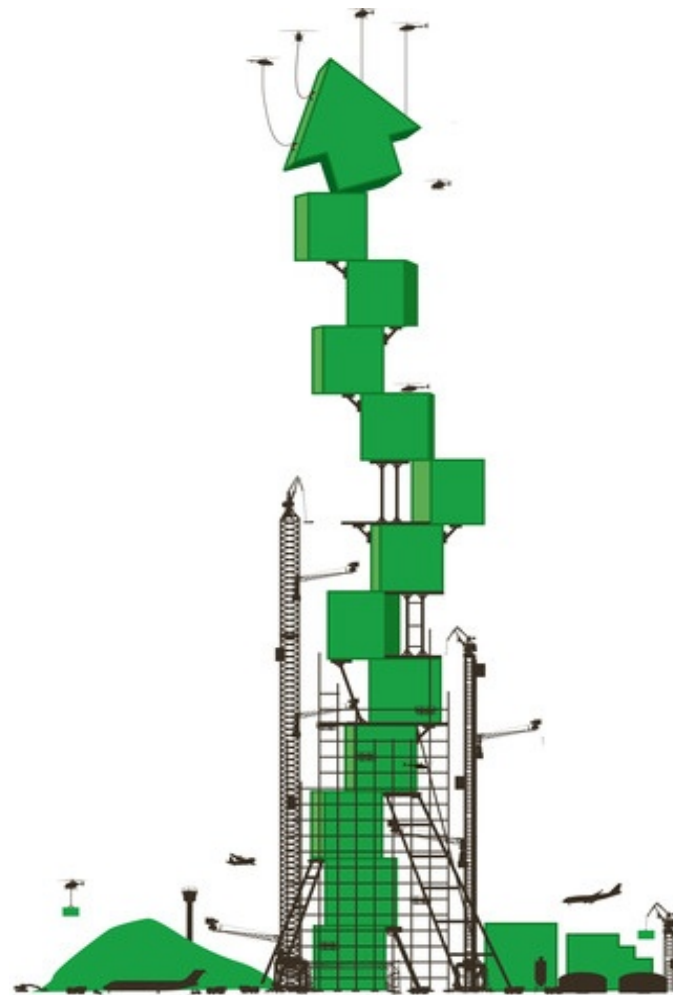
Figure 1.4: The Global Risks 2014 Interconnections Map



Types of Global Systemic Risks (derived from WEF)

- Environmental risks with high impact and likelihood: extreme weather events, failure of climate change mitigation, water crisis
- Economic risks with high impact and likelihood: severe income disparities, lost generation (high unemployment), fiscal crisis
- Global systemic vulnerabilities: global governance failures and digital disintegration?
- Additional trends: low trust in institution and lack of leadership

3. Global Governance: Our Limited Toolbox



What is Global Governance?

- Context: absence of global government, fragmented sovereignty vs global markets and global forces
- Global Governance: International Rules, Treaties, and Institutions that help states to coordinate actions at the global level
- Observation: bric a brac, haphazard collection of national rules, bilateral agreements, multilateral treaties ,and international institutions (Ios)
- In Flux, unstable, uncoordinated

Overview: Post 2008 Global Governance, processes & outcomes

Process	Outcomes	Stalemate	Progress
Competitive		1. Fragmentation Energy; Global food system (including GMOs); International Monetary System (foreign currency management)	2. Decentralized Coordination Development norms (evolution of Washington Consensus in dialogue with Chinese model)
Institutionalized		3. Paralysis WTO, Climate Change, Global investment regulations (including SOE investments)	4. Institutionalized Cooperation Mutual Assessment Program (MAP) within G20; Financial Stability Board (FSB, especially derivatives regulation, regulation of systemically advanced institutions); IMF monitoring; new code for capital controls; Nagoya Treaty on Biodiversity

4. Innovation and Leadership

- A fast changing environment with more complex interactions across domains, levels, and disciplines
- Rapidly changing balance of power and evolving matrix of actors (with uncertainties)
- A premium on adaptability, cross-issue linkages, and cross-boundary networks
- Whence can significant innovation in global governance come to address systemic risks and global public goods?

Innovation Factors in Global Governance

- 1 . Institutional designs (including novel platforms that help fluid bargaining, network formation, and incubation of new formal rules)
- 2. New norms, ideas, and focal points
- 3. Shift in Coalitions
- 4. Networks (multi-level)

Common Theme: Entrepreneurship and Leadership

- Individual entrepreneurship is as the root of any movement toward global coordination.
- Norm Entrepreneurs
- Institutional Entrepreneurs
- Coalition Entrepreneurs
- Network Entrepreneurs
- Shifting boundaries, catalyzing change, generating new ideas and creativity

What Policy Schools can Foster

- Creativity and innovation must be spurred in the field of global governance, just as it occurs in high tech innovation
- This will involve multi-sector partnerships including governments and IOs, civil society, private sector, individuals – a policy school can function as a hub.
- Key ingredients: new institutional designs, new networks to serve as vectors, catalysts for new coalitions

Examples of Drivers of Innovation in Global Governance

- leadership by policy actors within major powers and the conditions for the successful exercise of such leadership;
- leadership by middle powers (such as Canada, Australia, South Korea, South Africa, Indonesia), a category that is undergoing great revival from its initial Canadian and Australia roots, particularly owing to the leadership of the current South Korean President (Cooper and Higgott 1990; Nossal 1991; Park 2013; Soeya 2005; Tiberghien 2013a); and,
- leadership by non-state actors: civil society leaders, think tanks, business elites, heads of international organizations, amongst others.

Global and Regional Governance Entrepreneurs

- Governance entrepreneurs are states that have the ability to shift boundaries, nudge other actors, and shape the agenda of institution-building.
- Three functions are particularly interesting:
 - Providing forums for trust building, socialization, and network formation
 - Generate new ideas and blueprints
 - Experiment with small scale institutions or secretariats

5. Some Empirical Examples

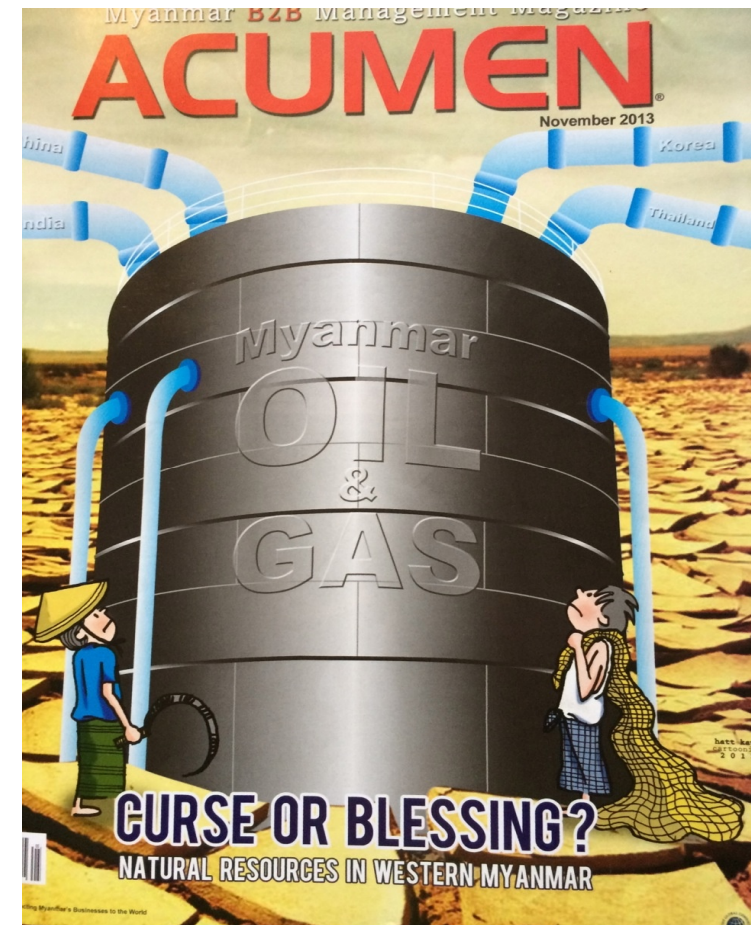
- The Good news: increasing proliferation of new networks of policy schools (including in China – not quite India yet), think tanks, civil society, private sector, labor, international organizations (competing for agenda) – new constellations and exchanges of ideas.
- The Bad news: thick obstacles within domestic politics of key states (eg US) and vested interests in position of power – less innovation at the last table (eg G20's case – take China and Japan).

A. The Nagoya Protocol on Biodiversity (2010)

- October 2010: after a roller coaster session, the parties of the UN CBD negotiations accept the Nagoya Protocol on Access and Benefit Sharing (the ABS Protocol).
- Marks a breakthrough in the management of biodiversity and indigenous knowledge
- Also agreed: a new Strategic Plan containing conservation targets for 2020 and a new Resource Mobilization Strategy for meeting these targets.
- Drivers: networks and loose coalitions between developing countries (80% of biodiversity) and Europe (with Norway as lead entrepreneur) and Japan (key role as Chair). Includes civil society networks and policy networks.

B. Myanmar Innovating in the Interface to Resource Investment

- Myanmar in the middle of multi-pronged reforms and opening, target for investors
- How to avoid the resource curse (leading to enclave economies, poor institutions?)
- Innovation: use the UN Global Compact and its network of private actors and NGOs to impose a successful interface (Myanmar Investment Commission and Dr Aung Thun Thet)



C. The G20 as new Laboratory for Global Governance Innovation

- ➔ The G20 Leaders Summit has emerged as the key global game (G2, G8 inoperative, G0 hopeless). The stakes are high.
- ➔ The G20 has to renegotiate the post-war liberal order (Ikenberry 2010), a post hegemonic order.

Overall G20 Lineup: Balanced

Established Powers	Emerging Powers
USA	China
Japan	India
Germany	Brazil
UK	South Korea?
France	Mexico
EU	Saudi Arabia
Russia?	South Africa
Canada	Turkey
Australia	Indonesia
Italy	Argentina

Progress and Obstacles within the G20

- Novel and fluid platform with multiple coalitions on different issues – no hard divide (yet) – socialization/learning happens!
- Innovative actors:
 - Leaders from key countries: EU, Korea, Canada, Australia?
 - International institutions (in competition): IMF, FSB
 - Networks (IOSCO, etc..)
 - Individuals: Bill Gates, etc..
 - Think Tank networks
- Yet, some key obstacles:
 - Domestic politics in key countries (US)
 - Consensus among large group + too short meetings

Areas of Progress vs Tensions between Powers in G20

Areas of Progress	Areas of Failure	Gray Areas / Partial
Mutual Assessment Process (cf China) + IMF monitoring	International Monetary System (US/UK/JP vs EU and BRICS)	G20 (Seoul Development Consensus)
FSB creation as new financial institutional hub	Tobin Tax (US/UK/CAN vs EU, China shifting, Brazil – JP on fence)	OTC Derivatives – framework within FSB, but soft
IMF resource increase	Climate – not brought into G20 yet	World Trade: Bali outcome, but TPP vs RCEP and others
Basel banking ratios?	G20 institutionalization (US/UK/Can/JP vs EU; BRICS on the fence)	Capital Control – Cannes Roadmap (US vs EU vs Brazil)

Conclusion

- The world faces unprecedented global and complex challenges, including increasing systemic risk resulting from increased connectivity.
- Our current global governance structure is yet inadequate. There is urgency of innovation.
- Innovation can be generated through institutional innovation, and cross-sectoral networks and teams.
- Boundaries must be broken, including among disciplines – partnership and entrepreneurship are the key ingredients that must be fostered.