Global Governance
for Justice, Democracy and Sustainability

Lim Mah Hui

TWN
Third World Network

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Note

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Introduction

We live in a highly globalized, interconnected and interdependent world where the problems confronting us – climate change, loss of biodiversity, volatile financial flows, tax evasion, global pandemic, unprecedented inequality, threat of nuclear war etc. – transcend national boundaries and cannot be solved at the national level. Their solutions require global cooperation and global governance – a system of procedures, rules and institutions to tackle these trans-border challenges. These institutions operate at global, regional and functional levels. However, the present world order and international relations are still primarily based on the Westphalian model whose overriding organizing principles are national sovereignty, territorial integrity and non-interference in domestic affairs.

How to resolve the tension between these opposing forces will be crucial in determining the future of the world.

History and evolution of global governance

After the Thirty Years' War in Europe and the signing of the Peace Treaty of Westphalia in 1648, nation states agreed to respect each other's national territorial and sovereign rights. This was supposed to usher in a period of peace. Instead, we witnessed the rise of nationalism, the race to expand national empires and colonial territories, and the maximization of hegemonic power that eventually led European nation states to clash in two World Wars costing an estimated 100 million lives.

Following World War I, the League of Nations was established in 1920 as an inter-governmental organization with the mission to maintain world peace. It was the first attempt at global governance. While it was unsuccessful in preventing the outbreak of World War II and was shortlived, effectively closing down in 1939, it represented a fundamental shift from the way inter-state relations had been conducted in the previous 100 years. It ushered in a new basis for the conduct of international relations and inter-governmental cooperation. As part of its legacy, several of its agencies became part of the United Nations (UN) when it formally disbanded in April 1946.

United Nations system

Efforts to establish a framework for the United Nations, which began in 1941 and culminated in the Charter of the United Nations in October 1945, occurred against the backdrop of World War II. These efforts were led by an alliance of Allied nations at war with the Axis powers. In January 1942, 50 countries, led by the United States, the United Kingdom, China and Russia, signed a short Declaration of United Nations pledging a unified and total fight against the Axis powers. After numerous conferences held between 1943 and 1945, the Allied countries agreed to establish an international organization predicated on the principle of national sovereignty, and dedicated to defending against aggression and to promoting peace, justice and better living conditions for humankind based on the principles of universal justice.

The UN was officially established in October 1945, a month after WWII ended, with 51 member states ratifying the Charter. At the political level, the UN system consists of:

- UN General Assembly (UNGA): A forum for all member states to discuss and coordinate on international issues.
- UN Security Council (UNSC): Responsible for maintaining international peace and security, with the power to impose sanctions and authorize military action.
  - Permanent members (P5): US, UK, France, China, Russia (with veto power).

    - 10 non-permanent members (elected for two-year terms).
- UN Secretariat: Headed by the Secretary-General, it implements UN policies.
- UN Peacekeeping Operations: Deploys troops to conflict zones to stabilize regions.
- Office of the High Commissioner for Human Rights (OHCHR): Monitors and promotes human rights globally.
- International Court of Justice: To settle disputes between nation states based on international law and to offer advisory opinions on legal issues referred by UN agencies.

Specialized international institutions such as the UN Educational, Scientific and Cultural Organization (UNESCO), Food and Agriculture Organization (FAO), and World Health Organization (WHO) were created to promote peace and development through international cooperation in the fields of science, culture, agriculture, health etc.

Bretton Woods system

While the UN system deals with political, social and cultural cooperation between countries, a separate set of negotiations, led by the US and the UK, was conducted to discuss the framework for international cooperation to rebuild a postwar international monetary and financial system.

An international monetary system consists of rules, procedures, laws and institutions that establish how money is created, used, distributed and managed internationally. In short, it establishes exchange rates to facilitate financial flows between countries for the purpose of trade, investments and ultimately growth and employment.

For close to a century before World War II, the international trade and payment system was based on the gold standard, where the value of a country's currency is pegged to a fixed quantity of gold. As US President Herbert Hoover said, "We have gold because we cannot trust governments." While the gold standard provided price stability with fixed exchange rates, which were positive for international trade and investments, its main drawback was its rigidity. A national government did not have independent monetary policy. Its supply of money was tied to its quantity of gold reserves. In times of economic downturn, it was unable to increase money supply unless it raised interest rates to attract inflow of gold but that would restrict borrowing, dampen business, and cause unemployment and recession.

During World War I, many countries abandoned the gold standard and started to print money to finance their war activities, leading to massive inflation, exchange rate volatility and economic instability.

After the war, countries like the UK tried to return to the gold standard to restore confidence in the pound and their respective currencies. But maintaining pre-war gold parity required deflationary policies including reducing wages and maintaining high interest rates that only worsened unemployment, trade deficits and economic misery. Ultimately the UK abandoned the gold standard in 1931, and France did so in 1936.

Across the Atlantic, the US went into a Great Depression in the early 1930s, experiencing a financial crash, mass bankruptcies, soaring unemployment and economic depression. Adherence to the gold standard only aggravated its economic misery as the country couldn't stimulate the economy by printing more money. Finally, it also abandoned the gold standard in 1933.

The onerous war reparation imposed on Germany had severe consequences not only on the German economy and politics but also on the international monetary system. To meet reparation payments, Germany printed massive amounts of money, leading to its worst hyperinflation and currency devaluation and destabilizing international trade and economic arrangements. They created the conditions for the rise of Nazism in Germany.

Cumulatively the economic crises in all these countries created international instability as countries became wary of trading with and investing in each other. Every country raced to protect its own interest by enacting policies such as raising tariffs, erecting other forms of trade barriers and engaging in competitive devaluation to boost exports. Such beggar-thy-neighbour policies invited tit-for-tat action and the absence of international cooperation led to a big decline in world trade. They undermined any attempts to create a prosperous, peaceful, open and cooperative international economic order. The combination of economic crises, the reactions and radicalization of two powers – Germany and Japan – and their scramble for territories led to the outbreak of World War II.

At the end of the war, countries got together to create a new international economic order which some termed as the "global liberal order" to replace economic nationalism. The four goals of this system are: pursuing full employment in national development through Keynesian policies; establishment of a new international monetary system to better manage foreign exchange and balance-of-payments imbalances; capital investments to rebuild war-devastated economies and also poorer countries; and boosting international trade by lowering trade tariffs and dismantling other forms of trade barriers. The key institutions to implement these policies are the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) – later known as the World Bank – established in 1944, and the General Agreement on Tariffs and Trade (GATT) in 1947 (Susskind and Vines 2024). Collectively it is known as the Bretton Woods system.

The US and the UK, the two major postwar powers, led other countries in the negotiations and shaped the framework of this new international economic order. To stabilize exchange rates, the new international monetary system adopted a fixed exchange regime pegged to the US dollar, convertible to gold at $35 per ounce of gold. However, the system permitted limited revaluation of currencies in both directions to accommodate flexibility. To stem speculative capital flows which were rife, financial capital flows were regulated while productive capital investments were encouraged. The IMF also was tasked with monitoring economic conditions of countries and providing liquidity assistance to countries facing balance-of-payments problems.

The initial primary role of the IBRD was to provide capital assistance to countries in Europe and Japan to rebuild their war-devastated economies. After 1947 it became the World Bank, with a focus on providing assistance and funding infrastructure investments to alleviate poverty and boost economic growth in poor countries.

The third pillar of the new international economic order was GATT, formed in 1947 (its successor the World Trade Organization (WTO) was established in 1995) – a multilateral trade agreement to reverse economic nationalism which hampered world trade and to usher in a new era of trade liberalization. The treaty aimed at worldwide reduction of trade tariffs, removal of trade barriers, and equal access to markets and raw materials of the world.

Liberalization for whom? Who benefits more?

The post–World War II landscape was dominated by the US as the new hegemon replacing the British Empire. It was also the start of the Cold War, with Western powers pitted against the Soviet Union. Most Third World countries were either still colonies or just emerging from colonial rule. Construction of the new political and economic order, its institutions, international rules and laws were designed by the Western capitalist countries in their interest and selectively enforced. They didn't take account of the conditions of underdevelopment in developing countries created by years of colonialism. The new liberal order was also opposed to socialism and communism.

While the General Assembly of the UN was democratic, with each of its 51 founding member countries having voting rights, the same cannot be said of the Security Council which wielded more power. The Council comprised only five permanent member countries – the US, the UK, France, the USSR, China – and 10 non-permanent members elected for two-year terms. The most undemocratic aspect of the UN system was, and still is, the veto powers of the five permanent members. This undemocratic system paralyzes the proper functioning of the UN and is on stark display with the US consistently exercising its veto powers against the wishes of the overwhelming majority of UN members to stop the genocide in Palestine by Israel.

Likewise, the three Bretton Woods institutions are mainly controlled by the developed countries. The governance structure, focus, goals and lending practices of these institutions are biased in favour of the rich countries. Until today, the head of the IMF is a European appointee and the head of the World Bank is a US appointee. Only after 1999 did a non-European head the WTO.

Voting rights in the IMF and World Bank are based on the economic size and financial contributions of countries. Poor countries have limited access to the institutions' governing bodies. The IMF's principal concerns with macroeconomic stability and inflation management override broader development objectives. Its lending priorities and policies are also biased – lending more to rich countries or those ideologically in tune with them. Both the IMF and World Bank impose strict structural adjustment conditions and austerity measures on poorer countries, while adopting more lenient or even opposite policies for developed countries. The overall policies and programmes of these institutions prioritize free-market reforms and development financing and increasingly follow the private sector model. Many of their austerity programmes disproportionately affect the vulnerable population, ending up exacerbating poverty and inequality. Obsession with gross domestic product (GDP) growth and per capita income masks more fundamental problems of rising inequality, worsening social wellbeing and environmental degradation.

GATT/WTO was supposed to promote "free trade" worldwide, but in reality, it is a trade system governed by rules that reflect a balance of powers skewed towards the developed countries. For example, developed countries continue to maintain quotas, subsidies and limited access to their agriculture and textile sectors where developing countries have comparative advantage. Negotiations dominated by big powers are exclusive and non-transparent where concerns of developing countries are excluded, leading, for example, to a breakdown in the WTO's Seattle conference in 1999.

Post–Bretton Woods neoliberalism and the Washington Consensus

The postwar international economic order aided rapid recovery in Western Europe and Japan and boosted growth in the US. It was the Golden Age of capitalism. The adoption of the US dollar as an international currency, serving as the unit of accounting, means of payment and store of value for international transactions, conferred with it "exorbitant privilege". This meant the US could print as much money as it needed as long as the world's demand for it continued. It indulged in domestic budget deficits and external current account deficits to finance its massive spending to fight the war on poverty at home and the imperialist war in Vietnam. Like the British Empire before World War II, the US went from the world's biggest creditor to become its largest debtor in two decades.

The enormous accumulation of US dollars by the rest of the world, financing the profligacy of the US, put enormous strain on its financial system and finally broke its floodgate. Running out of gold reserves to meet the demands of its international creditors, US President Richard Nixon in August 1971 unilaterally tore up the Bretton Woods agreement and ended the convertibility of the US dollar to gold. The result of all these contradictions ended the Bretton Woods system as a global economic management system.

The fixed currency exchange rate gave way to a floating exchange rate system; capital flow management was abandoned in favour of free, unregulated capital flows; the goal of achieving full employment was replaced by inflation targeting and price stability management; and fiscal policy was overtaken by monetary policy to manage the economy. Some have called it a global "non-system" characterized by minimal international agreements and global management.

The combination of floating exchange rates and unregulated capital flows ushered in a new era of currency speculation, financial volatility and economic instability which continue to plague the world today. This is especially true for smaller economies that are exposed and vulnerable to erratic capital inflows and outflows. This openness constrains the monetary management ability of smaller economies. They are held hostage to the monetary policies of the rich countries, particularly the US. For example, when the US lowers its interest rates to avoid a recession or to revive its economy, private capital flows into emerging markets in search of higher yields. The impact of hot money inflow causes their currencies to appreciate and stock markets and property prices to inflate, and in general fuels inflation. In times of financial or political crisis, the sudden outflow of capital will reverse the whole process and lead to economic downturn. An IMF study shows that the majority of financial crises in emerging, developing economies are associated with capital flow volatility.

The early 1970s was also an era of high inflation, caused by excessive spending, deregulation, and energy and commodity supply shocks (the Middle East oil embargo caused rising prices and falling output), combined with declining growth and employment. This unprecedented toxic mix of inflation and stagnation claimed an intellectual victim. Keynesian economics and its associated Phillips curve didn't have the necessary policy response to the economic situation and soon fell out of favour with academics and policymakers. Waiting in the wings were free marketeers who touted deregulation, privatization, minimal role of government, and monetarism as the panacea for the world's problems. The adoption of these policies by the US government and the Bretton Woods institutions is known as the Washington Consensus.

The significance of these neoliberal economic policies would have been limited if not for their impact on politics. These ideas were eagerly seized upon by politicians like Ronald Reagan and Margaret Thatcher who with missionary zeal went about downsizing government participation in the economy, selling government enterprises to private businesses, deregulating industry and finance, and dismantling the welfare state in favour of the warfare state.

Its political counterpart was the rise of the neoconservatives (neocons) in the US who, disillusioned with the failures of liberalism, fearing Soviet expansion and believing in American exceptionalism, embarked on a mission to spread "democracy" by means fair or foul (mainly foul) to the rest of the world, resulting in endless wars outside of the US.

Globalization and its discontents

For close to four decades (1970s to 2008), the liberalization of trade and investments, advancements in technology, communications and transport, and the growth of finance and international banking all turbo-charged the forces of globalization. World trade and GDP grew exponentially, the US enjoyed an era of "Great Moderation", and many emerging countries especially the Asian tigers took off. This era saw the decline and demise of Soviet communism and the adoption of market policies even by socialist/communist countries like China and Vietnam. The latter events inspired political scientists like Francis Fukuyama to announce the "end of history": like the Christian's belief in eschatology, the secular world was said to have reached its apogee in the form of neoliberalism, capitalism and Western democracy.

But just as capitalism contains the seeds of its own demise, as Marx observed 200 years ago, the neoliberal order, of which globalization is the poster child, generated its own vulnerabilities and contradictions. These have sparked extensive political backlash, manifested in the rise of national populism and economic protectionism in the US and Europe.

Globalization, the expansion of free-market capitalism worldwide, is based on the principle of putting capital before nation, profit first and people last. With the breakdown of investment and trade barriers, capital moved freely from rich to poor countries in search of cheap labour. This resulted in the hollowing out of industry, job losses, repressed wages and smashing of trade unionism in the rich countries. Most gains of globalization accrue to a minuscule portion of people; at national level, it has benefitted only a handful of emerging countries. Inequality within countries and globally has reached unprecedented levels. Today, the top 1% owns 46% of global wealth and only 26 billionaires own more than the combined wealth of the lower half of the world's population. This wealth concentration gives them enormous powers in media manipulation and control over politicians and policymakers. Shut out from the gains of growth, the alienated working class nurture deep distrust towards the elites and the establishment. The intense competition unleashed by globalization creates uneven development globally, pushing people to migrate from poor countries to fill labour shortages in rich countries. The combination of job losses due to de-industrialization and the influx of migrants has produced a toxic mix of ultranationalism which formed perfect breeding grounds for the rise of nationalist populist parties like the AfD in Germany, the Republicans in the US and Le Pen's National Rally in France.

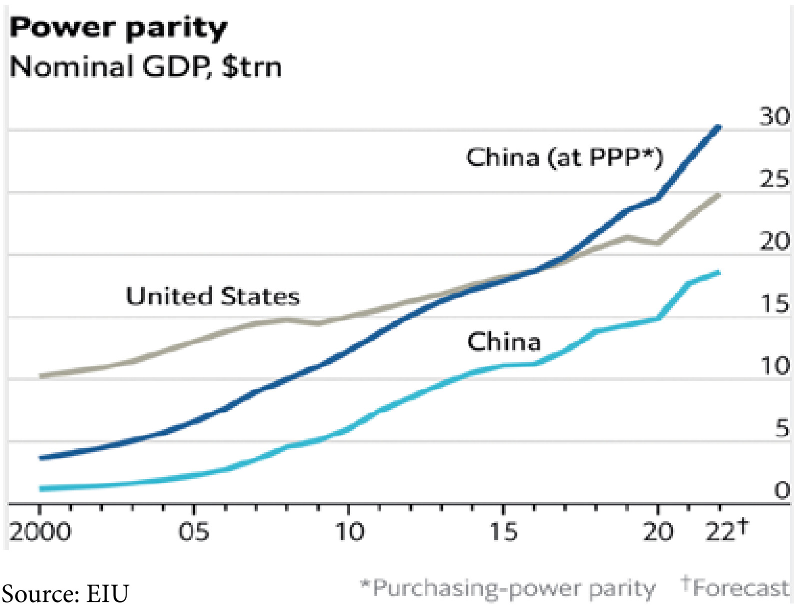
In sum, globalization has strengthened economic integration but at the cost of social disintegration (Rodrik 2011). Rodrik believes that it is not possible to simultaneously pursue the goals of democracy, national determination and economic globalization.

Rise of China – disrupter of US unilateralism

One unforeseen and unintended consequence of globalization is the incorporation of China into the global circuit of trade and capital. After China undertook market reforms in 1978, its economy underwent rapid growth, but the real takeoff occurred after it joined the WTO in 2001. It aligned its trading rules and practices to the WTO's requirements of reducing tariffs, quotas and other non-tariff barriers.

According to UN Trade and Development (UNCTAD), in two decades (2001–2020), China's exports rose 870% and imports 740%, outpacing global average growth of 180%. China became the world's factory, accounting for 30% of the world's manufacturing output in 2022 – supplying anything from low-end products like household goods to sophisticated machines and taking leadership in production of electric vehicles.

In the same period, China's GDP rose even faster, averaging a growth rate of 8% per annum, from $1.3 trillion to $14.7 trillion in USD terms, lifting 800 million out of poverty and transforming it into a global economic superpower. On a PPP (purchasing power parity, i.e., taking account of cost of living) basis, China's GDP at $19.6 trillion overtook the US's $19.5 trillion in 2017.



Source: EIU

Initially, the West was excited with China's integration into the world capitalist system, believing that it would follow the unilinear path of Western modernization, adopting all its liberal norms. China's spectacular growth, however, did not slavishly follow the Western model of capitalist development. It fashioned its own development model of Chinese socialism with market characteristics. It is state-directed capitalism. It maintains a mix of public and private enterprises. The state continues to have a big role in the direction of national development, but it also encourages decentralization of economic initiatives at the level of local government.

As long as China was a cuddly infant or adolescent, it was embraced or tolerated. The photo of US Vice President Joe Biden visiting a Chinese school in 2008 speaks volumes about such attitude. He was quoted as saying, "The US wants to see a rising China. We don't fear a rising China. We welcome it." Ten years later, when China emerged as an adult and "threatened" US economic supremacy, US President Donald Trump, in his first term in office, fired the first salvo. He imposed a 10% tariff on Chinese imports into the US. During his presidency, Biden upped the ante to 20% by 2021. In 2025, Trump, in his second term, raised it to 145%. Besides tariffs, the US, under both Democratic and Republican presidents, as well as Europe are imposing bans on high-end technology product exports to China to prevent it from achieving technological dominance.

Writing about the crisis confronting Europe in the 1930s from his prison cell, Gramsci presciently observed, "The crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum, a great variety of morbid symptoms appear." We know what happened in Europe a few years later. Today we are witnessing the fraying of a world order under the hegemony of the US and the rise of new powers. This shifting global dynamic brings with it enormous dangers but also opportunities for change.

Challenged from without by countries that succeeded at playing the game, and undermined from within by forces of social disintegration (job losses, declining standards of living etc.), the US, like a raging bull in a china shop, has sought to break and rewrite the very rules of global economic cooperation which it had fashioned. It threatened to pull out of the WTO and stymied the functioning of the organization's Appellate Body by not replacing departing judges because it lost in several trade dispute cases. It accused the WTO of infringing US sovereignty. It uses tariffs as a tool to punish friends and foes alike, demanding that they invest in the US and purchase US products. The US dollar has been weaponized. The dollar reserves of several countries have been illegally seized and their access to international payment systems cut off, while indiscriminate sanctions have been slapped on countries in Washington's bad books. The US walked out of trade and climate agreements, and exited several UN organizations like UNESCO, UN Human Rights Council, WHO and UNRWA. It infringes on the sovereignty of nations by conducting covert and overt operations to overthrow governments. The historian Benjamin Coates in his various writings documented 80 covert operations and 392 overt military interventions between 1946 and 2020.

The most morbid manifestation of the breakdown of global order in the 21st century has to be the blatant and egregious violation of international law and global peace in the unconscionable campaign of ethnic cleansing, mass starvation, indiscriminate bombing, ecocide and genocide against the Palestinians by Israel, abetted and supported by the US and other Western powers. In the face of massive outcry by a vast majority of the world's population against these war crimes, rulings of the International Court of Justice and International Criminal Court and countless UN resolutions, Israel continues to flagrantly violate international laws with impunity. The ability of one country, the US, to veto action against Israel has paralyzed the UN's peacekeeping mandate. This anachronistic power asymmetry must be redressed in the new order.

Emergence of multipolarity

Notwithstanding the rise of economic power in the Global South, the international economic and political order is dominated by the Global North. The rules of this order have been criticized for lack of fairness and a refusal to address the concerns of the Global South. Demands for changes in the leadership positions in the

Bretton Woods institutions have been met with indifference. The shortcomings of the international financial system do not reflect the powers and rising aspirations of the Global South.

A turning point in the evolution of attitudes towards the international order was the 2008 Global Financial Crisis, the most serious since the Great Depression. Major banks in the US teetered on the edge of bankruptcy, businesses defaulted and closed, stock markets crashed, economic growth plunged and unemployment soared. The financial system of the world was shaken and the effects reverberated to Europe and to a lesser extent to Asia. The implosion of the financial bubble punctured the myth of the invincibility of the free-market economy and even challenged its intellectual foundations. It caused a loss of confidence among Global South countries who questioned the trustworthiness of the US-led financial system.

In the wake of the Global Financial Crisis, five countries – Brazil, Russia, India, China and South Africa (BRICS) – gathered to establish a platform to exchange ideas, foster economic cooperation, enhance the voice of the Global South, and to make global governance more balanced and representative of the changing international landscape. The BRICS grouping is a counterweight to the G7 which represents the Global North. Since its inception over 15 years ago, its membership has expanded to 10, with another 10 countries enrolled as partners. The 10 BRICS countries in 2024 accounted for 39% of global GDP (on PPP basis) and over 50% of the world's population. In contrast, the G7's share was 28% of global GDP and 10% of the global population.

The strategy of BRICS is twofold – construction and reconstruction. On the one hand, countries of the Global South continue to demand reforms to existing international organizations like the IMF, World Bank, WTO and UN Security Council. At the very least, they should be better represented and have more say at the leadership levels of these organizations. To date there is no country representing Latin America and Africa among the permanent members of the UN Security Council. The governance and lending policies of the IMF should be changed along the following lines: increased representation from the Global South; decentralizing its decision-making structure; relaxing structural adjustment conditionalities that impact negatively on social welfare and human rights in countries receiving IMF loans; expanding the use of the Special Drawing Right (SDR) as an international reserve currency and increasing the share of developing countries' access to it; and establishing a framework for sovereign debt restructuring. Criticisms similar to those against the IMF have been levelled at the World Bank.

As the Global North resists such reforms, the BRICS and other Global South countries have gone about setting up alternative global governance institutions. BRICS have created the New Development Bank with a different governance structure and focus. Its board is based on equal representation and members do not have veto power. Its loans are demand-driven and evaluated against technical metrics. They do not come with political or structural conditionalities attached. China set up the Asian Infrastructure Investment Bank (AIIB) in 2016 to offer a different approach to infrastructure development. In 2023, seven years after its inception, AIIB had 106 members with equity of $21 billion, compared with the Asian Development Bank's equity of $69 billion with 68 members after 56 years of operation.

Other international and regional institutions, fora and platforms to promote cooperation among the Global South include the Chiangmai Initiative and the Contingent Reserve Arrangement (CRA) to provide liquidity to countries experiencing balance-of-payments problems, similar to the IMF, alternative trade and payment systems to reduce reliance on the US dollar in trade, bilateral trade in local currencies, and digital payment systems between central banks like Project mBridge. At the political level, the G77 was formed in 1964 by 77 developing countries to promote their collective interest and negotiating capacity in international fora on issues of climate change, world trade, patent rights, global health etc. As of 2023, it had 134 members.

New global challenges and envisioning alternative global governance

While the old order is breaking down and rules are trampled on by the architects who constructed them, the world is facing new and more serious challenges that transcend national boundaries – challenges whose solutions require more global cooperation. These include global warming, pollution and environmental destruction, depletion of ocean resources, invasion of plastics into every part of the planet including human bodies, outbreak of global pandemics, threat of nuclear war and obliteration, unprecedented inequality, and explosion of artificial intelligence (AI) that could overwhelm human intelligence and indeed humanity. The dangers from each are foreboding enough; collectively they could spell the end of human existence. Envisioning new processes, rules, actors and venues of global governance requires a transformative approach and redesign of institutions fit for meeting the challenges of the 21st century.

The new construct must be grounded on recognition of historical responsibility for the world's existing imbalances, and its corollary, the philosophy of common but differentiated responsibility for righting these inequities. It must reflect the principles of distributive justice, equity among nations, and acceptance of global interdependence.

Reconstruction of current global institutions

The power asymmetry in global institutions like the UN Security Council, World Bank, IMF and WTO must be redressed to reflect the interest of the Global Majority.

For a start, the UNSC should include representatives from Latin America and Africa as permanent members. The veto power of permanent members should be abolished. Important decisions should be taken at the General Assembly and the powers of the Security Council should be trimmed and put under the control of the GA.

Given that the UN is more representative of all nations than the Bretton Woods institutions (BWIs) dominated by rich countries, the powers and mandate of the UN Economic and Social Council (ECOSOC) could be reformed and expanded to tackle global macroeconomic and financial challenges. It should act as a counterweight to the BWIs. The Stiglitz Commission in 2009 recommended a Global Economic Coordination Council (GECC) under the UN umbrella but with independent decision-making mandate.

Presently the BWIs' voting rules require supermajorities for major changes, giving the US and the European Union de facto veto power. This governance structure should be changed to increase the decision-making powers of the Global South to reflect their rising economic weight.

New policies

Current practices and rules of the international financial system such as unregulated capital flows, floating exchange rates, and pro-cyclical fiscal and austerity policies contribute to financial volatility and economic instability, especially to smaller economies. The IMF should recognize capital controls, exchange rate management and counter-cyclical measures as legitimate policy tools for countries to manage their economies rather than penalize them for adopting these measures.

The Special Drawing Right is an international reserve currency issued by the IMF to supplement the official reserves of member countries. Countries facing short-term balance-of-payments crises can exchange their SDRs for hard currencies to tide over liquidity problems. The SDR can also be used to finance long-term development needs. Its role can be expanded to reduce dependence on the US dollar as the dominant reserve currency.

The SDR is structurally biased, reflecting the dominance of rich countries. Ironically those countries that least need the resources have the largest allocation. Together, the US (17%) and the EU (30%) hold 47% of SDRs and control the decision-making process in the IMF. In contrast, Sub-Saharan African countries have less than 5%. To correct this imbalance, the quantum of SDRs at 943 billion ($1.2 trillion) should be raised, and their allocation to poorer countries significantly increased.

Global public debt reached $102 trillion (92% of world GDP) in 2024. Public debt of developing countries grew twice as fast as that of developed countries, reaching $31 trillion, according to an UNCTAD report of June 2025. These countries shoulder the highest debt burden as their borrowing costs are two to four times higher than what the rich countries incur. Some 3.4 billion people live in countries that spend more on debt service than on health and education. African countries pay higher interest rates despite potentially lower credit risks due to bias in the rating methodologies of credit rating agencies, market perception and the structure of bond issuance.

To address this huge overhang of public debt in developing countries, it is necessary to establish a comprehensive sovereign debt restructuring mechanism to include debt owed to private creditors, conduct independent review of countries' debt sustainability, and write down or cancel debt that cannot be repaid, as was done for Germany after World War II.

New actors

The membership of global institutions is made up of nation states. In many cases politicians and policymakers of these states are captured by corporate interests. This is reflected in decisions at international negotiations. For example, the last two UN climate change conferences (2023 and 2024) have been led by and dominated by oil producers and oil companies opposing efforts to phase out fossil fuels. These conferences are also attended by civil society groups that act as counterweights to corporate interests. They play a critical role in fighting for public interests. Civil society leaders from the Global South are building coalitions with their counterparts from developed countries as the latter are in a more strategic position to create mass movements and to exert decisive influence on the behaviour of their political leaders.

Global institutions should practise participatory democracy. Non-state actors like civil society, youth, women and indigenous peoples' movements should be accorded formal roles with voting rights.

Another important actor is local governments. Cities account for 70% of global greenhouse gas emissions. Local governments should play a bigger role in global institutions in the fight against climate change.

Global rules to curb growing inequality

Fifty years of neoliberal policies – deregulation, privatization, suppression of wages and labour unions, erosion of welfare benefits, tax cuts for corporations and the rich, concentration of monopoly power in the hands of a few corporations, proliferation of tax havens – have pushed inequality to levels not seen before in human history. As mentioned earlier, 26 billionaires own more wealth than the lower half of the world's population. Historically, when inequality reaches unbearable proportions, the result is often a revolution.

The advancement of AI is bound to exponentially worsen inequality as robots and AI take over the jobs of manual workers as well as white-collar workers. A study by Dorr predicts that this new technology will obliterate most of the labour force in 20 years (*The Guardian*, 9 July 2025). In their quest for the holy grail of efficiency and profit maximization, companies lay off workers and reduce their labour force to a bare minimum. If the productivity gains were taxed and redistributed to people through schemes like a universal basic income, then predictions of thinkers like Marx and Keynes who envision technological progress could free the majority of humans from drudgery to enjoy leisure and lead a more cultured life could be realized. But as long as the ideology of maximizing shareholder value retains primacy, gains from the AI revolution will only accrue to the owners of capital and deepen immiseration of the masses.

In his Nobel Prize acceptance speech, Geoffrey Hinton warned humanity of the promises but also existential risks of AI ranging from job elimination and loss of technological control by humans, to creation of new viruses and use of AI to make decisions over life and death as practised by the Israeli armed forces in Gaza. He added that these dangers are imminent as the technology is developed and controlled by private companies motivated by short-term gains. He and many other AI innovators have called for greater control over AI development. Even as the US under Trump races to loosen regulation of AI, China has called for establishing an organization to foster global coordination to regulate AI development.

To attract foreign direct investments, most emerging and developing countries race to the bottom by competing with each other to lower taxes. Instead, countries should cooperate to institute a minimum global tax on corporations, plug loopholes for tax evasion, shut down tax havens, increase wealth and inheritance taxes, levy a financial transaction tax, and raise capital gains tax especially for short-term transactions. A study by the Tax Justice Network estimated that governments could raise an additional $2.6 trillion annually by applying a modest wealth tax to the richest 0.5% of households.

Strengthen South-South cooperation

While the Global South continues to demand reforms of existing global institutions, it faces stiff resistance from the Global North. Cognizant of the limitations they face, leaders from the Global South are banding together to exert more agency and to establish new regional and global institutions in an increasingly multipolar world. These have been discussed earlier and will not be repeated.

Conclusion

We are standing on the cusp of a new world order as the old order is crumbling. Those who have benefitted disproportionately from the unequal order seek to cling to their privileges and block efforts for meaningful change. In this interregnum, different forms of morbidity emerge – from economic nationalism to protectionism, trade wars, cold wars and even hot wars.

Global problems like pollution, climate change, money laundering and tax havens, health pandemics, challenges of AI etc. require global solutions. They cannot be dealt with by a single country. Global solutions in turn demand global solidarity and cooperation, which necessitate global governance and institutions. Ceding some degree of sovereignty to appropriate international bodies with authority is necessary.

The market and the state have usurped the powers of the public. The role of civil society, a force straddling the state and the market, should be enhanced in shaping a new global order built on the values of equity, climate justice, participatory democracy and planetary sustainability.

Selected references

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Transcending national borders, the gravest challenges of our time – such as climate change, unprecedented inequality and the spectre of nuclear conflict – require global solutions. However, the present system of global governance is ill-equipped to deal with these problems and is instead buckling under the weight of its own tensions and contradictions. In place of the current order, which was shaped by and for the interests of the developed world, a new global governance architecture must be constructed that advances distributive justice and equity among nations. Such an arrangement has to redress power imbalances in international institutions as well as promote policies oriented towards economic, social and environmental progress.

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