

# GLOBAL REGULATION OF THE ECONOMY: MODERN POTENTIAL AND OPPORTUNITIES FOR TRANSFORMATION

**Anna V. Mikhailova, North Eastern Federal University**

**Tatiana K. Medvedskaya, Don State Technical University**

**Sergei V. Laptev, Financial University under the Government of RF**

**Tatiana V. Korsakova, Southern Federal University**

**Oleg A. Dvoryankin, Kikot Moscow University of the Ministry of Internal  
Affairs of Russia**

**Vladimir E. Rubanik, Financial University under the Government of Russian  
Federation**

## ABSTRACT

*"Global regulation of the economy" is not a new area of close study, but the appeal to it is always relevant in connection with the rapid changes in the economic picture of the world, new challenges and crisis phenomena. This study is not limited to the presentation of any author's concept of global regulation, but includes an analysis of the current situation, in particular in the field of international trade relations on the basis of the events of 2018. The goal of this research is to provide an overall picture of global economic regulation today and to identify priorities for possible transformation in the nearest future. The study analyzes the causal relationships of the emergence of international economic organizations and contact groups. It provided the examples of past transformations, identified problematic aspects of the processes of transformation. The main conclusion is that today it is more expedient to focus on topical issues on individual subjects of regulation than to try to carry out a large-scale structural reform of the entire system. The presented work can be useful both for foreign affairs experts and for a wide range of people interested in the indicated problems. The priorities for the continuation of this study depend directly on the current and future changes in the world economy and politics.*

**Keywords:** Global Regulation, World Economy, International Economic Organizations, Contact Groups, Global Regulator, Reforming, Agreement.

## INTRODUCTION

At the Group of Twenty (G20) summit in Hangzhou, China on September 4, 2016, President of Kazakhstan Nursultan Nazarbayev proposed the creation of a unitary organization with the functions of a global economic regulator: Payne

*"The leading role in the international regulation of economy and finance should be played by a single global organization... Such a structure can be created by transforming the UN Economic and Social Council into a Global Development Council" (Nazarbayev, 2016).*

This utopian proposal has not been implemented (and is unlikely to be feasible in the foreseeable future), but it can be considered as the starting point of this study, expressing one of the views of a possible large-scale transformation in the global regulation of the economy.

## LITERATURE REVIEW

Addressing to the previous theoretical and practical works, we see the traditional lack of consensus, terminology and practical priorities. In dissertation research of Mazurova (2003), it is stated that the multilevel nature of economic regulation system, which distinguishes three subsystems: national states and their blocks, "*Structure of the global capital*" and international economic organization. In the work of the same name with our study 12 years later, the emphasis is still on multilevelness, and national states and their integration associations, international organizations, transnational structures and numerous actors of civil society are singled out as subsystems (Mazurova, 2015).

In the work of professor Lomagin (2014), it is mentioned that the regulators are *formal* and informal "*Global Institutions*", and the leading role in the current situation is given informally to "*The format of the international contact groups*". Whereas in the book of professor Zuev (2014), published in the same year, as a global regulator, the international economic organizations, which are defined as "*An agreement between participants of different nationalities on the form of settlement of the issues of economic cooperation through a permanent mechanism with a defined structure, procedure, purpose, and competence*", dominated.

In the above diversity of views in understanding the nature of global regulation and prioritization any consensus is not foreseeing in its study. In this study, we will adhere to the position that global economic regulation is a multilateral process of solving significant problems for the world economy, in which the main effective subjects at present (from the point of view of theory) are international economic organizations, states (their formal associations) and contact groups that form a combinational system without a single center. In our opinion, the priority and practical significance is largely determined by the issue (problem), current challenges, short-and medium-term forecasts of the situation in the world economy. A systematic approach to this process reveals the complexity and heterogeneity of the structure, the dynamics of the global economic system itself, regulatory entities and their relations.

Without pursuing the goal of detailing the entire chain of events that led to the creation of the main international economic organizations and contact groups functioning today, we will give a few examples in the chronology of historical episodes:

1. In 1960 the United Nations (UN) proclaimed the Declaration on the Granting of Independence to Colonial Countries and Peoples, which entailed the need for developing countries to adapt to the prevailing conditions in the world economy, gaining not only political but also economic independence. The UN, as the initiator of decolonization, took over the functions of adaptation and assistance to developing countries, creating a number of structural units.
2. A number of political and economic crises of the 1970s (armed conflicts in the Middle East, the collapse of the Bretton Woods monetary system, the "*Oil embargo*", etc.) prompted the developed countries to coordinate actions to solve international problems within the framework of informal institutions, which led to the organization in 1975 of the Group of Six (G6)-meetings of "*Heads of states and governments of the largest industrial democracies*" (France, USA, UK, Germany, Japan and Italy), and since 1976-G7 (added Canada). Since 1994, the format of G (7+1) with the participation of Russia was used, since 2002 G8 Russia was declared a full member of the group, and in 2014 it was excluded from the group for political reasons.
3. 1970-80s were marked by the internal crisis of the General Agreement on Tariffs and Trade (GATT), which was expressed in the conformity of the Agreement to the realities of world trade: the complication of trade relations, the expansion of their scope and volume, as well as the growth of trade in services not covered by

the GATT rules became prerequisites for reformation. In addition, GATT's success prompted governments to develop other forms of protection for sectors facing increased foreign competition: subsidies, duties, bilateral agreements, often contrary to GATT norms, etc. As a result, the recognition of the ineffectiveness of the Agreement by its participants led to the creation of the World Trade Organization (WTO) as a result of the Uruguay round (1986-1994), while the GATT in an updated form remained as the "WTO umbrella Treaty on trade in goods" (WTO Official Website, 2018).

This list can be expanded, but it already gives a general idea of the existing array of economic regulators: the absence of a center, the diversity of forms, the very intricate connections, the intersection of areas of responsibility, etc. At the same time, consistency is still present and is expressed in the interaction of organizations. However, this interaction is not always effective, because there is often no consistency not only between individual structures, but also within each of them, which leads to long negotiation rounds with a delayed moment of decision-making for truly global problems. Business structures show great flexibility, so it is possible and advisable to strengthen the role of non-state institutions in the regulation of global economic processes, the active use of mixed mechanisms of interaction (Krylov, 2011; Mikhaylov et al., 2018) which are more productive due to greater objectivity.

However, any global transformation is quite painful. The most striking example, in our opinion, is the International Monetary Fund (IMF) quota reformation, which lasted for 8 years, of which 5 years were spent on the practical implementation of already documented approved changes: "*The 14th General review of quotas was completed on December 15, 2010, and the conditions for increasing quotas were met on January 26, 2016*" (IMF Official Website, 2016).

## METHODOLOGY

Based on the principle of historicism, using the structural and functional method, comparative and causal analysis, forecasting and generalization of the results, we will try to assess the current potential and possibilities of transformation of the current system of global economic regulation.

Data sources for this work were: official websites of global economic organizations and contact groups; reporting and legal documentation of global regulators, which is publicly available; news and analytical resources; scientific works of Russian and foreign authors.

## RESEARCH RESULTS

Today the "*Big Three*" global regulators (World Bank-WB, IMF, and WTO), often being totally criticized (Peet, 2009) continue with varying degree of success to solve the tasks of economic nature. We can count a few hundred (if not thousands) of major international organizations involved in the global regulation of the economy, both in the universal (United Nations Economic and Social Council-ECOSOC, Organization for Economic Co-operation and Development-OECD, Asia-Pacific Economic Cooperation-APEC, etc.) and in a certain area (United Nations Industrial Development Organization-UNIDO, Organization of the Petroleum Exporting Countries-OPEC, etc.) (UNIDO Official 2013; IMF Official 2018).

The BRICS countries (Brazil, Russia, India, China, South Africa) have transferred their cooperation into practice in response to the delay in the implementation of the agreements reached on the reformation of the Bretton Woods institutions (Viswanathan, 2015). At the same time, the integration of the New Development Bank (NDB) into the general system is due to the formation of ties with existing organizations, for example, with the WB structures (International

Bank for Reconstruction and Development-IBRD, International Development Association-IDA, International Finance Corporation-IFC) (International Finance, 2017) etc.

Current situation in the global regulation (significant events of 2018):

1. The past year can be called the year of "*Trade wars*", in the forefront of which is the USA-China confrontation. Short-term forecasts are disappointing and promise the aggravation of trade conflicts (Predictions for 2019, 2019; Petukhova, 2018; Afontsev, 2019).
2. The fact that the US are pointed to continue the policy of protectionism and are not going to change their views on world trade becomes obvious in the analysis of the following events: on November 30, 2018, at the G20 Summit in Argentina, Donald Trump, Justin Trudeau, and Enrique Peña Nieto signed a new United States, Mexico, and Canada Agreement-USMCA (USMCA Official..., 2018) to resolve a trade dispute between the US and its closest neighbors.
3. The previous the North American Free Trade Agreement (NAFTA) has been in force among Canada, the US and Mexico since 1994. Trump, taking office as President, promised to reconsider it, because in modern realities NAFTA is unprofitable for the United States (BBC News, 2018).
4. Speaking about the international significance of the USMCA, experts note the emergence of a completely new paragraph 32.10 previously not found in free trade agreements (Komkova, 2018), according to which the possible trade agreements of one of the USMC parties with "*Non-market countries*" are regulated (Office of the United, 2018).
5. It is obvious that first of all by "*Non-market country*" it is understood China. Thus, the US strengthened its position in the "trade war" at the expense of Canada and Mexico.

In this situation, we can say that the WTO is not coping with its functions (WTO Official 2018) the issue of reforming the organization is exacerbated. Clearly one of the problems is presented as the following (settlement of the trade conflict):

1. From June 1, 2018 Washington introduced increased import duties on metals from the European Union, Canada and some countries –25% on steel and 10% -on aluminum.
2. Negotiations have reached an impasse. Measure - retaliatory duties.
  - a. New rounds of negotiations before signing agreements.
  - b. The WTO rules allow restrictions against imports strictly in three cases: when dumping, when using illegal subsidies, in case of the threat to national industries due to a sharp increase in imports. In each case, evidence must be presented.  
The US presented measure does not fit into any of these cases.  
It is justified by "national security reasons, which do not correspond to the legal framework of the WTO, which provides for the restriction of access to the market for reasons of national security, when it comes to illegal trade in arms, nuclear materials, etc.
  - c. An appeal to the WTO, 2018:

9 disputes initiated against the United States  
The United States as a plaintiff in a retaliatory duty –6 disputes.

- a. Solution?  
"*Panel composed*" stage as of January 25, 2019 Claims to the United States.  
There is no need to wait for a quick and unambiguous decision even in this case, when the US acts exclusively within the framework of domestic legislation, which clearly contradicts the WTO norms. Trade Expansion Act, 1962 allows to restrict the import of goods if it constitutes a "*Threat to national security*").
- b. Under the USMCA agreement, the US did not cancel the duties imposed on steel and aluminum imported from Canada and Mexico in May 2018. It was announced that these issues will be resolved in separate negotiations, outside the framework of the USMC.  
New rounds of negotiations before signing agreements.

The claim to the WTO in the above example is not a way or even a hope to achieve a result, but rather a public demonstration of their discontent with the situation. Thus, the problems in WTO dispute settlement become more actual. The need for WTO reforms is emphasized in the

final Declaration of the G20 Summit, held in 2018 in Argentina, and in a similar document of Business 20 (B20), which is advisory to the G20 on the part of business. In particular:

In the B20 Communiqué of 2018 it is stated that "*Leaders must urgently fill the vacant positions of the Appellate body and carry out reforms that improve the efficiency and reduce the terms of dispute resolution*" (B20 Communiqué, 2018).

The US, EU, Russia have their own WTO reformation scheme. China is limited to indicating the need for changes (Portansky, 2018). However, it is difficult to expect that an agreement that would suit all the concerned parties will be adopted easily and quickly.

Returning to the above-mentioned problems within separate international economic organizations and contact groups in the context of 2018, we note that the participants of the 26<sup>th</sup> Annual APEC Summit in Papua New Guinea for the first time in the history of the forum could not adopt a joint final Declaration, which is largely symbolic (Scott et al., 2018). Thus, "mutual claims and contradictions turned out to be stronger than the mechanisms of cooperation formed over decades" (Afontsev, 2019), which, of course, has a negative impact on the current work and improvement of global economic regulation.

## DISCUSSION

Analyzing and summarizing the above-mentioned, we came to the following:

The construction of a system of subjects of economy global regulation, which began at the Bretton Woods Conference in 1944, continues today.

In the international economic regulation at the present stage there is no unambiguously leading organization.

The above-described transformation of the GATT-WTO, are similar to the realities of today, when bilateral interstate treaties come to the fore. Small-party formats are beginning to prevail over multilateral ones, because their effectiveness is achieved with less effort, and the time for finding compromises is reduced.

The main problem of intergovernmental economic organizations and contact groups is the lack of agreement between the member countries, and here the regression of 2018 in comparison with previous years is obvious.

Regulation of international trade in 2018 was the area where the scale of the relevant problems was most evident. In the light of developments, the focus should be on the WTO reforms, in particular, on the improvement of the dispute settlement mechanism. Thus, when it is not possible to effectively make a large-scale transformation, it is advisable to focus on topical issues of individual subjects of regulation.

## CONCLUSION

Global regulation of the economy, despite the multiplicity of studies, continues and will continue to be relevant and important area for study. The current system of global regulation can be developed by available means-through the creation of various kinds of associations.

The potential of these associations is quite high, at least due to the possibility of their organization, but it is reduced due to the lack of even the appearance of consensus among the leading countries of the world. Local transformations in the system of subjects of global economic regulation occur constantly. Any large-scale reforms of individual institutions, and even more of the system as a whole, are difficult and time-consuming to implement, and should be stimulated by external factors.

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