

# What Type of Global Governance Do We Need in the Arctic?

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## Introduction

Due to various well-known reasons the Arctic has, during the last decade, started to progressively attract more and more international attention. It is not only the different dimensions of modern human life – economic, political, social, cultural, etc. that are the focus of attention but their substantial overlap and interaction generating various conflicts of interests. The ways in which these conflicts can be resolved are of crucial significance for securing peace, stability and well-being in Arctic countries, and the globe as a whole.

While discussing many controversial international problems of modern life it is global governance (GG) that frequently comes to the stage as one of promising approaches towards the existing challenges. By GG we usually mean regulatory activities being executed on a relatively wide multilateral basis, not necessarily on a 100% global basis. Even some leading actors in this area do not have universal participation, the World Trade Organization with its 153 members being an obvious example. Global governance *per se* applies to various spheres of human performance – political, economic, environmental, etc. The main focus here will be on the author's field of economics.

The need for GG ultimately results from two basic reasons. First, many types of modern activities tend to internationalize or even globalize. In other words, even if these activities directly take place in relatively narrow geographical regions (such as the North, tropical rain forests, etc.) they largely depend upon an international environment and their implications are significant for the whole international community. Second, activities under review cannot be implemented according to a pattern of “self-regulation”. Within an economic context this pattern generally refers to as much as possible of market mechanism regulation in line with the famous concept of the “invisible hand”.

## **Is the North a proper subject for global governance?**

The two reasons for GG mentioned above could be used as criteria to answer this question. Generally speaking, *international importance* of the region really doesn't require any extensive justification (at least among the participants of NRF). Nevertheless, with respect to some cases it might be sensible to specify various aspects of the "international dimension". Here the Russian Federation energy sector provides a really good example.

First, one should mention the high level of export orientation typical for Russian oil and gas extraction. According to RF Energy balance for 2006 31% of natural gas and 52% of extracted oil was exported. At the same time, main Russian deposits of these natural resources are largely concentrated in the North of the country.

Second, due to various reasons, largely technology-driven, Russia is interested in international capital inflows to the industry. That is first and foremost true in the case of prospecting. Currently it is largely financed (more than 60% of the total in 2005-2006) from the companies' own resources, while domestic and foreign investments (in official statistics they are calculated together) account for a little more than 18% of overall expenditures. Long term implications of an issue have been and currently are very significant indeed. In particular, a volume of so called deep prospecting drilling in 2005-2006 equaled about 20% of the 1990 level. Meanwhile, recent changes in the regulation of foreign investments in strategic industries might create certain limitations for FDI inflows to the energy sector of RF economy.

Third, shipment of Russian energy resources depends on as well as contributes to the formation of international transport corridors. RF in general could benefit from growth in transit trade.

Fourth, RF competes in energy markets with economic agents from other countries. This has many closely connected economic and non-economic international implications. In particular, claims to extended continental shelves presented by RF as well as Canada, US, Denmark and Norway clearly illustrate the point.

As for the applicability of "*self-regulation*" *insufficiency criterion* several economic arguments appear to be appropriate. First, the urgent need for accelerated economic growth in the Arctic is greater than in many other places on our planet as it has remained the least developed international region in the world.

Second, any large-scale economic activities, especially those based upon pure commercial incentives generate here quite a number of various external effects, mostly negative ones. The 5<sup>th</sup> NRF Open Assembly Position paper of Lawrence D. Weiss from the Alaska Center for Public Policy focuses the issue with respect to health care arguing for an urgent need in public health infrastructure and other non-market components. The same is largely true with respect to social, cultural, and environmental aspects.

Third, the assimilation of Arctic natural resources with the framework of sustainable development is a very high-tech-intensive type of project. In particular, it requires substantial contribution from the sphere of fundamental research. In its turn, fundamental science in general heavily depends upon financial support provided by the nation state and/or the international community.

Fourth, the high level of heterogeneity in the modern economy of the Arctic should also be considered. Here one could refer to the Position paper of Dr. David C. Natcher at the 5<sup>th</sup> NRF Open Assembly, who discusses “subsistence economy” and “wage-earning economy” as two different components within the economic system of a contemporary North. From his point of view these components are largely complementary to each other. Meanwhile, even if they are either alternatives or mutually independent one still cannot regulate them by the same set of instruments. In other words, a market mechanism which presumably corresponds to the latter component clearly does not fit the former.

Last but not least, some aspects of Arctic development might be perceived as an example of a special kind of public goods – global public goods (GPGs). It is generally understood that the provision of various public goods is one of the major goals justifying the economic dimension in the performance of the state. Under the circumstances a whole set of non-market decisions has to be made. Their efficiency, possible repercussions and specific mechanisms of decision-making ultimately constitute public choice theory subject-matter.

In their turn, GPGs are goods whose benefits extend to all countries, people, and generations. Environmental protection and conservation of biological diversity represent the most obvious examples of this kind. Each of them is of a clear and extreme relevance to the Arctic. In his 5<sup>th</sup> NRF Open Assembly Position paper Rob Huebert sensibly claims that “twin forces of climate change and increased resource demand are combining to make the Arctic an increasingly important section of the world... both arctic and non-arctic states are now examining how the region can be used to their benefit”. Under the circumstances with respect to the discussion above one might argue that the notion of GPGs combines the *international importance criterion* with that of “*self-regulation*” *insufficiency*.

## Barriers to Global Governance

A growth in the number and magnitude of challenges/threats faced by states in the Arctic tend to facilitate unilateral regulation. Even with respective measures being legitimate and quite often logical enough, seen from the standpoint of individual countries, nevertheless a certain trend towards reduction in GG's scope/scale/effect is generated. The 5<sup>th</sup> NRF Open Assembly Position papers of Lassi Heninen and Rob Huebert provide an interesting contribution to this issue.

Meanwhile the author of this paper considers the expansion of unilateralism mentioned above to be a dangerous trend. The fact that in the short run unilateral steps (due to relative quickness in decision-making and implementation) might provide some positive results makes this trend even more menacing. The point is that in the long run unilateralism is most probably doomed to collapse. Historically and in retrospect the experience of the Great Depression vividly demonstrates how the widespread practice of beggar-my-neighbour policy failed to prevent economic crisis and generated a proliferation of conflicts contributing to the tragedy of World War II.

Moreover, from a theoretical point of view various interpretations/applications of prisoners' dilemma suggest that it is precisely unilateral measures that tend to generate first-worst results. Of course, one might argue that in the case of prisoners' dilemma unilateralism contrasts with a bilateral type of cooperation, not a multilateral one. Indeed, comparison of these two presents a certain problem. Nevertheless, they are by no means a 100% mutually exclusive, often complementing and supporting each other. Furthermore, during the last sixty years or so global institutions have constituted a foundation of a general international architecture, which in spite of all its shortcomings and individual failures have ultimately managed to ensure a certain progress in the development of mankind.

The frequently negative attitude regarding GG results to a large extent from a widely shared opinion, according to which the expansion of international economic organizations and other elements of inter- and even supra-national regulation tends to diminish the power of the nation state. Meanwhile, this point of view could be sensibly challenged. One of the leading Canadian experts in the field of the international trading system is most probably right in arguing that:

*“Every trade negotiation is an affirmation of sovereignty. The whole idea of entering into international agreement is to impose the rule of law – one country agrees not to do some things and to do other things in particular ways, in return*

*for other countries agreeing to do the same. The 1947 General Agreement on Tariff and Trade (GATT) involved such commitments, as did the 1935 and 1938 bilateral agreements between Canada and the United States. In fact, these commitments strengthened Canada as a nation, because they made the country stronger economically and because trade and other matters came to be governed by agreed rules of international law, not by decisions made unilaterally in Brussels, Tokyo, or Washington”*(Hart, 2002:8).

### **Network model of global governance: basic advantages and limitations**

At the moment the majority of social scientists would most probably agree that prospects of mankind’s future economic and social development largely depend on whether a sustainable GG model will be worked out and implemented. In order to provide adequate answers to a whole new set of challenges faced by the contemporary world this model should inherit some basic features of an old multilateral system and at the same time get rid of its imperfections. In the opinion of the author of this paper a *network model of global governance* might provide an appropriate solution. A comprehensive discussion of the issue is presented in Joseph S. Nye Jr., John D. Donahue (2000).

Within the framework of this model nation states actively collaborate with various international, national and sub-national institutions representing the business community as well as with nongovernmental organizations. A constructive dialogue with academia, mass media, trade unions and other stakeholders is also a matter of the utmost significance. It is worth mentioning that the net could be considerably flexible. The model assumes no formal *a priori* established hierarchy. The exact configuration of the net and precise allocation of responsibilities between its participants ultimately has to be defined by a specific task/project put in the agenda. The approach mentioned above would stimulate greater coordination among various regulators involved. At the same time, due to the fact that possible opponents of certain regulatory measures to be introduced are included into discussions, the model tends to provide some kind of “steam exhaust valve” to relax political and social pressures.

Moreover, a GG network model might bring extra benefits by giving new life to the advantages of traditional society. This is an extremely interesting issue which is often totally neglected. Indeed, traditional societies (in many – if not most – cases aboriginal communities of the North fit this pattern perfectly) tend to have very important advantages in comparison with modern ones. They are very efficient in terms of decision-making, very minor resources

are needed to make choices – one just has to obey existing traditions. Under the circumstances the more comprehensive set of adequate rules are elaborated by global regulators and then accepted by the Arctic community as some kinds of “new traditions”, the less room is left for excessive empty discussion on often purely abstract alternatives; the less incentives/possibilities exist for law avoidance. Economic, political and social actors would simply focus on their main activities.

In terms of the more specific Northern context the question of how existing regulators (in particular, intergovernmental ones) fit the pattern of GG network model appears to be relevant. With respect to the Arctic Council the answer is generally speaking positive rather than negative. At the same time, at least one reservation should also be made. In line with the famous “war is too serious issue to leave it to military”, one (assuming – even or especially – well-known limitations of Arctic Council in dealing with hard security) might argue that “Arctic issues are too serious to leave them to Arctic Council”. In other words, international community in general and the North in particular could probably benefit from certain forms of “outsiders” participation in governance of the region. It would facilitate a global dimension of the process making it more appropriate to answer GPG nature of many Northern issues. Additionally, while including new stakeholders into the net we usually tend to increase levels of certainty/predictability with respect to their interests and possible steps.

When trying to evaluate the GG network model one cannot ignore its limitations. A relatively smooth and sustainable functioning of the model requires distinct answers to several key questions. First, how can successful development be revealed? A quantitative assessment of whatever success typically assumes that we should measure certain gains. From a mainly economic perspective (to say nothing about other dimensions) there are several options. The most obvious one is GDP per capita. At the same time, economic expansion for a long period of time has been and still largely is accompanied by a growing deterioration of the environment. It is not by chance that for some environmentalists GDP stands for Gross Domestic **Pollution**. From that perspective the Human Development Index (HDI) appears more balanced. But it also has certain drawbacks. One might argue that a single indicator (even if much like the HDI it is calculated as a composite of several individual indicators) doesn't fit at all. Meanwhile, a comprehensive set of indicators on the one hand lacks a clear focus, on the other requires criteria for attributing specific weights to each of them.

Let's assume that we finally managed to provide some kind of an appropriate solution. Now, since a large variety of stakeholders is involved the next question emerges, namely what

should we strive for? Here again there are several alternative approaches with their own “pluses” and “minuses”:

- Maximization of “net gains”? Sounds attractive enough, but this option admits substantial elements of zero-sum-game where the less protected, less powerful actors tend to lose.
- Pareto optimality? At least no losers, but the gap between the poor and the rich might increase.
- Gains for all? A little better, but still no guarantee against the widening of the gap mentioned above.
- Maximize the gains to the least well-off member(s)? Based upon John Rawls’ ideas this is probably the best possible option from the perspective of fairness. But then what about efficiency, incentives to work hard?

In addition to these problems mentioned above the GG network model requires for its efficient implementation a special approach to the sharing of responsibility by major regulators. This approach should be broad enough to cover as much as possible of both national and international stakeholders. Moreover, responsibility under review has to spread over current as well as future generations. Finally, it must extend not only towards human beings but also towards animals, birds and plants. Here the wisdom of indigenous peoples might provide a good example. In his 5<sup>th</sup> NRF Open Assembly Position paper David Natcher argues that for many Aboriginal peoples their relationship with animals is based on reciprocal transactions. In these exchanges animals give themselves to hunters in exchange for the hunters’ respectful treatment of them as non-human persons.

## **Conclusion**

It goes without saying that all these preconditions are not that easy to put into practice. A lot of difficult questions are waiting to be answered. The model has its own costs in terms of time, human resources, and certain limitations with respect to individual/corporate/national freedom. Nevertheless, there is hardly any acceptable alternative. On the one hand the chances for sustainable development without global governance are minor, if not close to zero. On the other hand, the traditional pattern of GG has clearly demonstrated its insolvency and requires serious democratization to become viable.

## References:

Hart, Michael. (2002). *Trading Nation. Canadian Trade Policy from Colonialism to Globalization*. Vancouver: UBC Press.

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