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Introduction

Today globalization represents the most important factor creating the world economy environment. Economic activities take a supranational, or regional, or in the last phase even global character. With respect to the very fast, almost chaotic course of the globalization in the 20th century, the question is often laid how the globalization process is or can be controlled, or at least regulated. In other words, how the mechanisms we would call the forms of global economic (or political) governance function, and how they establish themselves in the period of current economic changes.

In response to these facts the survey describes the main trends and causes of the globalization process, involving their effect on the development of the economic governance forms. It defines the principle of the governance in particular countries and analyses the causes of its development into supranational forms. In the last part, it introduces the types of some institutions that serve as examples of possible functioning of global type governance.

Globalization: the Term Definition

Globalization represents a natural part of the market economy development; we may say the topmost phase of its development. From among various globalization definitions, let's cite e.g. Ch. Oman, who defines it as "the increase of economic activities beyond national and regional boundaries that projects itself as accelerated movement of the goods, services, and ownership rights through business and investment flows and movement of people through migration flows"[2]. Other authors[3] add that along with the enlarging of the economic activity, it disperses into all territorial levels (regional and global). The dispersion occurs especially with the help of the activities of highly integrated (both internally and externally) transnational corporations that weaken the linking of the economic activities to the national economies.

The development of globalization is supported by several factors. Generally, in compliance with the market character of the process, the driving force is represented by the effort to maximize market efficiency and to achieve a stronger economic growth. Theoretically, the economic growth in the liberal environment of both national economies and world economy will result in the classical optimum of production and consumption, and will increase the volume of national and world wealth. International treatments, production and trade integration as a substantial factor of globalization undoubtedly lower the cost of running business abroad; globalization, therefore, offers a considerable potential profit both to companies and individual nations. However, its sharing depends strongly on the conditions – economic, cultural, legal and others – which exist in the countries participating in the globalization process[4].

Companies, or national states, strain for efficient production, which can be achieved mainly through the appliance of modern technologies. Technological changes began to be supported more dynamically already in the last third of the 19th century. But the real revolution took place in the period after World War II, with the turning point in the 70s when the need for structural changes made companies leave the concept of Taylorism. Then the relatively rigid production processes were replaced by the lean production and application of the knowledge economy results, which together with technology innovations and a changed structure of production lines had gradually enabled restoration of higher dynamics of economic growth.

In addition to the factual changes in the production conditions, the factor of time and distances shortening played a substantial role, increasing the mobility of social production activities (or their results) and weakening their territorial dependence[5]. The key role in this process was performed by the revolution in transportation, information, and communication technologies[6]. Following the transportation and communication innovations from the end of the 19th century (the development of railways, transatlantic connection, development of telegraph, telephone, etc.), the economic development was facilitated by the new means in this area (container transportation, tankers, personal computers, internet, satellite connection, etc.).

The role of national states and their political development in the development of globalization was inconsistent. Around the period between World War I to the end of World War II, the previously fast globalization progress slowed down. The ambitions of several national states were not compatible with the current economic and political arrangement of the world, which resulted in the world conflicts. As the economic development had been hitherto strongly connected with the role of the national states, their activities destructively affected the integration of the world economy. This phase of globalization proved to be very frail: the development of the global market economy depended considerably on the support of states; those states, however, necessarily remained territorial[7].

After World War II, transportation, information and communication revolutions supported substantial changes in the character of national economies. Individual countries become far more markedly open. This is a new phase of liberalization of the world economy, which continues, although at a considerably higher level of quality, the liberalization phase of the end of the 19th century and the beginning of the 20th century broken by World War I and the Great Depression. Liberalization belongs to the most important factors of the globalization development. The drop of obstacles in the international trade, investment release, reduction of internal and external economic regulation is completed with a rapid development of transnationalization in the world economy, which definitively confirms the mentioned theses about the increasingly supranational character of the economic activity. The transnational corporations that began emerging after World War II gain absolute superiority in the world economy: they take over a decisive part of production and imprint a peculiar character on the organization and course of the production, distribution and consumption process in the society.

Economic Governance

Generally, governance refers to "the manner or the act of governing or exercising control or authority over actions taken up and performed by different entities: i.e. a certain system of state or interstate affairs regulations"[8] is involved.

In the economic and political area, governance can be defined as a process and institutions through which authority over social and economic resources management is exercised for the purpose of economic development. The process of governance concerns policy if in its course governments are selected, monitored, replaced, and held accountable to the society. Furthermore, in the economic sense, "governance is the capacity of governments to efficiently manage resources, and formulate, implement and enforce sound policies and regulations"[9].

Governance is exercised through the institutions, both formal and informal, that represent an important tool of governing countries. Law, regulations, and provisions can be ranked among the **formal** institutions. The **informal** rules come from the culture, history, and experience of a particular country or region and they reflect behaviour patterns and thinking systems. As a result, an incentive system for the particular society members is created; it determines their social behaviour and shapes outcomes for the economic activity[10]. Thus in the first phase of individual states, the economic governance is based on the forms of policy, and it depends on the type of state and on the character of a particular society, its willingness to select certain tools for its governing.

The individual states, though, do not act in an isolated environment; therefore, governance cannot be permanently exercised only through the acts of individual countries. This is caused by growing globalization that influences the change of the character of the global economic system. In the first globalization phase until World War II, dominant was the governance at the level of a national state and corporate governance. Certain economic activities only exceeded national boundaries as a part of rather bilateral international division of labour; it was especially the international trade, which played the relatively most important role. Institutional integration of national countries and their economic subjects into the global environment (e.g. in the form of international organizations) was minimal at that time. Although economic relations extended, they were established among relatively closed separate economies of national states. Therefore, the need for global economic governance was also minimal at that time.

At a certain development stage, though, good governance requires co-operation (optimally partnership) between individual governments, or between governments and other important entities of the world economy: big local companies, transnational corporations, international organizations, etc. The need arises for development of governance forms above the national state level. This leads to the situation when economic governance can be understood as not only belonging to an individual national system, but more widely in connection with international economic and political relations as a whole. Gradually, governance represents a complex phenomenon functioning at all levels: from a local, national through regional or interregional up to the global level[11].

TABLE 1. **Governance Levels in the World Economy**

Governance Level		Examples of Decision Making Participants
Global	supranational	International organizations, institutions and regimes, transnational corporations
Regional		regional integration and organizations
National	national	national governments and institutions
Local	subnational	local and regional autonomies and organizations
Individual		firms, civil society, individuals

Source: P. Hnát, *Globální politická ekonomice nového regionalismu a Evropská unie*. Doctoral thesis. Praha: University of Economics 2009, p. 51.

Governance Forms and Examples in Globalized Economy

Supranational forms of governance become up-to-date from the 70–80s of the 20th century. Then the Keynesian model of governance, fully developed and established after World War II and mainly aimed at defence of national economic goals, became unsustainable. It used a high level of state intervention into the preferred areas, namely domestic economic growth and full employment.

Growing globalization and openness of national economies brought (influenced by Neo-conservative ideology) new forms of governance that had refused the strong role of the state on the national scale. According to the concept of the International Monetary Fund (the so-called Washington Consensus), the state role in economy has been reduced to privatization, deregulation, and provision of the external economic balance. Despite the new definition of state functions and resources[12], governance itself could not be completely reduced, namely because of new tasks upcoming in the globalizing phase. Not only the state, but also supranational entities have to continue selectively but effectively completing and optimizing the market environment functioning (by adjustment of competition, organization of education and new forms of qualification, integration of the state into the international environment, coordination of environment protection). The role of national states in these areas remains important; nevertheless, governance with global reach is also increasingly more required here.

Thus, the newly required state-market relation characterized as the so-called Post Washington Consensus[13] in the 90s seems to overlap the area of global governance. If the state is a supporting element in this new concept, which facilitates a smooth functioning of the market, then the relation between the state and the market gets into a more balanced position again in comparison with the Neo-conservative concept of Washington Consensus. Similarly to the state limits in the area of economy regulation and prosperity assurance, also the market limits in this area are much more perceived now. The role of the state is weakened in many directions, but it becomes stronger in others, and new forms of the state governance appear. However, correct economic governance cannot be performed in the conditions of growing globalization only by the national state (which, as mentioned, impedes the globalization development in some directions). The ever more demanding environment of the globalized economy requires new instruments.

The need for establishing the model of new governance that will offer a solution of global and regional problems and will be based on functional, efficient multilateral cooperation of states grew insistent[14]. The states, then, delegate or share a part of their sovereignty with supranational or inter-governmental institutions that act where their activity is more efficient than the actions of individual states. According to the characteristics of the Centre for the Study of Global Governance "global governance is an international framework of principles, rules and laws as well as a set of institutions that uphold them, which are needed to tackle global problems"[15].

Such a model at a global level can especially:

- support economic integration of countries, which runs spontaneously owing to globalization, including social, cultural and political cooperation,
- support convergence of economic models, especially by harmonizing some parts of economic policies, including the issues of monetary coordination, or establishment of common currency,
- positively influence the legal order development, democracy and human rights exercise,

- create diplomatic institutional (or military) base to solve economic and political conflicts.

The following paragraphs give some examples of the supranational governance development that gradually drifted towards the global level.

European Union. A positive example of the developing structure complying with the requirements mentioned and being inspiration for the global governance model at the same time may appear in Europe. Here, with respect to the above-mentioned hierarchy the European Union still represents a lower form of the economic governance. The ES/EU structure was originally used for the stabilization of the European territory and now it plays a role of regional governance with a wide radius covering both the member and non-member countries of the territory. At the same time, however, it has real as well as potential economic relations to all other important regions in the world. In its international activity, it combines a strong economic power with the so-called soft power with respect to the political and security issues. Therefore, in the future, it can meet the role of a "good" governance base on the global scale[16].

International Monetary Fund. While for the time being, EU represents mainly the type of regional governance, there already exist economic institutional structures in the world economy, which have a remarkable global radius, and so they can be considered as the instruments of the global governance. These especially involve long-acting institutions, such as International Monetary Fund, World Bank, or World Trade Organization.

The IMF can be mentioned here as an example. Despite criticism, it has gradually reformed into an open and transparent institution that takes measures to consolidate certain forms of global governance. The IMF supports establishment and application of standards and rules as the means of sound economic and financial management and corporate governance. Through setting the global rules and insistence on their observance it meets the key task of its Articles: stability and integrity of the international financial system, which are, at the same time, an important condition of the total stability of the globalized world economy.[17] The help of the IMF at mitigation of the effects of the financial and monetary instability is important once the vulnerability of some states to shocks and adverse changes caused by economic crises of the global scope strongly rises. The Fund tries to reduce the globalization risks arising for individual countries and regions of the world economy. The example may be the current financial crisis when IMF was committed to provide important help to the Greek economy.

Group of Twenty. Another potential example of global governance is the group G20.[18] This formation came into existence as an informal group of 19 countries and European Union. There is a strong relation to the IMF and the World Bank: that is the G20 officially operates within Bretton Woods Institutions and invites their representatives to its negotiations. In its activity, the G20 demonstrates a certain formula of the global governance creation. Namely, it includes some important units of local governance, i.e. the main countries – the centres of the world economy, such as the USA, Japan, and China. In addition to these, it also includes the subjects of regional governance (the EU building continental integration in Europe), and finally, important institutions providing governance in the important areas of the functioning of the world economy system (IMF organizing an international monetary and financial system).

The G20 was established in 1999 "as a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the dialogue on key economic and financial policy issues among systemically significant economies and to promote cooperation to achieve stable and sustainable growth that benefits all".[19] The global influence of the Group is ensured, *inter alia*, by the fact that the discussion takes place not only among the traditionally most developed economies, as it happened before within the G8, but among developed countries and emerging market states. Thus, the group monitors and influences activities in the countries and regions that really decide about the development and future of the world economy today. Despite the regional imbalance (it includes only two Latin-American countries and two African countries), it covers all economically active continents.

The G20 was established rather as a discussion than decision-making authority, but in its declarations, it tries to form a consensus in solving the international issues. The group declared they would cover practically all the main aspects of the global economy and international financial system, and they would make an attempt to transform the positive implications of globalization into a higher revenue and improvement of opportunities in all parts of the world.

The importance of G20 is especially apparent in the current economic and financial crisis that has more or less a global character. In this period, the group has become one of the main platforms to deal with the world economic problems. The key issues involve coordination of the policy of the developed countries but also of the new emerging markets states, etc. The developed countries are discussing the question of a further financial support of economic growth, which, however, can be in conflict with the current requirement for fiscal consolidation. The discussion, for example, deals with the different impacts of the two strategies, and harmonizes different viewpoints on the issue, e.g. those of the USA and the European Union.

A substantial problem, which appears in the relation of developed countries to the selected developing countries, is for example the issue of external imbalance that can be shown through the relation of the USA and China. In the past, at the high domestic consumption, the growth of the USA was financed with the savings of other countries; therefore, it resulted in the serious trade and capital deficit of the country. On the contrary, the countries with lower domestic consumption and high savings, such as China, have a considerable surplus. To balance this disequilibrium, some countries, especially the USA, have to move to the growth led by foreign demand; on the other hand, the developing countries have to strengthen their domestic demand and lower the savings. Global changes in the demand will be also a presumption of the further sustainable growth[20].

To summarize, the mentioned changes will not only require measures of individual countries, but in a long-term perspective, they will probably also require complex coordinated policy at the global level. This policy can be formulated and pushed through at the international forum, such as G20.

Conclusion

Globalization represents an integral part of the current market economy development. Thanks to globalization the mechanism of the market economy has exceeded the level of current international economic relations (trade, capital, etc.) and the linking of the world economic process to the national economies has been weakened.

In addition to the market forces development, globalization was accelerated by the huge technological development, including expansion of transportation and communication links inside the world economy. Globalization was also accelerated by economic liberalization although its development had not been straightforward. In this area, the pressures of the national states that promote their own economic interests appear. This fact really hampers the globalization process.

On the one hand, today the role of the state at the support of the market economy remains unquestionable. Nevertheless, in the conditions of globalization international institutions can take up some functions of the state economic governance. Under these circumstances, being under intensifying pressure, the originally national form of economic governance gradually changes into supranational or global form.

As the globalization driving powers generally extending universal world market economy are not sufficient for ensuring economic and social welfare of individual countries, coordination of economic and social development starts to run more and more at the global level. A new role is taken over by some institutions, be it the European Union and other integration groups at a regional level, or the institutions created for the purpose of the global sphere of action (the IMF, the G20, etc.)

These institutions themselves do not create globalization. They are its consequence; however, after their establishment they support it. Their functioning is not ideal in many directions; for example, they are not able to prevent development of many disparities between the rich and poor countries. Nevertheless, they try to promote such forms of global governance that will result in a higher level of economic and political integration in the world, and to use the globalization potential for the support of economic growth and maximization of the economic benefit of most countries.

Summary

The article characterises globalization tendencies in the world economy. Furthermore, it points out the changes in economic governance forms, which in accordance with globalization have to adopt the global shape. In conclusion, the examples of potential elements of the global governance are suggested.

Notes

[1] This article has been prepared within the research objective of the Faculty of International Relations, University of Economics, Prague, No. MSM 6138439909 Governance in the globalised economy and society context.

[2] Ch. Oman, The Policy Challenges of Globalisation and Regionalisation. Paris: OECD, 1996, p. 5.

[3] See e.g. V. Bernášek, Fenomén globalizace ve světové ekonomice, [in] V. Bernášek, Globalizační procesy ve světové ekonomice, Nakladatelství Oeconomica, Praha 2002, p. 19, 14.

[4] Compare Definition from Answers.com. Britannica Concise Encyclopaedia: globalization [cit. 2010-07-12] http://www.answers.com/topic/globalization.

[5] V. Bernášek, Fenomén globalizace ve světové ekonomice, p. 19.

[6] M. Wolf, Will Globalization Survive? Third Whitman Lecture. Washington DC: Institute for International Economics, April, 5, 2005, p. 2 [cit. 2010-01-05] http://www.iie.com/publications/papers/wolf0405.pdf.

[7] Ibidem, p. 1.

[8] Governance for a Sustainable Future. Reports of the Commissions of the World Humanity Action Trust, p. 17 [cit. 2007-02-11] http://www.earthsummit2002.org/es/issues/Governance/governance.html.

[9] See D. Kaufmann, F. Recanatini, S. Biletsky, Assessing Governance: Diagnostic Tools and Applied Methods for Capacity Building and Action Learning. The World Bank, Discussion Draft, June 2002, p. 7 [cit. 2007-02-07] http://www.worldbank.org/wbi/governance.

[10] P. Lloyd, P. Smith, Global Economic Challenges to ASEAN Integration and Competitiveness: A Prospective Look. REPSF Project 03/006a, Final Report, September 2004, p. 6 [cit. 2007-02-11] http://ausaid.gov.au/publications/pdf/global_econ_challenge.pdf .

[11] See Governance for a Sustainable Future. Reports of the Commissions of the World Humanity Action Trust, p. 18.

[12] Ch.M. Satish, The economics and politics of „good“ governance: notes towards an anatomy. Jakarta: Presentation to BAPPENAS, August 2000 [cit. 2007-02-12] http://www.goodgovernance-bappenas.go.id/kom_bahan_dis_1-2.htm.

[13] Compare J.E. Stiglitz, The Roaring Nineties. New York, London: W.W. Norton & Company, 2003, p. 291, 293.

[14] P. Hnát, Globální politická ekonomice nového regionalismu a Evropská unie. Doctoral thesis. Praha: University of Economics 2009, p. 196.

[15] R. Dhugana, Global Governance and Regional Governance [cit. 2010-07-16] http://knol.google.com/k/ritu-dhugana/global-governance-and-regional/244kebb7dgz9/4#.

[16] P. Hnát, Globální politická ekonomice nového regionalismu a Evropská unie, p. 198.

[17] Globalization: A Framework for IMF Involvement. International Monetary Fund, March 2002. [cit. 2010-07-12] http://www.imf.org/external/np/exr/ib/2002/031502.htm.

[18] What is G20? G20 Information Centre, Munk School of Global Affairs [cit. 2010-07-16] http://www.g8.utoronto.ca/g20/g20whatisit.html.

[19] Ibidem.

[20] IMF survey mentions, that to complement efforts to repair the supply side of economies, there must also be adjustments in the pattern of global demand in order to sustain a strong recovery (IMF World Economic Outlook, October 2009, p. 32 [cit. 2010-07-16] http://www.imf.org/external/pubs/ft/weo/2009/02/pdf/text.pdf).

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