Jean Pisani-Ferry
(jean.pisani-ferr @eui.
eu) European Universit
Institute, Bruegel, Hertie
School of Governance and
Sciences Po.

is paper, which partiall
draws on m Tommaso
Padoa-Schioppa inaugural
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updated and augmented
version of a contribution to the
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Introduction

Flash back to 1995. After an eight-decades-long split, the world economy was in the process of being reunified. To manage an ever-growing degree of interdependence, the global community had initiated a process aimed at strengthening the existing international institutions and creating new ones. The World Trade Organisation (WTO) had just been brought to life, equipped with a binding dispute-resolution mechanism that would, among other things, provide an effective channel for managing China's transition from a closed, planned economy to an open economy that plays by the rules of global markets. A new round of multilateral trade negotiations was in preparation. The Multilateral Agreement on Investment (MAI) was being negotiated under the aegis of the Organisation for Economic Co-operation and Development (OECD). The creation of a global competition system was contemplated. The International Monetary Fund (IMF) would soon be given a broader mandate to oversee cross-border capital flows. A legally binding international agreement, the Kyoto Protocol on climate change, was being negotiated, and plans were drawn for an international environment organisation that would provide a fifth pillar to the global order, alongside the WTO, the Bretton Woods institutions, and the (less effective) International Labour Organisation (ILO). There were strong hopes that the institutional architecture of globalisation was being built.

The intended message to the people was clear: globalisation – a new concept at the time – was not just about liberalising flows of goods, services and capital. It was also about establishing the rules and public institutions required to steer markets, foster cooperative behaviour on the part of governments, and manage a single global economy. Global public goods – another new concept that was loosely applied to a series of issues from biodiversity to climate and from public health to financial stability – would be taken care of through jointly agreed rules of the game. The successful Montreal Protocol on eliminating ozone-depleting gases, agreed in 1987, provided an encouraging template.

These claims were not exempt from hype. Liberalisation was real, but the strengthening of the legal and institutional architecture was only in the making. Also, there were problems with the governance of global institutions:

- To start with, Europe, the United States and Japan were not only running the show by participating in the Group of Seven (G7); they were also overrepresented on the boards of the IMF and the World Bank, and they enjoyed disproportionate influence in the other major institutions. There was a clear need to redistribute power and influence in favour of emerging and developing countries, whose weight in the world population and GDP was growing fast;
- Second, governance through sectoral institutions was potentially problematic: each one dealt with one particular field, but none was in charge of cross-sectoral issues such as trade *and* exchange rates, trade *and* labour, or trade *and* the environment (to name just a few). True, the United Nations was meant to provide an overall framework. But in the economic field at least, the UN system was deprived of effectiveness;
- Third, these institutions were increasingly criticised for being undemocratic because they were accountable only to governments and not to any parliamentary body. Civil society organisations and environmental NGOs were insistently calling for a remedy to these deficiencies. The international institutions were slowly learning to give them a voice.

The way forward looked clear: liberalisation would be pursued further and globalisation would be managed by strengthening and developing a network of global institutions, each of to a non-e isting global parliament, the would develop a dialogue with civil societ . Some, like Rodrik (1997), doubted this could be a workable solution and highlighted a trilemma between deep integration, national autonom and democratic governance. But there was hardl another template on o er.

Fast forward now to 2018. Despite more than a decade of discussions, the global trade negotiations launched in 2001 in Doha (known as the Doha round) have not led an where. e WTO is still there but on the verge of becoming wholl ine ective. After obstructing the WTO's dispute settlement s stem b preventing the appointment of new members to its Appellate Bod , President Trump declared on 30 August 2018 that the US would pull out of the WTO unless the organisation *"shapes up"*[1]. Negotiations over the MAI collapsed in 1998. e K oto Protocol was signed, but was not lastingl implemented, largel because the US decided not to ratif it. e 2009 Copenhagen conference on climate change failed to reach agreement on mandator limits on greenhouse gas emissions and ended in dispute. Less than two ears after a general, though non-quantitative and non-binding agreement was reached on the occasion of the 2015 COP21 in Paris, the US announced in June 2017 its withdrawal from it. And nobod talks of a global competition s stem or a global environmental organisation an more.

Economic nationalism is on the rise. Its o ensive guise, state cap(a)e 53,Tm(-53,Tmthe r)-ta(us)-4 (eoL5 (

the Asian crisis of 1998, there has been an increasing reliance on unilateral, bilateral or regional solutions rather than on the multilateral safety nets provided by the IMF. National reserves have increased more than tenfold since 2000, against a factor of 3.7 for IMF resources (Truman, 2018). In 2007-08, US dollar swap lines were extended on a strictly bilateral basis by the Federal Reserve to selected central banks; they proved instrumental in avoiding financial disruption but the initial choice of partner central banks and the later decision to grant to some of them permanent access to dollar liquidity have been purely discretionary. Third, regional financing arrangements have developed as a complement but also a potential substitute to the multilateral safety net. Whereas Europe is admittedly a special case because of the introduction of a common currency, the instruments in place could conceivably be used in a broader regional context. Reliance on regional cooperation has also developed in Asia and Latin America.

The trend is similar in relation to the environment. Although the Paris Agreement of December 2015 was hailed as a success of international cooperation, it is far less constraining than the Montreal and Kyoto protocols. Signatories did not commit to internationally determined emission ceilings nor did they subscribe to a multilateral system of rules; rather, each state individually announced what it intended to contribute to the common endeavour, frequently conditional on efforts made by others or on the availability of financial support (Tagliapietra, 2018). There is no enforcement mechanism either. Beyond climate, the failure to address the rapid deterioration of biodiversity illustrates the limits of commitments to collective action to protect the environment.

Cross-sectoral initiatives also cast doubts over the global governance model of the late twentieth century. A puzzling case is the Chinese Belt and Road Initiative (BRI). At one level it can be analysed as a regional infrastructure development endeavour. But it is also presented by Chinese sponsors as a potentially more encompassing project and a *"new globalisation mechanism"* (Jin, 2018). US critics regard it instead as *"debt diplomacy to expand influence"* (Pence, 2018). An early test will be provided by the treatment of the bilateral debt overhangs of partner countries. So far, China has been reluctant to contemplate settling overindebtedness cases within the framework of the Paris Club, the usual multilateral venue.

It is hard not to conclude that recent developments in a wide range of fields have dashed the expectations of the 1990s. These developments challenge the system of universal, multilateral, public, treaty-based, institution-supported and legally enforceable rules that provided the basis for global governance since the second world war. The legal2.Gn(a)7 (t)1 (i3s)1 (ual m le)-2 dd the contribution of national policies to the reduction of global imbalances would be regularl monitored b the IMF and discussed among national polic makers[4]. Since then, the G20 has continued to serve as platform for political dialogue and as a steering bod for collective initiatives in a variet of elds (Ber , 2018).

e creation of the G20 was initiall hailed as a major step forward for global governance. e leaders claimed that *"a global crisis requires global solutions"* (London Declaration, April 2009), and announced that the G20 would become *"the premier forum for international economic cooperation"* (Pittsburgh declaration, September 2009). e G20's establishment and rst steps marked indeed a major departure from the 'Own House in Order' doctrine that dominated international economic relations in the earl 2000s. Because the Global Financial Crisis illustrated that nancial stabilit is a global public good, the provision of which cannot be left to national authorities acting in isolation, it resulted in a major revision of the prevailing international polic doctrine.

But there should be no mistake. e G20 is no international organisation. It is a political institution that works b consensus and steers the work of technical bodies b issuing political guidelines. e technical bodies themselves are not organisations equipped with e ective powers, but are mere coordinating forums. To produce results, the G20 therefore relies on its agenda-setting power and a chain of institutions of uneven e ectiveness. Its creation was tion, the ght against terrorism, economic and nancial stabilit , or protection against c ber-attacks. Citi ens worldwide are increasingl conscious of the need for common responses to these global threats to prosperit and securit (Pew Research, 2017).

Politics provides a tempting e planation wh suppl does not meet demand. Alread in the 1990s, strong reservations about supranational institutions were regularl e pressed b sovereignt - conscious governments and parliaments, starting with the US Congress. Since then politics has moved further in the direction of curtailing the powers of supranational institutions. From the US to Europe and from India to China, nationalism and identit politics are on the rise ever where. Among *"somewhere people"*, to use Goodhart's (2017) cogent e pression, anger against *"anywhere people"* and especiall rootless international bureaucrats has risen dramaticall , fuelled b shrewd political entrepreneurs. International civil servants were not loved, but at least the were deemed competent. e global nancial crisis has dented this reputation.

From this observation, one might conclude that global rules and institutions are simpl caught in a political storm whose roots are much deeper and much more perple ing than an thing directl related to the operation and performance of these ver rules and institutions. But if politics is changing, broad e planations should not serve as an e cuse to not identif more pro imate causes. Five major roadblocks hamper the provision of global governance.

A. Geopolitics

e rst reason wh global governance is in trouble is of a geopolitical nature: the rules and institutions established in the mid-twentieth centur have been questioned b the accelerated change in the balance of economic and political power between the 'West' and the 'Rest'. Speci call , and importantl , US global leadership is increasingl challenged.

Scholars of international relations regard the international liberal order put in place at US

1990s as the world's 'h perpower' (to use an e pression coined b former French minister Hubert Vedrine), its relative militar , economic and political weight has diminished over the last quarter of centur , while that of Europe has slid at an even faster pace. Because of its scienti c, nancial and strategic might, the US is still b far the dominant power, but in terms of sheer economic weight, in uence and increasingl control of critical resources and technologies, China has emerged as a fast-rising rival (Bergsten, 2018). In an unusuall harsh speech in October 2018, US Vice-President Pence emphasised that the administration was unwilling to tolerate what he described as hostile Chinese behaviour (Pence, 2018).

e ke geopolitical question for the future is whether an international order can help basic claim is that the US has been losing out whereas China has gained overwhelmingly from trade liberalisation. Although this an undoubtedly biased assessment, it is indisputable that technology transfers to emerging countries can cost the advanced countries an accelerated erosion of their innovation rent and can result in a net loss for them – a point made by Samuelson (2004) more than ten years ago[6]. By the same token, one of the reasons for the failure of the Doha round has been the perception that developing countries had lost out in the Uruguay round because the resulting agreement committed them to open their services markets but did not give them enough access to the agricultural markets of the advanced countries. Since the mid-1990s, export gains have been very unevenly distributed among developing countries and only a handful of them has experienced industrialisation and a rise in manufacturing exports (Baldwin, 2016). Several other developing and emerging countries have experienced "*premature deindustrialisation*" (Rodrik, 2015). In such conditions, sustaining an open, non-discriminatory trade regime is politically challenging to say the least.

In the financial field, there has been a major revision of the 1990s consensus on the benefits of opening to capital movements. Whereas the US and a few other advanced countries have been net beneficiaries of the global demand for safe assets (Caballero *et al*, 2008), many emerging countries have suffered from destabilising capital inflows followed by sudden stops with, as a result, financial crises, IMF programmes, and, ultimately, changes to their financial account regimes.

C. Obsolescence of global rules and institutions

Although the previous argument primarily rests on the broad pattern of international trade and finance, the adverse effects of external liberalisation can be compounded by inadequate governance. As far as trade is concerned, two cases in point are, first, inertia in the categorisation of countries, especially the fact that emerging countries, including China, still enjoy developing country status in the WTO; and, second, failures to enforce the adequate protection of intellectual property (an issue on which the EU recently joined the US and filed a complaint at the WTO against Chinese practices; see European Union, 2018). These grievances, and others concerning subsidies or investment, are not new: they were clearly spelled out by policymakers from the Obama administration (see for example, Schwab, 2011, and Wu, 2016). The underlying concern is that the systemic conEMC al rul aral ferent from those arising in a simple Mundell-Fleming framework, in which interdependence takes place through net inflows and outflows of capital.

Developments in the climate field further illustrate the point. The 1997 Kyoto Protocol was

D. The imbalances of global governance

A further reason for popular dissatisfaction with global governance is its unbalanced nature. e deeper international integration becomes, the broader the scope of polic its management should cover, and the more acute the tension between the technical requirements of global interdependence and the domesticall -rooted legitimac of public policies. is is most apparent in the eld of ta ation. International ta optimisation b multinationals has become an issue of signi cant relevance and it is estimated that 40 percent of their pro t is being arti ciall shifted to low-ta countries with major consequences for national budgets (T rsl v *et al* of cooperation. Emerging governance formats are frequentl not universal, but regional or partial; not treat -based, but reliant on *ad-hoc* voluntar cooperation; not institution-supported, even though e isting institutions can provide technical advice; not or onl partiall legall enforceable; less Westphalian than traditional cooperation used to be, as subnational and private pla ers take part in them; and even sometimes not public. e ke words are voluntar commitment, e ibilit and variable geometr . To name just a few elds:

- Deep trade and integration agreements increasingl involve 'coalitions of the willing', either on a regional basis or according to their specialisation;
- Investment agreements are e clusivel bilateral;
- e coe istence of national competition authorities whose reach e tends be ond borders, for e ample in the case of merger controls, is managed through agreement on shared principles, bilateral consultations and a loose coordination network;
- Whereas the IMF was initiall conceived as a single nancial safet net for the world, and functioned as such for several decades, regional nancial safet nets have been created in Europe, Asia and Latin America. e euro area is on the verge of equipping itself with a full - edged 'European Monetar Fund';
- Almost all countries have taken part in the Paris agreement on climate change, but on the basis of freel -chosen commitments rather than common legall binding obligations;
- Banking regulation initiatives launched in the aftermath of the Great Financial Crisis are rooted in the 28-member Basel Committee on Banking Supervision. Implementation of the corresponding standards is being monitored, but is not mandator ;
- Ta cooperation agreements concluded within the framework of the Base Erosion and Pro t Shifting (BEPS) initiative launched b the OECD involve subsets of countries and ta jurisdictions (such as the Isle of Man or the British Virgin Islands). Membership of BEPS is not universal (a number of Latin American, African and Asian countries do not take part) and not all members participate in all cooperation agreements.

Some of these arrangements are treat -based, such as the regional trade agreements. Some are informal, such as the Paris Agreement on climate change mitigation. Some involve binding commitments; some are based on mere pledge-and-review mechanisms. Some involve states onl ; some involve, formall or informall , infranational pla ers such as subnational governments and cities. Outcomes are often determined b the balance and interpla between national interests, but also b the cross-countr interaction between pla ers of di erent nature: scienti c communities, NGOs, private corporations and subnational governments all pla their parts alongside sovereign states.

e anal tical and polic question is, can such e ible cooperation succeed? Can coalitions or groups e ectivel address problems of a global character? Can anal tical consensus be reached and sustained between a series of independent pla ers? How are e ternalities dealt with? Can informal arrangements overcome the free-35en pla er particular, the challenges the face should be investigated, and whether the address these challenges in a coherent wa .

Ideas put forward b practitioners or international relation scholars are often suggestive, but fail to convince that such issues are dealt with s stematicall enough. To take onl two e amples, the *“sovereign obligation”* concept put forward b Haass (2017) to highlight the duties of sovereign states to their neighbours and partners in an interconnected world and the *“creative coalition”* concept proposed b the O ford Martin Commission for Future considered that there was a need *"to ask how diverse polycentric institutions help or hinder the innovativeness, learning, adapting, trustworthiness, levels of cooperation of participants, and the achievement of more effective, equitable, and sustainable outcomes at multiple scales"*

3 Policy implications

e outright rejection b President Trump of most of the fundamental principles of multilateralism, his decision to roll out an overl protectionist agenda, his choice to withdraw from the Paris agreement on climate change and his openl de ant attitudes towards international forums and institutions have triggered a major crisis in international economic relations. e rest of the world is witnessing with incredulit the destruction b its main creator of the post-second world war international order.

Even before President Trump took o ce, however, this order was alread crumbling. Disappointment and setbacks followed the mid-1990s high point of international cooperation. In trade, investment, nance, the environment and a number of other elds, gridlocks, work, or regional nancing arrangements on the margin of the IMF framework. To tilt the balance further towards e ibilit would soon lead to an entirel di erent game, where the multilateral framework no longer provides the overarching architecture of cooperation.

For the e ibilit strateg to work and deliver results, it is not su cient to embrace varia-

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