Is Global Governance Passé?

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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 at 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 playing by the rules of global markets. A new round of multilateral trade negotiations was in preparation. The International Monetary Fund (IMF) would soon be given an enlarged mandate to oversee cross-border capital flows. The Multilateral Agreement on Investment (MAI) was being negotiated under the aegis of the Organisation for Economic Co-operation and Development (OECD). 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 sister 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 upon in 1987 provided the 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 in the governance of the 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 in the boards of the IMF and the World Bank, and they enjoyed disproportionate influence in the other major institutions. There was a blatant 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

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trade *and* the environment (to name just a few). 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 increased interdependence within the framework of globalisation would be managed by strengthening and developing a network of global sectoral institutions. The governance of these institutions would be reformed so that emerging and developing countries would gradually gain power at the expense of the advanced countries. These institutions would cooperate to address cross-sectoral issues and, as a substitute to proper accountability to a non-existing global parliament, they would develop a dialogue with civil society. Some, like Rodrik (1997), doubted this could be a workable solution and highlighted a trilemma between deep integration, national autonomy and democratic governance. But there was hardly another template on offer.

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 anywhere. The WTO is still there but increasingly ineffective. The US administration of President Trump has taken the bilateral route and disregards multilateral rules and procedures entirely. After having started to block the WTO's dispute settlement system by preventing the appointment of new panel members to its Appellate Body, he declared on 30 August 2018 that the US would pull out of the WTO unless the organisation "shapes up".[2] Negotiations over the MAI collapsed in 1998. The Kyoto Protocol was signed, but was not lastingly implemented, largely because the US decided not to ratify it. The 2009 Copenhagen conference on climate change failed to reach agreement on mandatory limitations to greenhouse gas emissions and ended in dispute. Less than two years after a general, though non-quantitative and non-binding agreement was reached on the occasion of the COP21 in Paris, the US announced in June 2017 its withdrawal from it. And nobody talks of a global environmental organisation anymore.

Economic nationalism is on the rise. Its offensive guise, state capitalism, is a much more powerful force than anybody expected a quarter of a century ago. It is especially, but far from exclusively, strong in China where the corporate champions that were expected to transform into standard public companies remain under the direct or indirect control of the government. Nearly a decade after China joined the WTO, the balance between state-led coordination and market-led coordination is not at all what it was supposed to be. Contrary to expectations, there is no indication that the Chinese model of development is converging on the standard market economy template (Wu, 2016). Policy instruments that China regards as development levers are regarded by the US administration as instruments of economic control that distort competition and hurt US interests.[3]

[2] Interview with Bloomgerg, 30 August 2018.

[3] According to the US Trade Representative (2018: 17), "a key part of China's technology drive involves the acquisition of foreign technologies through acts, policies, and practices by the Chinese government that are unreasonable or discriminatory and burden or restrict U.S. commerce. These acts, policies, and practices work collectively as part of a multi-faceted strategy to advance China's industrial policy objectives. They are applied across a broad range of sectors, overlap in their use of policy tools (*e.g.*, the issuance of planning documents and guidance catalogues), and are implemented through a diverse set of state and state-backed actors, including state-owned enterprises."

Economic nationalism's defensive guise, protectionism, is especially, but far from exclusively strong in the US where the Trump administration has embarked on a series of ruthless (and fairly incoherent) initiatives against its main trade partners. Particularly worrying is the fact that the US has used a national security clause in the General Agreement on Tariffs and Trade (GATT) to impose tariffs on imports from its allies and partners. Countries regarded as running excessive bilateral surpluses are being commanded to reduce them without delay. China chiefly is in the spotlight. It is brutally ordered to import more, export less, cut subsidies, refrain from purchasing US technology companies, curtail investment in sensitive sectors, and respect intellectual property (US Government 2018). The very principles of multilateralism, that pillar of global governance, seem to have become a relic from a distant past.

The retreat of multilateralism is not limited to the trade realm. It is also visible—though much less pronounced—in international finance where three broad trends are noticeable (De Gregorio et al., 2018). First, the IMF's attempt to gain a formal extension of its mandate failed already in 1997 and there has been a move away from across-the-board financial account liberalisation. According to the index built by Fernández et al. (2016), average restrictions to financial flows bottomed out in the mid-2000s. Since then, capital controls and other regulatory impediments to free capital capital movements have regularly increased. Second, since the Asian crisis of 1998, there has been an increasing reliance on national reserve accumulation rather than on the multilateral safety nets provided by the IMF. Although IMF resources were significantly increased in response to the global financial crisis, they have only been multiplied by 3.7 since 2000 (Truman, 2018), whereas national reserves have increased more than tenfold. 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.

As regards the environment, the trend is similar. 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. There is no enforcement and not even a compliance assessment mechanism. Beyond climate, the failure to address the fast deterioration of biodiversity illustrates the limits of commitments to collective action.

It is hard not to conclude that recent developments across a wide range of fields have dashed expectations formed in the 1990s. These developments challenge the system of universal, multilateral, public, treaty-based, institution-supported, and legally enforceable rules that had provided the basis for global governance since the Second World War. The legal and institutional order that underpinned international economic relations for seven decades is undergoing a slow, but major overhaul.

The exception to this trend – admittedly quite a significant one, at first sight at least – has been the creation of the Group of Twenty (G20). In end-2008, in response to the Global Financial Crisis (GFC), the dramatic decision to establish it (or, more precisely, to elevate an existing finance ministers' body to government leaders' level) suddenly gave to emerging countries the voice at the high table they had for many years been asking for in vain. Furthermore, it involved them in the design of a financial and macroeconomic response to the worst crisis in six decades. In Washington in November 2008, the G20 initiated a comprehensive financial reform agenda whose implementation would be monitored by a new institution, the Financial Stability Board (FSB).[4] In London in April 2009, it engineered a concerted budgetary stimulus of an unprecedented magnitude – to which, for the first time ever, the emerging and developing countries participated to the same tune as the advanced countries. In London also, it decided to increase significantly the resources of the IMF and to proceed with a special one-time allocation of Special Drawing Rights (SDRs), in order to beef up liquidity at global level. And in Pittsburgh in September 2009, it initiated a Mutual Assessment Process through which the contribution of national policies to the reduction of global imbalances would be regularly monitored by the IMF and discussed among national policymakers.[5]

The creation of the G20 was initially hailed as a major step forward for global governance: The leaders claimed that 'a global crisis requires global solutions' (London declaration, April 2009), and they announced that the G20 would become 'the premier forum for international economic cooperation' (Pittsburgh declaration, September 2009). Its establishment and first steps marked indeed a major departure from the 'Own House in Order' doctrine that dominated international economic relations in the early 2000s. Because the GFC illustrated that financial stability 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 policy doctrine.

But there should be no mistakes. The G20 is no international organisation. It is a political institution that works by consensus and steers the work of technical bodies by issuing political guidelines. The technical bodies themselves may not be organisations equipped with decision-making capacities, but mere coordinating fora. To produce results, the G20 therefore relies on its agenda-setting power and a chain of institutions of uneven effectiveness. Its creation was not meant to imply that participating countries intended to strengthen international law and abide by it. And actually they did not: in the financial field, arguably the domain where most efforts were concentrated in the aftermath of the global crisis, the FSB was neither created as a universal institution nor equipped with decision-making or enforcement powers. Its membership is composed of 68 institutions, comprising ministries of finance, central banks, and supervisory and regulatory authorities from 25 jurisdictions as well as 10 international organizations and standard-setting bodies. It is structured as a coordinating platform that promotes, monitors, and advises – in other words "orchestrates" the action of independent national and supranational bodies (Abbott et al., 2015).[6] So even in the most active of all fields, a significant departure from the standard model is noticeable.

The G20 furthermore quickly disappointed hopes (or fears) that it would effectively coordinate national economic policies. The GFC was more a high noon moment than the start of a continuous coordination process. Writing in only a few years after the first G20 summit, Angeloni and Pisani-Ferry

[4] The FSB, an assembly of regulatory and financial authorities from G20 and several other countries, was not created ex nihilo but succeeded the previously existing Financial Stability Forum, whose mandate was significantly enhanced.

[5] Angeloni and Pisani-Ferry (2012) provide a critical account of the G20's early initiatives.

[6] For more on the challenges of global financial governance, see Copelovitch (2013) and Clark et al (2013).

(2012) already concluded that they were fearful of “diminishing returns”. Developments since have not resulted in a revision of this judgement.

1. Roadblocks to Global Governance

While the increasingly adversarial tone of the international discussion owes considerably to the specific stance of the Trump administration, most observers agree that problems began before the 2016 US presidential election. Almost ten years ago already, Richard Haass (2010) asserted that multilateralism in the 21st century was likely to be more fluid and more messy than it used to be. Five years ago already, Hale, Held, and Young (2013) claimed that the international community was facing a gridlock of global governance. They observed that stalemate had been reached on a number of fronts and that gaps in the system of international relations were not being filled.

What is the reason for this change in the landscape? It would be hard to claim that it is due to diminishing *demand* for collective action. If anything, demand for it has increased with integration on a global scale and concerns over global public goods such as climate change mitigation, the fight against terrorism, economic and financial stability, or protection against cyberattacks. Citizens worldwide are increasingly conscious of the need for common responses to these global threats to prosperity and security (Pew Research, 2017).

Politics provides a tempting explanation why supply does not meet demand. Already in the 1990s, strong reservations against supranational institutions were regularly expressed by sovereignty-conscious governments and parliaments, starting with the US congress. Since then politics has moved further in the direction of curtailing their power. From the US to Europe and from India to China, nationalism and identity politics are on the rise everywhere. Among “somewhere people”, to use Goodhart’s (2017) cogent expression, anger against “anywhere people” and especially rootless international bureaucrats has risen dramatically, fuelled by shrewed political entrepreneurs. From this observation, one might conclude that global rules and institutions are simply caught in a political storm whose roots are much deeper and much more perplexing than anything directly related to the operation and performance of these very rules and institutions. But if politics is changing, broad explanations should not serve as an excuse not to identify more proximate causes. Indeed, five major roadblocks are hampering the provision of global governance.

a. Geopolitics

The first reason why global governance is in trouble is of a geopolitical nature: the rules and institutions established in the mid-twentieth century are challenged by the accelerated change in the balance of economic and political power between the ‘West’ and the ‘Rest’. Specifically, and importantly, the US leadership is increasingly challenged by the rise of China.

Scholars of international relations regard the international liberal order put in place at US initiative after the Second World War as a political project as much as an economic one. The global governance regime was conceived in such a way that it would serve as an antidote to war among participating nations and as a glue that would strengthen the Atlantic alliance. The liberal international order, to use the characterisation of Ikenberry (2015, 2018) was both multilateral (in that all participants were subject to the same rules) and hegemonic (in that it had been built by and around the US, which as the major power served both as an anchor and as provider of public goods). The core quid pro quo it involved was that the hegemon would both benefit from its central position and accept to be significantly (though not entirely) constrained by the multilateral rules, for example international trade rules. In the words of Ikenberry (2018), the US was supposed to behave as the 'first citizen' of that world.

Over the last quarter of century, three transformations have been at play:

- The first has to do with the *number* of significant participants in the global game. Back in 1990, there were actually few: only the US, Canada, Western Europe, Japan, Australia, South Korea, and Taiwan, as well as the oil producers really mattered. One of Olson's rules of thumb for collective action is that size matters and, as it increases, renders cooperation more difficult, an evolution well illustrated by the transition from the G7 to the G20 (Olson 1965; see also Laïdi, 2018);[7]
- The second, related transformation arises from the increased *diversity* of participants: because international unions result from a trade-off between economies of scale and the heterogeneity of preferences, an increase in the latter is bound to hamper cooperation (Alesina, Angeloni, and Etro 2005). As developing and emerging countries have grown disproportionately, yesterday's small and relatively homogeneous club has become much more diverse (again, this is illustrated by the G20);
- The third transformation has to do with *leadership*. Whereas the US briefly emerged in the 1990s as the world's 'hyperpower' (to use an expression coined by former French minister Hubert Védrine), its relative military, economic, and political weight has diminished over the last quarter of century, while that of Europe has slid at an even faster pace. The US is still by far the dominant power, but in terms of sheer economic weight, and increasingly of control of critical resources and technologies, China has emerged as a fast-rising rival.

The key geopolitical question for the future is whether an international order can help manage the shift in the power balance between the US and China. That there is a demand for it is clear. According to Allison (2017), important "clues" from the analysis of past episodes of rivalry are that 'higher authorities can help resolve rivalry without war' (Clue 1) and that 'states can be embedded in larger economic, political, and security institutions that constrain historically "normal" behaviours' (Clue 2). An international order *may* therefore help avoid Thucydides' trap. The question, however, is whether such an order can be sustained. The incumbent leader may regard it as an excessive limitation to the use of its power—something the Trump administration has ceaselessly emphasised—while the rising one may regard rules as excessively determined by the preferences of the incumbent—an opposite concern regularly expressed by China.[8] In such a case the international order can be a casualty of the confrontation between the incumbent and the rising nations.

b. Second thoughts on globalisation

The second obstacle results from a change in attitudes towards globalisation. Since the 1990s the intellectual and political consensus in favour of economic openness, international integration, and the

[7] Laïdi (2018) elaborates on this point.

[8] For a recent perspective on China's view of the world, see Wolf (2018).

strengthening of international rules and institutions has weakened significantly. It is fair to say that many countries in the world are having second thoughts on globalisation.

Globalisation and its governance are not exactly the same thing. Dissatisfaction with the consequences of the former—because of increased inequality and social dislocation in the advanced countries, and because of the overhaul of traditional markets in the emerging countries—are not necessarily attributable to failures of the latter. Rather, it can be, and frequently is, the consequences of the very opening of sectors previously sheltered from trade and investment flows and of the lack of appropriate domestic policy responses. For an advanced country, a perfectly well-governed opening to trade with less-advanced partners nevertheless creates losers. To compensate or retrain them or to reform labour, product, and capital markets so that they can find opportunities in other sectors is the task of domestic policies, not of international institutions. For example, the US federal government and national labour market institutions are mostly to blame for the dismal reallocation and redistribution record documented by Autor et al. (2013), but the blame is easily put on unfair foreign competition and the global rules that permitted it. Similarly, the reallocation of factors of production to new sectors is a domestic responsibility in emerging and developing economies. An important reason why global governance is in trouble therefore arises from a backlash against *national* failures to correct the distributional effects of globalisation *within* countries.

A more challenging issue analytically is whether the aggregate gains from globalisation have been unevenly distributed *among* participating countries. Indeed, the Trump administration's 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 result in a net loss to them—a point made by Samuelson (2004) more than ten years ago.[9] 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 them and a handful of countries only have experienced industrialisation and a rise in manufacturing exports (Baldwin, 2016). 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, Farhi, and Gourinchas 2008), many emerging countries have suffered from destabilising capital inflows followed by sudden stops with, as a result, financial crises, IMF programmes, and, ultimately, a revision of their financial account regime.

c. *Outdated features of rules and institutions*

Although the previous argument primarily rests on the broad pattern of international trade and finance, adverse effects of external liberalisation can be compounded by inadequate governance. As

[9] The point is best understood in the context of a two-country Dornbusch-Fischer-Samuelson (1977) model of Ricardian trade with a continuum of goods: technological catching-up by the less advanced country erodes the comparative advantage of the advanced country and may *reduce* its gain from trade.

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 an adequate protection of intellectual property (an issue about which the EU recently joined the US and filed a complaint at the WTO against Chinese practices; see European Union 2018). These are not new grievances: they were clearly spelled out by policymakers from the Obama administration (see for example, Schwab, 2011, and Wu, 2016)

More generally, existing rules and institutions were conceived for a different world. This is very apparent in the trade field: the GATT/WTO framework dates from what Baldwin (2016) has called the 'first unbundling' between production and consumption. They were not designed for the 'second unbundling' between knowledge and production that gave rise to the emergence of global value chains. For decades, the implicit assumption behind the structure of trade negotiations has been that nations have well-defined sectoral trade interests: they are either exporters or importers. But in a world of global value chains, they are both importers and exporters of similar products simultaneously. Even if the principles of multilateralism remain valid, important features of the rules and institutions in which they are embedded are increasingly outdated.

By the same token, opening to capital movements was supposed to result in net financial flows from savings-rich to savings-poor countries. What has happened instead is a massive increase in gross flows resulting in the interpenetration of financial systems and the coexistence of sizeable external assets and liabilities. The consequence has been the emergence of a global financial cycle (see for example Rey, 2017) and of policy dilemmas that are quite different from those arising in a simple Mundell-Fleming framework.

What has happened in the climate field further illustrates the point. The 1997 Kyoto Protocol was negotiated under the assumption that the bulk of greenhouse gas emissions would continue to originate in the advanced countries. But by the time the Protocol was meant to enter into force, it was clear already that the hypothesis was wrong. The exemption of developing countries from emissions reductions was one of the reasons why the US did not ratify the treaty. The failed Copenhagen agreement of 2009 was an attempt to replicate Kyoto on a global scale, but there was no consensus for such an approach.

Rules can indeed be reformed and institutions can adapt. But this is a long and demanding process, especially when it requires unanimity, when participating countries have divergent interests and when changes require ratification by parliaments where there is no majority to support them. Global rules therefore exhibit a strong inertia that often prevent required adaptations. Trade rules, whose amendment requires unanimity, are a case in point. Institutions are nimbler and can adapt to changing priorities or perspectives on interdependence. The IMF for example has succeeded in adjusting to major changes in the international economic regime and major shifts in the intellectual consensus. But even institutions face limitations to their ability to keep up with underlying transformations. This is one of the reasons why solutions to emerging problems have often been looked for outside the existing multilateral, institution-based governance framework (Table 5.1).

Table 5.1 Global governance responses to changing global challenges

Field	Changes over last 25 years	Attempted multilateral responses	Alternative responses
Trade and investment	Mobility of technology, rise of global value chains	Failed Doha round Failed MAI attempt	*Bilateral treaties* *Club arrangements*
Finance	Increased intensity of sudden stops Emergence of global financial cycle	Failed attempt to broaden IMF mandate *Monitoring of financial stability, coordinated regulatory initiatives*	*Financial protectionism, self-insurance, regionalism*
Competition	Concentration on global scale	None	*Extraterritorial reach of national competition authorities*
Climate change	Emergence as major global concern	Failed Kyoto Protocol among advanced countries Failed Copenhagen conference	*Agreement on voluntary contributions (Paris agreement)*
Data	Exponential increase of flows, emergence of global platforms	Mere consultations	*Prevalence of industry standards* Emergence of national regulations Risk of increasing fragmentation

d. Lopsided global governance

A further reason for popular dissatisfaction with global governance is its lopsided character. The deeper international integration becomes, the broader the policy scope its management should cover, and the more acute the tension between the technical requirements of global interdependence and the domestically rooted legitimacy of public policies. This is most apparent in the field of taxation: on the one hand, international tax optimisation by multinationals has become an issue of significant relevance and it is estimated that 40 per cent of their profit is being artificially shifted to low-tax countries—with major consequences for national budgets (Tørsløv, Wier, and Zucman 2018); on the other hand, the fact that taxation remains at the core of sovereign prerogatives limits the scope and ambition of initiatives conducted at international level. The result, which can be regarded as an illustration of Rodrik's trilemma, is that global coordination in tax matters falls short of what equity-conscious citizens regard as desirable and, at the same time, exceeds what sovereignty-conscious citizens consider acceptable.

Lopsided global governance is by no means limited to the taxation field. The same contradiction can be found in a series of fields, for example biodiversity and the preservation of nature.

e. Increased complexity

The final obstacle to multilateral solutions has to do with the sheer complexity of the challenges global governance has to tackle. In recent decades channels of international interdependence have both multiplied and diversified. They now link together countries whose levels of technical, economic, or financial development differ considerably. Even putting aside geopolitical consequences and assuming a shared commitment to openness and multilateral solutions, such complexity is bound to test the limits of international governance arrangements.

3. Global Governance Beyond the Standard Model

The pervasive gridlock of the traditional global governance approach does not imply that existing rules are condemned to oblivion—although this may happen—or that existing institutions are bound to lose effectiveness—although some certainly will. Even in a very pessimistic scenario, the demise of the international order is likely to be a slow and uneven process. But at the very least, gridlock puts into question the agenda of broadening the scope of the traditional model beyond its core remit, and it calls for relying on alternatives, either to substitute obsolete arrangements in or to address emerging collective action problems in new, inadequately covered fields.

With scarce political capital to invest in the creation or the reform of universal multiltateral arrangements, the problem in a nutshell is to determine if and when alternative technologies that do not require the same level of commitment from participating countries can nevertheless deliver results. Indeed, we are already witnessing an evolution towards softer, more voluntary and flexible forms of cooperation. To name just a few fields:

- Deep trade and integration agreements increasingly involve "coalitions of the willing", either on a regional basis or according to their specialisation;
- Investment agreements are exclusively bilateral;
- Whereas the IMF was initially conceived as a single financial safety net for the world, and functioned as such for several decades, regional financial safety nets have been created in Europe, Asia, and Latin America. The eurozone is on the verge of equipping itself with a fully-fledged 'European Monetary Fund';
- Almost all countries of the world have taken part in the Paris agreement on climate change, but on the basis of freely chosen commitments rather than common legally binding obligations;
- Banking regulation initiatives launched in the aftermath of the GFC are rooted in the 28-member Basel Committee on Banking Supervision. Implementation of the corresponding standards is widespread, but not mandatory;
- Tax cooperation agreements concluded within the framework of the Base Erosion and Profit Shifting (BEPS) initiative launched by the OECD involve subsets of countries and tax jurisdictions (such as the Isle of Man or the British Virgin Islands). Membership in BEPS is not universal (a number of Latin American, African and Asian countries do not take part in it) and not all members participate in all cooperation agreements.

Emerging governance formats are frequently not universal, but regional or partial; not treaty-based, but reliant on ad hoc voluntary cooperation; not institution-supported, even though existing institutions can provide technical advice; not or only partially legally enforceable; less Westphalian than traditional cooperatuon used to be, as subnational and private players take part in them; and even sometimes not public. The keywords are flexibility, adaptability, and variable geometry.

These arrangements may work through peer pressure, opinion pressure, or market pressure, as well as through the involvement of infranational players such as subnational governments and cities – as for climate change mitigation. Outcomes are determined by the balance and interplay between national interests, but also by the cross-country interaction between players of different nature: scientific communities, NGOs, private corporations, and subnational governments all play their part alongside sovereign states.

The analytical and policy question is, however, can such flexible cooperation succeed? Can clubs effectively address problems of a global character? How are externalities dealt with? Can informal arrangements overcome the free-rider curse and the commitment problem that are pervasive in international cooperation? Can analytical consensus be reached among a series of independent players? Can enforcement be ensured? These questions should not be eluded, because experience shows that goodwill is not sufficient to overcome the many problems involved in international cooperation.

To this series of questions, the usual, game-theory-based approach suggests a sceptical response. Externalities cannot be addressed by goodwill only, and it is not by accident that the post-Second World War regime was based on universal rules, nearly universal membership in international institutions, and often precise enforcement mechanisms. By contrast, it is striking how frequently contemporary international cooperation mechanisms seem to rely on an excessively casual treatment of externalities.

A priority for research and public policy is therefore to understand how these arrangements are expected to work, to analyse whether they deliver results, and to determine whether and under what conditions they can form the basis of an emerging global governance model. In particular, it should be investigated whether they face participation incentives and enforcement challenges, and whether they address such challenges in a coherent way.

Ideas put forward by practitioners or international relation scholars fail to convince that such issues are dealt with systematically enough. To take only two examples, the 'sovereign obligation' concept put forward by Haass (2017) to highlight the duties of sovereign states vis-à-vis their neighbours and partners in an interconnected world and the 'creative coalition' concept proposed by the Oxford Martin Commission for Future Generations led by Pascal Lamy (Lamy et al 2013), belong to two opposite traditions but share this absence of a systematic treatment of participation incentives and enforcement challenges. Indeed, the same issue arises in the Westphalian world of Haass and the post-Westphalian world of Lamy, and, though both suggest ways to overcome gridlock, neither of them proposes a compelling solution to it.

To address these issues, the game-theoretical approach of international interdependence and collective action (see e.g. Sandler, 2004) certainly provides a useful starting point. A key result from it is that interaction models and corresponding game structures vary from issue to issue, which implies that incentives to cooperate can differ strongly depending on the field. Obstacles to successful cooperation are certainly pervasive, but not as determinant as suggested by oversimplified models. Reliance on a prisoners' dilemma structure to represent the nature of the underlying game can for example be highly misleading, as some other games result in stronger incentives to cooperate and more stable outcomes: assurance (also called stag hunt) games or weakest-link games involve cooperation issues but do not raise the same difficulties as the prisoners' dilemma.[10]

Furthermore, the simple two-player, static model that is so useful for presentational purposes should not be taken at face value when attempting to represent concrete international cooperation issues. For example, the underlying logic of the Paris agreement on climate change cannot be understood in a static setting. It only makes sense in a dynamic setting involving competition between a 'dirty' and a 'clean' technology, à la Acemoglu et al. (2012). In such a model, the goal of an agreement is not to internalise the static externality arising from the emission of greenhouse gases—something that would require compulsion in one form or another—but to create sufficient incentive for private players to invest in the development of the clean technology, so that it can eventually overtake the efficiency of the dirty one, or at least require much less subsidisation than in a static setting.

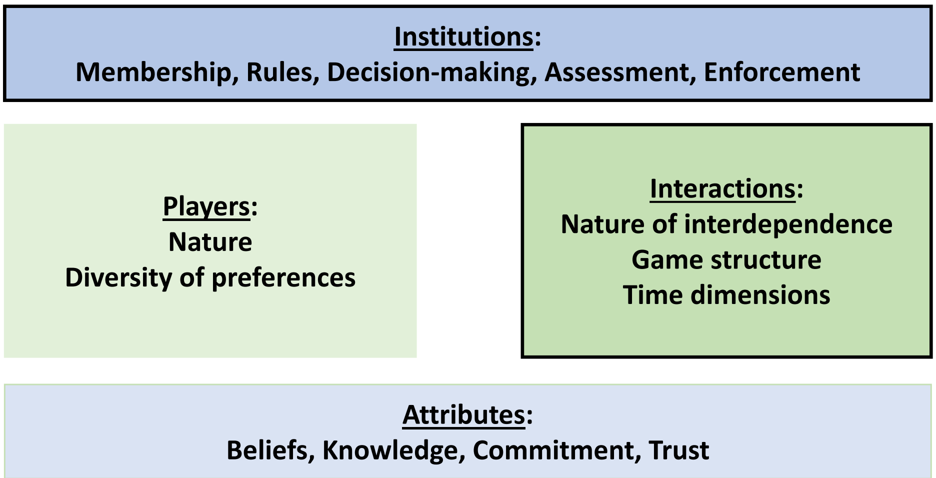
An important template for analysing the value of international governance arrangements is provided by Elinor Ostrom's work on the social arrangements through which human societies tackle local externalities. Ostrom's major contribution along these lines was to show that, whereas economists regard market-driven interactions and state interventions as the only two alternatives, there are actually many possible social arrangements to manage local public goods. In her words, 'the most important lesson for public policy analysis derived from [my] intellectual journey is that humans have a more complex motivational structure and more capability to solve social dilemmas than posited in earlier rational-choice theory' (Ostrom 2009: 435). Accordingly, she 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' (Ostrom 2009: 436).

A similar research agenda applies to global governance: there is a need to examine systematically the variety of arrangements at work among nations or subnational entitites to find out what categories of problems they are dealing with, what the underlying interactions are, what game structures are at play, who the relevant players are, and, on this basis, how effective the mechanisms they rely on are. This examination should take into account (Figure 5.1):

- The nature of interactions between players, the corresponding game structure and the resulting incentives to cooperate and deliver on commitments to cooperate;
- The number and diversity of players, in terms of size, influence and preferences;
- The attributes on the basis of which players read and understand their mutual interaction, such as the role of epistemic communities in building a common knowledge base and overcoming the obstacles to cooperation that arise from different representations of reality;
- And, finally, the way institutions influence individual behaviour, either through enforcing common rules or through providing assessment and monitoring of individual behaviour.

Figure 5.1 Building blocks for the analysis of global governance issues

[10] This is an example of the dangers of relying on powerful, but excessively simplified models that provide a compelling, but often misleading image of the mechanisms at work and the policy challenges.



The analytical value of such a research agenda is to help understand how and why different types of governance arrangements adequately address different types of collective action problems. More precisely, it should help map a limited set of governance templates onto a limited set of collective action games and a wider set of concrete international cooperation issues. Here again, Ostrom (2005) provided a telling analogy when she set herself the goal to "dig below the immense diversity of regularized social interaction [..] to identify universal building blocks used in crafting such structured interactions". The diversity of regularised international interactions patterns is most likely to be less immense that that of interactions within societies, but the challenge is very much similar.

4. Policy implications

The outright rejection by President Trump of most of the fundamental principles of multilateralism, his decision to roll out an overly protectionist agenda, his choice to withdraw from the Paris agreement on climate change and his openly defiant attitudes towards international fora and institutions have triggered a major crisis in international economic relations. The world is witnessing with sideration and incredulity the destruction by its main creator of the post-World War 2 international order.

Even before President Trump took office, however, this order was already crumbling. Disappointment and setbacks had followed the mid-1990s high noon of international cooperation. In trade, investment, finance, the environment and a number of other fields, gridlocks, stalemates and often rollbacks were observable. Geopoplitical tensions, widespread second thoughts on globalisation, increasingly outdated features of international rules and institutions, the lopsided character of global governance and the sheer complexity of the problems the international community was confronted with all contributed to this state of affairs. Before Trump already, he future of global governance was grim.

The tension between the pressing and often urgent need for global collective action and the increasing reluctance of sovereignty-conscious nations to cede competences, enter into binding agreements and abide by rules has rarely been so blatant. It is compounded by accumulated mutual mistrust, disputes over the governance of international institutions and growing rivalry between incumbents and emerging powers. Whoever sits in the White House, this tension will not vanish. It may even grow further in the times to come. A lasting paralysis of the system of rules and institutions on the basis of which interdependence has been organised and managed for many decades is likely. Furthermore, there is a real risk of economic fragmentation and severe mismanagement of the global commons.

The global community, or what remains of it, visibly hesitates over the choice of a strategy. A first option is conservationist. It consists in preserving the existing order to the extent possible. This was for example the approach followed by the remaining members of the Trans Pacific Partnership (TPP) after the US decided to withdraw in early 2017: they agreed in March 2018 to form a TPP-11 without the US. This has also been the attitude of the signatories of the 2015 Paris agreement on climate change, again after the US withdrawal: they decided to go ahead without it.

The advantages of the conservationist strategy are to contain the damages resulting from one country's peculiar behaviour and to strengthen the other countries' ownership of the multilateral system. It is furthermore setting a precedent because if it can be successfully applied to the US, it is also likely to be effective with any other country. Its downside, however, is that it does not address the underlying problems. To the extent the US attitude is a symptom, it does not tackle the disease. It is also unable to provide a solution to situations of potential stalemate in institutions where the US holds a blocking minority. It could in fact be defeated, at great cost to the international order.

An alternative option is to let bygones be bygones and to try to turn the current crisis into an opportunity to redesign international arrangements. Such a strategy would have the advantage of drawing the lessons from the exhaustion of traditional multilateral agreements and institutions and of experimenting afresh new forms of cooperation for a different world. It would lead to embrace informality and flexibility, and to go for whatever form of partial, variable-geometry and non-binding form of cooperation looks available.

As indicated, there is already much experience to draw lesson from in this regard. The downside of this option, however, would be to overlook the intrinsic problems of international or global collective action and to believe too easily that flexibility and goodwill can tackle hard problems. What has been experienced so far is in fact flexibility *on the margin* through, for example, regional or sectoral trade agreements on the margin of the WTO framework or regional financing arrangements on the margin of the IMF framework. To tilt the balance further towards flexibility would soon lead to an entirely different game, where the multilateral framework does not provide the overarching architecture of cooperation anymore.

Indeed for the flexibility strategy to work and deliver results, it is not sufficient to embrace variable geometry or to minimise demands on state sovereignty. It is essential to design parsimonious arrangements that make the most of a limited engagement of the main nations. The goal should be to find out how best tackle economic, financial, environmental, and technological interdependence in a world that does not want to relinquish political independence.

A potentially more promising approach could be to define the minimal conditions that the multilateral framework must fulfil to provide a strong-enough basis to flexible, variable-geometry and possibly informal arrangements. With such a "critical multilateralism", a minimum set of universal principles and nimble global institutions would support collective action in a series of fields, each of which would rely on specific, variable-geometry and incentive-compatible arrangements. Whereas flexibility is an alternative to governance through a series of universal sectoral institutions, it should not be regarded as an alternative to multilateralism. Instead, it should be seen as a way to promote collective action based on multilateral principles and supported by global institutions in a context of increased multipolarity, increased diversity and increased concerns over infringements to national sovereignty.

Such principles and institutions do exist. For example, the fundamental principles of the GATT, such as national treatment and the most-favoured nation clause, provide a basis for designing sector-specific, of region-specific trade and investment arrangements. In the same way the IMF provides the example of a nimble institution whose scope and modus operandi have evolved considerably over time, despite largely unchanged articles of agreement. It has been able to support the G20 despite its informal character.

The design of flexible arrangements requires for each particular topic to determine the channels of interdependence, the incentives and disincentives to cooperate, and the critical mass of participants that are sufficient to create a bandwagon effect. Again, the balance between formal obligations and non-mandatory objectives does not need to be the same across domains, because externalities and participation incentives differ.

We should neither cultivate the nostalgia of yesterday's order nor place hope in loose, ineffective forms of international cooperation. The narrow path ahead, if there is one, is to establish a sufficient, critical multilateral base for flexible arrangements and to equip policymakers with a precise toolkit for determining, on a field-by-field and topic-by-topic basis, what are the minimum requirements of effective collective action. There is no time to lose.

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