**New Rules for a New World: A Survival Kit**

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**Abstract**

*The COVID-19 pandemic has sharpened the imperative of global collective action, at a time when economic and geopolitical conditions were already not auspicious for comprehensive reform of the global institutional architecture. In order to address this misalignment, this paper builds on a critical analysis of the state of governance in nine different policy fields, examining in each case the nature of the collective action problem, the character of the legal and institutional response, and their evolution over time. Of these fields, three are associated with major global commons: climate action, public health and the global digital infrastructure; three relate to main channels of global interconnectedness: international trade, international finance, and migrations; and three illustrate "behind-the-border" integration: competition policy, banking regulation and international tax coordination. Drawing on a comparative analysis of successes and failures in these fields, the paper sets out elements for designing and implementing an ambitious collective action strategy suited to the present context.*

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## 1. Introduction

Discussions of global issues often start in hype and end in exaggeration. It is hard, however, to overemphasise how critical the present juncture is. The world that was hit by the pandemic was already in a state of turmoil. After serving as the defining paradigm of the last three decades, globalisation was being questioned by a combination of social discontent, political opposition and geopolitical rivalry. Decades-long arrangements were falling apart, essential rules ignored, respected institutions bypassed. The direction of travel was highly uncertain.

Then came the pandemic. Epidemiologists warned early on that the virus could be defeated only if national responses were conceived as part of a joint action programme to tackle a common threat, implemented consistently. Economists reckoned that investing $50bn in vaccine production and dissemination would yield a $9tr in return.[1] Far from eliciting a sense of common destiny, however, COVID-19 initially triggered disparate reactions. Great-power rivalry further tarnished the already diminished authority of the WHO. Vaccine nationalism overshadowed solidarity and vaccine imperialism hampered coordination. Even the G7 was not able to agree on an ambitious plan on the occasion of its June 2021 summit.

And yet the imperative of global collective action has never been so strong. It has been known at least since the 19th century that contagious diseases epitomise the case for international cooperation.[2] This old lesson remains fully relevant: absent a coordinated response, patchy immunisation creates fertile ground for the emergence of new variants; in turn, this portends the possibility of chronic pandemics and a generalised retrenchment behind borders.[3]

Despite initial missteps, can the pandemic serve as a wake-up call to global collective action? Before COVID-19, global governance was in a state of gridlock and hopes of reforming it were slim.[4] Some sort of second best seemed the most ambitious form of action one could hope for. But because it highlights how much is at stake, the COVID-19 shock has the potential of triggering a reversal in attitudes. It would not be the first time: in the mid-1970s, the demise of the fixed exchange-rate system triggered the creation of the G7; in 2008-9 the global financial crisis prompted the elevation of the G20 to leaders' level and the creation of the Financial Stability Board. Crises concentrate minds.

Remarkably, the pandemic has also had an impact on the perception of the climate emergency. As observed early on by climate economist Gernot Wagner, the pandemic is like climate change at warp speed.[5] The health crisis has given enhanced prominence to the warning that catastrophic climate change can only be contained if individual commitments are commensurate to the global challenge and implemented thoroughly.

The arrival of a new US administration is another potential game-changer. Instead of regarding multilateralism as a dangerous constraint on its sovereignty and favouring across-the board confrontations, the Biden administration has indicated that it seeks agreements and aims at multilateral responses. Yet the US-China rivalry has become a permanent fixture of the world system and foreign policy imperatives increasingly dominate economic ones. Europe also seems to exhibit a change in attitude: it has become conscious both of the urgency of defining its own concept of “strategic autonomy” and of the need to invest political capital into repairing the rules-based system it claims to promote.

Does this combination of awareness and a regained inclination towards multilateralism portend the emergence of a different type of globalisation that puts stronger emphasis on coordinated market oversight, policy cooperation and collective action ? Things have certainly changed in comparison to end-2019, when the US-China trade war was raging and global public goods were left unattended. But there should be no illusion: economic, political and geopolitical conditions are not auspicious for a comprehensive reform of the global institutional architecture. The world is not ready for a new Bretton Woods. If there is a road to effective collective action, it is a narrow and sinuous one, littered with obstacles that must be circumvented and interrupted by rivers that can only be crossed by feeling the stones. To chart out this road, policymakers should acknowledge that a large part of the global governance system does not work anymore; at the same time, they need to learn from what works despite inauspicious economic and political conditions.

## 2. "Proof by Nine" - the fields of enquiry

This paper is a contribution to defining rules for collective action in the new world we have entered – an attempt to identify the signposts for a new departure. To contribute to road-mapping, we build on a critical analysis of the state of collective action in nine different policy fields to find out what can be learned from successes and failures and what overriding lessons, if any, can be drawn from them.

The nine fields have been chosen in view of their intrinsic importance, but also to help derive broader lessons. The first three are associated with major global commons: *climate action*, *public health* and the *global digital infrastructure*.[6] The next three relate to main channels of interconnectedness: flows of goods and services (*international trade*), of capital (*international finance*) and mobility of people (*migrations*). The final three illustrate “behind-the-border” integration involving alignment of national legislation and regulatory practices with a global standard: *competition policy*, *banking regulation* and *international tax coordination*.

In each field, we start from three questions. First, the *nature of the problem*: Why is it that independent policy-making does not deliver a good enough outcome? Where are the externalities? What is the global public good that must be supplied? We approach these questions as economists and start by identifying the underlying international game. Not all games are alike: some entail strong risks of beggar-thy-neighbour behaviour; some are vulnerable to free-riding or departure from agreed commitments; some just require a modicum of mutual trust for cooperation to flourish; some demand leadership. Hence institutional solutions are not alike: there is no one-size-fits-all response, especially when preferences across countries differ by a wide margin.[7]

Our second question has to do with the *nature of the legal and institutional response*. Global rules and institutions have been designed to help tackle externalities and solve collective action problems. For sure, there is no one-to-one correspondence between problems and legal or institutional solutions. For good or bad reasons, institutions often outlive the problems that gave rise to their creation. But through delimiting what is acceptable and what is not, defining goals and providing a basis for consensus, they serve as catalysts for cooperative behaviour. So we examine the matching between problems and institutional solutions and assess how well the latter tackle the former.

Thirdly, we scrutinise *evolution over time*. As interdependence deepens and is transformed, problems change. Rules are amended – or not. Institutions change too, but not necessarily in parallel: their evolution – or lack thereof – follows its own logic. A rich history can be an encumbrance, when it encourages conservatism and inertia; but it can also form a basis for building trust.

Political scientists have drawn attention to the growing complexity of global collective action arrangements, rightly focusing on overlapping responsibilities and contested authority. They have provided conceptual tools to comprehend the endless variety of institutional arrangements and modes of governance. Our approach is different. By defining problems, scanning institutions and identifying historical legacies, we strive to distil what is at stake and at work in each field, and draw lessons. We are less interested in describing complexity, and more focused on finding out what works (or not), and why. We see value in a bird's-eye view that highlights lessons of general relevance, even at the risk of overlooking particular features of the institutional set-up. In so doing, we aim at normative conclusions and recommendations for governance reforms, globally and in each field.

## 3. Global commons: A foundation agenda

Preserving global commons such as a stable climate or biodiversity was understandably not initially on the agenda of the post-war architects of the international economic order. Less understandably, it was still a secondary priority of the system's post-Cold War partial renewal. Until recently, the focus was on visible linkages through trade and capital flows, rather than on the invisible ties that bind the citizens of the world to a common destiny. The consequence is that to address pressing challenges of unprecedented magnitude, the global community can only rely on soft rules and weak institutions, and needs to invent new methods.

### *3.1 Public health: Politics trump strong incentives to cooperate*

The COVID-19 pandemic that catapulted health governance to the top of the global commons policy agenda encapsulates the worst and the best of global collective action. In the public health field, international cooperation failed despite repeated alerts to tackle prevention, pandemic preparedness and control. Early warning and prompt reaction could have helped contain the disease, but speed and frankness were found missing. National prerogatives prevailed over appropriate action by the dedicated institutions. In contrast, global scientific cooperation made it possible to quickly sequence the virus' genome, providing the foundation to remarkable achievements in vaccine research, funding and rollout (much less so, however, in vaccine distribution where there has been a shocking, and even amazingly irrational failure to act forcefully on a global scale).

Disease prevention and cure are in principle not amongst the hardest of all collective action problems. There exist strong reasons to cooperate internationally, there are obvious benefits in information-sharing, and few incentives to free ride. Rich countries even have a direct interest in helping poorer ones to tackle contagious diseases. Cooperation would thus appear to be much easier to achieve than in other fields relating to global public goods, such as climate action.[8] What is more, the lively global scientific health community forms a strong basis for coordinated evidence-based action.

Much of the failure that has been observed can be traced to the politics of global health governance hampering action by the legacy institution in charge. Strong on paper, but weak in practice, the World Health Organisation is severely affected by the paralysis of the United Nations system. It is composed of powerful regional entities, each with its own managerial character; it is structurally underfunded and dependent on grants from private organisations; it has no real inspection powers and no sanctioning capacity; and critically, its authority is severely limited by national sovereignty in health policy.

Lessons from this institutional paralysis were actually drawn before COVID-19. Next to the WHO, a constellation of nimble but more limited entities are operating, representing funding efforts of multilateral agencies and institutions as well as public-private partnerships or philanthropy. Such ad-hoc coalitions have served their aims well.[9] But they have further undermined the legitimacy and authority of the all-purpose health governance institution.

Looking ahead, implementing a global vaccination strategy epitomises both the urgency and the challenges of collective action. A lingering pandemic and generalised border closures would cost far more than procuring vaccines to poor countries and helping administer them. But effective cooperation is prevented again by the politics of public health: sovereignty concerns, reluctance to providing transparent information, vaccine nationalism, short-sightedness, and the use of vaccines provision as a strategic and geopolitical tool.

The current governance system is clearly not well equipped to deal with new (and possibly recurrent) pandemic emergencies. A global public good should in principle be managed by a strong global institution equipped with supranational powers. Political realities, however, suggest that reform in practice can only rely on a second-best approach, building on what works, and scaling up successful initiatives. Despite current disappointment, the ACT Accelerator and COVAX, its vaccine pillar, still offer the best hope of a global vaccine strategy. Making such a coalition of the willing effective should be a priority.

What is required is in fact much more than tinkering with the mandates of existing institutions. The pandemic calls for no less than the repositioning of global health governance in the world order. It is high time to put it at par with economic interdependence or financial stability in terms of governance, institutional backing and resources. After all, health issues have proved in this pandemic to be at least as critical: a virus shut down the world.

Such a fundamental reset would entail either a substantial overhaul of the WHO in terms of voting rights (away from the one country-one vote regime), responsibilities (through a new health Treaty) and funding (including via new permanent resources); or the creation of a Global Health Board bringing together key players, including the WHO, specialised bodies and the International Financial Institutions, and able to mobilise resources: in short, an International Monetary Fund or a Financial Stability Board for health. [10] This would require a political push similar to that provided by the G20 in the aftermath of the global financial crisis.

Whatever the formula, a template for reform would distinguish two layers: a universal body for standard-setting, information-sharing, monitoring, coordination and alert; and specific cooperation schemes (for research, fighting against particular diseases, technology-sharing, capacity-building) involving on a variable-geometry basis regional institutions, governments, charities and dedicated NGOs.

### *3.2 Climate action: The hardest of all problems, and a glimmer of hope*

Containing climate change is the hardest of all collective action problems: it entails painful individual efforts, yields benefits that are spatially diluted and distant in time, and faces pervasive free-riding and distributional problems. Climate action raises daunting incentive challenges and equally daunting intergenerational and international equity issues. Both are hard to solve in theory and even harder to address in practice.

Efforts to tackle the problem have already failed twice. With the 1997 Kyoto protocol, building on the success of the elimination of CFC gases, advanced countries entered into a binding international agreement meant to address free-riding. But with emerging countries becoming the growth driver of the global economy, this was too narrow a coalition. The second attempt was to replicate Kyoto on a wider scale. But the 2009 Copenhagen conference demonstrated that emerging and developing countries were not ready to join an agreement they perceived as putting a lid on their development, while advanced countries with a dependence on fossil fuels were reluctant to engage in meaningful climate action.[11]

The result was the Paris agreement. On paper, it is also doomed to fail: it does not cut the Gordian knots at the core of the problem. Indeed, commitments under the agreement and, even more, concrete achievements fall short by a wide margin of what would be necessary to limit the global rise in temperature to 1.5 or even 2 degrees.[12]

Yet the process initiated with the COP21 involves several critical ingredients. First, it implies setting targets and monitoring commitments on the basis of indisputable scientific evidence, buttressed by an active epistemic community. Second, states are joined by a wide network of organisations and subnational entities that hold governments accountable and serve as a worldwide echo chamber. Third, commitments to decarbonisation have reached enough credibility for a significant fraction of global business to invest into building a carbon-free economy. Fourth, dynamic economies of scale have dramatically lowered the cost of green technologies, opening the way to further investment. Fifth, commitment to climate action has managed to survive the (temporary) US withdrawal.

The visible momentum triggered by this unique combination should not bring illusions: a much larger effort is clearly required to reach the objectives. Global carbon tax revenues amounted in 2019 to 48 billion US dollars, barely more than a dollar per ton or a tiny fraction of the adequate pricing. What is more, the collapse of the Paris agreement is still possible. Even its limited effectiveness could be put in jeopardy if private agents observe that the world is too far away from the path to net zero. This would discourage investment into research and new carbon-free technologies.

Four major tests lie ahead. One is whether the US, China and the EU can, geopolitical rivalry notwithstanding, reach minimal consensus on the priorities and pace of climate action. The second is how to tackle the trade implications of multi-speed decarbonisation. The question here is if the carbon border adjustment mechanism (CBAM, in EU parlance) that must be put in place to avoid carbon leakages can be made compatible with multilateral trade rules and be acceptable to trade partners. The CBAM proposed by the European Commission within the framework of its “Fit for 55” package of July 2021 seems to be potentially WTO-compatible, but adverse reactions are possible. The third test is whether free-riding on the collective commitment to reduce emissions can be contained by the formation of climate clubs composed of like-minded countries.[13] And the fourth is facing up to the macroeconomic implications and the associated - currently underestimated - costs of our climate ambitions.

All these challenges will pit major priorities in international relations and international political economy against each other. This is why they represent formidable obstacles.

Since the Paris accord of 2015, the clash between climate preservation and sovereignty has been solved by letting sovereigns decide what are their obligations vis-à-vis the global community. Whether peer pressure, opinion pressure, investors' pressure and the need for business to embrace tomorrow's growth paradigm will suffice to overcome this inherent weakness remains to be seen.

Climate action provides an extraordinary experiment in global governance. Never before has such an intractable problem been addressed with so meagre means. Failure would not be surprising. Even partial success would indicate that collective action can draw on unexpected resources to deliver.

### *3.3 Digital networks: New, already fragmenting commons*

Global digital interconnectedness has become a vital economic and social infrastructure. Knowledge, communication, business, government critically depend on the performance and reliability of digital networks. These networks and the system that operate them are true present-time global commons. They have widened access to information. They have created cross-border communities. They have made global value chains possible. They are transforming industries one by one.

Unlike yesterday's telecoms, the digital commons were born global.  And yet no institution is assigned overall responsibility for them. The internet was born as the brainchild of a transnational scientific community, equipped with a creative, minimal governance apparatus that did little more than ensuring technical interoperability, setting standards and allocating identifiers. When states tried to take control by bringing the internet under the umbrella of telecoms, they failed and were relegated to back seats.

This multi-stakeholder model effectively underpinned and promoted the development of the global digital landscape. But the vision of an open, neutral and competitive internet was proven wrong. Tech giants gradually took control, unleashing "surveillance capitalism" by massive harvesting of personal data for profit and entering (in part, inadvertently) the domain where sovereign states reign supreme.[14]

Belatedly but decisively, nations are catching up, to the point that digital commons might fragment altogether. The lower, technical layers of the digital architecture are still a global common. But the upper layers – the web and social networks – are undergoing balkanisation. Up to a point, this is unavoidable, even positive: the virtual world cannot remain dominated by tech giants that ignore the laws and standards through which national societies express their preferences. But on privacy or free speech, preferences differ, while geopolitical rivalry and cybercrime threaten to push states into the nationalisation of all but the very basic digital infrastructure. The twin battles of states vs. states and states vs. tech giants is redefining the internet.

This evolution seems to be bucking the trend in many policy areas, where governance is moving away from the traditional, state-centred approach towards variable geometry and the increasing involvement of non-state actors. Digital networks governance exhibits the reverse: the multi-stakeholder model that has guided their development into a global economic backbone remains in place, but it is on the retreat.[15]

Three challenges dominate the scene. The first is geopolitical. Few rules have been agreed upon between states to protect the digital commons from weaponisation, beyond a vague commitment to preserve the core architecture of the internet – barely more than the prevention of mutually assured destruction. Commitments fall far short of what is required in the emerging polycentric model of infrastructure control.

The second challenge stems from privacy and content. Diverse preferences for personal data and freedom of expression are rooted in national histories and compounded by constitutional and legal differences. Bridging gaps across continents is meanwhile undermined by business and sovereign interests. Both the US-style tech companies business model and Chinese state control of networks and data squeeze out privacy concerns. And in terms of content, the constitutional right to freedom of expression in the US conflicts with the European aversion to hate speech and tight Chinese repression of dissenting voices. In this context, self-regulation has been ineffective and while regional initiatives such as the European GDPR have proven successful beyond borders, their effectiveness remains in doubt.[16]

The third challenge is competition. Concerns relate to tech giants abusing dominant positions, creating barriers to entry, and capturing a disproportionate part of the value generated by users. Making digital markets contestable and contested is essential. It is also difficult, as incentives are not aligned, preferences are fragmented and complex digital business models (scale without mass, complex value chains, two-sided markets) complicate applying usual policy concepts. But competition should be strengthened, even through separation of activities. It is not just about efficiency; it is also increasingly a matter of democracy.

It is not clear the multi-stakeholder model can rise to these challenges. The momentum towards state control and legal pluralism seems irresistible and absent a world competition authority, concerns over abuse of market power can only be dealt with jurisdiction by jurisdiction.

Commonalities should be preserved, however. A reformed international architecture should first be based on a series of “don’ts”, mostly regarding security. A second layer would consist of common principles for dealing with extraterritoriality issues, that would serve as a basis for determining the legitimate reach of the various jurisdictions.  But a third layer – remarkably absent so far – would include an IPCC–like forum for the data world that would help identify common issues, assess risks, evaluate solution and formulate joint recommendations. It should be rooted in the unique digital multi-stakeholder culture.

The internet epitomises the globalisation of knowledge and communication. Its governance model has proved way too rudimentary to tackle the series of challenges it is now facing. Whether it evolves towards alignment with national legislations according to differing preferences, or towards fragmentation into separate spaces will have a decisive bearing on the shape of the world to come.

## 4. Flows: A repair agenda

The basic flows of international interdependence – trade in goods and services trade, financial flows, migrations represent the basic "plumbing" of international economic interdependence. It is in this area that the rules-based international order was first established; it is in this area that it can rely on a strong legal and institutional infrastructure; but paradoxically, it is in this area that has been challenged most.

### *4.1 Trade: Cracks in the basic infrastructure of globalisation*

Multilateral trade principles and procedures have for three quarters of a century provided the legal and operational infrastructure of economic integration. National treatment preventing discrimination against foreign producers; the Most Favoured Nation (MFN) clause preventing discriminatory trade opening; the prohibition of export restrictions; and the predictability provided by transparent, multilateral tariff commitments: these constitute the backbone of globalisation and offer principles for developing interdependence and preventing beggar-thy-neighbour behaviour.

Contrary to common perceptions, these principles are not intended to determine the degree of trade openness that countries must reach and abide to. While they clearly encourage trade opening, they are compatible with whatever degree of openness is deemed desirable; but they are meant to avoid that opening be tailored in accordance with the participating governments' unilateral attempts at affecting world prices through the setting of their tariff rates.[17] As such, and even more after the introduction of a judicial dispute settlement mechanism on the occasion of the creation of the WTO, they could be expected to provide a strong basis for further trade integration on a global scale.

Yet, for the past two decades, the WTO has achieved little, and what was once deemed the "constitutionalisation" of its law, and a template for global governance, has been reversed.

The global trading system is today confronted with multiple, increasingly testing challenges. Paradoxically, the first can be traced to its very success in integrating countries of different development levels and economic regimes. China's membership in the WTO gave a major boost to its economic growth and ushered globalisation, but it failed to result in the systemic convergence expected from its participation in trade with advanced capitalist countries.

Together with growing grievances against the persistence of significant market distortions, labour market dislocations caused in advanced countries by the extraordinary development of Chinese exports resulted – primarily in the US but also elsewhere – in a backlash against trade openness.[18]

The underlying issue is how economies with different development levels and degrees of state intervention can maintain and deepen trade links with each other. It begs the question whether the convergence commitment implicitly embedded in WTO membership should be substituted by a more explicit acknowledgment of persistent differences in economic systems of trading partners, leading to the separation of policies that must be prohibited from those that — given existing diversity — can be tolerated or should be a matter for negotiation.[19] In other words, whether the existing structural diversity in economic structures and trade patterns should also be reflected in the institutional framewrk governing trade.

The second challenge was epitomised by the failure of the Doha round initiated in 2001 to deliver the expected multilateral liberalisation agreement. Many reasons can be given for this failure. Some of them are circumstancial, such as the distrust created in developing countries by perceived imbalances in the outcome of the Uruguay Round that was concluded in the 1990s. But some are of a structural nature. In particular, scholars have started to wonder whether the structure of international trade agreements left enough space for the latecomers to negotiate mutually advantageous tariff reductions. If so, there would be systemic reasons for multilateral negotiations to have stalled.[20]

A third challenge stems from the disjointed structure of international trade agreements. Even excluding trade within the EU, preferential agreements currently cover more than half of global trade flows, with one-third taking place within the framework of “deep” trade agreements, whose rules govern behind-the border measures.[21] While these agreements are embedded in the multilateral regime and can in principle complement it by addressing “behind-the-border” dimensions of trade arrangements that are not part of the WTO framework, they can, and actually also do undermine its core unitary principles and put their continued validity into question[22].

Finally, a fourth challenge relates to the WTO prerogatives and institutional architecture. One of its major innovations was the creation of a dispute settlement body to guarantee to all parties fairness conflict resolution and consistency with international trade law. The advocates of multilateralism considered the creation of the WTO’s dispute settlement mechanism as a crowning achievement of the rules-based trade regime. Over the years, however, the US expressed growing dissatisfaction with its functioning. Even before Trump, it regarded its case law as infringing on the prerogatives of the national negotiators.[23] The Trump administration eventually obstructed appointing new judges to the system’s Appellate Body, effectively paralysing it – an obstructionary practice that has not yet been reversed by the Biden administration.[24]

Universal trade rules prevent powerful countries from leveraging economic might to extract rents at the expense of weaker partners. But the prevention of beggar-thy-neighbour policies can only rest on commonly agreed principles. For these reasons the combination of the four serious challenges to the global trading system pose a major threat to globalisation. The issue ahead is whether nations will let the trade regime fall apart, agree to patch it up or undertake a more fundamental reform of its rules. A defining challenge is how they manage differentiation: while a system dominated by preferential agreements seems inevitable, it is vital that variable-geometry agreements be rooted in strong multilateral principles that work as complements rather than substitutes to the multilateral order.

### *4.2 International finance: Living with overlapping safety nets*

Together with the GATT, the International Monetary Fund (and its sister institution, the World Bank) has been since 1944 a key pillar of the global economic order. This set-up was intended to avoid a repeat of the interwar situation, where no global power underwrote economic and financial stability (the 'Kindleberger Trap')[25]. The Fund's prohibition of exchange-rate manipulation was designed to prevent beggar-thy-neighbour behaviour, just like non-discrimination rules for trade. It was furthermore equipped with expertise, an effective self-financing model, and a unique convening power. Together with strong governance, and the particular role of the US in it, these characteristics made it for decades able to serve as a nimble crisis manager and guarantor of financial stability for the global economy.

The IMF was initially conceived as a single global financial safety net (GFSN) at the disposal of its member countries. There were strong reasons for this: concerns over the disruptive effects of monetary instability; the scarcity of liquidity, which made its pooling efficient; the benefits of building up and sharing expertise; the importance of learning from a variety of situations; the built-in global coordination resulting from assigning economic monitoring and crisis management to a single institution; and complementarity between the IMF surveillance and assistance roles.

From the aftermath of World War 2 until the late 1990s, the Fund was able to cope with an impressive series of challenges. It was instrumental in assisting Europe's return to convertibility, organising the transition to floating exchange rates, managing the Latin American debt crisis, and providing support to economies in transition. But its mismanagement of the Asian crises of the late 1990s resulted in East Asian countries embarking on self-insurance through reserve accumulation, and then launching preparations for an Asian financial safety net. Trust in a single financial safety net was seriously dented.

A decade later, the euro area would follow a similar route (though with less acrimony): though the rescue packages for euro-area countries were initially conceived jointly with the IMF, the bulk of financial assistance was provided by the European Stability Mechanism and it became increasingly clear that should a new crisis arise, Europe would most likely deal with it by itself.

Another layer was added on the occasion of the global financial crisis. Although the Fund's shareholders quickly agreed on beefing up its intervention means for exceptional support, it is the Federal Reserve that was instrumental in maintaining foreign banks' access to dollar liquidity through swap lines to selected partner central banks. Swap lines were essential for the survival of international banks and it was appropriate to provide them through central banks. But this revival of a long-lapsed instrument de facto created yet another financial safety net, further diminishing the Fund's centrality. As a result, by 2016 IMF permanent resources represented only 15% of total resources available through the global financial safety nets.[26]

While the IMF remains an authoritative global institution, the multiplication of financial safety nets shows that centrifugal forces are at work. Together with the extraordinary expansion of bilateral Chinese lending in the framework of the Belt and Road Initiative, and Beijing's explicitly defiant attitude vis-à-vis the Paris Club, it signals a drift away from multilateralism in the core financial infrastructure of the global economy.[27] This trend is probably irreversible and the question is how variable geometry can be best designed to ensure collective ability to meet future challenges.

Technically, it is challenging, but certainly possible to ensure that the different layers of the new GFSN share common principles on issues such as the availability of liquidity, lending terms and conditionality, and prerequisites for debt relief. Politically, however, the transition from a US- and G7-centric model to a multipolar model will be much more challenging. Systemically, whether the last-resort responsibility for ensuring stability in high-stress periods can be shared is a matter for discussion. Whether the international monetary and financial system retains a degree of unity or alternatively splits into separate, loosely connected monetary and financial sub-systems is perhaps the most consequential question for global economic governance.

### *4.3 Migrations governance: A lost cause?*

Migrations governance does not usually come to mind when discussing the evolution of the rules-based multilateral system. And yet its importance lies beyond the fact that flows of goods (trade) and capital (finance) are conceptually completed by flows of people. Migration is actually the oldest form of economic interdependence: it developed before any international trade took place. And yet, it has is no comprehensive global governance regime. Migrations triggered by natural, geopolitical, or economic events, involve strong cross-country spillovers; but international cooperation is weak, ineffective and conflictual. Migration governance is thus important not because of its successes but because of its failures.

This is a process chiefly driven not by states but rather by people (migrants, intermediaries assisting their migration and businesses who hire migrants), including against the will of states. Furthermore, interdependence tends to be regional rather than global. States react to the movement of peoples, usually in crisis situations, mostly in regional settings.

Governance is characterised by several interconnected but separated layers corresponding to different "migration regimes" (for protection, travel, labour migration, etc); however, these cannot always be distinguished in practice and decisions taken for one regime may spill over onto others.[28] These rgimes are also unequally institutionalised: only the protection regime for asylum benefits from an established multilateral institution and treaties enshrining principles (such as *non-refoulement*), stemming from the WW2 experience.

The governance landscape is characterised by high preference heterogeneity amongst countries, few rules, no institutions, and no enforcement at a global level. Unilateralism, patchy regional agreements, a web of bilateral agreements and intervention by subnational actors (cities, NGOs) result in generalised fragmentation. The relevant knowledge base regarding patterns and impacts has become highly politicised and is, as a result, also highly contested. Unlike in other fields where "epistemic communities" influence policy, debates tend to be driven by ideology rather than evidence. An additional complication is that in negotiations between receiving and sending countries, migration is not separated from other fields such as trade and aid.

This flawed governance regime has major social, economic and political impacts. Recent crises have highlighted the human and welfare costs of mass and often sudden migratory flows. Next to human costs, efficiency costs from the lack of a functioning governance regime lead to serious obstacles to development, especially in the loss of a large number of skilled people in origin countries. International frictions abound as a result of migratory flows and the absence of a commonly agreed set of core rules and procedures for migration and integration. The toxic debate surrounding migration in destination countries has adverse domestic political consequences and undermines existing migration regimes, as for international protection.

A hesitant and controversial step forward at global level was made in the Global Compact for Migration, spurred by the 2015 migration crisis in Europe. It affirmed for the first time a multilateral approach to managing migration and provided common but non-binding principles for national policies and international agreements. Despite its deficiencies and limited character, it represented a step forward; it set out a framework and a menu of possible measures for implementation, where its usefulness could have been tested. It did not succeed. Hopes that migrations can be subject to an even very minimal regime are now slim, to say the least. A heavily regional, often bilateral, and usually transactional approach seems destined to continue to dominate.

## 5. Regulation: A preservation agenda

Interdependence is increasingly "behind-the-border"; it reflects decisions of corporate and financial entities operating with a global reach. In turn, this implies that regulatory decisions by national authorities will necessarily include an extra-territorial dimension, whether this involves assessing anti-competitive behaviour in markets, putting in place a framework for the appropriate oversight of credit-providing institutions, or ensuring multinationals pay their fair share of taxes. Hence the search for mechanisms to advance effective international cooperation in policy areas and sectors rapidly transformed by digital technologies.

### *5.1 Competition: The effective but fragile balance of mutual extraterritoriality*

In a context where a small number of global firms dominate key sectors worldwide, the proper functioning of product markets rests on decisive pro-competitive action. But whereas trade is governed by multilateral rules, competition policy remains overwhelmingly the exclusive competence of national authorities under national law (regional in the case of the EU). Their decisions, however, can have strong extraterritorial effects. Successive rulings by the European Commission for example have blocked mergers between US companies or conditioned them on divesting assets. The Commission has also forced US companies to unbundle products and services and make room for new entrants. Such cases are frequent and are not limited to EU rulings.

The coexistence of several competition bodies, each operating within a specific legal framework and each able to take decisions with extraterritorial effects, raises significant international coordination issues.[29] Absent a global competition regime (which was briefly suggested by the EU in the early 2000s, but did not gain any traction), a *de facto* coordination regime has emerged. It involves the voluntary cooperation of independent national authorities. This cooperation rests on the commonality of policy objectives and principles adopted by the main players. It builds on the fact that in most countries implementation of competition law is delegated to quasi-judicial authorities with similar mandates.

These authorities cooperate informally in establishing shared standards and procedures within the quasi-global International Competition Network (ICN); and sometimes formally within the framework of bilateral “comity” agreements. Within the remit of their mandates, these agreements establish the duty of national authorities to refrain from taking decisions that would disproportionately harm partner countries (negative comity), and the limited right of their partners to take decisions which apply to firms in their own jurisdiction (positive comity).[30]

Rather than adjudicating responsibility for cases with a cross-border dimension to a unitary supranational body, this model relies instead on self-restraint and communication by national authorities. In a game with a repeated character, it is this commonality grounded on shared principles, not any supranational rule, that ensures decision coherence.

Admittedly, ad-hoc cooperation between competition policy authorities does not necessarily deliver a first-best result. Depending on the size of the market and the degree of concentration of the firms involved, decisions by national authorities may suffer from underenforcement (for small countries) or overenforcement (for large ones). Equity in the distribution of costs and benefits of competition rulings cannot be taken for granted. It is remarkable, however, that so much has been achieved on a very narrow base.

Although this model has been in operation successfully for more than two decades and the ICN includes about 130 countries (notably, not yet China), its resilience looking ahead cannot be taken for granted.

To start with, convergence of competition mandates was largely due to the similarity of those of the two main players, the US and the EU. Until recently, China's competition policy was underdeveloped and competition laws were largely copied on the two incumbent powers. As China evolves and develops its own competition policy philosophy, and other newcomers play a greater role, the commonality characterising competition regimes worldwide may not last. In the current context of geopolitical rivalry, it is easy to imagine how disputes over a US or European decision that would affect Chinese interests (or vice-versa) could escalate and threaten the spirit of mutual recognition that underpins the global competition regime.

Second, even if legal texts remain similar, the environment of competition authorities is changing and is likely to change further. Digital commerce is already testing the limits of traditional competition policy concepts; concerns over sovereignty or security of supplies interfere and have an impact on preferences regarding market structures; pressures from industrial or trade policy may undermine the peaceful coexistence between competition policy authorities.

Together with cooperation between central banks and financial regulators, competition policy exemplifies how national institutions endowed with similar mandates can cooperate and tackle significant cross-border spillovers without a supranational legal apparatus nor an institutional framework. Achievements in this field are remarkable, but also fragile.

### *5.2 Banking and financial stability: Overseeing credit provision and its risks*

Banks, it was famously said, are global in life but national in death. This explains why banking regulation on an international scale is challenging. Yet the need for a robust regime of international regulatory coordination has only grown in the wake of the global financial crisis.

Global banking and financial regulation was born in 1988 with the Basel 1 accords, a set of loosely defined capital standards meant to avoid a race to the bottom from the nascent international banking competition. From there to the so-called Basel 4 standards, agreed in 2017, sophistication has grown immensely, but basic principles have not changed: common non-mandatory standards, with implementation subject to external monitoring; a coordinate-and-review mechanism.

The model is different from that for trade or exchange-rate policies: there is no body of hard international law and no strong organisation. Countries participating in the Basel agreements and in the Financial Stability Board (FSB, set up to monitor the global financial system and make recommendations to improve its resilience) are individually responsible for legislating along internationally agreed lines, and for enforcing the regulations. They may choose to depart from the global standards. But everything they do is being monitored by the Basel Committee on Banking Supervision (BCBS), and results of this assessment are made public.

The rationale for complying is reputational. Each national regulator cares about the soundness of the banks it is in charge of, and therefore about the health of their foreign counterparts. Certificates of compliance with Basel standards serve as reliable passports. By creating trust, they help overcome a major obstacle to cross-border dealings. Banks themselves are actually interested in the quality of the regulation they are subject to being recognised internationally. This is what gives them access to foreign markets.

With such a confidence game as its underpinning, international cooperation should be easy. As national regulators share an interest in ensuring stability at home and externally, incentives to free-ride or cheat are limited. But risks are hard to gauge; information asymmetry and technical complexities abound; banks are prone to capturing their regulators, and their shareholders are prone to letting them take risks in the hope they will eventually be bailed out by governments. Furthermore, the differing cost of regulation for large international banks and smaller nationally bound ones hinders uniform implementation.

The 2004 Basel 2 accords, which came in force in 2008, exemplified these shortcomings. Too much leeway was left to banks, on the assumption they were best placed to assess risk. It did not end well. The US subprime crisis leading to the 2007-2009 global financial crisis and the Eurozone crisis demonstrated how vulnerable and ultimately criminally deficient the governance framework for the US and European financial sectors was in practice.

Subsequent agreements (Basel 3 and further additions to it) attempted to correct this failure. Standards (for capital, liquidity, funding) have multiplied, they are more precisely defined and tighter, implementation is monitored more thoroughly, with supervision considerably strengthened. Empirical assessments confirm that global banks are better capitalised and more liquid than they were prior to the Lehman collapse. In a context of higher risk awareness and public pressure, the coordinate-and-review model has demonstrated effectiveness.[31] It may however be fighting the last battle.

The global financial regulatory regime faces important emerging challenges. First, economic agents outside its scope – "non-banks" dealing in shadow money, including fintechs – hold fully half of all financial assets.[32] Their fast-growing credit-providing activities are blurring distinctions with traditional banks, without corresponding regulatory oversight. Second, regulatory leniency or forbearance may apply to the global banking activities of financial institutions not headquartered in major advanced economies. Both innovation and international competition (possibly combined, as in the case of Chinese fin techs) therefore undermine the effectiveness of the prevailing regulatory model.

Such challenges will only grow with the development of new business models, including in major emerging countries. For all its qualities, the regulatory framework in place relies too much on the double oligopoly of major advanced economies and major international banks. It remains vulnerable to underenforcement, disruptions, and systemic risk.

### *5.3 Taxation: An unlikely breakthrough*

Tax coordination is a belated and unlikely success story of international cooperation. Taxes are at the core of national sovereignty, so in principle it would be particularly difficult to have effective coordination and cooperation arrangements. Obstacles abound: preferences differ across countries as regards the level and structure of taxes; and tax competition pays off, as many countries can benefit from lowering effective tax rates on highly mobile tax bases. Previous attempts foundered on these obstacles; the global framework for international coordination still relies on a myriad of heterogeneous bilateral agreements rather than on common rules; it is seriously outdated for today’s technology-driven, digital, service-intensive economy; tax avoidance has become a global plague.

And yet there has been substantial progress in recent years. In 2009, a G20 agreement paved the way for an OECD-sponsored system of automated information exchanged that effectively ended bank secrecy and the corresponding tax avoidance by wealthy individuals. In spring 2021, agreement was reached successively at the G7 and the G20 to tackle tax avoidance by multinationals through putting in place the two-pillar system of redistribution of taxing rights and minimum taxation designed by the OECD. Much remains to be done to implement this latter agreement, but the heydays of tax heavens are over.

As far as individuals' taxation is concerned, progress achieved was due to a confluence of factors: acute public finances needs; public opinion pressure for international tax fairness following the financial crisis; a conceptually simple problem to solve (abolishing banking secrecy); one country (the US) using its extra-territorial reach to impose change; an alignment of interests at the G20; and a nimble institution (the OECD) which seized the moment, illustrating how institutions can flexibly serve global governance beyond their formal remit.

The efficiency and equity issues raised by reform of the international regime for corporate taxation in the digital economy were an order of magnitude larger. There were no simple formula for allocating taxing rights among jurisdictions; prevailing arrangements did not match the actual location of value creation in a world of global value chains, intangible investment and digital presence; at stake were two related but conceptually separate issues, the taxation of multinationals and the taxation of digital services; reform was also bound to raise distributional conflicts amongst major countries.

And yet the same ingredients explain why and how agreement was reached. Growing pressure for tax fairness, fuelled by mounting empirical evidence on the magnitude of avoidance, culminated in the pandemic context.[33] Through its Base Erosion and Profit Shifting initiative, the OECD provided the expertise and a forum for shared assessment and compromise. And the Biden administration announced shortly after taking office the unilateral application of a minimal taxation of multinationals on their worldwide profits. As several European countries had already announced their intention to tax digital services, time was ripe for an overall agreement. This combination weakened the strength of the resistance by small countries which are home of multinationals (though some, such as Ireland, have yet to agree).

Competition to attract mobile tax bases is a negative sum game for states in which some, mostly small players, gain heftily. For decades deadlock prevailed, because the combined forces of low-taxation advocates, defenders of national sovereignty and winners in the competition game prevented agreement. This coalition could not have been defeated through expertise, dialogue and consensus-building; it might have been challenging to crush it through the mere display of force. It was the combination of nudge, leadership and a dose of intimidation that in the end delivered results.

## 6. What works, and why? A first pass

Our nine policy areas cover an incomplete but large part of the global governance landscape. They are diverse, as regards the nature of the problem at hand (from the definition of acceptable behaviour to setting common standards and the provision of global public goods) and the underlying game structure (from weak-link to genuine prisoners' dilemma games). For functional, historical and political reasons, governance arrangements also vary: ranging from shallow yet contested dialogues up to a treaty-based order overseen by a powerful institution, and from state-centric arrangements to idiosyncratic multi-stakeholder fora.

Results are uneven. Unexpected successes can be found in the challenging field of "behind-the-border" integration, where independent authorities sharing a common doctrine (as in competition policy and banking regulation) have for now withstood the challenge from heterogenous economic systems and policy preferences. In taxation, traditionally an area of entrenched state competence, a nimble institution (the OECD) backed by the G20 has produced remarkable results.

Failures come in many forms. Some are unsurprising, as for migrations where despite coming short of addressing the problem of coordination, even a feeble attempt to shape policy through common principles has ended in disputes. Some are disquieting, because they concern the very backbones of the international system and challenge long-established principles. The proliferation of trade agreements, the split in development lending and the fragmentation of the global financial safety net are cases in point.

Can we make sense of what works and what does not? A first observation is that contrary to what economic logic would suggest, success and failure can hardly be ascribed to the sole nature of the game and the corresponding difficulty of the collective action problem. Our three blocs are heterogenous in this respect, with either strong (climate, migration, taxation) or weak (health, financial safety nets, competition) incentives to free-ride. But the objective and in principle degree of difficulty in cooperating by itself is no guide to the outcome.

Cooperation against contagious diseases is a no-brainer from a game-theoretical viewpoint, yet it is proving to be very hard in practice. Similarly, it seems obviously cost-effective for all countries to rely on a single global financial safety net, yet this is less and less the case. Conversely, a global competition order may look impossible to achieve absent an implausible agreement bestowing authority to block mergers to a supranational body; yet extraterritorial decisions by independent competition authorities come close to achieving that outcome. And if undoubtedly true that climate action has been delayed for much too long because solving the underlying game is daunting, remarkably soft mechanisms have been able to trigger momentum for action. So there is more involved in the difficulty of collective action than what can be expected from the nature of the underlying game.

From a legal / political science perspective, what matters instead is the strength of the set of rules and institutions that governs collective action. An international treaty, a body of law that compels states to behave in accordance with a common norm, an established institution able to exercise surveillance should be conducive to success.[34] Our analysis however indicates that success cannot be ascribed to the strength of the legal and institutional system. Behind-the-border fields are a case in point, and the difficulties of international coordination in the very fields (trade and international finance) where it is best equipped legally and institutionally goes in the same direction.

Our reading of the evidence can be summarised by Table 1, where colour codes indicate our subjective assessment of the outcome (green: positive; brown: intermediate; red: deficient). Clearly, the combination of the economic logic and the legal/institutional logic does not suffice to account for the results.

**Table 1: Summary assessment**

| | Weak legal and institutional basis | Strong legal and institutional basis |
|---|---|---|
| **Weak incentives to cooperate** | **Climate**<br>**Migration**<br>**Taxation** | |
| **Strong incentives to cooperate** | **Digital networks**<br>**Competition**<br>**Banking** | **Health**<br>**Trade**<br>**International finance** |

What can then account for success or failure? A lesson from our analysis is that six ingredients are essential:

1. A joint identification of the problem that collective action must address;
2. Shared expertise;
3. Common action principles: "don't do" requirements and coherent commitments;
4. Transparent reporting mechanisms;
5. An overall outcome evaluation process to assess results and adapt instruments;
6. A trusted institution (or institutions).

Table 2 gives our summary assessment of the state of affairs in our nine fields along these coordinates. A first observation is that two of them stand out for the lack of joint problem identification and shared expertise, albeit to a varying degree. These are *migrations*, where disagreement starts with the most basic propositions, and *digital infrastructures*, where experience has revealed the extent to which preferences differ, and where little has been done to develop a common knowledge base. Such shortcomings largely preclude coordinated responses.

In all other fields but one, we consider instead that there is wide (not necessarily universal) agreement on the nature of the problem. And even for that outlier, *competition*, where agreement is only partial as the issue is not considered in the same way in market-capitalism and state-capitalism systems, essential legal provisions remain largely common. Moreover, in all other fields but one, there is a shared source of expertise (the exception being *trade*, where the WTO does not really serve as a repository of knowledge on trade challenges and the impact of trade policies).

**Table 2: Dimensions of collective action scoreboard**

| | Problem identification | Shared expertise | Action principles | Reporting mechanisms | Outcome evaluation | Trusted institution(s) |
|---|---|---|---|---|---|---|
| **Health** | | | | | | |
| **Climate** | | | | | | |
| **Digital infra** | | | | | | |
| **Trade** | | | | | | |
| **Capital flows** | | | | | | |
| **Migration** | | | | | | |
| **Competition** | | | | | | |
| **Banking** | | | | | | |
| **Taxation** | | | | | | |

Source: own assessment based on case studies. (Green: satisfactory ; Yellow: intermediate; Red: deficient)

Common action principles, transparent reporting mechanisms and outcome evaluation are essential wherever coordination relies on the expectation that individual governments will act in a perhaps uneven, but at least coherent way. Here again, *digital infrastructures* and *migrations* fall short of what would be needed, essentially because preferences differ widely. *Competition* and *banking* stand out because in both, action is delegated to independent institutions that are relatively sheltered from direct political pressure and effectively cooperate with each other. These arrangements may be fragile. But for the time being, they work.

Achievements in the *climate* field are also notable: Bolsonaro notwithstanding, there is little dispute as regards what governments ought to do, while action is supported by now-adequate reporting mechanisms and a common overall evaluation, shared by the overwhelming majority of the scientific community, the private sector, most governments and the public. Admittedly, this is far from sufficient given the urgency and difficulty of the challenge. But a momentum has been created.

The situation is more mixed for the other fields. In *health*, the pandemic has exposed transparency deficits and the shortcomings of evaluation: in the first days of the crisis, when there was still hope to contain it, formal WHO powers and member states obligations carried little weight. And though a new momentum has developed, much remains to be done in the field of *taxation*: surely, not everyone agrees on the principles, and transparency is still lacking.

Worryingly, it is in the traditional fields of interdependence through *trade* and *capital flows* that cracks are most apparent. As shown by the dispute over the depth of China's commitment to them, trade rules do not command anymore the universal support they once enjoyed, while common outcome evaluation is lacking[35]. Similarly, the near-universal consensus reached at the turn of the century on the principles of *international credit finance* has been shattered by the rise of China's oversees lending, and transparency is blatantly lacking.[36]

Our last coordinate is the institutional set-up. Well-designed institutions play an essential role in organising collective action for two reasons. First, they provide social capital by creating a community of experts and policymakers with a common memory of past challenges, failures and successes. Second, they can adapt to emerging problems, going beyond rules set in stone. The IMF and the OECD provide two cases of learning institutions and they exemplify the variety of the tasks such institutions can perform, even in an environment radically different from the one for which they were initially designed.

Here, the assessment is far from positive, with perhaps the least encouraging overall picture across the nine policy areas under study. Proper institutions are simply missing for *climate, digital infrastructure* and *competition*; they exist but are weak and contested for *health* and *migrations*; and although for *banking* and *taxation* bodies do provide expertise, support and a venue for building consensus, they conspicuously lack formal power. *Trade* and *capital flows* are two fields that were buttressed by strong institutions, but which have been increasingly contested and weakened in the past decades.

## 7. Conclusions

Pre-COVID-19, disillusionment with global governance and the adversarial stance of the Trump administration had led many – us included – to believe that the best way to salvage global collective action was to identify promising second-best solutions: instruments and methods to short-circuit the institutional maze and deliver results, relying on the multilateral arsenal only when indispensable, more in tune with plurilateral rules, with an important role for non-state actors. It seemed that it was a time for minimalist strategies, not grand designs.

Our survey of governance arrangements in place and their relative performance has shown that in certain fields, significant results have been achieved without a strong legal and institutional basis. This is ground for optimism: it is simply wrong to believe that short of an encompassing global legal order that would tackle incentives to free-ride through compulsion, nothing significant can be achieved.

Yet the pandemic must trigger a reassessment. In a field where all countries have a strong incentive to cooperate, it has vividly illustrated how the combination of fondness for sovereignty and limited transnational authority (despite formal powers) could seriously impede early warning. Moreover, international cooperation has been missing in action throughout, while funding for low-cost, high-return preparedness, alert, testing and vaccination initiatives has been conspicuously lacking. A pandemic that could have been contained and suppressed has cost millions of lives and trillions in lost output.

Even more critically, the highly uneven global distribution of vaccines threatens to result in the persistence of pandemic risk and to continue limiting cross-border travel, with serious consequences for global public health, economic openness, and ultimately global prosperity. Despite stratospheric social returns, investments into pandemic preparedness and cure in developing countries still fail to materialise on a sufficient scale.

The COVID-19 crisis has highlighted the fragility of the globally integrated world. It has shown how interconnectedness can easily turn into collective vulnerability, and it has highlighted the need for more functional governance arrangements. Yet environmental risks are even more threatening than pandemic ones, because of the potential for irreversible damages and major menaces to the sustainability of social and economic life in a significant part of the world. COVID-19 has demonstrated in a very short period the perils that longer-term crises such as climate had previously failed to illustrate.

Can this traumatic experience trigger a change in attitudes? Can global collective action rise to the challenge? We believe it can, thanks to the shock all countries have suffered from, and thanks also to the advent of a US administration that professes, at least in principle, a belief in multilateral solutions. Until recently, it had been near-impossible to discuss global governance in a constructive way, as politics in the US – the *de facto* guarantor of the multilateral system – was instead acting to dismantle it. Across a number of policy fields, from health and climate to trade and taxation, the Biden administration has started reversing a stance that had led many to believe we had passed a point of no return.

### *7.1 A new context*

Progress however requires that unconvenient realities are acknowledged and are fully taken into account in the design of collective action. The first of these realities is that less than 18 months after the outbreak of the pandemic, the age of Western universalism inaugurated with the collapse of the Soviet union came to an end with the US pull-out from Afghanistan. For a short thirty-year period, from mid-1991 to mid-2021, the West assumed that it could set the tone for the rest of the world. It knew that international relations standards, economic rules and human rights would not always be defined according to its liking, as it had to make room for others and offer inclusiveness. But it believed in its leading role and in the very principle that similar norms would eventually apply worldwide.

Millennial illusions have now dissipated. Cracks in the painting appeared in the early 2000s already. But it was in the 2010s that the hope of a unified global system began to fall apart for good. China’s determination to stick to its own political, social and economic way is a major game-changer. Yet Russia's dodgy defiance, India's turn to nationalism and the US departure from internationalism under Donald Trump are further signals that the world is heading towards divergence and multipolarity.

The working assumption should now be that preference heterogeneity is here to stay and flourish. Back in the early 2000s, most citizens in emerging countries assumed that the way to prosperity and well-being was to emulate advanced Western countries. The financial crisis, social and political upheavals in Europe and the US, and disappointing growth have put an end to these beliefs. And if there was a hope that, the US would reinstate global leadership after the changeover from Trump to Biden, it dissipated on the runway of the Kabul airport.

This new assumption applies primarily to social and political norms: heightened individualism in our part of the world contrasts with the enduring predominance of collective standards in most of the emerging countries; and the increasing prevalence of authoritarian rule is reflected in attitudes towards migration, the treatment of minorities, free speech and privacy.[37] But economic preferences are also affected. Until recently, the coexistence of market capitalism and state capitalism was regarded as a transition problem. It must now be looked at as a persistent fixture of the world system, which is bound to have major implications for trade, investment, competition and finance.

The second reality is the growing importance of geopolitics. The more time passes, the more evident it is that the US perspective on globalisation and international relations has shifted structurally. Changes started to appear under Obama. Now that Trump's aberrations have been corrected, it is hard to doubt that the trend will continue to prevail.

The trigger for this change of perspective has been growing rivalry with Beijing. China, president Biden said on the occasion of his first press conference, is not going to surpass the US "on [his] watch".[38] This competition for prominence is bound to have deep implications much beyond the traditional remit of foreign policy. As Jake Sullivan, the US National Security Adviser, put it in 2020, for three decades "foreign-policy professionals largely deferred questions of economics to a small community of experts who run international economic affairs".[39] Neither domestic politicians nor foreign policy strategists stand ready to defer global economic questions to economists anymore.

After being for several decades the intellectual driving force behind the global integration agenda, economists must acknowledge that in an age of power, interdependence is too serious a business for them to remain in command of it.

As a consequence, the very contract through which the US provided global leadership, and at the same time committed to serve as crisis manager of last resort while also accepting to (mostly) abide by the rules of the international game is being put in question. What is at stake is no less than the liberal international order, to use the characterisation coined by international relations expert John Ikenberry.[40]

### *7.2 Three characteristics*

Summing up, two turning points – COVID-19 and the new US stance – offer an opportunity for improved understanding and willingness to act. This suggests a more ambitious agenda for collective action than previously considered possible. For such an agenda to bear fruits however, it must be based on the premise that we are facing a new world. And a new world requires new rules.

Three characteristics stand out.

The first is the *heightened importance of global commons*: public health, climate, the global digital infrastructure, but also others such as biodiversity or outer space. Whether or not they are adequately taken care of will have consequences that are at least as large than the prevention of non-cooperative trade and exchange rate policies. The global community has to come to terms with the new prominence of this imperative and the difficult issues of time preference, risk aversion and equity that it raises.

The second characteristic is the *higher degree of heterogeneity of national preferences*. The world of 1944 was shaped by the Western winners of WW2 and the world of 1990 by the (largely same) winners of the Cold War. Heterogeneity was pervasive, but the preferences of the winners prevailed, even to an extraordinary degree in the unipolar world of the 1990s. In today's world, however, cooperation must be based on shared interest much more than shared values. Accommodation of diverse, often opposite preferences has become a necessary feature of any stable international order.

The third characteristic is the *growing interweaving of politics and economics*. The fall of the Soviet Union and China's economic opening created the temporary illusion that economics could lastingly trump politics. But this phase has ended. Globalisation-related issues have become very political and the main geopolitical protagonists are part of the same web of economic interdependence.[41]

These three characteristics define the feasibility space within which global solutions should be designed. They have strong implications. Eventual systemic convergence – the implicit policy aim of the globalisation age – is not a realistic goal anymore. It cannot, and should not inspire policy initiatives. But by the same token, global commons cannot be left unattended for the reason that potential participants in their provision start from different premises or regard each other as rivals. And whereas the shape and the depth of economic interdepence are bound to be affected by preference heterogeneity and geopolitical antagonism, an outright economic decoupling should be avoided.

### *7.3 Preserving the global commons*

The first plank of the agenda should be to shelter the preservation of the global commons – with their universal and intertemporal character – from the spillovers of geopolitical and systemic rivalry. It is a demanding goal. But there is a precedent: despite their geopolitical rivalry, the US and the Soviet Union were able to avoid mutually assured destruction by setting up mechanisms to ensure that an accident could not trigger a nuclear conflagration. Climate preservation and the response to pandemics are today's equivalents to the avoidance of the Cold War threat of Mutually Assured Destruction (MAD). They should rest on similar principles and procedures, starting with transparency and independent monitoring. Similarly, it is essential to safeguard biodiversity and to preserve the essential basic infrastructure of the digital commons.

Whether this is achievable is the most important issue for global governance going forward. It requires a critical mass of G20 members, including China and the US, to agree on common goals and an underpinning legal and institutional architecture. Experience so far is mixed at best: in the COVID-19 crisis, cooperation has been hampered by rivalry over the governance of the WHO, national pride and the use of vaccine exports as an instrument of international influence; climate action is being held back by disputes over burden-sharing and national sovereignty over natural resources; the internet is undergoing fragmentation and the only question is how far it will go. In all three areas, there is much to do before a workable solution can be reached and sustained. This is why this first plank of the collective action agenda should be prioritised.

Action in such fields cannot rely on soft coordination devices only. True, experience shows how vital it is to build and maintain a common knowledge base that can underpin global cooperation. True, common action principles are an important ingredient of cooperative behaviour. True, pledge-and-review mechanisms are often more powerful than thought, and because they keep infringements on sovereignty at minimum level, a strong case can be made for making the most of them. But wherever the nature of the underlying game makes the preservation of global commons vulnerable to free-riding, stronger incentives must buttress collective action if genuinely uncooperative behaviour is to be avoided. Wherever the depletion of natural resources is at stake, the global community can tolerate beggar-thy-neighbour behaviour on the fringes but it must be equipped to cope with the risk of a collapse of cooperation. It is hard to imagine that it can dispense of sticks and merly rely on nudge.

There won't be agreement to equip a global institution with sticks and an ability to punish deviant behaviour. Even if there was consensus on the principle of it, governance specifics would be impossible to agree on. Sticks can only be envisaged if states remain in control of them. This leaves clubs as the most palatable solution. For climate, "climate clubs" – whereby major players agree to condition access to their markets on the fulfilment of minimal abatement efforts – have been offered as a solution to the free-riding curse.[42]

Similar solutions can be explored in other fields. They are not without problems, not least because unlike carbon border adjustment mechanisms that offset differences in the pricing of carbon, outright trade sanctions would not be WTO-compatible. But if climate action turns out to be hampered by free-riding, there will not be many alternatives to relying on the basic currency of globalisation.

### *7.4 Preserving economic interdependence*

The second plank is the management of economic interdependence in a multipolar world where preferences differ and rivalry is pervasive. Aggravated US trade grievances vis-à-vis China, some of which shared by Europe, and the realisation that systemic competition is here to stay, make a return to a pre-Trump status quo unlikely. The first few months of the Biden administration have confirmed that a permanent watershed has been passed. Moreover, resilience and autonomy have gained prominence on the policy agenda of many countries, questioning the primacy of efficiency and cost minimisation.

The key issue is what form of economic coexistence can be found between countries (or blocs) that simultaneously regard each other as partners, systemic competitors, and geopolitical rivals. History will tell, but it will likely be based on a trimmed-down set of core rules that will offer a larger leeway to national policies, stepping back from deep economic integration and convergence of economic systems.

The debate is already intense as far as international trade and integration within global value chains are concerned. While US policymakers ponder how far decoupling from China should go, China itself has started decoupling from the world, as illustrated by the decline of its openness ratio from 33 per cent in 2006 to 18 per cent in 2019 and it relies more and more on bilateral trade and investment agreements rather than the multilateral system.[43] Exports of technology, direct investments and financial listings are under the spotlight, but the potential for partial decoupling is broader. For example, the fragile mechanisms through which competition authorities cooperate to ensure a level playing field at global level are by nature vulnerable to disputes over market distortions.

To reach consensus on where players should remain partners and where they could agree to limit interaction with each other is admittedly a major challenge. Some thoughts have already been given to the issue, however. As indicated already, Chinese and US scholars have outlined a set of principles for deciding where economic competition should be protected from distortions and where national measures can conceivably be introduced.[44] This is no more than a conceptual first step. But it indicates a possible direction of travel.

A regime based on the two objectives of managing the global commons and delineating indispensable universal disciplines from a broader set of not-indispensable practices would leave out many fields where cooperation in managing deep integration among a subset of countries remains desirable and feasible. Variable geometry already prevails from trade to banking regulation and taxation. A world that accommodates persistent systemic differences would inevitably lead to a further blossoming of flexible arrangements among subsets of countries of similar levels of development, economic systems and preferences.

Contrary to some beliefs, de-globalisation is not the future of the world economy. If collective action succeeds in tackling the provision, or preservation of global commons, it may well end up being regarded as more globalised. But it will not remain based on the same premises as integration will likely go further in some fields, among subsets of countries, while it may diminish between other partners, such as China and the US.

An important issue will be to define how broad principles may combine with a series of ad-hoc coalitions of the willing. To be viable, variable geometry will need to be anchored in universal principles and procedures, while going further in the liberalisation of markets, the degree of cooperation or the approximation of national legislations. As preferential trade agreements have illustated, closer cooperation among a few countries can either undermine or buttress global integration.

### *7.5 Institutions and actors*

The characteristics of success and failure in the different areas suggest that to move forward, building on successes and avoiding the worst failures, solutions must pay attention to the institutions at the heart of governance - but also to the actors that make it all happen.

Despite their shortcomings and contestation, institutions such as the WTO, the WHO, or the IMF – or dedicated national institutions that have developed a common *esprit de corps*, such as central banks and regulators – ground their respective policy areas on common principles. The temptation to rely on bypass solutions is real, and they can be fruitful. But multilateral institutions need to be overhauled, not abandoned. They represent the social capital of globalisation, or at least what remains of it, and as such they are an asset to preserve. Their functions cannot be replicated: the objective should be to radically reform their governance and to review their practices, while combining them with other mechanisms that have become indispensable.

Europe and the US face a stark choice in this respect. They benefit from a weight in the governance of international institutions that exceeds their current demographic or economic weight. They can hang on the their privilege, at the risk of delegitimising these institutions, or acknowledge it must be abolished, at the risk of losing influence or even letting institutions be conquered by emerging powers and possibly be put at the service of their own interests. This is not an easy choice. But it must be confronted. To rely on inertia is not a strategy.

The first strategy is almost certainly a losing one. Global institutions have already lost a significant part of their clout. They are challenged by a return of bilateralism and by the rise of regionalism. The more the incumbent powers fight for their influence within these institutions, the faster their decline will be. The second strategy is by no means an assured one. By relinquishing some of their privileges, incumbents can accelerate the decline of their influence. But at least the strategy preserves the possibility of an enduring influence over the longer term. This is why it is preferable.

A related issue is that of the politics and the leveraging of high-level fora. Even the best multilateral arrangements atrophy when they lose political support and democratic legitimacy, as this translates into lack of resources, funding, popular acceptance and that intangible prerequisite of success: agency. Politics conditions their success – and political actors define the contours for the success or failure of instititions. It can provide the needed "carpe diem" political push as with the G20-mandated overhaul of banking regulation or international taxation. It can also completely frustrate advances in bedrock policy areas such as trade, as under the Trump administration. It can reassert the states' and citizens' prerogatives, as in key areas of digital governance. And it can provide the push to overcome imperfect institutional arrangements, as in health and climate.

When thinking about global governance, economists tend to focus on the international institutions that act as the conduit for resolving incentive compatibility issues. Political scientists add the importans of power politics. But we live in a much more complex world, where across all policy areas, states and multilateral institutions are assisted (sometimes frustrated) by non-state actors, from business to epistemic communities and civil society.

Private-sector dynamism is why dynamic returns of switching to clean technologies help frame a more optimistic narrative about our capacity to mitigate climate change. Building on that dynamism will be key. But private sector involvement can cut both ways: capture is why banking regulation or international taxation governance were stymied, and trade and financial rules bent to moneyed interests. In internet governance, it is the heart of the battle to recalibrate public and private interests. Equally important are robust epistemic communities and an active civil society: they advance cooperation in climate change, health and competition policy by helping provide the necessary evidence-based policy response. Acknowledging that hybrid governance models can perform better should not amount to surrender.

At the end of the day however, we need to acknowledge the primacy of political processes. Progress will have to involve bargaining and trade-offs across different policy areas and quid-pro-quos that allow the bridging of geopolitical interests (for example in quotas and weight in core international institutions). A "whole of global governance" approach defining a broader bargaining space is likely to be more successful than compartmentalised efforts which fail to see connections between policy areas.

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[1] See Agarwal, Ruchir, and Gita Gopinath, A proposal to end the Covid-19 pandemic, *IMF Staff Discussion Note* 2021/04, May.

[2] See Richard Cooper's account of the mid-19th century attempts to organise a coordinated response to the spread of cholera in "International Cooperation in Public Health as a Prologue to Macroeconomic Cooperation", in *Can Nations Agree ?* edited by Richard N. Cooper et al., Brookings Institution, 1989.

[3] See De Bolle, Monica, "Novel viral variants: Why the world should prepare for chronic pandemics", in *Economic Policy for a Pandemic Age: How the World Must Prepare*, edited by Monica De Bolle, Maurice Obstfeld and Adam Posen, Peterson Institute for International Economics, April 2021.

[4] See Hale, Thomas, David Held, and Kevin Young. 2013. *Gridlock: Why Global Cooperation Is Failing When We Need It Most*. Cambridge, UK: Polity.

[5] See Wagner, Gernot (2020), "Compound Growth Could Kill Us or Make Us Stronger", *Project Syndicate,* 18 March 2020.

[6] Our characterization of the global digital infrastructure as a common can be disputed. Unlike a preserved climate, access to the internet is indeed excludable and it is also to some degree rival. We prefer to characterize it as a common because we regard the overall internet infrastructure as a public good that provides to cizizens access to a wealth of knowledge, information and interaction capabilities.

[7] For a systematic treatment of this approach see Buchholz, Wolfgand, and Todd Sandler (2021), Global Public Goods: A Survey, *Journal of Economic Literature* 59(2): 488-545.

[8] Barrett, Scott, and Michael Hoel. 2007. "Optimal Disease Eradication." *Environment and Development Economics* 12(5): 627–52.

[9] Tandler and Herce (2002) argue that both aggregation technologies and collective goods involved in public health differ markedly. For this reason there should be no single governance template. See Tandler, Scott, and Daniel Arce (2002), "A Conceptual Framework for Understanding Global and Transnational Public Goods for Health", *Fiscal Studies* 23(2), 193-222.

[10] See A Global Deal for our Pandemic Age, Report of the G20 High Level Independent panel on Financing the Global Commons for Pandemic Preparedness and Response, June 2021.

[11] Barrett, Scott. 2009. "Rethinking Global Climate Change Governance." *Economics: The Open-Access, Open-Assessment E-Journal* 3: 1.

[12] International Energy Agency (2021), *Net Zero by 2050: A Roadmap for the Global Energy Sector*, May

[13] Nordhaus, William. 2015. "Climate Clubs: Overcoming Free-Riding in International Climate Policy." *American Economic Review* 105(4): 1339–70.

[14] Zuboff, Shoshana. 2019. *The Age of Surveillance Capitalism: The Fight for a Human Future at the New Frontier of Power*. New York: PublicAffairs.

[15] Mueller, Milton. 2017. *Will the Internet Fragment?*, Polity; O'Hara, Kieron, and Wendy Hall. 2018. *Four Internets: The Geopolitics of Digital Governance*. Centre for International Governance Innovation.

[16] GDPR is based on a legalistic model, when there is a need to move to a supervision model relying on principle-based regulation, transparency and accountability.

[17] This is known as the terms-of-trade theory of trade agreements. See Bagwel, Kyle, Chad Bown and Robert Staiger (2016), "Is the WTO Passé?", *Journal of Economic Literature* 54(4):1125-1231.

[18] Wu, Mark. 2016. "The China, Inc. Challenge to Global Trade Governance." *Harvard International Law Journal* 57(2): 261–324.

[19] Proposals along these lines have been put forward by a group of Chinese and US scholars convened at the initiative of Jeffrey Lehman, Dani Rodrik and Yang Yao. See US-China Trade Policy Working Group (2019).

[20] This argument has been elaborated by Kyle Bagwell and Robert Staiger in "Can the Doha Round Be a Development Round: Setting a Place at the Table?", in *Globalization in an Age of Crisis: Multilateral Economic*

*Cooperation in the Twenty-First Century*, edited by Robert Feenstra and Alan Taylor, University of Chicago Press, 2014.

[21] Data from UNCTAD (2020). Bagwel, Bown and Staiger (2020) have a different reading of the evidence and quote significantly lower numbers.

[22] Pointed out already in the 1990s by Bhagwati and his famous "spaghetti bowl" analogy. For a discussion of MFN and PTAs under current WTO law, cf Maruyama, Warren H. (2010). "Preferential Trade Arrangements and the Erosion of the WTO's MFN Principle" *Stanford Journal of International Law* 46(2): 177–98.

[23] See Robert Lighthizer, How to Set World Trade Straight, *Wall Street Journal*, 20 August 2020.

[24] See Vaughn, Stephen (2019), *Trade Talk with Chad Bown and Soumaya Keynes*, Episode 111, 25 November, Perterson Institute for International Economics.

[25] Nye, Joseph S. 2017. "The Kindleberger Trap" *Project Syndicate* (February 17, 2021).

[26] Excluding self-insurance through reserve accumulation. Source: Tharman report.

[27] See Gelpern, Anna et al. 2021. *How China Lends: A Rare Look Into 100 Debt Contracts With Foreign Governments*. AidData, Kiel Institute for the World Economy, Center for Global Development & Peterson Institute for International Economics. https://www.aiddata.org/publications/how-china-lends (April 19, 2021)

[28] Betts, Alexander. 2011. *Global Migration Governance*. Oxford University Press: 1-33.

[29] These issues have risen by an order of magnitude with the proliferation of national competition authorities and legal regimes.

[30] Fox, Eleanor M. 2015. *Antitrust Without Borders: From Roots to Codes to Networks*. E15 Expert Group on Competition Policy and the Trade System.

[31] Quarles, Randal K. 2019. "The Financial Stability Board at 10 Years - Looking Back and Looking Ahead." Presented at the European Banking Federation's Banking Summit "Building A Positive Future For Europe," Brussels, 3 October 2019.

[32] Hauser, Andrew. 2021. "From Lender of Last Resort to Market Maker of Last Resort via the Dash for Cash: Why Central Banks Need New Tools for Dealing with Market Dysfunction" (April 28, 2021).

[33] See especially the research by Gabriel Zucman and co-authors.

[34] This approach takes root in Hans Kelsen's theory of international law. Kelsen (1934) considered that international law must "obligate the states to a specific rule of conduct" and envision sanctions in case of non-compliance.

[35] Rodrik, Dani. 2018. "What Do Trade Agreements Really Do?" *Journal of Economic Perspectives* 32(2): 73–90.

[36] See Gelpern, Anna et al. 2021, *ibid*.

[37] See Freedom House, *Democracy under siege*, Freedom in the world report 2021.

[38] Remarks by President Biden in Press Conference, 25 March 2021.

[39] See Sullivan, Jake, "America Needs a New Economic Philosophy. Foreign Policy Experts Can Help", Foreign Policy, February 2020.

[40] See Ikenberry, John (2018) 'The end of liberal international order?' *International Affairs* 94(1): 7-23

[41] International economic rules were by no means apolitical in the post-war world. On the contrary, their promotion by the US was intended to help create "a world environment in which the American system [could] survive and flourish". But as far as international economic integration was concerned, geopolitical interference was limited as long as the main rivals were not part of the same economic system.

[42] See Nordhaus, William, Climate Clubs : Overcoming Freee-riding in International Climate Policy, American Economic Review 105(4), 1339-1370, 2015.

[43] Source : Cepii Country Profiles. Openness is defined as the current-dollar ratio of imports plus export over twice the GDP level.

[44] Proposals along these lines have been put forward by a group of Chinese and US scholars convened at the initiative of Jeffrey Lehman, Dani Rodrik and Yang Yao. See US-China Trade Policy Working Group (2019).