SCHOOL OF TRANSNATIONAL GOVERNANCE

STG Policy Papers

POLICY ANALYSIS

NEW RULES FOR A NEW WORLD: A SURVIVAL KIT

Authors:

George Papaconstantinou and Jean Pisani-Ferry

School of Transnational Governance

ISSUE 2021/09
MAY 2021

EXECUTIVE SUMMARY

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 mismatch, 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 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.

Authors and acknowledgements:

George Papaconstantinou | Professor of International Political Economy and Director of Executive Education at the School of Transnational Governance, European University Institute
Jean Pisani-Ferry | Tommaso Padoa-Schioppa Chair at Robert Schuman Centre for Advanced Studies, European University Insitute; Bruegel and Peterson Institute for International Economics

The authors are grateful to Adrien Bradley for his valuable comments and excellent research assistance; they would like to thank the co-organisers and participants in a series of dedicated seminars held with Bocconi University, Bruegel, the European Climate Foundation, the Global Governance Programme of the RCAS, the Hertie School, the London School of Economics, the Migration Policy Centre of the EUI, the OECD and the Oxford Internet Institute (see tgg.eui.eu for a list of the seminars and the main conclusions from them) . Many of the ideas presented in this paper were born in these seminars.

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. 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 World Health Organisation. Vaccine nationalism overshadowed solidarity and vaccine imperialism hampered coordination.

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.[1] 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 a generalised retrenchment behind borders and "chronic pandemics."[2]

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.[3] 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. Crises concentrate minds.

Remarkably, the pandemic has 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.[4] 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.

> **"Before COVID-19, global governance was in a state of gridlock and hopes of reforming it were slim"**

The arrival of a new US administration is another potential game-changer. The US-China rivalry will not disappear, but the Biden administration seeks agreements rather than confrontation and aims at multilateral responses. Europe also seems to exhibit a change in attitude - not because it has retreated from nationalist territory but because it has become conscious of the need to invest political capital into repairing the rules-based system it claims to promote.

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 and 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*. 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.*

> **"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."**

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? 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.

Our second question has to do with the *nature of the legal and institutional response.* Rules and institutions serve to 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; but can also be 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. 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 broader lessons. 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. International cooperation failed 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. 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 (less so in vaccine distribution).

Disease prevention is in principle not the hardest of all collective action problems. There are strong reasons to cooperate internationally, 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, such as climate action[5]. What is more, the lively global scientific health community forms a strong basis for coordinated evidence-based action.

Much of the failure 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 UN system paralysis. 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 is a constellation of nimble but more limited entities, 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. But they have further undermined the legitimacy and authority of the all-purpose health governance institution.

> **"The pandemic calls for no less than the repositioning of global health governance in the world order."**

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 them administer them. But effective cooperation is prevented again by the politics of public health: sovereignty concerns, reluctance to providing transparent information, vaccine nationalism, and the use of vaccines provision as a strategic tool for strengthening bilateral ties.

The current governance system is clearly not well equipped to deal with new (and possibly recurrent) pandemic emergencies. Political realities suggest that reform involves a second-best approach, building on what works, 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.

A template for reform would distinguish two layers: a universal mechanism for standard-setting, information-sharing, monitoring and alert, managed by a reformed WHO; and 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.

But 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 and able to mobilise resources: in short, an International Monetary Fund or a Financial Stability Board for health. This would require a political push similar to that provided by the G20 in the aftermath of the global financial crisis.

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 international climate action.[6]

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 of what would be necessary to limit the global rise in temperature to 1.5 or even 2 degrees. 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.

> **"Climate action provides an extraordinary experiment in global governance. Never before has such an intractable problem been addressed with so meagre means."**

The visible momentum triggered by this unique combination should not bring illusions: a much larger effort is 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.

Two 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 its trade implications from the formation of climate clubs composed of like-minded countries that have become a necessity.[7] Both will pit major priorities in international relations against each other. This is why they represent formidable obstacles.

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 commons. They have transformed access to information. They have made global value chains possible. They have created cross-border communities.

> **"The twin battles of states vs. states and states vs. tech giants is redefining the internet."**

Unlike yesterday's telecoms, the digital commons were born global. And yet no institution is assigned overall responsibility for them. The internet was born global, the brainchild of a transnational scientific community, equipped with a creative, minimal governance apparatus that did little more than ensuring technical interoperability, barely involving states. In the process, tech giants gradually took control of the global digital landscape, unleashing "surveillance capitalism" by massive harvesting of personal data for profit.[8]

Nations are catching up, to the point that digital commons might fragment altogether. The lower 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.[9]

Three challenges dominate the scene. The first is geopolitical. Few rules have been agreed upon between states to protect the digital commons from the threat of 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 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.[10]

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 strengthening competition should be pursued, 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, while competition concerns 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 on extraterritoriality issues, helping to determine the legitimate reach of the various jurisdictions. A third layer – remarkably absent so far – would include an IPCC-like forum for the data world, based on the unique digital multi-stakeholder culture, where scientists formulate joint recommendations.

4. FLOWS: A REPAIR AGENDA

The basic flows of international interdependence – trade in goods and services trade, financial flows, migrations – may seem mundane. But they do represent the basic "plumbing" of international economic interdependence: it is in this area that the rules-based international order was first established; and 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 clause preventing discriminatory trade opening; prohibition of export restrictions; the predictability provided by transparent tariff commitments: these constitute the backbone of globalisation and offer principles for developing interdependence and preventing beggar-thy-neighbour behaviour. 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.

> **"It is vital that variable-geometry trade agreements be rooted in strong multilateral principles that work as complements rather than substitutes to the multilateral order."**

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 but failed to result in the systemic convergence expected from participation in trade with advanced capitalist countries. Together with growing grievances against the persistence of significant market distortions, labour market dislocations caused in these countries by the extraordinary development of Chinese exports resulted – primarily in the US but also elsewhere – in a backlash against trade openness.[11]

The underlying issue is how countries 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.[12]

The second challenge stems from the disjointed structure of international trade agreements. Even excluding trade within the EU, preferential trade agreements currently cover more than half of global trade flows, with one-third within the framework of "deep" trade agreements, whose rules govern behind-the border measures.[13] While these agreements are embedded in the multilateral regime, they nevertheless ultimately undermine its core unitary principles and put their continued validity into question.[14]

The third challenge relates to the WTO institutional architecture. One of its major innovations was the creation of a dispute settlement body to ensure conflict resolution guaranteed to all parties fairness and consistency with international trade law. The advocates of multilateralism considered that as a crowning achievement of a rules-based trade regime. Over the years, however, the US expressed growing dissatisfaction with its functioning, regarding its case law as infringing on the national.[15] The Trump administration eventually obstructed appointing new judges to the body, effectively paralysing it, a practice not yet been reversed.

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 three serious challenges to the global trading system pose a major threat to globalisation. The question 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').[16] The Fund's prohibition of exchange-rate manipulation was designed to prevent beggar-thy-neighbour behaviour, just like trade non-discrimination rules. 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 able for decades able to serve as a nimble crisis manager and guarantor of financial stability for the global economy.

> **"While the IMF remains an authoritative global institution, the multiplication of financial safety nets shows centrifugal forces are at work."**

The IMF was initially conceived as a single global financial safety net (GFSN) at the disposal of its member countries. There were reasons for this: concerns over the disruption 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 a 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 seceding from the global financial safety net, 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 gone.

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.[17]

While the IMF remains an authoritative global institution, the multiplication of financial safety nets shows 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 defiant attitude vis-à-vis the Paris Club, it signals a drift away from multilateralism in the core financial infrastructure of the global economy. 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 hard, but certainly possible to ensure the different layers of the new GFSN adhere to common principles on issues such as the availability of capital, lending terms and conditionality, and conditions for debt relief. Politically, however, the transition from a US- and G7-centric model to a multipolar model will be much more challenging.

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 completed conceptually by flows of people. Migration is 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.

> **"Migration is the oldest form of economic interdependence: it developed before international trade. And yet, it has is no comprehensive global governance regime."**

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.[18] They are 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 cannot be 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. It did not succeed. Despite its deficiencies and limited character, it represents a step forward; it sets out a framework and a menu of possible measures for implementation, where its usefulness will be tested.

5. REGULATION: A PRESERVATION AGENDA

Interdependence is increasingly "behind the border"; it reflects decisions of corporates 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 tools and 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 few 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 for 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 able to take decisions with extraterritorial effects, raises significant international coordination issues.[19] Absent a global competition regime (it was briefly suggested by the EU in the early 2000s, but did not gain any traction), the *de facto* coordination regime that has emerged involves the voluntary cooperation of independent national authorities. It functions on the basis of shared policy objectives and principles, with implementation 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. These establish, within the remit of their mandates, 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).[20]

> **"Competition policy exemplifies how national regulators can tackle significant cross-border spillovers without a supranational legal apparatus nor an institutional framework."**

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, 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 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. Second, even if legal texts remain similar, the environment of competition authorities is likely to change. Digital commerce is already testing the limits of traditional competition policy concepts; pressures from industrial or trade policy may undermine the peaceful coexistence between competition policy authorities.

Competition policy exemplifies how national regulators 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 Basel 4, 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 (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 FSB and 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.

> **"The regulatory framework in place for international banking remains vulnerable to underenforcement, disruptions, and systemic risk."**

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.

Subsequent agreements (Basel 3 and 4) 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 some effectiveness.[21]

The global financial regulatory regime however faces emerging challenges. Economic agents outside its scope – "non-banks" dealing in shadow money, including fintechs – hold fully half of all financial assets.[22] Their fast-growing credit-providing activities are blurring distinctions with traditional banks, without corresponding regulatory oversight. Regulatory leniency or forbearance applies to the global banking activities of financial institutions not headquartered in major advanced economies. Finally, the systemic dimension of bank and credit-providing institutions' activities is being considered anew since the financial crisis, recognising that some can be too big or too connected to fail.

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 aberration or a paradigm?

Tax governance is an 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 by multinationals has become a global plague.

And yet there has been substantial progress in recent years. Hard challenges remain to be tackled, but international tax cooperation currently benefits from a certain momentum.

As far as individuals are concerned, bank secrecy and the resulting evasion from income and wealth taxes is largely a thing of the past. The 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.

> **"Tax governance is an unlikely success story of international cooperation. Hard challenges remain, but international tax cooperation currently benefits from a certain momentum."**

The efficiency and equity issues raised by reform of the international regime for corporate taxation in the digital economy are an order of magnitude larger. Existing formulas allocating taxing rights among jurisdictions do not take into account synergies within multinational firms and do not match the actual location of value creation in a world of global value chains, intangible investment and digital presence. Reform is bound to raise distributional conflicts amongst major countries. Hence, no equivalent result to individual tax evasion has been reached as regards multinationals, but a structured multilateral process has started within the framework of the Base Erosion and Profit Shifting initiative of the OECD.

Concepts underlying the international tax cooperation regime (such as that of permanent establishment) or instruments tax authorities rely on (such as transfer prices) are fatally outdated. What is needed is a radically new set of principles and instruments for today's global economy. The way forward is, first, to redefine principles and instruments for corporate income taxation in a globalised, digital economy (OECD's "pillar 1"); and, second, to counter uncooperative behaviour by tax havens through imposing a minimal tax rate ("pillar 2").

A decisive push may well come from the US. President Biden's stated intention to apply a minimum tax rate of 21% to profits posted by US multinationals in all jurisdictions worldwide is a game-changer. If applied, it would simply kill the business model of tax havens. The major EU countries are likely to go along. Smaller countries will find it difficult to resist, especially as the public opinion's backlash against tax evasion has steadily gained in importance.

Competition to attract mobile tax bases is a negative sum game, but one in which some, mostly small players gain heftily. Only the combined force of the big players – the losers in the current game – can break the deadlock. The combination of a new US attitude and activism by an agile institution may well trigger a long-awaited global agreement.

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 common doctrine (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 significant results and hopes are growing that an agreement on corporate tax avoidance can be reached.

Failures come in many forms. Some are unsurprising, as for migrations where despite coming short of addressing the problem of coordination, 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 rise of economic nationalism, the proliferation of trade agreements, the split in development lending and the fragmentation of the global financial safety net are cases in point.

> **"Success and failure cannot be ascribed to the sole nature of the underlying game and the corresponding toughness of the collective action problem."**

Can we make sense of what works and what does not? A first observation is that success and failure can hardly be ascribed to the sole nature of the game and the corresponding toughness of the collective action problem. Cooperation against contagious diseases is a no-brainer from a game-theoretical viewpoint, yet it is 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 than game complexity.

A lesson from our analysis is that, indeed, other ingredients are essential for success:

1. A shared 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 1 gives our assessment of the state of affairs in our nine fields. A first observation is that two of them stand out for the lack of shared 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-capitalist and state-capitalist 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 1: Collective action scoreboard

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

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 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. 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.[23] 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.[24]

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 examples of the tasks institutions can perform in an environment radically different from the one for which they were initially designed.

Here, the assessment is far from positive. 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, disillusion with global governance had led many – us included – to believe that the best way to salvage 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. Minimalist strategies, not grand designs.

The pandemic must change our approach to global collective action. Limited transnational authority (despite formal powers) has seriously impeded early warning. International cooperation was missing in action. 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 lost 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 fail to materialise on a sufficient scale.

The case for comprehensive international cooperation is stronger than ever. This is not to say that the COVID-19 crisis has fundamentally changed minds and revealed to policymakers and the public the need for a functioning multilateral system. It has however highlighted our collective vulnerability, how increased interconnectedness can easily turn against us, and hence the need for more functional governance arrangements. COVID-19 has demonstrated in a very short period the perils that longer-term crises such as climate have failed to show.

Another major development is the advent of a new 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. In fields from health and climate to trade and taxation, the Biden administration has started reversing policies that had led many to believe we had passed a point of no return. Points of contention remain; but the discussion can now take place within a commonly agreed intellectual and policy framework, not in the quest of an entirely new one that eschews multilateral rules.

These two turning points – COVID-19 and the new US administration – offer an opportunity: heightened understanding, and a 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 cannot represent a return to the *status quo ante*. We are facing a new world, and a new world needs new rules - a survival kit of sorts.

7.1. A new world

The world of 2021 has little to do with that of Bretton Woods, let alone with that of 1990, when globalisation started to take shape and the fall of the Soviet Union gave rise to proposals for a reformed rules-based world order. 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 an order of magnitude larger than preventing 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 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.

Millennial illusions have dissipated, however: accommodation of often opposite preferences has become a necessary feature of any stable international order. This applies primarily to political and social attitudes. As authoritarian rule has advanced,[25] this is reflected in attitudes towards migration, treatment of minorities, free speech and privacy. 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 feature of the world system. It is bound to have major implications for trade, investment, competition and finance.

The third characteristic is the growing interweaving of politics and economics. [26]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".[27] 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.

The fall of the Soviet Union and China's economic opening created the temporary illusion that economics could lastingly trump politics. 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".[28]

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. Neither domestic politicians nor foreign policy strategists stand ready to defer economic questions to economists anymore. After being for several decades the intellectual driving force behind the global integration agenda, economists must acknowledge that interdependence is too serious a business for them to be in command of it.

7.2. A reformed agenda

This new context requires a collective action agenda with specific goals. The first should be to shelter the preservation of the global commons – with their universal and intertemporal character – from the spillovers of geopolitical and systemic rivalry. There is a precedent: the US and the USSR preventing mutually assured destruction by setting up mechanisms to ensure an accident could not trigger a nuclear conflagration. Climate preservation and the response to pandemics are today the equivalent of MAD avoidance. They should rest on similar principles and procedures, starting with transparency and independent monitoring. Similarly, preserving the essential basic infrastructure of the digital commons is essential.

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 is mixed: 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 a way to go 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, 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 because the nature of the underlying game often makes the preservation of global commons vulnerable to free-riding, stronger incentives must buttress collective action if genuinely uncooperative behaviour is to be avoided. The world 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 the world can dispense of sticks and just use carrots. Three decades of discussion on climate illustrate the difficulty of this challenge.

The second plank is the management of economic interdependence. Aggravated US trade grievances vis-à-vis China, some of which shared by Europe, and the realisation that systemic rivalry is here to stay, make a return to a pre-Trump status quo unlikely. 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. Such economic coexistence may result in a trimmed-down set of core rules and a larger leeway for national policies, stepping back from deep economic integration and convergence of economic systems. What level of interdependence can be preserved? Or is there no alternative to outright decoupling?

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 in many fields, from trade to banking regulation and taxation. A world that accommodates persistent systemic differences would inevitably lead to a further blossoming of flexible arrangements.

A major issue on the agenda will be to define how broad principles may combine with a series of ad-hoc coalitions of the willing. To be viable, variable geometry should be anchored in universal principles and procedures, while going further in the ambition of cooperation or the approximation of national legislations. As preferential trade agreements have demonstrated, closer cooperation among a few countries can either undermine or buttress global integration.

7.3. Strategy

How to take this agenda forward? The practical point of departure has to be a "what works" approach. Not a benchmarking against an ideal that no longer exists (if it ever did); instead, a painstaking exercise to identify the rules, norms, institutions and collaborative arrangements that are most promising – and those that are not. In this sense, the point of departure is not different from the one in the pre-COVID-19 era: what has changed is the level of ambition.

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 some key variables: the common knowledge base; the institutions at the heart of governance; the role of politics; that of the non-state sector; and the tactics for governance reform.

If there was a need for proof that shared awareness does not guarantee cooperation, the COVID-19 crisis provided it. The scientific community behaved exemplarily; it was decision-makers who did not follow suit. But our analysis has shown that there is hardly a case where collective action succeeds without an investment in building the common knowledge base, and that shared awareness often provides a powerful basis for convergence. The IPCC, the IMF and the OECD are very different bodies. But all help cooperation be based on facts, rather than mere beliefs. This is essential.

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. Their functions cannot be replicated: the objective should be to radically reform 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 strategy.

> **"For a more ambitious agenda for collective action to bear fruits, it cannot represent a return to the status quo ante. We are facing a new world, and a new world needs new rules."**

A related issue is that of the politics and leveraging 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. 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.

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.

Finally, 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.

ENDNOTES

1 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.

2 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.

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

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

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

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

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

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

9 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.

10 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.

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

12 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).

13 See UNCTAD (2020).

14 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.

15 See Robert Lighthizer, How to Set World Trade Straight, Wall Street Journal, 20 August 2020.

16 Nye, Joseph S. 2017. "The Kindleberger Trap." *Project Syndicate.* https://www.project-syndicate.org/commentary/trump-china-kindleberger-trap-by-joseph-s--nye-2017-01 (February 17, 2021).

17 Excluding self-insurance through reserve accumulation. Source: Tharman report.

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

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

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

21 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

22 Hauser, Andrew. 2021. "Andrew Hauser: 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." https://www.bis.org/review/r210113a.htm (April 28, 2021).

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

24 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)

25 See Freedom House, *Democracy under siege,* Freedom in the world report 2021.

26 Wigell, Mikael et al. 2018. *Geo-Economics and Power Politics in the 21st Century* : *The Revival of Economic Statecraft.* Routledge.

27 National Security Council to the President (1950). United States Objectives and Programs for National Security (NSC-68 report).

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

The School of Transnational Governance (STG) delivers teaching and high-level training in the methods, knowledge, skills and practice of governance beyond the State. Based within the European University Institute (EUI) in Florence, the School brings the worlds of academia and policy-making together in an effort to navigate a context, both inside and outside Europe, where policy-making increasingly transcends national borders.

The School offers Executive Training Seminars for experienced professionals and a Policy Leaders Fellowship for early- and mid-career innovators. The School also hosts expert Policy Dialogues and distinguished lectures from transnational leaders (to include the STG's Leaders Beyond the State series which recorded the experiences of former European Institution presidents, and the Giorgio La Pira Lecture series which focuses on building bridges between Africa and Europe). In September 2020, the School launched its Master-of-Arts in Transnational Governance (MTnG), which will educate and train a new breed of policy leader able to navigate the unprecedented issues our world will face during the next decade and beyond.

The STG Policy Papers Collection aims to further the EUI School of Transnational Governance's goal in creating a bridge between academia and policy and provide actionable knowledge for policy-making. The collection includes Policy Points (providing information at-a-glance), Policy Briefs (concise summaries of issues and recommended policy options), and Policy Analyses (in-depth analysis of particular issues). The contributions provide topical and policy-oriented perspectives on a diverse range of issues relevant to transnational governance. They are authored by STG staff and guest authors invited to contribute on particular topics.

School of Transnational Governance
European University Institute
Via dei Roccettini, 9, I-50014 San Domenico di Fiesole (FI), Italy
Tel. +39 055 4685 545
Email: stg@eui.eu

www.eui.eu/stg

Co-funded by the
Erasmus+ Programme
of the European Union

The European Commission supports the EUI through the European Union budget. This publication reflects the views only of the author(s), and the Commission cannot be held responsible for any use which may be made of the information contained therein.

doi:10.2870/677954
ISBN:978-92-9466-006-0
ISSN:2600-271X
QM-BA-21-009-EN-N