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New World, New Rules?

Final report on the Transformation of Global Governance Project 2018-2021

July 2022 Edition

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The Transformation of Global Governance

The Transformation of Global Governance Project was a horizontal initiative, run between 2018 and 2021 at the European University Institute, a joint endeavour of the School of Transnational Governance and the Tommaso Padoa-Schioppa Chair in European Economic and Monetary Integration at the Robert Schuman Centre for Advanced Studies.

More information on the project is available at: tgg.eui.eu

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Introduction

In 2018, when both of us landed at the European University Institute, we launched the ***Transformation of Global Governance Project***, as a joint endeavour of the Tommaso Padoa-Schioppa Chair of the Robert Schuman Centre for Advanced Studies and the newly created School of Transnational Governance.

Our project was driven by a set of observations and by a number of research and policy questions. The observations related to the state of collective action and by the existence of a paradox: increased global interdependence, coinciding with a reduced appetite for cooperation or collective action. Cross-border integration of goods and capital markets, deep "behind the border" integration, as well as the global commons of climate, health and the enabling infrastructure of digital networks, would all seem to suggest a need for more and better coordination to contain negative externalities and manage commons. And yet, concerns about sovereignty, geopolitical rivalries and heterogeneity across nations limit the ability of the global community to engage in such an action.

The research and policy questions derived directly from the diversity in policy solutions that can be observed in different fields, where outcomes range from outright failure to unexpected successes. The analytical questions we asked were first aimed at understanding the nature of interaction and interdependence at work in each case; the corresponding game structure; the identity of the players (states and a variety of non-state actors); their diverse preferences and constraints they are facing; the intertemporal dimensions involved, including aspects related to uncertainty and how it affects the different players' perspective.

The questions also related to assessing the governance arrangements and how they contribute to solving the problems identified: the membership in the existing governance arrangement (universal, or partial, with cooperation within a club); the mechanisms leading to cooperation (common rules and enforcement mechanisms); incentive-based mechanisms such as pledge and review procedures and their effectiveness; the institutional support that cooperation can rely on (the existence and success of dedicated international institutions, the role of epistemic communities in informing negotiation); and the overall effectiveness of the mechanisms in place in addressing adequately the international collective action problem.

Ultimately however, what drives us is a policy interest. By looking across similarities and differences across policy areas, we have sought to identify ingredients that are essential for success, as well as the main reasons for failure. This has led us to outline a collective action agenda with specific goals - ranging from sheltering the preservation of the global commons from the spillovers of geopolitical and systemic rivalry to effectively managing economic interdependence by combining broad principles with a series of ad-hoc coalitions of the willing - and a strategy to go with it based on a "what works" approach. An exercise to identify the rules, norms, institutions and collaborative arrangements that are most promising in a post -COVID-19 era dominated by a higher level of ambition.

The method we have used to approach these analytical and policy questions in our project follows from this perspective. First, our aim is more normative than positive: we are interested in policy outcomes and in finding out what works, why, and whether arrangements that prove successful in one field can be replicated in others. Second, we acknowledge and try to incorporate the insights from other disciplines, but we approach the question as economists. There is a wealth of research on global governance accumulated in other fields, but we reason primarily with the concepts and tools of economic analysis. Third, we focus in priority on the main channels of present-day economic interdependence.

We have therefore focused on a limited set of policy fields, each of which corresponds to a significant channel of global interdependence. We have selected nine such fields. Of these, three are associated with major global commons: climate action, public health and the global digital infrastructure; three relate to main channels of interconnectedness of goods and services, capital and labour: international trade, international finance, and migrations; and three illustrate "behind-the-border" integration: competition policy, banking regulation and international tax coordination.

This eBook is the final report of the project. It is comprised of three parts. The first includes our joint paper New Rules for a New World: A Survival Kit, a critical analysis of the state of governance in these 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. Drawing on a comparative analysis of successes and failures in these fields, we set out elements for designing and implementing an ambitious collective action strategy suited to the present context. This first part also includes a paper based on the "New World, New Rules: Can Europe Rise to the Challenge" State of the Union address that Jean Pisani-Ferry delivered at the annual State of the Union event organised by the European University Institute in May 2021.

The second part is comprised of the main take-aways of the 9 + 1 seminars that were organised in the context of the project and that represent is backbone (see table). This series of seminars were dedicated to the analysis of the nine specific policy fields outlined (plus one on the historical evolution of global economic governance). All have been co-organised with specialised institutions, and all involved academics, field experts, policymakers and other stakeholders from private institutions or NGOs.

Nine plus one seminars on the Transformation of Global Governance

On the global commons

1) *Climate change and climate action (with the European Climate Foundation): Paris, June 2019*

2) *Internet governance (with the Hertie School and the Oxford Internet Institute): Berlin, November 2019*

3) *Health: Crisis governance for a vital global public good (with Bruegel): September 2020, online.*

On the main channels of interconnectedness

4) *International trade (with Robert Schuman Centre, EUI): Florence, June 2018*

5) *Capital flows and the Global Financial Safety Nets (with the LSE): London, April 2019*

6) *International migration (with the Migration Policy Centre): Florence, May 2019*

On "behind the border integration"

7) *The regulation of international banking (with Bocconi University and the Florence School of Banking and Finance): Milan, September 2018*

8) *The extraterritoriality of competition policy (with Bruegel): Brussels, October 2018*

9) *Tax competition and tax coordination (with the OECD): Paris, February 2019*

On history

10) *Historical perspectives on trade, finance and macro coordination: Florence, November 2018.*

The final part includes the main elements of the discussion from the concluding conference of the project that took place in October 2021 at the European University Institute and our takeaways from it. The conference was entitled "New World, New Rules: Collective Action Repurposed" and it brought together in a rich exchange the main analytical findings and emerging policy directions from the project. Its aim was to tackle both positive and normative aspects relating to the actors, institutions, interactions at play and modes of global governance, and was structured so as to address different aspects of the global governance challenges: what has changed; what we have learned; and what is to be done.

This project could not have been developed without the backing of Renaud Dehousse, President of the EUI, and support of the sponsors of the Tommaso Padoa-Schioppa chair (Banca d'Italia, Banca Intesa, Generali). We also wish to thank the Robert Schuman Centre and the School of Transnational Governance of the EUI. We are grateful to Adrien Bradley for dedicated and perseverant research assistance.

Florence, July 2022

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Part I:
A Synthetic View

New Rules for a New World: A Survival Kit

George Papaconstantinou and Jean Pisani-Ferry [1]

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 pro-

1 Respectively, Professor of International Political Economy, EUI School of Transnational Governance; and Tommaso Padoa-Schioppa Chair (EUI Robert Schuman Centre for Advanced Studies), Bruegel and Peterson Institute for International Economics. This paper is an updated version of the EUI STG Policy Paper 21/09 of May 2021. 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.

duction and dissemination would yield a $9tr in return.[2] 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.

The war in Ukraine was another blow to this already fragmented landscape. Until it broke out, the world had remained rather stable. Aggression was nearly universally regarded as alien to the fundamental balances of the world. Borders were considered sacrosanct, including most of the former colonial borders. The very notion that nuclear weaponry could possibly be used in certain circumsances was anathema to the preservation of global stability. Russian aggression against Ukraine has shattered all these assumptions.

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.[3] 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.[4]

Despite initial missteps, can the pandemic serve as a wake-up call to global collective action? Can the war serve as a wake-up call and help sort out what is essential from what is not ? Before COVID-19, global governance was in a state of gridlock and hopes of reforming it were slim.[5] 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

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

3 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.

4 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.

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

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.

The pandemic has actually had an impact on the perception of the climate emergency. As observed early on by economist Gernot Wagner, the pandemic is like climate change at warp speed.[6] 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.

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.

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

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*.[7] 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.[8]

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

7 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.

8 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.

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[9]

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.[10] 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 lim-

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9 See Bucher, Anne, George Papaconstantinou and Jean Pisani-Ferry (2022), The failure of global public health governance, a forensic analysis. Bruegel Policy Contribution, February.

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

ited 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.[11] 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

11 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.

mobilise resources: in short, an International Monetary Fund or a Financial Stability Board for health.[12] 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.[13]

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

12 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.

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

global rise in temperature to 1.5 or even 2 degrees.[14]

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.[15] And the fourth is facing up to the macroeconomic implications and the associated - currently underestimated - costs of our climate ambitions.

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14 International Energy Agency (2021), Net Zero by 2050: A Roadmap for the Global Energy Sector, May

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

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. Despite its shortcomings, the outcome of the Glasgow conference is promising.

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.[16]

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.[17]

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

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

17 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.

such as the European GDPR have proven successful beyond borders, their effectiveness remains in doubt.[18]

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

18 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.

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.[19] 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 disloca-

19 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.

tions 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.[20]

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.[21] 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.[22]

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.[23] While these agreements are embedded in the multilateral regime and can in principle complement

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

21 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).

22 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.

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

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[24].

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.[25] The Trump administration eventually obstructed appointing new judges to the system's Appellate Body, effectively paralysing it – an obstructionary practice that has not been reversed by the Biden administration.[26]

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.

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24 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.

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

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

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')[27]. 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.

27 Nye, Joseph S. 2017. "The Kindleberger Trap" Project Syndicate (February 17, 2021).

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.[28]

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.[29] 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.

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

29 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)

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.[30] 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.

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

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.[31] 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).[32]

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

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

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

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.[33] 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.[34] 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.

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33 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.

34 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).

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.[35] 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, thereby opening the way to an eventual compromise. 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.

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 heterog-

35 See especially the research by Gabriel Zucman and co-authors.

enous 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 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.[36] 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 go 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** **Migration** **Taxation**	
Strong incentives to cooperate	**Digital infrastructure** **Competition** **Banking**	**Health** **Trade** **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 web of institutions).

Table 2 gives along these coordinates our – again, subjective – sum-

36 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.

mary assessment of the state of affairs in our nine fields. 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						
Intl. finance						
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[37]. 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.[38]

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

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

38 See Gelpern, Anna et al. 2021, ibid.

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.

Out of our nine fields, two seem en route to success; two seem condemned to failure; and five are in balance. This is clearly not unqualified success. Depending on which way things go in the fields that remain in balance, on political outcomes in key countries and on whether major players agree to shelter certain domains from the increasing acrimony of international relations, global collective action may be heading for success or for failure.

7. Conclusions

Pre-COVID-19 and pre-war in Ukraine, 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. The overall philosophy was 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 certainly incomplete but nevertheless comprehensive 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 health 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.

As said, the war in Ukraine has been a further blow to international solutions. It has shattered long-held common beliefs about the rules of the game among civilised countries and the acceptable ways to settle territorial disputes. Depending on future developments, the legacy of the war can be either bad or very bad. It is hard to figure out how it could be good.

Can traumatic experiences trigger a change in attitudes? Can global collective action rise to the challenge? We still believe it can, thanks to the shock all countries have suffered from, and thanks also to the advent of a US administration that professes (in principle at least), 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. But its macroeconomic policy mistakes will unfortunately leave a lasting legacy.

7.1 A new context

Progress 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.[39] 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".[40] 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".[41] 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.[42]

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

40 Remarks by President Biden in Press Conference, 25 March 2021.

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

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

7.2 Three characteristics

Summing up, turning points – COVID-19, the new US stance, and even perhaps the war in Ukraine – offer opportunities for improved understanding and willingness to act. This suggests a way out of the prevailing maze. 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.[43]

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 globali-

43 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.

sation 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.[44]

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 highly unlikely. The first eighteen 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

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

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. Beijing relies more and more on bilateral trade and investment agreements rather than the multilateral system.[45] 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.[46] 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

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

46 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).

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.

New World, New Rules: Can Europe Rise to the Challenge?[47]

Jean Pisani-Ferry

Much has changed since these words were pronounced, more than a year ago. Today's world is quite different from what it briefly promised to become during the short interlude between the end of the Trump-Xi Cold War and the beginning of the War in Ukraine. Many of the economic, political or strategic assumptions that briefly prevailed turned out to be false.

Much has changed also since the US and China realised, sometime in the early 21st century, that despite the implicit pledge made in 2001 on the occasion of China's accession to the WTO, they would not converge, and that beyond China's case the world has become irreversibly multipolar.

Much has changed finally since the EU came to terms with the uncomfortable fact that President Biden's electoral victory does not by any means guarantee a stable outlook for the relationship between the US and the rest of the world. Europe must accept that until it settles the corresponding internal difficulties, the US cannot be regarded a reliable partner anymore.

Those three changes to the strategic, political, and geopolitical outlook are of significance for the EU. They define the world it is now part of and the way it should conceive its relationship with it.

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47 This is a written-up version of the State of the Union lecture that I delivered at the EUI State of the Union conference in Florence on 7 May 2021. This piece draws heavily on joint work with George Papaconstantinou and it has benefitted from his comments and criticisms. I also wish to thank Adrien Bradley for his continued support.

A. Introduction

The EU at the end of the 20th century was primarily defined by its internal agenda. Europe was about tearing down the walls that separated our countries and about designing common rules for their integration. Shortly after having built a unified market for good and a broad range of services, it had embarked on creating a common currency and was about to integrate new member states of Central and Eastern Europe. This was the same path it had embarked with the signature of the Treaty of Rome.

But then came globalisation, and with it the questioning of the primacy of regional integration.

The issue was well captured by Gordon Brown in 2005 when he provocatively posited that the natural space for integration was not Europe anymore but the world. "It is the global and not just European sourcing of goods and services – as well as of capital and, importantly, labour - that is now driving economic change", Brown claimed.

The EU's answer has been to pivot from internal integration towards external action. In 2007 the European Council issued a remarkable statement, whose ambition was well-captured by this sentence: *"Globalisation is increasingly shaping our lives [...] We aim at shaping globalisation in the interests of all our citizens, based on our common values and principles"*.[48]

This was a very ambitious agenda back then. It is an even more ambitious one now, for the world has changed a lot since 2007. In this new world, it is even more important to spell out an external agenda. The programme of this State of the Union conference illustrates its significance, from global commons such as climate and public health to global rules for trade and data flows to preserving consumers from global giants through competition and tax rules to, finally, the broader issues of strategic autonomy and geopolitics.

What I intend to do is to outline an action programme for the EU's external action. I intend to be deliberately general and provocative, as is appropriate at a time when the focus is on action.

48 See the declaration on globalisation published in annex of the European Council statement of December 2007.

My 15 action items come in three parts. The first five are mere observations:

1. *External action is the EU's new purpose*
2. *The pandemic shock and the arrival of a new US administration are game-changers*
3. *Global commons are increasingly taking prominence over economic integration*
4. *Systemic heterogeneity has become a permanent fixture of the global landscape*
5. *The interweaving of economics and politics is here to stay*

Next come five analytical points, which apply particularly to the EU.

6. *Economists are wrong: it's not all about games and incentives*
7. *Legal scholars are wrong: it's not all about treaties and institutions*
8. *Multi-stakeholderism is wrong: it's not just about having the right people around the table*
9. *Success can be found in unlikely corners*
10. *There is no universal formula for success, but there is no success without key ingredients*

From which I finally conclude with 5 statements of major relevance for the EU:

11. *Work out the EU's response to the interrelation between economics and geopolitics*
12. *Address head on the trade-offs between global commons and integration*
13. *Cut our losses on yesterday's globalisation*
14. *Do the plumbing that is required to equip the EU for a different world*
15. *Fight for the global system, not for the privileges we enjoy in it*

Let me now go through all these items one by one.

B. The EU and the world: A new landscape

1. External action is the EU's new purpose

A few years ago, the initial question would have been if the project of turning the EU into a major international player is a realistic perspective. Is Europe still able to shape the world? Depends on the field obviously, but the fact is that Europe is strong in many fields. It has two characteristics that nobody will dispute:

- It has a large, unified market that no producer can afford to be excluded from;
- It has the capacity, the unity, and the will to behave like a global regulator.

Those are two extremely important characteristics, the upshot of which is that whereas Europe does not always speak with one voice, much can be achieved when it does. This looked like a second-order issue until the Russian aggression on Ukraine. Not anymore: the decision by Sweden and Finland to join NATO are major game-changers.

The right question is therefore not whether Europe can act, but what it intends to achieve. I would propose the following goals:

- Analyse the new context;
- Draw lessons from experience;
- Conclude on Europe's agenda.

2. The pandemic shock and the arrival of a new US administration are game-changers

This State of the Union conference was initially supposed to take place a year ago, that is with Trump, and without Covid. It would have been very different. Indeed,

- Many speakers would have expressed disillusion with global governance;
- We would have spent half of the time speaking of the tension with the US;
- We would probably have settled on a minimalist agenda.

But we now have a new US administration, and the pandemic has illustrated the shortcomings and costs of cooperation failures. True, not everything is clear with the Biden administration. Its trade policy is a major disappointment. But at least, it has developed a politically rational view of the world and the degree of continuity there is between its policy and those of the Trump era are indicative of the change of landscape.

This should serve as a wake-up call and remind us that the costs of joint action are a tiny fraction of the costs of inaction.

- True for preparedness;
- True for immediate response;
- True for vaccination.

The extraordinary lesson of the pandemic will not be forgotten. As climate scientist Gernot Wagner once said[49], the pandemic is climate change at warp speed.

3. Global commons are increasingly taking prominence over economic integration

From the 1941 Atlantic Charter to China's entry into WTO, in 2001, the priorities were prosperity and peace through economic and financial integration. That was the purpose of the whole international economic architecture.

Over the last 50 years, however, there has been a gradual, but major paradigm shift: public health, the climate, biodiversity, the common digital infrastructure, the outer space all require principles for collective action rather than mere rules of the road. We have moved away from an integration-centric view of the world and we have entered a global commons-centric view of the world.

The consequences from this shift are first-order, because global commons cannot be left unattended. Whatever is done to take care of them, they keep on dominating the landscape, and the less they are taken care of, the worse the outcome. The world, after all, is finite. It is a new reality we have to cope with.

It should obviously be recognised that not everything is a global public good. There has been a dangerous abuse of a metaphor "Global problems require global solutions" – a well-rehearsed mantra that is not

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

always accurate. But the issue remains essential, and it can only grow in importance. Another pivot.

4. Systemic heterogeneity has become a permanent fixture of the global landscape

21 years ago, China joined the World Trade Organisation. A few months before President Clinton claimed that: *"by joining the W.T.O., China is not simply agreeing to import more of our products. It is agreeing to import one of democracy's most cherished values, economic freedom. The more China liberalizes its economy, the more fully it will liberate the potential of its people. And when individuals have the power, not just to dream, but to realize their dreams, they will demand a greater say. Liberty will spread by cell phone and cable modem. Now there's no question China has been trying to crack down on the Internet. Good luck! That's sort of like trying to nail Jell-O to the wall".*[50]

This quote deserved to be given in full because times have changed. Twenty years ago, this view of the world seemed perfectly rational. It had not been proven true, but not false either. Whether it would end up being vindicated by events was an act of faith.

Coexistence of market and state capitalism is not a transition issue anymore. From the rejection by emerging countries of financial account liberalisation to their refusal of state capitalism, there have been multiple instances of divergence on privacy and content regulation. There is no single democratic template that will end up determining how countries will behave.

There is only one thing to conclude: systemic heterogeneity is here to stay.

5. The interweaving of economics and politics is here to stay

Let us be clear, because ambiguity is detrimental to the truth: the world shaped by international economic rules was by no means apolitical. On the contrary, its promotion by the US was intended to create "*a world*

50 President Clinton›s speech at the Paul H. Nitze School of Advanced International Studies of the Johns Hopkins University, The New York Times, 9 March 2020.

environment in which the American system [could] survive and flourish".[51]

But as far as international economic integration was concerned, geopolitical interference was limited. The main rivals were not part of the same economic system and US imports of Soviet goods never exceeded a fraction of a percentage point of total imports. China, however, accounts for 18% of US imports. This is a major change.

After 1990, the fall of the Soviet Union and China's opening created the temporary illusion that economics could lastingly trump politics. Until Jake Sullivan wrote in 2020 that for three decades "*foreign-policy professionals largely deferred questions of economics to a small community of experts who run international economic affairs*".[52] Sullivan makes clear that this should stop. And I think he is delivering on this pledge.

Overall, the first five items redefine – probably lastingly – the aggregate landscape. Of the five items we have listed, only the second and, to some extent, the fourth are uncertain. The broad parameters of the landscape are therefore set in stone.

C. The future five: redefining the priorities

The next five items regard the need to define an external agenda for the EU. Even before the war in Ukraine broke out, the issue was clear. It has only become more urgent. I am drawing here on research conducted at the EUI with George Papaconstantinou, within the framework of a multi-year project that involved several other colleagues from within and outside the EUI.

I thought we could build on insights from this research, which covered nine fields. These were chosen to give a broad sample of what is at stake in global governance, and they cover:

- 3 global commons (public health, climate action and digital infrastructure)
- 3 flows of goods, services and factors (trade, capital and migrations)
- 3 behind-the border integration (competition, banking and taxation)

There was also a specific seminar on history that helped give us a time perspective and escape the curse of naiveté.

51 Excerpt from a strategic document received in 1950 by the National Security Council under the heading United States Objectives and Programs for National Security, 14 April 1950.

52 See Jennifer Harris and Jake Sullivan, "America needs a new foreign-policy philosophy. Experts can help", Foreign Policy, February 2020.

Those nine fields were chosen to cover a wide enough scope, while combining specific items and broad coverage. There are clearly many missing fields, in various details, but nine was already a very broad field to cover. In each case we adopted a similar grid to investigate:

- The nature of the problem that justifies investing in global governance
- Legal and institutional responses, and their effectiveness
- And, finally, the evolution over time. Legacy matters indeed, and not every issue can be treated as equivalent.

There are five reasons why we should avoid being naive. The first three deal with the usual biases associated with scholarly approaches. The last two with somewhat broader issues.

6. Economists are wrong: it's not all about games and incentives

Different traditions and approaches to global governance coexist: political scientists do not look at it in the way legal scholars or economists do. The combination of approaches is what makes the whole matter interesting.

The economists' way is typically to identify a game, to find out what are the legal and institutional responses to the underlying incentive problem, and finally to solve the problem.

But there are difficulties along the way.

Some games are easy to tackle because you only need to create trust – public health, a field where unambiguous incentives to cooperate are frustrated by sovereignty concerns, politics, and bureaucracy. Richard Cooper once examined why, despite having been endeavoured early in the 19th century, cooperation in public health had been so hard to tackle. What he found was that public health took much time to agree on, because of the time constraint.[53]

Whereas public health is a puzzle because incentives to participate are so much higher, climate action is hard because of a different set of reasons. Responses to climate initiatives are very hard to elicit because of incentives to free-ride, massive equity issues across time, space, and generations – in other words, climate is the paradigmatic case here. We

53 See Cooper, Richard (1989), International cooperation in public health as a prologue to macroeconomic cooperation, in *Can Nations Agree?*, edited by Richard Cooper, Brookings.

should remember that Nordhaus has told us that climate agreements are inherently unstable, and Jean Tirole that the Paris agreement was worse than nothing.[54]

But as Commission Vice-President Frank Timmermans likes to say, there is momentum in the climate discussions. The COP process is not delivering cuts in emissions commensurate to reducing the rise in global temperature below 2 degrees, but something is at least happening. Governments, business, investors are moving. A raft of new legislation is making its way, transforming the industry standards and criteria for action. Companies are keen on changing pace.

I am not saying that games and incentives do not matter. But there is more than just the game.

7. Legal scholars are wrong: it's not all about treaties and institutions

An old tradition maintains that global governance is a matter of compulsion – need for hard rules buttressed by authoritative institutions. Hans Kelsen for example said that if only we had a WTO for investment, and IMF for the environment or a global competition authority, life would be much simpler.[55]

But here is a paradox: the cracks in the system arose precisely where the legal/institutional basis was the strongest. The two pillars of the post-war system that are in deep trouble are precisely the WTO and the Bretton Woods institutions.

In global trade grievances, heterogeneity, and resistance to supranational rule are very strong. There is hardly a difference between the trade policy of the Biden administration and that of the Trump administration.

As far as the global financial system is concerned, what we are witnessing is an impressive process of decomposition that spans over the years. Since the early 2000s:

- East Asia has de facto seceded after the Asian financial crisis;
- Europe has built its own financial safety net;
- The Global Financial Crisis has demonstrated that the IMF cannot substitute the US swap lines;

54 See Nordhaus (2018), Climate change: The ultimate challenge for economists and Christian Gollier and Jean Tirole (2015), Negotiating effective institutions against climate change.

55 The Hans Kelsen view of the world was first articulated in the 1910s on the basis of a remarkably consistent view of the world. Kelsen (1881-1973) was born Austrian but died as a US citizen. In the meantime, he thought out his view of the world.

- China has finally built a development lending system that not only eschews but rejects multilateral procedures.

For those who believe in global institutions, the reminder is very stark. If global governance were only about building or maintaining institutions, the goal would be within reach. In fact, it is not.

8. Multi-stakeholderism is wrong: it's not just about having the right people around the table

The third illusion is that the future of global governance the multi-stakeholders model can contribute to the future of global governance.

It is true that private players can contribute importantly to the future of the system. Multi-stakeholderism was born in the early 2000s out of the disillusion with inter-governmental negotiations over global governance. Having emerged from exchanges amongst key stakeholders in several discussions, the idea soon got credence.[56]

In fact, multi-stakeholderism has results to display. Banking regulation is not effective because capital ratios are mandatory, but rather because investors care about them. In the same way, the hope that remains about the Paris agreement rests on its ability to trigger private investment into zero-carbon technologies. Those are definitely dramatic achievements.

But the unravelling of the internet regulation illustrates that multi-stakeholder governance is no magic bullet. Inevitably, some alignment of internet regulations with national or regional preferences was inevitable. It was clear that a fragmentation of the web and the growing limitations to access to information would inevitably question how far it will go and what will remain of the common goal of building a general digital infrastructure.

Here, the muti-stakeholders model is showing its limits.

9. Success can be found in unlikely corners

So shall we despair? Two little stories give remarkable hopes for the future. The first deals with competition policy, an abstruse field where governments act one by one and hardly coordinate. The second deals with an even more internal model of policy coordination: the taxation of mobile activities.

56 See Lamy et al. (2013), *And now for the long term*, Oxford Martin School for future generations.

Competition authorities are judicial or quasi-judicial bodies operating within the same field but without a legal framework, hardly as an institution. They are entrusted with similar mandates and have established workable principles for determining the scope and limits of extraterritorial decisions. The resulting model is undoubtedly fragile, but so far it has worked. The question is evidently for how long it will work. Why is it that China and the US agree to disagree? But so far it has.

The other example is the OECD's mandate for tax coordination. It is perhaps even more striking that the previous one, because of the lack of an agreement on the global basis for tax coordination. But it has worked, first for households and then for companies. The question now is whether the same soft coordination method would end tax heavens in the same way bank secrecy was overcome.

What is behind is a decision by G20 countries to crack down on non-cooperative behaviour. But also a nimble institution that was not created to address tax matters and did not include many low-tax jurisdictions in its membership.

10. There is no universal formula for success, but there is no success without key ingredients

There is in fact no universal formula for success. Rather, the formula boils down to a series of individual commitments, none of which is essential but whose combination is key. These are, especially:

- A shared identification of the problem that must be addressed;
- Shared technical expertise;
- Common action principles – especially as regards the actions that cannot be contemplated (the don't dos);
- Transparent reporting mechanisms that make it possible to measure up national actions with respect to defined goals;
- An overall outcome evaluation process;
- An institution, or a web of institutions that can be trusted, because they have a mandate to contribute to a common goal.

These are certainly necessary conditions, not sufficient ones. But nothing can be achieved without them being fulfilled. What about coercion? What about punishing free-riding?

- Arm-twisting is necessary;

- This is true with taxation, regulation, and climate change;
- Coercion is being exercised unilaterally, by oligopoly, yet rarely by legitimate multilateral institutions – some of which are dramatically underfunded;
- And, finally, a greater focus on global commons requires more ability to coerce.

Let us be clear. There is no need to end on fragile conclusions, and it is fair to say that what looked promising a little while ago now looks miraculous. The question is whether the system can survive, and whether there can be an agreement to carve out certain domains and preserve the joint ability to cooperate. The jury is not yet out.

D. Five requirements for the future policy of the EU

A new purpose and a strategy are both essential components of a strategy for the EU. Yet they are not adequate responses to a fairly transformed environment. The EU cannot pretend playing a role in a world where other players regard it as an actor and a potential rival.

Today's world is actually not the world of yesterday, whose rules were relatively clear and where the EU could be regarded as a laboratory. In today's world, the EU cannot afford to play a role without having defined its own goals. It should instead be very clear about its own aims and whether they are the mere expression of Europe's own preferences, or instead the conditions for a well-ordered world whereby countries all different from one-another agree to disagree.

11. Work out the EU's response to the interrelation between economics and geopolitics

The EU is not used to this interference. It has worked on the basis of clear separation between geopolitics and economics. Its tradition was based on the primacy of the latter and on their relative insulation from geopolitical concerns.

Notions that were alien in the world of yesterday – such as a geopolitical Commission, or economic sovereignty – however call for delineating clearer procedures for deciding when geopolitical considerations enter into play in the decision. As essential tenets of an economic order, competition policy and investment policy should not be politicised. But what needs to be decided is how non-economic considerations can be taken on board in what should remain primarily economic procedures for deciding when and how to take sovereignty considerations into account in a competition policy decision.

A good example is whether the High Representative for Foreign and Security policy should be given the right to invoke a security clause in a previously purely economic decision. In a recent paper co-authored with Bruegel and ECFR colleagues, I made such a proposal in 2019. Our take was that if done with the right mindset, it could actually improve European decision-making and help distinguish purely economic cases from cases where politics has a role to play.[57]

12. Address head on the trade-offs between global commons and integration

Global commons and integration are not necessarily in contradiction, but there are inescapable trade-offs. One, for example, is between making vaccines widely available (on public health grounds) and preserving intellectual property rights. Both are perfectly legitimate public policy goals, but a choice should be made between them.

Another major trade-off arises between climate preservation and trade promotion. The primacy of the latter was a cornerstone of the post-war economic regime. But there is no moral imperative that requires giving it precedence over climate preservation. As a matter of fact, climate-based considerations should in fact be given prominence. And the EU here is at the forefront. The introduction of a Carbon Border Adjustment Mechanism (CBAM) is a major test.

These issues have been discussed in various sessions of the State of the Union conference. Much is at stake, such as the effectiveness of climate action, trade obstacles, or our joint ability to tackle difficult trade-offs. Yesterday minister Vangelis Vitalis said that as an economist he supported CBAMs, but that as a trade official he was worried. This is an absolutely essential issue, and a perfect mission statement for the EU is that it should reassure Mr. Vitalis.

As a climate champion and as a trade superpower, the responsibility of the EU is to chart out a way out of this maze. The failure of the Doha

57 See Leonard, Pisani-Ferry, Tagliapietra, Shapiro and Wolff (2019), Redefining European Sovereignty, Bruegel Policy Contribution N°9, June.

round should serve as a reminder: the EU cannot export its own preferences, while pretending that it does it in a way that corresponds to everyone's first best.

13. Cut our losses on yesterday's globalisation

The EU has been a relentless exporter of values and standards and it has often used trade as a vector for political and systemic influence. Old research by Horn, Mavroidis and Sapir (2012) comparing the content of US and EU preferential trade agreements actually found that legal inflation of unenforceable provisions in EU agreements was indicative to the degree to which trade was being used as a vehicle for declaratory diplomacy.[58]

Such policies are not called for in the current context. Because of the pressure from domestic opinion, economic integration risks being mistaken as a conduit to systemic convergence. This would be a major error, as convergence is potentially a policy outcome, but not a policy goal. To elicit confidence on the part of its trade partners, a more geopolitical EU must be clear about its aims.

14. Do the plumbing that is required to equip the EU for a different world

In this new context the temptation is to aim for a different EU. The notion of a "Geopolitical Commission" embodies what is meant by this project. In fact, however, the EU is not an animal of this sort, and it was not designed for it.

But we do have strengths. Some are exploited: on trade, on competition, on regulation, the EU is an important actor, in some cases the predominant actor globally. It has even been accused of attempting to shape the world according to its own preferences.[59]

But in other cases – especially the euro – they are not. This is often the effect of internal weaknesses, or disagreements, that led member states to leave a template empty. To turn the euro into a fully-fledged international currency would imply solving problems that were (willingly or

58 See Henrik Horn, Petros Mavroidis and André Sapir (2009), Beyond the WTO? An anatomy of EU and US preferential trade agreements, Bruegel.

59 See the 2004 editorial comment of the Wall Street Journal, *The World Regulator.*

not) left unattended. For example, it would require deciding when, how, and under what control the EU could in fact borrow on a sufficient scale to create a safe asset. And it would imply giving the ECB a mandate to provide swap lines to member central banks. These vital developments were in fact found missing.

15. Fight for the global system, not for the undue privileges Europe still enjoys in it

The last point is perhaps the most important of all fifteen. Seen from anywhere in the world, we are fighting for a system that serves our interests in a very strong and consistent way.

And it is true that European overrepresentation in global institutions is blatant. So we are facing a choice: either we should confront the trade-off, preserve our interests, or we should preserve the multilateral system.

This does not imply asking Europe to leave the table unconditionally; but it does imply asking it to stop procrastinating and acting in a coherent way. The time has come for Europe to accept the necessary trade-off between significant power concessions and a postponement of the rebalancing. Absent such a rebalancing, institutions won't gain stronger legitimacy and a better functioning. This is largely an issue of internal governance. A very old one indeed. But time is running short to solve it.

Those are among the most difficult issues to solve. The debate is devilishly hard to solve as each and every reduction in the aggregate size of Europe pits small against somewhat larger countries.

E. Conclusions

Much has changed since this lecture was given more than a year ago. Especially, of course, the fact that Russia invaded Ukraine on 24 February 2022. Many months later, and despite efforts on the part of protagonists, the situation remains highly uncertain. Market adjustment has had a toll on the economic outlook, the energy market remains out of balance, and recession threats are looming.

The Biden administration has significant responsibility in the energy market imbalance and the resulting inflation surge. Its political decision to go for a major stimulus, despite evidence that the United States was already out of energy balance, contributed to aggravating the imbalance between energy demand and energy supply. This imbalance, however, is structural in character. If price and regulatory signals remain blurred, there is little hope that it will improve.

Meanwhile, China has not changed its overall stance on global affairs. It remains staunchly defiant vis-à-vis the Western-led institutional architecture and continues to build its own system. Uncertainty regarding the international stance of the next US administration, the overall rise of "strong men" in developing and emerging countries, and doubts regarding the direction Europe should take do not contribute to creating an environment more conducive to the change that is necessary.

The EU in this context has a major responsibility: it should set its priorities clear. In today's world, there is no hope for it to agree on an internal compromise and then export the corresponding outcome as a leave-or-take template for negotiation. If the world was ever ready for a stance of this sort, it is certainly not the case at present. If there is one lesson to draw from the observation of the state of the world, it is that external strength must rely on internal strength.

PART II:
The Policy Seminars

Health: Crisis Governance for a Vital Global Public Good

Seminar insights[60]

George Papaconstantinou, Jean Pisani-Ferry and Guntram Wolff[61]

1. **Disease prevention and cure: Not the hardest of all collective action problems.** Disease prevention and cure does not represent a "tragedy of the commons" and is in principle not the hardest of all collective action problems. Contamination across borders as well as the significant economic spillovers of national containment measures (such as a quarantine) suggest that there are strong reasons to cooperate internationally. At the same time, there are few incentives to free ride and a common interest in sharing information, so that cooperation would appear to be easier to achieve than in other fields, such as climate action. The existence of a lively global scientific community as well as an old tradition of international cooperation in this field, going back to the 18th and 19th centuries, also forms a strong basis for coordinated evidence-based action.

2. **The issue: Various interdependence patterns, various incentives to cooperate.** At a conceptual level, the incentives to cooperate depend on interdependence patterns, which differ according to the issue at hand. Disease often develops where health capacities are the weakest, so that in controlling a disease, the outcome often depends on the weakest link ("weak link interdependence"), suggesting a

60 This seminar was held online on 17 December 2020, jointly organised with Bruegel..

61 Director of Bruegel.

strong incentive for global monitoring and support to the poorer and more vulnerable countries. In the case of vaccine research, instead, the outcome mostly depends on best shot performance ("best shot interdependence"). The positive spillovers from individual action suggest that funding by rich countries ultimately benefits everyone. Finally, in actual vaccination, there is a common interest in fighting the disease everywhere (weak link interdependence).

3. **The institutions: the central but flawed role of the WHO.** The legacy institution in health governance, the WHO, is strong on paper, but weak in practice. It operates based on an extensive legal basis and executive powers as the "directing and co-ordinating authority" in the health field, able to enact legally binding regulations (IHRs), while recent (2005) reforms granted new executive powers to its Director-General in terms of investigation, or PHEIC declaration. It is however severely affected by UN system illnesses of paralysis via the quest for consensus; it is fragmented into regional entities, each with their own managerial character; it is chronically underfunded and therefore dependent on grants from private organisations; it has no sanctioning capacity; and critically, it is limited by national sovereignty in health policy. In fact, the crisis has shown that what is mainly missing is not operational cooperation, but rather political support.

4. **The evolution: A fragmented landscape.** Today, the WHO is part of a new constellation of institutions, including focused, nimble, but more limited entities (the Coalition for Epidemic Preparedness Innovations - CEPI, GAVI - the Vaccine Alliance, the Global Fund, Unitaid), representing substantial funding efforts of multilateral agencies and institutions as well as public-private partnerships, NGOs or philanthropy, with the latter turning out to be a potent instrument for a rapid and focused response on individual health problems; a form of multilateral governance by delegation. These have often been extremely effective in their domains but remain limited in their remit and form a scattered landscape that is inadequate in facing up to the problems at hand. The core of the multilateral system, the WHO, has functions that cannot be replaced by anyone else: standard-setting, protocols for data reporting, sharing lab results, authority to declare health emergency and ban travel to/from certain areas, etc.

5. **The Covid record.** A pandemic scoreboard would cover a number of elements: alerting to the disease; monitoring its process; norms-setting and enforcement; coordination; resource allocation and funding; and solidarity. Of these items, those that relate to international cooperation to deal with the collective action problem of disease prevention and control, have been a clear failure. There was lack of sharing of the kind of data and information that would have been necessary for the WHO to act early, of contamination control, of harmonisation of standards, coordination of control initiatives, in the allocation of PPE, respirators, and other medical equipment, as well as in monitoring. The lack of speed and frankness of decision-making at national and international level did not succeed to warn early and contain the disease. WHO governance and leadership, as well as national reactions, combined with lack of funding and broader geopolitical constraints are all valid explanations for this failure. On the other hand, instant scientific cooperation on a global scale made it possible to quickly sequence the genome and results have been remarkable in vaccine research, funding and rollout (the less than one-year period for the availability of multiple vaccines has been extraordinary). Finally, the effectiveness of collaboration in vaccine distribution within the framework of GAVI remains to be seen, as well as issues of rollout in the global south.

6. **The way forward - a first-best approach.** Looking forward, it is hard to escape the conclusion that the current governance system is not well equipped to deal with new (and possibly increasingly recurrent) pandemic emergencies. What is required is much more than marginal changes and tinkering with rules of existing institutions. A first-best approach would entail nothing less than the repositioning of global health governance in the world order, 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. Not least, such a fundamental reset would need to integrate more closely the health issues of developed countries with those of the developing world. This would also imply the need to think beyond narrow health policy when it comes to the prevention of pandemics. Loss of biodiversity and natural habitat is an important driver for more frequent pandemics and diseases. In terms of

governance, this fundamental restet would require either a new universal framework for cooperation or at least a substantial overhaul of the WHO in terms of higher permanent funding (including via new permanent resources) and responsibilities (a new health Treaty). As the problem has been the lack of political support for reforms, this would necessitate a political push from the heads of state and government (presumably from the G20) at least as strong as the impetus provided in the immediate aftermath of the global financial crisis.

7. **Settling for second-best?** Political realities on the sovereignty issues that many nations perceive to be surrounding health suggest a second-best approach should also be envisaged. A successful reform at the margins of the existing system would need to build on what works and scale up successful initiatives. The first layer would be a universal mechanism for standard-setting, information-sharing, monitoring and alert on infectious diseases. It would be assigned limited responsibilities but be equipped with the legal, institutional and financial means to exercise them fully, in cooperation with a network of regional bodies. This mechanism could rely on a reformed WHO or, possibly, on an newly created institution. Building on successful existing initiatives, a second layer would include dedicated cooperation schemes (for specific research, the fight against particular diseases, capacity-building, tec..) involving on a variable-geometry basis regional institutions, governments, charities and dedicated NGOs.

Seminar minutes

Adrien Bradley

One convenor introduced the seminar by reflecting on the structure of the collective action problem that the Coronacrisis represents in international health governance. Incentives to cooperate should be stronger than in a "tragedy of the global commons" structure such as climate change: beyond curtailing the obvious spillover effects, action benefits first and tangibly a state's own citizens, and can only be as effective as its weakest link. This structure makes it kin to prudential efforts in financial governance, which are less internationally institutionalised. Despite a strong epistemic community, a long tradition of cooperation, and recent WHO reforms to reinforce its authority, international health governance is deemed to have failed to respond to the crisis with appropriate speed and transparency.

Session I - Why the collapse in cooperation?

The first speaker challenged the convenor's pessimistic analysis. They recalled the unprecedentedly short amount of time that development and rollout of vaccines and treatments has taken, the unprecedented global data-sharing and resulting scientific collaboration, and the concern shown for lower-middle income countries (LMICs). The crisis has given birth to political will in the international community to revive a stagnant WHO, as well as in the EU with plans for a Health Union. It is precisely political will that created dedicated organisations to deal with specific health governance problems the WHO could or would not deal with, with the establishment of the Global Fund, UNITAID, and GAVI: rigidities and deficiencies of the UN were bypassed "within itself", as they remain its satellite organisations, and have displayed effective operational cooperation to implement its Sustainable Development Goals.

> *"The WHO was almost dead. Now, everyone is listening."*

This success should not obscure underlying weaknesses however: this kind of fragmented multilateral governance by delegation, lacking unitary directive political will, satisfied richer countries pre-pandemic, as fairly flexible, agile and funded institutions seemed in place to remedy the problems of the distant global South. It also bypassed addressing structural problems of WHO governance: it has no independent monitoring and sanctioning capacity, its unitary capacity is hampered by its regional sub-bodies, and it is severely underfunded. Philanthropy emerged to fill this gap, but earmarks funds according to its own interests. Operational cooperation has been effective until now, if not entirely centred around the WHO, but has met its limits with the pandemic, as countries in the global North scramble to face a situation they did not believe could really happen to them, despite expert advice and forewarning events (Ebola, SARS-1).

The second speaker echoed the first speaker's point on the relative unpreparedness of more developed countries; LMICs that have underperformed have done so because of a lack of or obstructionist political will, as in Brazil. They noted that for all the concern displayed towards LMICs, they will still suffer from vaccine inequality: richer countries will receive vaccines earlier, in a wider variety than that afforded to them due to costs and physical constraints (e.g. ultra-refrigeration). This will have amplifying effects on global inequality.

One participant identified four significant failures that hampered collective action in the face of the Coronacrisis. First, the WHO relies for monitoring on member state bodies, on whom governmental pressure can be exerted. Extraordinarily, it is allowed to consider non-state sources, but this is politically delicate, as the early stage of the crisis showed with China's disqualification of Taiwanese data. Second, the timing and responsibility for triggering a Public Health Emergency of International Concern (PHEIC) is equally politically delicate. Third, there was a lack of incentive to prepare for a pandemic, including in many LMICs due to their other pressing concerns. Finally, supply chains for basic health materials suffered strain from competing procurement demands, resulting in unequal distribution. To ensure this is not the case for vaccines, COVAX is meant to pool the purchasing power of its participants and ensure equal distribution: it is the "vaccines pillar" of the Access to COVID-19 Tools Accelerator (ACT-A), a multi-stakeholder partnership to strengthen health systems, and develop diagnostics, treatments, and vaccines. It is coordinated by GAVI, the Coalition for Epidemic Preparedness Innovations (CEPI) and the WHO, and is funded not only by member states but also by multilateral and regional development banks.

Discussion proceeded with participants striking a nuanced position between optimism at unprecedented successes and disappointment at manifest governance failures in the face of geopolitics. The temporal dimension was pointed out: like in the global financial crisis, initial uncertainty first impulsed uncoordinated (or even predatory) national reactions, where prisoner's dilemma-type thinking takes over, and institutions must learn by doing. More or less rapidly, however, flexible and solidary cooperation emerges, but its dissipation (as with the development of effective vaccines) is accompanied by rising selfishness and the re-emergence of the "paradox of sovereignty": states are bound to signal support to their citizens in priority, even if collective international action ("restricting" sovereignty) would address the problem better. International organisations remain dependent on states for authority; whereas American withdrawal from the WHO can written off as Trumpian pique and did not damage its authority too severely, the US's criticism that it undermined its own credibility by soft-pedalling China and issuing contradictory scientific advice for political reasons cannot. Participants criticised the low level of scientific discourse and political leadership in some countries, and compared the authority positions and leadership of Christine Lagarde and Dr. Tedros in their respective situations of crisis; she "told the truth to power", he did not.

One participant remarked that while information-sharing was indeed impressive, little of it filtered to political and policy levels in useable time; this is a failure specifically for the EU, which has legal basis to assume this competence. Another cautioned that structures of collective action problems in global health will depend on the nature of the problem (infectious vs non-infectious diseases, airborne or not, relative virulence, etc. It was pointed out that funding to combat infectious diseases, public and private, is extremely low). A third discouraged institutionalising the COVAX facility, recommending instead to regionalise health governance in existing economic blocs (EU, NAFTA-MUSCA, ASEAN, AU, etc) rather than WHO regions.

The first speaker stressed the necessity of analytically separating questions of how to help LMICs and why richer countries were ill-prepared. They highlighted their view that Ebola is an inappropriate analogy, and that the WHO was moribund before a concerted effort by France, Germany and the EU to revivify it. A convener agreed that fresh delegation of authority to an international organisation from its member states seems to require crisis: as with the IMF, so with the WHO. Optimal institutional mix is the key question, as institutionalisation can be pursued either multilaterally or in variable geometry constellations. The emergence of a vaccine should not obscure the failure of prevention and management of the crisis.

Session II - How to rebuild?

The first speaker returned to the roots of the crisis, diagnosing that continual interconnection and encroachment on nature has created an environment where contagion spreads farther and faster. Reduced state capacity in this domain becomes another fertile bed for populist political exploitation. Vaccines will not bring back "business as usual", and health governance needs wholesale reform. Continuous reform of the WHO, a post-WW2 institution, has only exhausted it and shown it to not be fit for purpose for a globalised world. International health governance should not adapt to global governance imperatives; global governance should adapt to international health imperatives, as it has for those of trade and finance. Preventing and better mitigating similar future health crises is just as imperative, because shutdowns have been extremely socially and economically damaging. The question of funding of crucial: as it is, international health governance bodies, woefully underfunded by member states (and sometimes at existential threat from the withdrawal of one, i.e. the US), are beholden to the pet projects of private interests; though laudable, they do not always correspond to actual or eventual needs of LMICs. The WHO is now primarily funded by the Gates Foundation, and its second-largest contributor is Germany. International health should enjoy funding independent of international events and political cycles, perhaps through a transnational tax on transactions; the speaker noted that UNITAID is partly funded in this way (by a levy on airline tickets, pioneered by France and adopted in some West African states, Chile, and South Korea). The WHO is clunkily bureaucratic and undemocratic: international health governance, on the whole, must be democratised.

> *"We can't just tinker with what we have for health governance. ."*

To a question by a convenor on the efficiency of clubs and targeting key actors, the second speaker argued that the WHO, for all its failures, continues to assume irreplaceable, multilateral functions, especially for monitoring: elaborating, harmonising and disseminating international standards, protocols for data reporting, sharing of lab results, etc. Politics is inescapable, and domestic attentions are elsewhere, so we will only see tinkering reform. Yet there is hope for WHO standards, if better surveillance can established; perhaps by a separate organisation, on the model of the FSB for finance. CEPI is an example of an effective initiative for preparedness, and should be transposed on a wider scale to antiviral treatments. The speaker concurred that financing of international health is the crucial question, as is how to improve incentives to do so for preparedness and response efforts.

It remains an open question whether the Coronacrisis is an exceptional, once in a century event, but scientific indicators do not invite optimism. It is the second coronavirus outbreak causing severe acute respiratory syndrome (SARS), after the first epidemic in 2003: hence its scientific name, SARS-CoV-2. Coronaviruses are endemic and mutatory, and there is no reason to believe this one is different: indeed, it has already mutated to an even more virulent strain. Moreover, there exists a growth trend of emerging and re-emerging diseases correlated with globalisation, as well as increasingly dire warnings about antimicrobial resistance: according to one participant, this will certainly be a future global health crisis.

Discussion circled back to the reasons for failure, in order to think about how to rebuild, with a mind towards preparedness for future events. One participant noted that the WHO had made repeated assessments that many of its member states, including those of the EU, were not compliant with its International Health Regulations (IHR), its legal instrument defining states' rights and obligations in handling potentially transnational public health events and emergencies. Furthermore, the health crisis quickly became a multi-sectoral crisis as global value chains, especially for protective equipment (masks), initially underwent severe stress, and are now under pressure as calls to reshore production nationally strengthen, especially for vaccines. This is short-sighted, as a regional view is more appropriate. National preparedness, in line with commitments made to WHO guidelines, as well as sectoral cross-effects must be addressed; but reform of global health governance must have a manageable scope to be feasible. The crisis is an occasion to commit to, at least, pandemic preparedness and management.

Participants were divided on whether to concentrate on the WHO as a focal institution. Some argued that while the G20 ministerial meetings had thus far been ineffective, new life could be breathed into them, especially considering the entanglement of health and social and economic issues. The G7 could also be called on, as the US will likely cease obstruction with a new administration. International financial institutions like the World Bank and the IMF must rethink their "health economics" paradigm, and perhaps revise their charters, to truly take this intrication into account. One participant interjected that the IMF has the best existing self-financing model, and devising an international tax to fund health services seems unfeasible. One participant questioned the difference in treatment between financial and health crises, noting that vast sums were quickly mobilised for the global financial crisis whereas CEPI and the COVAX facility still have to beg for money. Regional blocs could also be leveraged, especially the EU: it was one of the initiators of ACT-A, and its Health Union proposals package is welcome in this respect.

The conveners concluded that the present international health governance architecture may be fundamentally unfit for purpose, necessitating more of a rebuild than a repair. Shared interest in cooperation, especially because of the broadness of the issue and the potential for recurring crises, does not translate to effective incentives to do so, and sovereigntist reflexes and ideas remain a key sticking point. A focal institution with a clear mandate, political will to back it up, and secure and adequate funding are still sorely lacking.

Seminar programme

17 DECEMBER 2020

16.30 – 16.40	*Welcome and introduction*
16.40 – 17.30	**Session I - Why the collapse in cooperation?** What lessons can be drawn and what coalitional strategies should be pursued from the Covid-19 pandemic health governance? Chair**: Jean Pisani-Ferry** | EUI Introductory remarks: **Monica de Bolle** | Peterson Institute for International Economics, **Marisol Touraine** | Former French Minister of Social Affairs;
UNITAID	
17.30 – 17.40	*Break*
17.40 – 18.20	**Session II - How to rebuild?** How can states and international organisations rebuild a better international health regime; with what protection, accountability, inclusiveness? Chair**: Jean Pisani-Ferry** | EUI Introductory remarks: **Amanda Glassman** | Center for Global Development, **Kelley Lee** | Faculty of Health Sciences, Simon Fraser University
18.20 – 18.30	**Concluding remarks**

Seminar participants

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The Governance of Climate Change: Making it Work

Seminar insights[62]

George Papaconstantinou, Jean Pisani-Ferry and Laurence Tubiana[63]

1. Climate change is the most pressing and challenging collective action issue. Climate change mitigation exhibits all the characteristics which ought to drive collective action. The preservation of the climate is a paradigmatic public good problem whose urgency is underscored by abundant and unequivocal scientific evidence. Climate is also a policy area where delays may lead to potentially irreversible damage. At the same time, it involves an unavoidable risk of free-riding on any solutions commonly agreed, as regards governments' willingness to enter into commitments to reducing carbon emission or in implementing these. Furthermore, climate change raises daunting intergenerational and international equity issues that are hard to solve in theory and even harder in practice. Any solution involves distributional choices along those two dimensions, and also raises in all countries further issues of distributional equity amongst living citizens.

The transition to a socially superior equilibrium therefore creates both relative winners and losers across generations, between countries and within countries. For these reasons collective action in the field of climate requires solving major problems of intertemporal choice,

62 The seminar was held on 20-21 June 2019 in Paris (France), jointly organised with the European Climate Foundation.

63 CEO of the European Climate Foundation; former Special Representative for the 2015 UN Climate Change Conference (COP21) in Paris.

international coordination and distributional equity, as well as tackling enforcement challenges.

2. The global climate governance framework is not up to the task. At its centre sits the 2015 Paris Agreement on mitigating climate change, which de facto substituted the more coercive but far less comprehensive Kyoto protocol of 1997. After having failed in 2009 to negotiate and implement binding targets for each and every country, the eventual agreement on a series of nationally determined, non-strictly binding objectives was and remains indicative that the international community has chosen breadth at the expense of depth. Yet, despite the fact that "the house is burning", the sum of individual commitments by countries, local authorities, businesses and investors do not add up to the collective objective set by the Paris Agreement: limiting the average temperature increase to well below 2°C, aiming for 1.5°C.

The Paris Agreement reflected a new reality and a recognition that emission reduction pledges could not be limited to the advanced countries, that the model of timetables and targets could no longer work, that national sovereignty could not be circumvented, and that agreements needed to represent the diversity of the multiple players involved. It was a watershed as it represented a shift from negotiated national commitments to coordinated unilateral pledges. In essence, it defines a process, a learning method, an enabling framework coupled with a peer review and an agreement to assess at regular intervals whether intentions and actual actions measure up to the commonly agreed overall goal.

It is meant to be a platform for accelerating climate action, a way to motivate countries — but also the many other actors of the climate regime, through a process of information exchange, of constant benchmarking and pressure, with the aim of aligning objectives as a substitute to a centralized governance mechanism. Its effectiveness however is yet to be ascertained; it has certainly been hamstrung by political shifts since 2015, most notably the US withdrawal from the Agreement. Nevertheless, commitments under the Agreement must be revised and increased by 2020, when it starts its effective implementation. The idea is to progressively internalise the long-term goal as net zero GHG emissions by 2050, making it become the new reference point for governments and other actors.

As things stand, the intended contributions registered under the Paris Agreement are grossly out of line with its stated goal. Incentives to free-ride by under-pledging and under-delivering remain massive. Furthermore, climate coalitions are by nature unstable and leadership risks being ineffective as first-movers in the emissions reduction game end up having made themselves, by their very success, irrelevant for the next step of climate action. This best-performer curse is inherent to the problem at hand.

3. Departure from the simplistic one-agent, one-period model may lead to more optimism. Climate change mitigation strategies cannot be assessed through simplistic lenses. To start with, states are not the only players. Cities and local governments are also involved, especially as greenhouse gas emissions and local pollution are often correlated. Several have started using the regulatory means at their disposal to foster speedier decarbonisation than envisaged by national governments. Second, private companies have incentives to engage in the development of low-carbon technologies because of the first-mover advantage that may result from early research and investment. Third, states themselves have reasons to encourage such investment because of the comparative advantage that may result from having been involved in the shaping of new technologies.

The important point here is that for those dynamic forces to be set in motion and strengthen the drive towards decarbonisation, it may not be necessary that international agreements be credible and deliver decarbonisation with a high probability. It is sufficient that they credibly set the course towards an irreversibly greener economy. This may be enough to change the nature of the game and make it possible that a soft agreement such as the Paris Agreement provides enough incentives to action to affect private behaviour significantly.

4. A widening gap between frontrunners and laggards raises concerns about the adequacy and the viability of the current framework. The Paris Agreement brings under the same umbrella front-runners (such as Scandinavian countries) actively engaged in the decarbonisation of their economy and laggards (such as Poland, the US or Gulf states), whose commitment to reducing emissions is at best shallow. The question is how long all these can remain, nominally at least, part of the same endeavour. Front-runners are likely to be increasingly concerned they are incurring the cost of climate action while others free-ride on their dedication while enjoying the benefits from lower production costs. Laggards may feel that they are not part of the race for technology leadership and are unlikely to reap the benefits of investing into clean technology. The former may insist on more binding agreements or compensatory measures. The latter may fall further behind as following the lead is a challenge, with little scope to expect being rewarded for one's effort.

This logic may result in an unstable bimodal distribution of efforts and outcome, with the consequence that an economically inefficient and politically toxic two-tier club structure may emerge. Solutions to such divergence may involve specific trade measures (such as adjustment taxes) and/or transfers on a wider scale than envisaged (and hardly implemented) thus far.

5. The plethora of available policy tools need to be harnessed to deliver the desired result. The climate governance challenge today is to create a collective action framework which amounts to more than the sum of its parts; to reconcile precise and binding global top-down goals with voluntary bottom-up contributions that do not add up to the stated goals - certainly not to the aspirational goal of capping temperature increase to 1.5°C or carbon neutrality by 2050.

Given the size of the task and the collective action challenge, this necessitates an approach which combines incentives for behavioural change (such as agreements to reduce emissions in particular sectors) with direct action (such as direct carbon capture). It is also an approach which needs to pay more attention to the problems both consumers and producers are faced with in the transition period, and to issues of burden-sharing and fairness. Practically, this may also imply segmentation as a future policy direction: breaking up problems into pieces and looking to create agreements on smaller climate-related issues, as a complement to the global climate framework rather than a substitute.

A number of policy tools have been used for climate change mitigation: Pigouvian price-based such as carbon taxes; Coasean rights-based such as emission trading permits; regulatory, driving the adoption of cleaner technologies; and legal requirements, which have helped phase out harmful substances. These have all individually contributed to climate change mitigation but have not however created the critical mass required.

Part of the reason lies in the lack of political support for tools such as a global carbon tax or the coordinated phasing out of fossil fuel subsidies. Such support has been undermined by policy design not taking into account distributional effects or failing to include side payments (for example incremental costs to developing countries being borne by richer countries). More broadly, an impact assessment on the various policy tools is required; a broader view incorporating their macro (economic and social) impact, and their potential to help tip the incentives from the static costs to the dynamic benefits of shifting to clean technologies.

6. The climate emergency is also a unique investment challenge. Seen in a dynamic setting however, a major policy challenge is to change business expectations concerning the future in order to generate a critical mass of investment in clean technology, renew the capital stock, accelerate the transition and turn the climate issue from a catastrophic vision to a solution for growth. This requires the transformation of private finance to support such investments (some of which is already taking place), coupled with large public investments in the same direction that act as demonstration effects and as incentives.

It is often hoped that a change in investors' attitude and the promotion of green finance will be key drivers of the transition to a carbon-neutral economy. Despite the certainty about the impact of climate change, however, there is a case of market failure combined with information failure when it comes to forward-looking investments: the existing uncertainty as well as the increasing returns involved in clean technology are bound to generate investment below what is socially optimal in the longer run.

7. Climate action must not be left to specialised bodies and institutions. Governance at global level is mostly driven by states; and it is most successful when political support (expressed for example at G7 or G20 level) combines with existing multilateral institutions to generate cooperative behaviour and solutions. This is unfortunately not the case in climate governance at the moment: global institutions such as the IMF and the WTO are in principle supportive of climate action but not actively engaged in promoting it.

There is by now a clear need to mainstream climate change mitigation, so that it is taken on board in policy design, policy coordination and policy surveillance. This should apply for example to public finances, tax policy, financial stability policies (where action has started already) and trade and investment policies, to mention key fields only.

Climate governance furthermore exhibits some promising characteristics. One is the already mentioned mobilizing role of sub- and supra-national entities (cities and regions); these cannot substitute for action at state level, but act as complements, generating pressure as well as a real contribution towards attaining climate goals. A second is the political pressure from grass roots movements. Both in the US and in Europe, civil society is making up for lack of leadership at political level; as a result, climate issues have risen in the political agenda. This may help generate the required ambition in the governance framework, with the danger however that whatever positive governance developments materialize are swamped by the extent of the climate problem.

Keynote – The Paris Agreement and its future[64]

Laurent Fabius, President of the French Constitutional Council. Former French Prime Minister; former chair of the 2015 UN Climate Change Conference (COP21)

Almost four years after the conclusion of the Paris Agreement (PA), the speaker made five points about it, followed by five forward-looking points.

- *There is an unfortunate discrepancy between goals, commitments, and results. The goals were simple and ambitious; commitments are looser; and results are far from satisfactory, putting the world on a track for 3-5°C of additional warming. The PA itself is criticised for this, despite the fact that it is states that are responsible for not fulfilling their commitments.*
- *Institutional fora have less and less spectacular results. This results from a decline in authority of COPs and G7-20s. This is in line with the crisis of multilateralism and international law, leaving irresponsible attitudes unpunished globally. These can be outdated, but it would be a mistake to abandon them.*
- *The necessity of consensus made sense when multilateralism was vibrant; now it can only produce minimal results. The PA was made possible by an alignment of forces (US, EU, China) that no longer exists. Facing the ecocidal Trump and Bolsonaro administrations, the EU faces difficulties assuming a leadership role, and China is unlikely to move forward absent a richer counterpart. Worse, Trump's announced withdrawal from the PA gives other states license to do the same or ignore it.*
- *Meetings and coalitions between and with non-state actors (cities, regions, NGOs, PPPs) are developing and taking an important governance role. Subnational actors, scientist groups, youth movements and courts are having a growing influence on climate change governance. This is challenging the prevailing perception that climate change*

64 Summary by Adrien Bradley.

is a long-term, international issue whose solution cannot come from short-term oriented, democratic choices made within national contexts. States retain a decisive role, but subnational actors in particular can drive effective action. California, New York, universities, cannot force Trump back into the PA, but they can uphold its goals with significant effect.

- *Different environmental problems are interrelated, whereas political agreements within the framework of the prevailing global governance regime are mostly sectoral. This creates a dangerous and underestimated potential for governance gaps.*
- *Complex governance structures and new international organisations could be dreamt up to deal with these points, but it is important to be realistic.*
- *Political will must be insisted upon more than ever before. Epistemic communities and public opinion can block, sway or eventually replace ecocidal governments. Political will must also be deployed to at least maintain COPs as institutional fora for taking stock, reporting and comparing commitments; or more, to improve them. COPs should be better coordinated with IPCC reports to leverage effects of scientific work on public opinion and political leaders. Their core should be opened to non-state actors, who are for now kept to side-events. They should be prepared with Finance ministers to remind governments of the nature and structure of commitments made, and to highlight costs, benefits and opportunities of climate change mitigation and adaptation efforts for states. By the same token the IMF should get involved. They should pay serious attention to innovation in technology. In all of these respects, the 2020 COP26, where revised NDCs will be submitted, will be very important as a chance to enhance COPs as meaningful mechanisms of climate change governance.*
- *Focus must be brought to under-discussed sectors and themes, such as greening air travel, shipping, agriculture, finance, and technology, as well as drawing attention to the effects of climate change on global health. Immediate action on mitigation and adaptation is imperative, but two major mistakes must be avoided: losing the long-term, holistic vision, and framing the struggle exclusively as risks and negatives to be averted.*

- *The EU has a role to play in multilateral fora, especially vis-à-vis China and India; discussions can be held on the basis of specific objectives. Action plans requiring consensus have foundered (e.g. recently the Global Pact for the Environment project proposed by President Macron): states should have the courage to start taking some decisions by QMV.*
- *Special attention must be paid to two issues. First is coal, which represents the bulk of the problem: if all currently projected projects are completed, there will be no way to avoid catastrophic climate change. Second is carbon pricing, which, as the only feasible tool in a market economy, commands widespread support in theory, but needs hard work to materialise in practice. Coalitions supporting it exist but are insufficient.*
- *Attention must also be paid to the question of a just transition. The PA addresses this only imperfectly, and frustrations due to mismatches between climate policies and poorer people have become glaringly obvious with the emergence of the Gilets Jaunes movement for example. This concern must include the issue of climate refugees.*

The 2019-21 period will be critical. NDCs will be reviewed and states will have to start integrating the 2050 horizon; there will be short-term consequences, but it is the first time so many states will have to look so far ahead, and that is worth supporting.

A daring comparison of the PA to the Final Act of the 1815 Congress of Vienna can be made. They were very different ways of doing diplomacy and tackling problems in two very different worlds. Vienna was secret; Paris had to deal with public opinion. Vienna involved only states through their Foreign Affairs ministers; Paris involved all relevant state and non-state stakeholders. The same format can and should be used in the future for other topics, though established institutions will still have a role to play. Optimism should be maintained moving ahead.

Seminar minutes

Adrien Bradley

Session I - The framework for climate governance: Exploring international achievements and shortcomings at global level

The first speaker explored what has been learned since the adoption of the PA. The Kyoto model of timetables and targets did not work, and the club model did not work alone. National sovereignty cannot be bypassed (especially relevant for the US, where the Senate is a near-insuperable barrier) and top-down measures do not work: there are multiple loci of decision. Climate change governance is a regime complex, which must be approached with tools of multilevel governance; its actors are engaged in a learning process to break through its impasses and achieve collective action that amounts to more than the sum of its parts. In this respect, the PA is meant to be a "hook" on which to hang more action on decarbonation.

The NDCs were designed to try to conciliate the (top-down) global goals and national sovereignty, by allowing states to determine their own contribution towards emissions reductions. While the numbers aren't binding, the surrounding framework is; as are the hard-fought benchmarks of carbon neutrality by 2050 and the goal to limit warming at 1.5°C, which is where the battle will lie. The PA sets out a form of experimentalist, learning governance where numbers, metrics, and policy are uncertain, thus mandating stock-taking and revision every five years to update wrong predictions. Repetition is therefore a key condition to cooperation.

Implementation and enforcement thus rest upon peer pressure and common expectations of the future, which can be enhanced by state- and non-state actors (cities, regions, businesses, financial institutions…). The goal would be for all to integrate in their decision processes the PA's goals, turning rational expectations into a self-fulfilling dynamic, with civil society as a watchdog. The scientific community has a role to play in shifting from catastrophistic, victim-mentality narratives to ones emphasising agency and opportunities.

Significant headwinds can be expected however, the most obvious being the Trump and Bolsonaro administrations. Subnational actors and civil society involvement, picking up the slack of national leadership, is vital, but needs to go further. It remains to be seen how far businesses and financial institutions will align with the PA's goals.

The second speaker took a historical look at climate negotiations. At the 1988 informal Toronto conference, a plurality of states (led by the EU) managed to set a collective target for emissions reductions, and agree on the instrument of a carbon tax to avoid free-riding, but the positions of the US (energy costs) and developing countries (differentiated responsibility) meant that negotiation was pushed back to the Rio conference. The Kyoto Protocol enshrined the principle of differentiated responsibility and top-down negotiated targets, but the US refused to ratify it; but on a deeper level, lack of enforcement mechanisms made it unworkable, and the same reason doomed the Copenhagen conference. This is where language shifted from commitments to contributions, diminishing countries' individual responsibility towards achieving a collective goal. The process was rescued at Cancun, leading to Paris.

The PA manages to state the collective goal more precisely than before, but at the price of leaving the means to achieve it severely undeveloped; it scrupulously respects national sovereignty while appealing to states' responsibilities and self-regard through peer pressure. Intended NDCs (I-NDCs) are very different from the negotiated targets of Kyoto, but even if all fulfilled and added up, emissions would still continue to rise, which is completely incompatible with the stated goal. While there has been a change in rhetoric, the free-rider problem remains intact.

> *"The Paris Agreement changes what the players say, if not what they do."*

One successful instance of curbing free-riding while tackling a collective action problem is represented by the Montreal Protocol and its Kigali Amendment on curtailing HFC emissions. A key provision is its trade ban between parties and non-parties of HFC-containing goods, so that participating states can keep trusting others' commitments. It is an example of coordination, not voluntary cooperation, with no presumption of an inability to enforce its provisions. It would be possible to forge ahead on climate change governance in the same way as with HFCs, acting on different aspects of the problem discretely; the PA opens the door to this. A more radical approach would be a Nordhaus-style climate club with border tariffs, but it does not factor in potential retaliation, nor that its carbon pricing is too low. Thus, beyond the fact that coordination games are difficult to play, it is not even certain that their conditions are met; and were they met, and a critical mass of states assembled, the sum total of avoided emissions might not be sufficient. It may become necessary to seriously count on immature or speculative technologies such as mechanical carbon capture and storage (CCS), or solar geo-engineering.

In discussion, one participant proposed that when a problem can't be solved, the context should be widened. International tax reform coordination could ignite self-fulfilling expectations for business and the public, moving the politics and easing the way for governments. Another participant (Victor) agreed with the need for this, calling it "deep tax reform" as opposed to the (equally necessary) shallow tax reform of eliminating subsidies to emitting industries.

Post hoc ergo propter hoc fallacies should not be committed in assigning success to the Montreal Protocol cautioned one participant: the emissions it covers come from essentially a single technology (refrigeration); the US was favourable as Dupont was phasing out the gases; widespread anger in India helped ratification there. The alignment of a single issue with a clearly identifiable political economy made it an easy issue to tackle. Another participant opined that what had worked for Montreal and Kigali was a clear and mutually acceptable fixing of the distribution of short term-costs in the deal; but recognized this was difficult to attain, politically difficult to sell, and potentially socially divisive.

Selective history is indeed a danger agreed one participant, observing that Montreal was not simply a bargaining exercise but a learning one as well. It may not be an adequate bearer of lessons for the PA: the prevailing, top-down bargain view of the world that produced an excellent but politically unworkable result at Toronto has given way to a learning view, where more actors than states are used to experiment in co-creating governance. Learning implies making mistakes however, and institutions and states must face the politics of admitting them. Learning is also a slow process — which, given the pace of climate change vs the uncertain possibilities of new technology, is likely lead to undermitigation or overadaptation.

One participant commented that the learning view of climate change governance implies analysing it as an information failure as well as a market

> *"Greenpeace has done a better job than the IEA in predicting the falling prices of renewable energies."*

failure. As such, like the keynote suggested, it would be good for COPs, which bring all actors together, to be coordinated with IPCC reports; though this would not be sufficient to shape expectations, as the first speaker called for. This is a big problem, as good forecasts are needed when commitments are being elaborated. One learned lesson is that the current system has perverse incentives to set low targets so they can be easily met and revised. Another is that the sectoral approach (like Montreal) can be a useful complement, and should be applied to coal, aviation and maritime shipping, despite the difficulty. The WTO rules can also be leveraged.

To another participant, the PA is not just a learning model of governance, but an enabling one through its incentives. It has "carrots", but only the weak "stick" of peer review. Incentives and disincentives should be seen as dynamic and kept on the agenda; the G7-20 should get more involved. Another participant agreed that leaders should actively explore what mitigation efforts could be pursued outside the PA. One called for radical ambitions to be set due to the discrepancy of PA goals and commitments, warning that if Trump is re-elected the PA risks falling apart and geoengineering becoming, frighteningly, necessary. There is no way of knowing what the costs might be and who would bear them, not to mention the global democratic problem this kind of scheme would pose.

> *"If we want to limit warming to 2°C, we need three times the NDCs' ambition. If we want 1.5°C, that's six times."*

The second speaker defended the positive, future-oriented effects of Montreal: it stimulated R&D, innovation and patent applications. The distributional and enforcement aspects are indeed crucial: richer countries should pay the incremental costs, e.g. of switching to less-emitting technologies for poorer countries. This kind of scheme exists in Montreal but not in the PA. Advancing CCS is the only way to stabilise temperatures without behavioural change; it just requires financing and is akin to a coordination problem. Other than technologically, this can be done by large-scale reforestation, though this poses land-use problems. Solar blocking should also be seriously examined. It will take decades to ascertain whether action has had the right impact, but the risk of inaction is much greater.

The first speaker recalled that the PA cannot be more than a hook on which outside action (such as sectoral action) should hang. G7-20 involvement may not be ideal however: the G20 in particular is disinclined to produce more global goods than in the financial domain, and that was spurred only by a huge, tangible crisis. There is a failure of global leadership and institutions here. Montreal will soon be truly tested, as CFC emissions are growing illegally, probably due to China; it remains to be seen how this will be dealt with. Informational failure is a reality: governments, but also businesses and civil society hold false beliefs about the costs and feasibility of renewable energy generation. This extends to the distributional issues: e.g. determining what is rent-seeking and what is a legitimate demand for assistance to transition for fossil fuel industries. Good governance is attained where there is the capacity to articulate different mechanisms and get to common measures, bridging power, bargaining interests, and the learning process.

Session II - Second-best solutions: Regional coalitions, creative coalitions and other alternatives to a global agreement

The first speaker evoked the proliferation of non-state/subnational actors since the PA and the importance of supporting them to pressure governments, especially in non-democratic countries like China. China is guided by three principles: its self-interest; its sovereignty; and enhancing its international image. The PA was acceptable to China because China has redefined its self-interest as lying in clean energy. China does not want to be seen as lagging on targets, but will not commit to them unless it is certain it can attain them (unlike some other states). This domestic and international interplay can create virtuous circles, as happened with sulphur emissions in shipping: China figured out how to meet its own pollution targets, then supported the International Maritime Organisation's global cap, and then reinforced its own regulation. This highlights the importance of bringing together domestic coalitions and fostering local champions for effective sectoral action; these can be leveraged to raise China's long-term decarbonisation ambitions. To do so, it is necessary to collect detailed information on impacts and how to distribute efforts; develop good policies to propose to local governments; and dovetail with national priorities (like the 5-year plans). Globally, a carbon neutrality club will be key for the future. Many state and non-state actors have made ambitious commitments: coalitions should be built with a wide range of actors to work out how targets can be met at subnational level based on common goals.

The second speaker was more pessimistic, noting that while fostering virtuous circles and grassroots mobilisation is important, precise mechanisms of change are unknown. Mobilisation can be fungible (e.g. extending concern from plastic pollution to the petrochemical industry), and is increasingly questioning corporate concentration and financial power; but it can be a double-edged sword, helping or hindering action. Institutional investors and ratings agencies are beginning to demand and use better environmental impact assessments. These kinds of signals (also from business, courts, shifting consumption patterns) were important in getting to the PA, and will be more so moving ahead. Widening the scope (to tax, trade…) to tackle the problem is a good idea; all levers of action should be used by creative coalitions.

It is less important to analyse leadership than followership, proposed one participant. On the one hand, best performers become irrelevant: the more one actor does to attain their commitments, the more they marginalise themselves in terms of volume of emissions. A systemic view should be privileged. On the other hand, when experimentation yields good results, studies should be made on how these early "niches" of activity propagate: e.g. France's development of unprecedented ramping technology for its nuclear power plants, allowing greater contribution of renewable energy to the grid. Fragmentation is inherent to the experimentalist process, but governance and innovation are developed best organically at small-scale; there should be a mechanism to sift the chaff from the wheat. The lure of first-best coordinated strategies should be weighed carefully against the reality of second-best solutions.

Successful small-scale initiatives should be built on regionally to coordinate wider application added one participant. Another participant seemed the followership game view pertinent, as the EU represents 8-9% of global emissions now, 5% by 2050; other actors will matter far more. China's consulting the EU on carbon markets design in a context of comparable sub-unit diversity is a good case of followership exhibiting experimentation and learning. A darker example would be the EU imposing tariffs on the US, possibly in view of protecting the PA, following the Trump administration's "first shot" and continued assault on the WTO. One participant warned against using the trading system unilaterally for other policy goals: the use of trade measures in

> *"Trade wars lead to real wars."*

Montreal was multilaterally agreed upon and dissuasive only.

One participant argued in favour of leadership however, considering it counterproductive to introduce conditionality in emissions reducing schemes: a carbon border adjustment tax for example would just prompt other countries to tax the exported products at the same rate. The main question is distributive: the EU should unilaterally act in the global interest by complementing the ETS scheme with a carbon tax, and use its "carbon dividend" to support green investments and poorer regions.

> *"Macron has understood it is not possible to increase fuel taxes and cut tax rates on the rich."*

Another participant recalled the leadership role of non- and subnational actors. Business has a role to play as economic signal co-creators, but the PA is silent about accountability for its commitments. Cities played an important role in shaping and carrying out the PA. They experiment at a level close to their constituents, lead by example and put pressure on national governments; but also exacerbate a dangerous growing rural/urban political divide. This defined the last European election; better to focus on broader sectoral approaches (e.g. food production and land use, transport and energy, social cohesion).

One participant thought the first speaker's bottom-up coalition building model could be usefully linked with development agencies' practice. Direct involvement of Finance ministers is also important to mainstream green tools in their field; they should participate in COPs. The SDGs can serve to frame or hook climate issues. Another participant judged recent youth movements an effective form of creative coalition that has provided productive political pressure — but feared that pressure would also rise from catastrophic climate events.

The question should rather be which second-best to choose based on enforceability, argued one participant. The MARPOL Convention on maritime pollution has been successful as a coordination game with a critical mass of players, for example. Another participant expressed support for market mechanisms. A third participant added that much action has been focused on demonstrating immediate demand to provide political cover for governments for action; now action must be shown to be credibly taken. Another participant urged for widespread action with as many instruments as possible (markets, taxes, innovation support, public opinion leverage), recalling the role of contingency (e.g. Dieselgate spurring electrification) and the virtues of nimbleness and creativity in reacting to it to direct the political economy.

The session concluded with the first speaker commenting on the BRI: China is sensitive to criticisms of a project meant to enhance its international image, and has set up committees to deal with them (though some are hypocritical). The rural/urban divide is also relevant there, keeping the authorities from really cracking down on coal. The second speaker saw the PA less as a hook than as an umbrella, covering partial, second-best governance structures in need of coagulating mechanisms to make them tend towards the first-best solution. Instruments based on consumption emission measurement could be considered anew.

Session III - Taxes, subsidies, R&D and private finance for clean technologies: The battle between dirty and clean technologies as an instrument against climate change

The chair drew attention to the wide variation in market and state instruments employed, from a US market extreme to a more statist China. The EU stands in between.

The first speaker enumerated several tools at states' disposal to fulfil their commitments within the PA framework, which specifies none. Carbon taxes in particular are an effective instrument compared to e.g. grants, effectively leveraging an existing system and extracting revenue. The Swedish carbon tax has become a cornerstone of its climate policy: it started early and ramped up gradually, and has achieved decoupling, combining significant emissions reductions with economic growth (as currently measured). It is flexible: it abolished its remit over the covered industries when the ETS scheme was introduced; it was reintroduced in certain sectors (not subject to competition) when its price was too low; it was combined as necessary with time- and scope-limited grants or exceptions.

The speaker conceded that the Swedish carbon tax was adopted as part of a broader tax reform package, and that Sweden holds a higher preference for tax instruments than other countries. A carbon tax is politically difficult to introduce, but international organisations and national financial authorities are networking their experience and knowledge, including on cooperating to mobilise private investment and phase out fossil fuel subsidies. This and the "Greta effect" of new climate movements means international awareness and willingness to act is rising, but some sectoral issues (aviation, maritime shipping) are gridlocked due to existing international agreements. Bilateral arrangements to remedy the situation are being evoked.

The second speaker took the EU's past and recent action as a case study for instruments used. Transition costs are estimated to be huge, and the big question is how to pay for them. Carbon pricing procures two dividends, by cutting emissions and raising revenue. In the EU, the ETS and renewable energy regulations, covering 45% of industry and energy production, have reduced emissions by 29% in 14 years while raising 14B€ in 2018. The speaker did concede however that it was unclear in what proportions the avoided emissions were attributable to the ETS, renewable energy production or energy efficiency amelioration. Industrial exports kept increasing (concrete, chemicals, textiles), but there is genuine reduction: emissions were not displaced by imports (Chinese steel). More energy-intensive states receive more revenue, and all mostly follow recommendations to spend the revenue on climate change adaptation and mitigation projects. Revenue is also used to constitute innovation and cohesion funds.

The EU budget is another instrument. Currently 20% of it is climate-related; there is ambition to increase it to 25%.

Despite all this, the sums do not nearly match the needs. Private investment must be leveraged, through e.g. public/private schemes. The EU must achieve a capital markets union, while devising an action plan on sustainable green finance; it is already making a taxonomy of green bonds. There is active demand and interest for this in central banks and by institutional investors, especially long term-looking ones (pension funds).

In addition, the EU contributes to international climate finance, raising 20B€/year for the whole range of climate expenditure. But in sum, much more is needed, and it is not clear what signals can produce the right incentives.

In discussion, one participant recalled a controversial statement by Tommaso Padoa-Schioppa on the usefulness of taxes in providing public goods. The remaining uncovered 55% of emissions in the EU could be dealt with by carbon

> *"I am reminded of something Tommaso Padoa-Schioppa said as Finance minister: 'Taxes are a beautiful thing, a civilised way of contributing all together to indispensable public goods such as education, security, the environment and health.'"*

taxation and if necessary border adjustment taxes. This would provide own resources to the EU, to be used on social cohesion and productive sustainable investment. A European Citizen's Initiative on the topic is ongoing. The second speaker was sceptical however: national preferences on taxation instruments are very far apart; the EU lacks competence in the field; and border measures, attempted for e.g. aviation, were quickly abandoned due to international pressure. Carbon markets may be the more politically realistic instrument.

Macroeconomic implications of massive renewable energy production deployment and infrastructure decarbonation needs are becoming clearer reported one participant: states and international financial institutions are beginning to apprehend the opportunities of zero- or negative interest rates for investing in the future. Economists are devising new macroeconomic models based on sustainability, e.g. Kate Raworth's Doughnut Economics. Impact attribution of different measures remains a difficult problem however, and measurements and analytics are needed; better ones, integrating subsidy costs, would show that investment in natural gas is a bad bet for example. Ex post assessment should also take place to transparently evaluate efficiency and social impact of the used instrument.

One participant drew attention to the distributive effect of climate policies, which tend to be more regressive than necessary. There is an opportunity to bridge policy and politics here: technocratically focusing on policy does not positively engage people.

Another participant drew attention to the need to set expectations, for renewable energy production in particular. Feed-in tariffs are useful instruments to develop new capacity, but the larger challenge is the decarbonation of installed capacity: an exit committee for coal on the German model could be set up, following the UN Secretary-General's call for no new coal plants to be built. Gas is defensible as cheaper than full electrification in some places, and can even be carbon-neutral if power-to-gas technology can be scaled up. Investments are plateauing, but are still sorely needed for innovation in electrical storage technology and efficiency projects.

The second speaker concluded by responding that innovation is also needed to decarbonise whole industrial sectors (concrete, steel, chemicals), not just energy production, to build the cities and infrastructure of the future. The question is how to incentivise the larger actors to do more; sometimes economic incentives don't work and regulation must be resorted to. The EU may be facing unique constraints due to the Euro and its debt and deficit rules. The first speaker concluded the session by agreeing that better measurements, ex ante and ex post, are indeed necessary; as is the inclusion of all stakeholders, and taking seriously the distributive aspects while ensuring alternatives and choices for citizens.

Session IV - Fostering popular and efficient policies conducive of political support: Framing the popular and political debate to achieve carbon emissions reduction goals

The chair drew attention to the recent sharp politicisation of climate issues, and its mobilisation by all actors: the *Gilets Jaunes* affirm to be acting with ecological interests at heart. Equitable distribution and accountability issues are coming to the fore.

> *"The 1.5°C target should be our North Star. This is a unique, turning point in human history where the viability of the planet is at stake."*

The first speaker warned that latest IPCC reports predict significant differences between 2 and 1.5°C trajectories in terms of global warming and extreme climatic events: the lower target should guide the use of the full panoply of instruments available given the inevitable march of rising emissions pushing the planet dangerously beyond its boundaries.

Three doublings will occur: the global economy will double in the next 20 years, led by currently emerging economies. So will the stock of infrastructure and the extent of urban space and population. Lock-in effects of capital and spatial expenditure will resonate in the future: 9/10^{ths} of global urban areas are in floodable zones. This makes mitigation and adaptation a huge challenge.

The world stock of capital is 5-600T$. Its doubling must be coupled with the imperative of getting to zero net emissions by 2050. Even if all this new capital stock is decarbonated, emissions must still be cut. The technology exists to accelerate phase-out of polluting assets and build new ones according to new standards, but investment choice issues and arbitrary debt ceilings obstruct the extraordinary level of needed investment. It will pay for itself (and ensure the viability on the planet), but clear models are needed to secure revenue over the long term and tap into spillover effects. Japan is a unique example.

Even as these models are needed, the urgency of change has to be imparted to the financial sector despite the immediate nature of capital. In DC, water and waste renovation faced huge capital requirements: smart metering provided a reliable long term revenue model, and once demonstrated, was used to raise capital for a 100-year green bond. This very long term timeframe is already a challenge; capital markets in emerging markets have even less depth or structure to take it up. The private sector won't simply step in with reasonably cost finance: development finance will be needed at unprecedented scale. Nor will carbon pricing at the necessary scope and price. The UK model of infrastructure investment seems promising, mostly private-oriented but financially innovative and long term-driven.

The second speaker drew attention to the specific challenges of emerging economies, taking the example of Brazil. President Lula spearheaded climate action domestically and cooperation internationally on energy as well as land use and food production aspects. The current Bolsonaro administration is resolutely following an opposite path, instrumentalising global reproval to drum up domestic fervour and support. Private and financial actors are seeking bilateral solutions, especially with China, but they may still be open to other actors. Regional, but also national development banks can have an important role to play. Emerging markets should not be viewed as homogeneous; India is not Brazil. The G20 is not adapted to lead on holistic climate change action, but can work on some sectoral issues (energy). China's BRI is driving a massive demand of concrete, a significant source of emissions (global 3rd if the industry counted as a country). Bilateral and regional cooperation form a valuable "new multilateralism".

> *"30 million people live in the Amazon; not just monkeys."*

The effects of catastrophic climate change will be huge. Brazil is already hosting climate refugees. Global health will become a strategic issue as endemic illnesses shift geographically. Worse, the science is still unclear on the possible tipping points at which damage becomes irreversible: preserving the Amazon and the oceans is vital to preserve and foster carbon sinks and biodiversity. In Brazil, the military considers climate as a strategic sovereignty issue, linked to securing territory and extracting its resources. Militaries have large carbon footprints (the US' would be global 3rd if counted as a country).

One participant noted the leading role of new youth movements for climate in mobilising and informing about the scale and urgency of the task, as well as the enthusiasm in the US around the Green New Deal; the rhetoric of both is infused with social justice, but their effects remain to be seen. Another participant reported that President Macron had become convinced of the necessity of more robust climate action internationally when President Trump withdrew from the PA, and domestically with the *Gilets Jaunes* movement. It remains to be seen what his international orchestration efforts on the Global Pact will bear.

Deliberative processes have been successful in managing complex trade-offs and engaging citizens recounted one participant, with better results than classical representative democratic processes; though this might be attributable to their globally exceptional democratic environment. The framing must shift to the costs of inaction rather than action, and social justice rhetoric is an insufficient mobiliser. There will be distributional issues to face head-on, but the imperative seems to have penetrated in most quarters; even the CDU. It is telling that the extreme right is targeting climate movements. Climate issues can be leveraged against populists to take the wind out of their sails: making them debate on the topic reveals their lack of seriousness and wider governance vision.

> *"Humans are more concerned about future humans than politicians are about future politicians. Social justice rhetoric is not enough: you need to tell people, "You won't be able to buy your way out of this; they will."*

It has become acceptable to talk with the urgency that is truly needed, while states are beginning to take repressive measures pretexting climate imperatives argued one participant. Widespread societal destabilisation and civil wars are real threats. This urgency should be used to mobilise support on action, starting with collecting and using better data and measurements to deal with the distributional issues; e.g., the PNR for aviation carbon tax purposes, though some participants expressed doubts on the privacy aspects of such a scheme. Some participants thought catastrophist rhetoric counterproductive and potentially dangerous.

The session concluded with the first speaker insisting on the fact that worldwide opinion polls show the depth and breadth of concern over climate change. This must be translated to political action by building a new narrative; until now however this has not penetrated domestic or international orchestrators levels sufficiently. The 2000s debt relief campaign is an interesting parallel of mobilisation on a similarly neglected issue. Phasing out coal requires intense thinking in political economic terms: vested interests may weigh more towards capital than labour. The cost of capital is a key factor: infrastructure in emerging markets is not inherently riskier, but there are temporal, monetary and informational asymmetry issues that make it look astronomical. The second speaker stressed the contingency of politics and advocated acting bravely in peoples' needs at all governance levels; Parliaments are important democratic loci.

Seminar programme

20 JUNE

19.30	*Welcome dinner* and *keynote address*: **Laurent Fabius** | French Constitutional Council

21 JUNE

09.00 – 09.15	*Welcome and introduction*
09.15 – 09.30	*Tour de table*
09.30 – 10.45	**Session I – The framework for climate governance**: Exploring international achievements and shortcomings at global level Chair: **Jean Pisani-Ferry** | EUI Introductory remarks: **Laurence Tubiana** | ECF, **Scott Barrett** | Columbia University
10.45 – 11.15	*Coffee break*
11.15 – 12.30	**Session II – Second-best solutions:** Regional coalitions, creative coalitions and other alternatives to a global agreement Chair: **Sébastien Treyer** | IDDRI Introductory remarks: **Barbara Finamore** | NRDC, **Bernice Lee** | Chatham House
12.30 – 14.00	*Lunch*
14.00 – 15.15	**Session III – Taxes, subsidies, R&D and private finance for clean technologies:** The battle between dirty and clean technologies as an instrument against climate change Chair: **Heather Grabbe** | Open Society European Policy Institute Introductory remarks: **Jos Delbeke** | EPSC, **Susanne Åkerfeldt** | Ministry of Finance (Sweden)

15.15 – 16.30	**Session IV – Fostering popular and efficient policies conducive of political support**: Framing the popular and political debate to achieve carbon emissions reduction goals Chair**: Laurence Tubiana** | ECF Introductory remarks: **Amar Bhattacharya |** Brookings, **Izabella Teixeira |** UNEP
16.30 – 17.00	*Coffee break*
17.00 – 18.00	**Wrap-up – Lessons for global governance** Introductory remarks: **George Papaconstantinou |** School of Transnational Governance, EUI
18.00 – 19.00	*Farewell cocktail*

Seminar participants

Susanne Åkerfeldt	Ministry of Finance of Sweden
Scott Barrett	Columbia University
Amar Bhattacharya	Brookings
Simone Borghesi	Florence School of Regulation, EUI
Adrien Bradley	Robert Schuman Centre, EUI
Jacqueline Cottrell	Green Budget Europe
Jos Delbeke	European Political Strategy Centre; EUI
Jacques Delpla	Economic Analysis Council (France)
Laurent Fabius	President of the French Constitutional Council; former COP21 chair, former French Prime Minister
Barbara Finamore	Natural Resources Defence Council
Heather Grabbe	Open Society European Policy Institute
Emmanuel Guérin	ECF
Tomáš Jungwirth	School of Transnational Governance, EUI
Bernice Lee	Chatham House
David Levai	Institute for Sustainable

	Development and International Relations (IDDRI)
Alberto Majocchi	University of Pavia
George Papaconstantinou	School of Transnational Governance, EUI
Andris Piebalgs	Florence School of Regulation, EUI; former European Commissioner for Energy and for Development
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, Robert Schuman Centre, EUI
Alberto Pototschnig	Florence School of Regulation, EUI; Agency for the Cooperation of Energy Regulators
Artur Runge-Metzger	Climate strategy, Governance and Emissions from Non-trading Sectors Unit, DG CLIMA, European Commission
Saskia Sassen	Columbia University
Izabella Teixeira	UNEP International Resource Panel; former Minister of the Environment of Brasil
Sebastian Treyer	Institute for Sustainable Development and International Relations (IDDRI)
Laurence Tubiana	ECF; former COP21 Special Representative
David Victor	UC San Diego
Georg Zachmann	Bruegel

The Governance of Digital Networks: Convergence or Fragmentation?

Seminar insights[65]

Gerhard Hammerschmid[66], Philip Howard[67], George Papaconstantinou, Jean Pisani-Ferry and Daniela Stockman[68]

1. **The governance of digital networks has unique characteristics.** The relationship between global governance rules and actual interconnectedness in different fields is not straightforward. From an initial state of near-autarchy, for flows to develop between islands, or in some cases as flows developed, rules were put in place to govern them. Rules were defined early on in the case of trade and the global financial safety nets, more or less in real time for competition and banking, later for taxation and climate change mitigation, and almost not at all for migrations. In the case of digital networks, things developed differently; interconnectedness came before state-sponsored international governance rules. The network was the brainchild of a transnational community (the scientists). It was born global, and nations caught up belatedly.

65 The seminar was held on 25-26 November 2019 in Berlin (Germany), jointly organised with the Hertie School and the Oxford Internet Institute.

66 Professor of Public and Financial Management and Director of the Centre for Digital Governance at the Hertie School.

67 Professor of Internet Studies at Balliol College at the University of Oxford.

68 Professor of Digital Governance at the Hertie School.

2. **The pendulum is swinging and the demand for governance rules is growing.** Across many policy areas we observe today a move away from traditional rules-based multilateralism towards variable geometry approaches to global governance, reflecting a more polarised and fragmented international environment. In digital networks the reverse has happened. Initially, their governance was meant to be light, open, participative. The US supported this approach as it promoted its geopolitical outlook and buttressed the predominance of its companies. Developing countries fought against it in the early 2000s and lost. But today the pendulum is swinging in the opposite direction. The multi-stakeholder model is still dominant, but states (in developed and developing countries) are now attempting to reassert some control.

3. **The different layers of the internet complicate its global governance.** The internet is elusive because it consists of several successive layers that cannot be considered separately: physical and logical architecture, services and data. The physical architecture is basically made up of telecom infrastructure. Its evolution involves an economic question (whether telcos and other players have sufficient incentives to maintain and develop it as volumes and costs grow exponentially) but also involves a strong security dimension (this is the core of the whole discussion about Huawei). The logical architecture - the core feature of the internet - was born resilient for security reasons and has retained this property, but its evolution involves an issue of its control and utilisation in conflict situations. The dedicated services layer is increasingly cartelised and dominated by the response to the particular business models of these cartels. The further level is that of the data dimension and covers the whole economy, from cars to insurance and finance. In addition, there are important spillovers across levels, e.g. from dedicated services to infrastructure and to general provisions regarding data exchange for all sectors.

4. **Security, privacy and competition concerns are driving the debate.** As the internet developed and became the backbone of information exchange, several things happened. First, its use as a conduit for malicious initiatives by criminals or foreign powers grew. Security dimensions became major and led states to reassert their sovereignty. Second, long-standing differences in national preferences as regards

privacy and free speech emerged as strong forces of fragmentation along national lines. Third, tech firms fragmented the internet further by developing specific semi-open or closed networks. States in turn started to attempt to regulate these networks. Competition now is between these alternative forms of fragmentation. Accordingly, and following these changes, the debate about governance has been driven by different perspectives: a security one, focusing on infrastructure; a perspective of human rights, focusing on privacy; and an economic one, centred around competition and regulation. These often converge, but have fundamentally different starting points and characteristics.

5. **Cooperation on infrastructure governance is not up to the challenges at hand.** Digital networks are vulnerable and the potential for malicious security breaches (or unintentional failure) ranges from a localised problem to a global catastrophic system break-down. Nevertheless, and perhaps because a major disruption has not yet occurred, few rules have been agreed upon as regards security in cyberspace, beyond a vague commitment to preserve the core architecture of the internet (which is probably in everyone's interest, except North Korea and a few other rogue states). The persistent engagement doctrine followed by the US is in itself an obstacle to further codification. Current private and state engagement and commitments fall far short of what is required in the emerging mixed polycentric model of infrastructure control. They need to be developed further in both infrastructure and services, combining both technical and legal safeguards.

6. **Fragmented preferences and the dominant business models hinder tackling privacy concerns.** Differing attitudes and preferences are a factor in the governance of many policy areas. In digital networks, US-style "surveillance capitalism" built on the business model of the tech companies has combined with sophisticated Chinese state control of networks and data to squeeze out concerns about privacy. While self-regulation has proved woefully ineffective, some initiatives have broken new ground: the European GDPR has proven successful legally beyond EU borders, even though its effectiveness has not been fully tested yet. It is based on a legalistic model rather than on a supervision model, and initiatives of this type are bound to trail technical developments. There is a need to move to a

supervision model that relies more on principle-based regulation, transparency and accountability. This may be the best that can be done, short of an outright ban of the business model of providing services in exchange for users' data that the networks rely on.

7. **Competition conditions in digital companies and platforms need to be strengthened.** Abuse of dominant position, creating barriers to entry, and capturing a disproportionate part of the value generated by users characterise US tech giants and increasingly their Chinese counterparts. Making digital markets that enjoy large network effects and economies of scale and scope contestable and contested in practice through competition policy and regulation is difficult. This is due to fragmentation of preferences as well as the characteristics and sheer complexity of the digital sector (scale without mass, complex value chain and products/services), obscuring the relevant market for competition policy. Notwithstanding the difficulties, strengthening competition conditions is increasingly a matter not just of efficiency but also of democracy. It should be based on principles of non-discrimination, separation and access, build on the experience of telecoms, while not excluding separation of activities.

8. **A way forward through principles, rules and bold initiatives.** The multi-stakeholder model that has nurtured digital networks has run its course; to be saved, it needs to be reformed. This involves principles, rules, and some bold initiatives. The momentum towards legal pluralism and fragmentation is probably irresistible, but some commonalities ought to be preserved. They should consist in a series of "don't do", mostly regarding security, coupled with broad common principles that could play an equivalent role to that of the WTO basic rules. They should essentially address issues related to extraterritoriality and help determine the legitimate reach of the various jurisdictions. It could also include an IPCC for the data-driven world where scientists share knowledge and formulate joint recommendations, and a stronger role for fora based on multi-stakeholder culture. Finally, competition policy should include a re-examination of the business model of digital platforms as well as of the scope of activities of dominant tech giants.

Keynote[69] – Some hard questions of digital governance

Caroline Atkinson, Member of the Board at the Peterson Institute for International Economics (PIIE); Former Head of Global Policy, Google, Inc.; Former Deputy National Security Adviser for International Economics to President Barack Obama

Digital governance faces difficult questions of defining what is to be governed, and how best to do so. Five important policy issues can be discerned: competition; content; copyright; data and privacy; and AI. A sixth, issues of tax, could be added, but it does not pertain predominantly to digital governance and thus need not be recalled further.

1. ***Competition**. Economic power determines competition conditions. These hinge on the definition of the marketplace and its actors, and sovereign decisions that take effect if the scale and internal cohesion of one actor compels others. While the US still has the upper hand, the EU possesses this critical mass and is capable of skilled decisions in this, but is limited by its stunted digital single market. The large digital, platform and tech companies — Amazon, Apple, Facebook, Google, Microsoft and Netflix, to which must be added the Chinese giants Baidu, Alibaba and Tencent — now also wield extraordinary economic power. This translates to other forms of power: they touch people's emotions. They evoke utopia through the products and services they provide, their low-to-inexistent cost, and their convenience; but also dystopia, though their abuses and inescapable ubiquity.*

2. ***Content**. Laws regulating content exist where they do, and are enforced where they can. "Mechanical Turk"-style content regulation by human hands is the consequence of the increased demand for effectiveness and speed; efficacy remains lacking however. Harmful content and disin-*

69 Summary by Adrien Bradley.

formation are a user-generated problem; while platforms share blame in its spread, it is not tenable to put responsibility for content selection solely in their hands. Content regulation is more naturally the purview of governments, though liberal values should be upheld to the greatest extent.

3. ***Copyright** and intellectual property are more intangible even than the digital world, and lie at the heart of many of its governance issues, material and immaterial. Democratic societies can have differences of conception, enshrining different choices and values; but democratic choice is easily vitiated by lobbying with special interests and deep pockets.*

4. ***Data and privacy.** The value of data lies predominantly in its aggregation and monetization to target advertisements. Thus the problem lies more in the governance of advertising, not just its digital aspect. Targeting advertisements implies a form of surveillance, the continuance of which can only be a political question and subject to the development and legitimate expression of preferences within different polities.*

5. ***AI** once seemed to promise that furthering machine learning with data would teach intelligence to teach itself, in order to solve all problems. This naïve view is giving way to a clearer vision of what AI can and cannot solve; it has already led to a revolution, if not the promised one, and is still ongoing and unpredictable. Companies have underestimated the policy dimensions of what they have unleashed, taking more of an engineer's view of what people want and need and how to supply it.*

Policy-makers should aim to first do no harm, but decisions will entail trade-offs and democratic balances to be struck; for example between privacy and law enforcement. In these decisions, it is important to understand where interests overlap and represent all stakeholders. Similarly, at the international level, like-minded (and powerful) states can identify overlapping sets of interests, get political commitments, and obtain high-level agreements to produce governance. Private actors, expert communities, and policy actors should engage in much more dialogue to shape the way forward.

Fragmentation fears are in large part due to the relative situations of the US and China: political ontology aside, both have huge and powerful *digital companies, and both have security establishments that are deeply distrustful towards each other. While the Huawei issue may be more geo-economic in nature than one of foreign intelligence, Chinese actions (Hong Kong, Xingjiang, South China Sea, the Social Credit system…) do not reassure. Cooperation could begin on a lowest common denominator of combatting cybercrime, agreeing to sanctuarise critical infrastructure, and offering mutual aid in case of emergency. In parallel, liberal democracies could band together and co-regulate with companies, working for example on freedom of data flows.*

Companies can help their case by responding to citizen dissatisfaction, working on their data policies and leaving tax havens. They should be more transparent on their content policies, countermeasures, income and activities. Issues of political advertising may just be the old problem of money in politics combined with the new one of microtargeting through surveillance capitalism. Resources should be directed at disinformation and abusive content problems . Companies could shed pieces of themselves, but it is not a single fix and cases should be considered in their specificity; speaking of digital companies collectively obscures their internal competition and different specialisations. They must also sometimes walk a fine line with what governments task them with or ask from them.

Seminar minutes

Adrien Bradley

Session I - Digital governance in the broader global governance framework

The first speaker introduced the session by evoking the patterns that disruptive technological innovation leaves on society. Its introduction is initially not considered important or of regulatory relevance; but then, when its societal or economic impact becomes clear, there follows a second stage with a push for regulation, motivated by a concern to protect citizens' rights or space for corporate innovation. The still-developing technology is a moving target for regulators, however, and when it is fully integrated in society it may become clear that some measures have become obsolete or were fundamentally misconceived. Rules such as interoperability clauses follow in a third stage.

> *"Digital governance is both a blessing and a curse, because it's so wide."*

Regarding issues of digital governance, the global community is in the second stage. This raises the question of what role to allocate the private sector in co-creating governance while protecting citizens. Whereas governance has long been the task of states (and recently international organisations), private regulatory actors (and to a lesser extent civil society) have a genuine impact on governance that calls into question traditional checks and balances. Institution such as the EC/OECD/UN all propose the stimulation of private regulation; but the role of private actors and of civil society is not clear. There is hope they may supplement the rule of law, and fear they might replace it.

The second speaker recounted a brief history of the expanding relevance of digital governance, which started initially with the coordination of names and numbers, and then moved to work on issues of the information society. The World Summits on the Information Society in the early 2000s reflected concern amongst governments about the US dominance in the field, among others through its grip over ICANN; increasingly prominent attacks and criminality through cyberspace later in the decade brought the imperative of cybersecurity to the fore. Today, the digital world intersects global governance in three areas: trade, with the development of e-commerce; security, which may be the most consequent; and, mixed with security, content regulation, following the experience of disinformation campaigns targeting democratic processes.

Responses to these challenges, consisting in attempts by governments to establish jurisdictions and borders in cyberspace, have been framed as a "fragmentation" of the internet, but this is incorrect according to the speaker. Secession of a sub-system is not an unprecedented possibility, nor does it imply technical breakage. A better characterisation would be an "alignment" of cyberspace to sovereignty conceptions, though it would be preferable (and more suited to its nature) for the internet to be preserved as a global commons.

In the ensuing discussion, one participant disagreed strongly with the second speaker, arguing that without sovereignty we do not have democracy. After being on the side-lines for too long, many states are appointing digital ambassadors and getting more politically involved in governance structures to defend their interests in response to their citizens' needs and demands. Conversely, some companies are sending "ambassadors" to relevant international organisations.

While the focus has been, and should continue being, on how public actors can protect citizens from exploitation by private actors, it was suggested that upholding certain rights of moral persons can also protect human persons from governments should not be neglected. While it seems that concepts of classical international law can be applied to cybersecurity and threats to digital infrastructure by belligerent states and transnational crime, the conversation about their updating and implementation is ongoing. It is unclear what role the private sector is willing to play: many large digital companies are now calling for some kind of regulation, both to be guaranteed some kind of clarity in order to conduct their business and to defuse some of the popular backlash against them. This call can be considered hypocritical, given their lack of forthrightness in effectively cooperating. The optimal extent of infrastructure privatisation is in question, as renationalisation is beginning to take place, while some private actors are setting up their own infrastructure.

> *"Digital diplomacy is not only about regulation; it is also about rights and economic development"*

The spread of harmful content however requires active engagement with the private actors who host it; while there is convergence on the most egregious types of content (i.e. terrorism), ceding too much power to private actors runs the risk of unaccountable and undemocratic "rule by algorithm". Less egregious content (hate speech, disinformation) is more complicated. Against the original libertarian ethos of the internet, many feel that some kind of rule of law should apply, not just a maximalist and extraterritorial interpretation of the US 1st Amendment.

In fact, it was argued that a large part of content does not fall under its purview and can and should be regulated as corporate speech, under its form of paid advertisement. It may be that the business model of providing "free" services in exchange for personal data is itself harmful: social networks are designed to capture the attention economy, promoting and selling advertisement of sensationalist content to force more engagement and extract more data. Moreover, content regulation by corporate AI is an illusion as it needs to be trained and maintained by human input, with insufficient effectiveness and considerable psychological damage to these workers.

The GDPR has established data governance in the EU, despite predictions of economic catastrophe and huge lobbying efforts against it, though its problems must be faced with clarity. It also seems to have managed to establish minimum privacy standards worldwide, due to the scale effect of the EU market. One participant contended that the effectiveness of its obligations (privacy by design) and sanctions has not been truly tested yet. Talks are ongoing at the G7 and G20 level to balance its requirements with the need for free data flows and ensure the digital commons do not suffer enclosure, though these talks may be lacking in concreteness. The OECD is leading an initiative on AI governance, taking the IPCC as a template for multi-stakeholder knowledge production. In this context, it was considered unfortunate that the WTO is crippled and cannot serve as a forum for these issues; even more so that responsibility for governance is so fragmented across international organisations.

The discussion made clear that what is at stake is governance of many issues (some new and some not) undergoing changes due to digitalisation, rather than the governance of digital issues per se; cyberspace is another means through which economic distortions can spread. Material issues (i.e. infrastructure) cannot be easily sifted out from immaterial ones (i.e. content), as they interact and interpenetrate; traditional international relations are ill-equipped to deal with these because they are fundamentally grounded in territoriality. Both infrastructure (e.g. Huawei) and digital applications (AI) can carry and embed preferences or societal models. The view of cyberspace as a commons was disputed;

a better metaphor may be that of a condominium, with both private and common spaces.

The speakers concluded by putting the theme of fragmentation in question: different states have different value sets, but interconnectedness ensures that every action affects every actor (sometimes with aggressively hostile intent, as with Russia). All actors must be brought together to co-create regulation, especially the private sector and expert communities (regulators and academia).

Session II - Internet infrastructure and national security

The first speaker presented the case of Estonia. The government has been offering digital services on platforms developed through public/private partnerships since the mid-1990s, building a backbone of digital infrastructure and exporting its solutions internationally. This choice has entailed risks: a 2007 denial-of-service attack (traced to Russia) paralysed vital services and is notorious as one of the first large-scale geopolitical cyberattacks. Yet, trust in Estonia's digital infrastructure and services (including voting services) remains strong.

As digitalisation continues to progress globally, three ideal-typical scenarios can be distinguished: the development of platform ecosystems controlled more by private actors, by governments, or in a mixed fashion. Each carries different risks. The private option runs the risk of domination by US and Chinese companies (and the underlying values behind them, as well as their governments enjoying more or less control of them). The governmental option runs the risk of splintering cyberspace, increasing security at the expense of openness and the potential to harvest greater network effects. The mixed or polycentric option has the advantage of robustness, but the disadvantage of more complex governance.

The second speaker (Marsden) countered that Estonia may be the exception that proves the rule. Malicious content and disinformation spread at little to no cost across platforms such as Facebook or WhatsApp has perturbed elections in the US, the UK, Brazil; fuelled violence in Myanmar, Thailand, Kashmir; an election had to be entirely rerun in Kenya. This content is not the sole cause of the outcomes, but it has very tangible effects. Content regulation by corporate AI is a wild goose chase; governments are not paying enough attention to expert and electoral commission recommendations.

"It's not the internet that's broken; it's us"

The third speaker focused on the question of how to build long-term stability. While conversations are taking place among a usual group of experts in digitally-oriented forums (i.e. the IGF), they have yet to reach those forums dealing specifically with security issues (i.e. the Munich Security Conference). There has not yet been a "cyber 9/11" or a "cyber Pearl Harbour" with mass casualties, though cyberattacks are becoming more prominent, and IOs and civil society seem more cognizant than states of the necessity to act. The UN Global Commission on the Stability of Cyberspace has developed principles akin to those in the Geneva Conventions on war (prohibiting attacks on critical infrastructure, distinction of the enemy, proportionality of response…), but accountability and effective consequences are still quasi-absent; although the US and the EU are starting to devise ways to do so under some kind of framework beyond current military intelligence activity. Trust can be built through emergency communications and de-escalation mechanisms, but this remains bilateral; collective action responses are impossible to build given the unilateral and extensively "extraterritorial" cyber-response doctrines of some countries (i.e. the US' "persistent engagement" strategy).

The relation between sovereignty and military cyber-response doctrines was discussed: it cannot be overlooked that the origins and destinations of attacks are indeed territorial, but since they are mediated by non-territorial cyberspace, calibration of their attribution and deterrence is much more difficult. "Rules of the road" in cyberspace should not be set tacitly through cyber-response doctrines, but explicitly and in non-military forums; though sometimes unilateral elimination of a cyber-threat can be appropriate. There is a worrying ignorance or acceptance of the current vulnerability of large parts of states' infrastructure (including financial or energy infrastructure) compared to concerns over disinformation attacks. Against malicious actors that foster "hybrid" threats, clarifying responsibilities for attack and defence regarding infrastructure and content in states' defence structures can be helpful.

One participant recalled that threats don't only originate from malicious actors, but also human error and natural disasters. Japan came close to a complete internet blackout due to the 2011 earthquake and tsunami: safety backup systems should be put in place, like those built in settlement systems for finance. Another argued that cybersecurity by itself is not enough, pointing to the need for legal security as well. Estonia maintains a "data embassy" in Luxembourg, a mirror of all its essential governmental functions, with the legally protected status of diplomatic premises. A third participant responded that such an outsourcing of sovereign functions is not new, citing the legations of the Estonian government-in-exile during the Cold War, and that effectiveness depends on the recognition of other (larger) states.

One participant distinguished security requirements of infrastructure (highly regulated and scrutinised) from those of the services that use it (much less so), underlining the need for a holistic approach. The concept of duty of care in tort law could be repurposed to encourage (corporate) actors to take on more responsibility in exchange for exemption from some (legal) liability. Discussion on infrastructure quickly centred around 5G and Huawei: one participant challenged the discourse of cybersecurity concerns as a scarecrow, disguising industrial policy as then Ericsson would then be the only viable 5G company in the EU. Another responded that the concern is merely that critical infrastructure should not be the purview of a single company, and that it should not be shaped by the US/China trade war. A third added that while this holds in many countries, this question does not make it into security debates because of its low electoral salience.

> *"5G is not a technical issue, but a political issue."*

One participant countered that this is changing fast, as politicians cannot afford to not pay attention to cybersecurity any longer. Another expressed pessimism as to cybersecurity in politics: it is already difficult enough to mobilise effectively against infrastructure attacks, and content-based attacks have proved orders of magnitude more difficult to deal with. Few had anticipated these kinds of attacks, and much more information is needed to study them: it is imperative that platforms share their data on this, but they are extremely reluctant to cooperate.

Session III - New competition concerns

The first speaker in this session spoke to the problem of sharing the value captured disproportionately by digital companies and platforms, generated mostly by their users, in what can be considered an abuse of their dominant position. Better regulation presents a huge challenge due to the network effects that allow them to enjoy self-reinforcing economies of scale and scope, rooted in their use of larger amounts of data, and mediated through an increasing number of intermediary actors along the value chain. Competition policy and legislation will have to be deployed to secure competition, transparency and wider democratic values, and it is in platforms' interest to accept and pro-actively support regulation to begin to earn trust back.

"Significant" platforms, analogous to EU critical infrastructures or G-SIFIs in the financial and banking sectors, should be monitored since they function as the "gatekeepers" to digital markets, though the criteria for determining this status remains unclear. Flourishing competition can be fostered by principle-based regulation: for digital markets, classical principles of non-discrimination, separation and access should be upheld. In all there is a need for better alignment of data protection, competition, consumer protection, and regulatory measures; but the only way a governance arrangement that rebalances power relations can be set up is through law.

> *"Digital markets must be contestable and contested."*

The second speaker focused on the interaction between trade and digital governance, highlighting three competing sets of interests: commercial (uninhibited data flows and little regulation); individual (privacy and personal rights); and governmental (national security and law enforcement). The ideal forum for debate on balancing these would have been the WTO, but it has been paralysed on this issue for two decades as technological progress has only accelerated. As things stand, the world is divided into three "digital kingdoms", deriving rules from domestic law and FTAs or plurilateral agreements. In the American kingdom, free flows of data with little to no localisation or privacy requirements are preferred, and are actively promoted through trade agreements. In the European kingdom, privacy and personal data rights are preferred, and made effective through extraterritorial application of its law, as attempts to do so in trade agreements has not been a success. Finally, in the Chinese kingdom, a form of "cyber-sovereignty" that rejects free and unlocalised data flows as well as strong privacy protections is preferred, though its legal codification and the bodies to enforce it are quite recent.

These preferences stem from different commercial interests: the US has more interest in dematerialised services, China in physical goods, whereas for the EU it is "e-protectionism" though its GDPR. They also stem from different values and regulatory philosophies: light-touch self-regulation for the US vs heavy governmental intervention for China, as opposed to a strong focus on human rights for the EU. These differences notwithstanding, competition issues are global issues; the WTO reference paper on telecoms could provide a basis for the necessary global rules.

The third speaker spoke to the properties of digital industries that make it difficult for policy to capture their actions and effects. They display an unprecedented profile of scale without mass (with high fixed and low marginal costs) with a panoramic scope and complex products, which obscures the relevant market for competition analysis. Their speed, as well as the iterative experimentation it allows, are also unprecedented; this leads to winner-takes-most dynamics where dominance due to weak competition is difficult to distinguish from that due to a "superstar" effect benefiting established actors. Their source of value is intangible, based in establishing quasi-monopoly rights based on their exploitation of data and massive investments at a loss to drive out competition and corner the market.

Accordingly, the market has been less dynamic, with fewer entrants, since 2000, while mark-ups and aggressiveness in M&As grow. Policy has hung hopes on data portability to ensure greater interoperability and lower barriers to entry, but this has not materialised, and may be technically unfeasible. A more radical solution might simply be functional separation, based on the telecom model. As non-tech industries increasingly adopt a platform model (i.e. heavy equipment manufacturer John Deere), the question remains how to establish a global regulatory regime that also includes China. Chinese digital companies are barely a decade old but have acquired enormous market power, if limited outside of the mainland; unlike Western ones, they already include a payments system.

"Data is not oil. It is not rivalrous like oil; though it has comparable externalities…"

One participant suggested that, however difficult it may be to define markets and remedies, the structural power of the large digital, tech or platform companies makes them inevitable candidates for regulatory experimentation. Another objected that it seems these companies are held guilty a priori, and that users are "willing victims", bartering away their data to enjoy digital products and services made possible only by the network effects these companies create and maintain; regulation may create just as serious distortions and failures as markets can.

The first speaker interjected that governance is such a problem in this field precisely because of the great value produced that users cherish and that drives growth and innovation. Tirole's advice to require proof of benefits rather than proof of no harmful effect in M&As, hearkening back to earlier practice in antitrust, could be a useful line of thought. One participant reported that the EU will be reviewing its definitions of relevant markets and state aid, while moving towards a proactive digital industrial policy to further its assertive stance. A school of thought that promotes stronger antitrust is attracting attention in the US; China's recent codification of competition laws and institutions is to note, but hope of any autonomy is slim.

One participant agreed that a weakening of antitrust has allowed these companies to grow so large, and drew attention to the fact that some smaller companies' "source of value" and business model were in fact to be bought out by the top-tier companies (e.g. WhatsApp by Facebook), furthering their bundling of services in exchange for ever more data collection (and in the end surveillance, through collation and aggregation). Another noted that such bundling could be considered actionable as a restriction of consumer information and/or choice, but it would be a fundamental challenge to current business models, and would test the limits of the extraterritorial application of competition policy. A third participant raised the spectre of Western and Chinese digital giants collaborating rather than competing, which would complicate matters even further.

One participant drew attention to how these dynamics fuel inequality and how it correlates with political polarisation, making a parallel with early 20th century lack of economic and financial regulation and inequality that led to creating the Bretton Woods institutions at the end of WW2, and advocated strongly for a solution based on taxation. Another participant objected that tax shifting is not specifically a tech industry issue. A third countered that the situation is more complex, as determining tax obligations hinges on determining where the transaction is taking place; this same uncertainty related to defining "extraterritoriality" of actions in cyberspace writ large.

A number of participants called for discernment of the various means to be used to solve the different issues at hand: splitting Facebook with antitrust would not for example solve content issues such as hate speech. Likewise, monetising free digital services would be a revolution, but would not necessarily ensure that data is not aggregated for improper or commercial use. The forum to address all these issues is uncertain: a least-worst option may be the G20, though its lack of secretariat and revolving presidencies makes it difficult to empower effectively; its Global Forum on steel overcapacity has not worked very well, for example.

Session IV - Privacy and law enforcement issues

The first speaker in this session offered a civil society perspective on privacy. Commitments by telecom companies and internet providers can be catalogued and benchmarked; engagement, year-on-year comparisons, as well as the threat of name-and-shame can provide a lever to hold these companies to account. Nevertheless, it was suggested that large parts of their business models are predicated on violating the human right of privacy to sell targeted advertisement, as a form of "surveillance capitalism". This poses serious questions for governance. It is the deeper problem that lies at the root of separate issues of algorithmic and automated decision-making.

These mechanisms create curated information bubbles, reshaping the public sphere and political reality for countless people; their potential for intentional harm through disinformation was amply discussed, but they can also spread artefacts and inaccuracies unintentionally, but with no less malign effect. Still, too much focus is put on these issues of content rather than on the business model itself. It may be premature to break up the big companies, but there is an urgent need for transparency on their internal operations, of what data is being collected for what purpose, to foster accountability.

The second speaker spoke on the shortcomings of international cooperation in law enforcement due to multiple overlapping and fragmented jurisdictions and normative orders. Consciousness of these problems has however thoroughly permeated discourse, and there is a sentiment of extreme urgency to catch up with regulation and legislation to deal with these trans-border issues. Mechanisms already exist, such as the US Cloud Act or the Council of Europe's Budapest Convention, but little dialogue between them. Civil society and expert communities can contribute by mapping the ecosystem of existing actors and legal rules and standards, to then develop and propose new and better (but voluntary) ones.

> *"It's too easy to fall back on the national… We need more coordination, or we will have a less global internet."*

The third speaker widened the scope by highlighting the tension between the two topics of the session: their intersection creates conflicting legal and political demands. Internationally, this is not limited to the US and the EU, though they are the most prominent: Russia and China loom large. Privacy is anchored in and achieves its current "gold standard" in human rights treaties (i.e. the Council of Europe's Convention 108 for the protection of individuals with regard to automatic processing of personal data) and regional instruments (the EU's GDPR) which, despite their flaws and difficulty to hit a rapidly moving target, have had considerable impact, even "extraterritorially". But while there is a trend towards convergence at the higher levels, there remain considerable differences at the national level, due to different standards and preferences.

Privacy enforcement relies more on soft incentives than hard legal action: individual or corporate clients are shunning businesses that don't comply with the GDPR. (This may, counterproductively, put more burden on SMEs than on the big companies, for whom adjustment is just the cost of business.) Law enforcement, on the other hand, touches on core sovereignty functions: some regional success can be observed (Budapest Convention), but large-scale convergence is doubtful. It remains to be seen what governance approach will prevail in managing these issues: top-down "constitutionalisation" through treaties and law, or a form of global legal pluralism that aims to manage differences through regulatory cooperation. It also remains to be seen how these approaches can be fostered, when compromise is so difficult due to such divergent preferences and core values.

One participant challenged the premise that "pluralism", understood as simple acquiescence to fragmentation and only pursuing minimal coordination, is sustainable or desirable; the underlying reasons driving a demand for governance must be critically examined. Another concurred, adding that allegedly inviolate preferences can be instrumentalised to obscure a form of cultural relativism: Chinese citizens want to enjoy digital rights (among many others), just like anyone else. Several participants cautioned though that "preferences" in a broad sense must be taken seriously, as they can unexpectedly sink important initiatives. Unchecked pluralism however leaves the door open to arbitrage and shirking obligations; the stronger regulator may have to accept a trade-off and forgo a certain potential for innovation if encoded preferences do not allow the use or aggregation of certain data with certain others, especially with authoritarian and non-democratic states.

Another participant considered this trade-off perfectly ordinary:

its strong version is a siren song calling for a race to the bottom, and doomsayers are habitually disproven; the focus should instead be on creating a race to the top. The EU is working on deep coordination with others (i.e. Japan) and on an umbrella agreement with the US, but there is little hope for a grand multilateral convention or treaty: the way forward is plurilateral, like the WTO's Agreement on Government Procurement. The G7 has initiated a Global Partnership on AI; there is an effort within the OECD to standardise reporting on terrorism and hateful content, following the Christchurch massacre, but the US seems not inclined to be cooperative. China has made proposals on cross-border data sharing, but tailored to its interests.

There was agreement that instruments exist to push forward on transparency and should be exploited more; one participant suggested a proactive litigation strategy. Software can be considered a manufactured product, with similar obligations of due diligence and oversight to other complex and potentially dangerous material products, such as cars. Indexes and benchmarks can prove subtle, though at times quite effective instruments to realign incentives, even for corporate giants. Another participant remarked that while the public, regulators, and governments have little visibility of what these companies are doing, the companies themselves seldom enjoy much more: only existential threats push them to put things in order, so lacking knowledge should not impede regulatory experimentation. Participants agreed that more will and resources should be deployed, but with care; it should be possible to achieve minimal standards.

"There is no 'exceptionalism of the internet'; it does not do away with the fundamentals of society."

Session V - Information control and platform regulation

The session chair invited the speakers and participants to think of control of information along two dimensions: that of truthfulness; and of intent to harm. Spreading content of harmful intent with mostly true material is *malinformation*, comprising leaks, harassment, certain versions of hate speech. Spreading mostly false material with little harmful intent is *misinformation*: viral diffusion, due to scale and network effects, can occur with devastating consequences (panics, conspiracy theories), and be weaponised (stochastic terrorism). Content that is both false and malicious is disinformation; electoral interference is a salient example. Each may be dealt through different types of regulation.

The first speaker discussed the sometimes surprising effects that platforms have had on how information spreads and is received. Social media has swept away the gatekeepers, the traditional media. In theory, the public sphere is now a completely open social space for the market of ideas. But hegemonic power is exerted by the mass media and the surviving geopolitical hegemon, the US. There is an imperative for governance, which must be written down in legal form. But laws or regulation may be obsolete before their ink dries, and the speed of their re-elaboration is no match for their targets; their bite is completely inadequate in a business environment that rewards violation of rights by design. A recourse to courts can sometimes be an effective option; but new, trustworthy gatekeepers are sorely lacking.

> *"Theoretically, we should be in Heaven. It should have been the end of History. But these tectonic shifts have had bitter side-effects."*

The second speaker spoke on a recent French experiment to regulate a social media platform like Facebook and some of its conclusions. First, common terms like "internet" or even "regulation" are too imprecise and not legally defined, and distinctions of country of origin and destination have little meaning anymore. Better to start by examining liability, in kind (criminal or not) and sequence (ex-ante or ex-post). The traditional model of legally enforced transparency with editorial responsibility, under decentralized supervision by peers and academia and animated by policy dialogue, is completely inadequate to deal with social networks. They exert little to no editorial function, even on the most egregious content, and display little genuine appetite for the responsibility.

Attempts to spread false or malicious information is nothing new, but the potent vectors these platforms embody are. They and their outputs are not transparent by design, and they wield power not only by selection, but also by ordering and targeting information for their users. Their incentives have been until now quasi-exclusively to maximise traffic, harvest data, and monetise it; they need their attention focused on the side-effects of their actions. Enforcing more transpar-

> *"The era of self-regulation is over. Because it was based on trust, and trust is gone."*

ency would be a good start, but it needs to be done quickly; the authority and qualification requirements make however identifying who could do so problematic.

Participants painted a grim picture in the discussion. Process transparency won't help when the scale and precision of targeting is so vast, and malicious actors will evidently not disclose themselves. The root of the problem is the business model of data extraction and exploitation under the guise of free services. "Surveillance capitalism" has enabled profiling and targeting at a terrifyingly granular degree. Whether it fulfils its aims or not, its harmful effects are already being felt, to different degrees and impacts, across the world. "Communist" China is by no means spared. It is a model that involves three parties (user, data mining and processing company, and a corporate/government ecosystem that values and exchanges it), but that seems entirely unidirectional in its functioning, serving only actors who have the means to propagate information for their own purposes. Scientific campaigning has been twisted into subversive campaigning; the ground beneath governance and political science has shifted fundamentally.

One participant questioned the demise of the country of origin/destination distinction. The speaker answered that purported fixes like more exemptions to the rules, or a reversal of the distinction in certain cases, would only risk further splinter markets, with potentially dangerous crashes. There should be unified regulation at a mass critical enough to establish its standard, with local enforcement within. Then governance can turn to the twin tasks of ensuring regulatory harmony within, and preventing interference from without. In the meantime however, it is far from clear what steps to change the system will have what effects, nor how to begin.

> *"For corporations so large to have that much data, on so many citizens of the world… I have already seen small towns in England, that live from one globalised factory, led to vote for Brexit. It is a nuclear reactor and it needs to be shut down."*

There was agreement on the need for more transparency and access to private data for research and regulatory purposes; it can be valuable to root out biases and distortions, intentional or not. One participant remarked that input and output transparency can be distinguished; in policy, this would translate to a need for ex-ante disclosure and ex-post review institutions, for full algorithmic accountability. Unlike many areas in the traditional economy that had institutions built up and needed deregulation, the digital world has evolved fast in a sparse institutional environment. It now needs more, and stronger institutions, to which authority to enact governance can be legitimately delegated.

Wrap-up - Lessons for global governance

In introducing the wrap-up session, the seminar organisers offered a few remarks on lessons learned from digital issues and their wider significance for the transformation of global governance. It was suggested that digital governance does display at least elements of "internet exceptionalism". Digital transformation has had massive impacts across economy and society, and across policy fields that require international coordination. It comprises a spectrum of topics ranging from technical questions of material infrastructure to elusive and volatile phenomena like behavioural manipulation. It is moving against global governance currents however: whereas the trend is to a shift from hierarchies tending to a multilateral ideal to a more networked, multi-stakeholder architecture, the demand here is mounting to develop stronger governance institutions to deal with issues linked to digital.

The multiplicity of these issues is impressive. They are profoundly reshaping the political economy, disrupting classical models of competition policy and regulation. They call territoriality in question, but do not abolish it; the "cyber-condominium" is an apt metaphor for the governance field of mixed private (national) spaces and commons. Normative decisions enshrined in human rights laws and judgements (privacy, transparency) can be powerful drivers for more and better regulation. The state of fragmentation of digital governance is, like in other governance fields but perhaps more so, a function of divergent preferences. Different normative orders create clashing jurisdictions; more so because of the intermediary and deterritorialised nature of issues touched by digital transformation. It should be possible to find underlying principles to base minimal rules on, but how to ensure they have "bite" is unclear.

Underlying issues of governance in any policy field are two basic questions: *what* the issues actually are, and who has authority to deal with them, in a world where interdependence erodes sovereignty and governance actors are no longer exclusively public institutions. The discussion around digital governance seems to focus more on sifting apart the issues than defining responsibility; and acceleration seems to make any model obsolete before it can prove sustainable efficacy.

> *"Bias exists in society, and therefore machine learning will reflect this to some degree. But technology and the networks it enables can be powerful amplifiers of this bias."*

In the ensuing discussion, one participant suggested that pressing for enforced accountability would at least begin to institutionalise the who, and recalled that while the problem of eroded territoriality in sovereignty is preoccupying, it should not draw attention away from equally pressing questions of redistribution. Others focused in China and remarked that its practice of digital governance has evolved from crude hardware control to sophisticated content control, moving rapidly to comprehensive data control. The recently created Cyberspace Administration of China has been elevated, answering to a leading group chaired by Xi Jinping. In line with its discourse on participating more proactively in global governance, China has moved on from seeing digital space as a matter for domestic control, no matter how tight. It asserts its model and interests in technical, policy and political international institutions (ITU, WTO, G20), and in bilateral relations with other states (pressures to choose Huawei for 5G, trade threats), building on its BRI initiative. In digital space, China split off early to create an extremely controlled (and repressive) ecosystem; but now, it is liberal-democratic governments that are in turmoil due to unchecked waves of content, malicious or not, that spread across their networks.

Seminar programme

25 NOVEMBER 2019

13.30 – 14.00 *Welcome remarks by the organisers*

14.00 – 15.15 **Session I – Digital governance in the broader global governance framework.**

This first session will position digital governance challenges within the broader global governance framework, by examining actors involved, institutions in place, and the role of business, epistemic communities, NGOs and civil society in shaping the governance agenda. The session will focus on how the digital governance landscape has evolved and the main changes from a governance perspective.

Chair: **Jean Pisani-Ferry** | EUI

Introductory remarks: **Henri Verdier** | French Ambassador for Digital Affairs, France, **Milton Mueller** | Georgia Institute of Technology

15.15 – 16.30 **Session II – Internet infrastructure and national security.**

With big data and transnational data flows, cybersecurity has emerged as a major business and policy concern with an obvious global governance dimension. In an environment where the decentralized internet architecture can be a cause of vulnerability and a loss of power for certain countries, this session will examine security in global networks and the governance solutions sought at the international level.

Chair: **Philip Howard** | Oxford Internet Institute, University of Oxford

	Introductory remarks: **Christopher Painter |** Global Commission on the Stability of Cyberspace, **Meelis Kitsing |** Foresight Centre and Estonian Business School, **Christopher Marsden |** University of Sussex
16.30 – 16.45	*Coffee break*
16.45 – 18.00	**Session III – New competition concerns**
	Digitalization has led to the concentration of data and information power in the hands of a few private actors and to competition concerns due to the "winner-takes-all" nature of big tech. This concentration also raises societal concerns related to the dissemination of disinformation and the responsibility of digital intermediaries. This session will examine the governance implications of an environment where data is concentrated in the hands of few actors and the regimes to regulate digital platforms and big tech.
	Chair: **George Papaconstantinou |** EUI
	Introductory remarks: **Bruno Liebhaberg |** Centre on Regulation in Europe, **Henry Gao |** Singapore Management University, **Andrew Wyckoff |** OECD
19.30	Dinner and **keynote address**
	Speaker: **Caroline Atkinson |** Peterson Institute for International Economics

26 NOVEMBER 2019

09.00 – 10.15	**Session IV – Privacy and law enforcement issues**
	Privacy concerns have accompanied the development of the internet but have taken on a new urgency when personal data, metadata and communication data are held in a jurisdiction which is different from the country in which they have originated. This has led to concerns related to the capacity of countries to enforce privacy laws abroad and access data for investigation. The session examines the implications of initiatives such as the GDPR and the Cloud Act.

	Chair: **Daniela Stockmann |** Hertie School
	Introductory remarks: **Jessica Dheere |** Ranking Digital Rights, **Paul Fehlinger |** Internet & Jurisdiction Policy Network, **Christopher Kuner |** Brussels Privacy Hub and VUB Brussel
10.15 – 10.45	*Coffee break*
10.45 – 12.00	**Session V – Information control and platform regulation**
	Social media have been blamed for spreading false information and hate speech, even threatening place and stability. While the global reach and ubiquitous use of the internet have the potential for fostering democracy, tolerance, and high-quality information, critics have recently called for strenghtening regulation of internet content. Corporations and civic organisations instead emphasise self-regulation and civic engagement as alternatives in managing and guiding information. The session examines the governance challenges posed by hate speech, fake news, and international advocacy in the internet era.
	Chair: **Madeleine de Cock Buning |** EUI
	Introductory remarks: **Benoît Loutrel |** Social Media Regulation Task Force, France, **Kristina Irion |** University of Amsterdam
12.00 – 12.30	**Closing remarks** by the organisers
	Chair: **Gerhard Hammerschmid |** Hertie School

Seminar participants

Susanne Åkerfeldt	Ministry of Finance of Sweden
Caroline Atkinson	Peterson Institute for International Economics
Michail Bletsas	MIT Media Lab
Adrien Bradley	Robert Schuman Centre, EUI
Joanna Bryson	University of Bath
Luciana Cingolari	Hertie School,
Madeleine de Cock Buning	School of Transnational Governance, EUI
Jessica Dheere	Ranking Digital Rights, New America
Paul Fehlinger	Internet & Jurisdiction Policy Network
Lisa Felton	Vodafone, UK
Henry Gao	Singapore Management University
Anita Gohdes	Hertie School
Eileen Fuchs	Federal Ministry of the Interior, Germany
Gerhard Hammerschmid	Hertie School
Elonnai Hickok	The Centre for Internet and Society, India
Philip Howard	Oxford Internet Institute, University of Oxford
Kristina Irion	University of Amsterdam
Meelis Kitsing	Foresight Centre and Estonian Business School
Christopher Kuner	Brussels Privacy Hub and VUB Brussel
Paul Leonhardt	Federal Foreign Office, Germany
Judith Lichtenberg	Global Network Initiative
Bruno Liebhaberg	Centre on Regulation in Europe
Benoît Loutrel	Social Media Regulation Task Force, France
Chris Marsden	University of Sussex
Milton Mueller	Georgia Institute of Technology
Manuel Muniz	IE School of Global and Public

	Affairs
Christopher Painter	Global Commission on the Stability of Cyberspace, UN
George Papaconstantinou	School of Transnational Governance, EUI
Adam Peake	Internet Corporation for Assigned Names and Numbers
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, Robert Schuman Centre, EUI
Andrea Römmele	Hertie School
Michel Servoz	European Commission
Daniela Stockmann	Hertie School
Fabrizio Tassinari	School of Transnational Governance, EUI
Rebekah Tromble	George Washington University
Henri Verdier	French Ambassador for Digital Affairs, France
Andrew Wyckoff	OECD, France

The Governance of International Trade: Reshape or Demise?

Seminar insights[70]

Bernard Hoekman[71], George Papaconstantinou and Jean Pisani-Ferry

1. **The geopolitics of trade have changed.** Whilst free trade was once meant to create bonds, trade policy is now used confrontationally in a power struggle between the US and China with spillover effects for the rest of the world. Because of its enforceability, trade policy is increasingly used as a substitute for the lack of other instruments to promote issues that have little to do with it. There is danger in these developments.

2. **Widespread dissatisfaction with the global trade system predates Trump.** Most US grievances (about dispute resolution, the abuse of developing country status, weak rules for subsidies, China) pre-date the Trump administration. It's not only the US: there is widespread dissatisfaction with the outcome of past multilateral negotiations and the functioning of the world trading system. Sentiment of being treated unfairly is shared in both developed and developing countries.

70 The seminar was held on 19-20 June 2018 in Florence (Italy), jointly organised with the Global Governance Programme at the European University Institute's Robert Schuman Centre for Advanced Studies.

71 Professor and Director, Global Economics at the Robert Schuman Centre for Advanced Studies, European University Institute.

Dissatisfaction stems from:

- In advanced countries, the rapid erosion of technology rents that benefitted all, including relatively unskilled employees (aggregate factor), and the lack of appropriate policies that could have tilted the sharing of trade gains between producers and consumers (distributional factor);

- Developing countries worry that manufacturing relocation away from advanced countries has benefitted a handful of EMs only and that insufficient market opening in advanced countries has prevented food-producing countries from benefitting;

- China feels it has been subject to discriminatory rules by advanced countries.

Future outcomes will hinge on:

- Whether, in advanced countries, the growing current challenge to the positive-sum game nature of international trade can be reversed or complemented with policies which convince (and compensate) an increasingly skeptical electorate;

- Whether, in certain developing countries, the values underpinning international trade can coexist with increasingly politically illiberal regimes.

3. **Trade principles are sound but trade rules and institutions are outdated**. The nature of international trade has changed fundamentally with the development of global value chains (GVCs) and the blurring of the distinction between goods and services. It is bound to change further as a consequence of the digital revolution. Multilateralism, national treatment and the most favored nation principle remain essential. But the trade negotiation architecture is increasingly outdated:

- GVCs challenge traditional specializations and trading interests;
- The categorization of participants in global trade on the basis of development level is at odds with growing heterogeneity within countries;
- Increasingly important 'behind the border' issues (regulation, competition, taxes, intellectual property protection) are not properly addressed.

4. **Clubs are the way forward, provided they abide by a set of strong principles.** Plurilateral agreements and critical mass agreements are nimble instruments that can be used in an open, non-discriminatory way. They can serve to fight the abuse of consensus and tackle the diversity in degrees/patterns of integration and national preferences/priorities. Their purpose remains ambiguous: Are they temporary patches, flexibility instruments, conduits for gradual emergence of new forms of multilateralisation or a basis for alternatives to existing multilateral arrangements? It is highly desirable that variable-geometry agreements be rooted in strong multilateral principles and be regarded as complements rather than substitutes to the multilateral order.

5. **Trade is shifting to digital and trade policy and is increasingly linked to other policies**. As the economy and trade are increasingly digitalised, traditional trade governance norms and instruments have become increasingly ineffectual or irrelevant. With this trend set to continue, future governance outcomes will depend on the current system's ability to develop tools and governance formats which are more in tune with these new digital trade patterns and characteristics. The long-standing debate on whether trade issues should be treated in isolation, or understood instead in conjunction with other policy areas (trade *and* environment, trade *and* labour standards,…) has decidedly shifted in favor of the latter. This is due both to the structural transformation of trade patterns but also to an understanding that this may be tactically the only way to save an open trade regime. The remaining question is whether this trade-*plus* policy stance will act to further destabilize open trade or instead help save it.

6. **The EU should address the Trump and China challenges simultaneously**. The EU shares some of the US grievances towards China but opposes its transactional approach. It should voice its concerns to both partners. It should position itself as an active proponent and, alongside the US and China, as one of the key potential architect of a reformed trade system. A "WTO 2.0" hinges on China-EU-US cooperation. The battle will be a hard-fought one as China and the US may share an interest in a purely transactional management of their rivalry.

Future outcomes will hinge on:

- whether the US will go "all the way" in rejecting the multilateral system of rules, or instead will stay within it, all the while challenging its individual tenets and pushing for reforms;

- whether the EU will be willing or able to assume the mantle of the main defender of this system, or be bogged down by its internal contradictions and weaknesses;

- whether China will be convinced to "play by the rules", or instead veer towards an illiberal regional and confrontational solution;

- whether the WTO membership will support and implement reform efforts, or instead the WTO will be pushed to irrelevance.

7. **Broadly speaking, there are three ways forward for trade governance:**

- Attempting to **salvage the multilateral system**, by rewriting some rules, buttressing its institutions, and generating political support for it. In the current circumstances, this not only seems like an unlikely outcome, but also one at odds with the structural transformation of international trade under way.

- **Further breakdown**, with countries increasingly opting for unilateral action or pursuing bilateral deals, in essence destroying the current system in all but name. This is currently perhaps the most realistic scenario, but also one with the most downside for trade, growth and more generally the future of global governance.

- **A new plurilateral system** which draws and builds on the characteristics of the current multilateral system, but also recognizes the need to amend and complement it in way that reflects the diversity of trade patterns and actors. This would be by far the most desirable – and probably also relatively likely – outcome; as a hybrid however, much will depend on its specific characteristics, i.e. on how far it will deviate from current multilateral rules.

Keynote – Trade governance today[72]

Lim Hng Kiang, Former Minister for Trade of Singapore

The trade governance system no longer reflects current geopolitical and business situations. *Paralysis within the WTO makes it necessary to develop new rules for the new economy. Nevertheless, it would be wrong to break with the Doha Development Agenda, and unilateral action is not useful. Bypasses exist within the current framework, and issues may be discussed in other fora (OECD, G7/20, APEC). These can be opportunities to set rules in areas currently not dealt with. This is particularly salient regarding China, which needs to be involved constructively and induced to lead.*

The election and actions of President Trump are a shock mandating adjustment*, but on a deeper level, he represents a backlash against free trade and a rules-based governance system. While it may be true that by some measures the US is quite open, the perception of unfairness towards it is more important. Complacency in explaining the benefits of trade liberalisation and globalisation, as well as insufficient adjustment policies have soured the political base in developed countries. While some argue for such policies to be equally multilateral, it may be preferable to develop them domestically.*

It is becoming less pertinent to analyse trade on an international basis. *Competition is no longer really between states, but between companies, between cities. Major developed and developing states should recognize this, not expect special and differential treatment, and focus on writing rules for the 21st century.*

72 Summary by Adrien Bradley.

Seminar minutes

Adrien Bradley

Session I - Has global trade governance broken down?

Multilateral trade governance has not broken down completely yet — but collapse is threatening. Optimists argue that trade continues to grow and trade facilitation agreements are still being agreed upon (both within the WTO framework and plurilaterally), while none of the threatened massive trade disruptions have occurred yet. Pessimists argue that the agreements being struck are stopgap at best, while the WTO and the multilateral trading regime face an existential crisis.

There is consensus to observe that many of the challenges the WTO face predate the current US President and his outright rejection of the multilateral system. While President Trump's unilateral actions and offensive rhetoric have been baffling, the grievances they express are not new. US complaints about China, the categorization of emerging powers as developing countries of power-grabbing by the WTO's arbitration system were already expressed by previous administrations. What has changed is that Trump appears to prioritize above all else outcomes rather than rules , procedures or alliances with like-minded states. Tackling the stalemate therefore requires to be "tough on Trump but also tough on the cause of Trump".

The WTO functions according to several principles that now contribute to paralyse it and to fuel these grievances.

- It is member-driven: rather than propose initiatives or make decisions, it has more of a convening or facilitating function.
- It is incomplete in terms of coverage (e.g. services and investment).
- It has no independent monitoring and verification capacities, relying instead on state notification.

The single undertaking principle makes it easy for one issue to derail an agreement; the consensus principle makes it easy for one country to do the same. Now, the long paralysis of the Doha round has, in all likelihood, made a single undertaking unrealistic to pursue for the future.

Bypassing the consensus principle remains a possibility, provided for by art. IX of the WTO agreement itself. But it is an unattractive option for member states, as they fear that departure from unanimity might end up putting them in the minority someday.

The most pressing problem is the threat to the Appellate Body, where the Trump administration is blocking the nomination of new judges due to a perceived mission creep that constraints the scope for transaction with trade partners, and more generally to a perceived unfairness of its decisions towards the US. This heightens the risk of an all-out trade war. Only two reactions could reverse the dynamic of punitive measures and counter-measures: a high-level initiative, or untenable market pressure.

Perceived unfairness towards the trade governance system, however, lies much more widely than with just the US government: China's perception is that it has paid a steep price to accede to the WTO, has been subject to discriminatory and disadvantageous rules, and has still managed to succeed while remaining very polite to boot. In the EU and the US, citizens are anxious about the distributional consequences of trade liberalization, which are not being compensated for by domestic policies. Governments in both the US and Europe point to persistent distortionary Chinese practices (intellectual property infringement, state aid, direct or indirect control of commercial companies). Large emerging economies which might have an important role to play in upholding the system are in fact a heterogeneous group, requiring different incentives to buy into it.

Despite this crisis there is a systematic abandonment of leadership due to a lack of both willingness and capacity. Governments remain silent, but so does business. Scant progress can be observed on the issues of tomorrow (e-commerce, data), while older issues remain undealt with. It is possible that China and the US might strike a bilateral deal which would seal the irrelevance of the WTO and undermine the whole trade governance system as it currently exists.

A better alternative would be for the US, the EU and China (each accounting for roughly equal shares of global trade) to stop blaming each other for free-riding, and to reaffirm their common commitment to a system of multilateral trade principles. This system should be designed so as to provide a level playing field. Some suggest that since the US is suffering decline, while China is cautiously ascendant, the EU, by default, should lead the way. It may, however, have to focus on solving its own internal problems with the Single Market and EMU first.

Session II - Trade structures and trade institutions

While the rules and institutions governing trade have remained largely static for 20 years, the structure of trade has been changing. After Baldwin's Second Unbundling (which, by disaggregating knowledge from location, triggered the global value chain revolution) we are witnessing the incipient Third Unbundling (disaggregating service from location, through telepresence and telerobotics). Companies and cities now play a far more important role than when the rules were designed. This has made pre-existing gaps between rules and reality yawn wider, threatening to dissolve the already fragile consensus over the principles underpinning those rules.

Three problems arise. First, that of multipolarity. The high noon of multilateralism of the 1990s is being relegated to a distant past by the advent of a much more multipolar world. Against this background, the definition and mechanics of multilateralism are increasingly contested. The system requires some good will for consistent application, but strategic competition is creeping back in: trade is never just a tool, but can be an objective per se. The US exemplifies this currently. There is also scope for opportunity, as multilateralism was launched precisely in a multipolar context.

Second is the problem of late joiners to the system. The special and differentiated treatment they benefit from fuels resentment towards the multilateral system: while they feel they have made significant concessions and benefited little, incumbent trading countries feel the opposite. This has led to the rise of status quo-prone or garrulous new powers, like China or India.

China presents a particular problem as it seeks to reshape its trade environment through its Belt-and-Road Initiative (BRI) and promotion of the RCEP as alternative or complement to the CPTPP/TPP-11. The BRI can be seen as China's alternative to creating a parallel WTO. Support for it in the region should not be underestimated as China provides badly needed infrastructure. On one hand, it can be argued that China understands its weight and seeks to be modestly constructive both regionally and globally, and that space should be made for it understanding its internal dynamics. On the other hand, it can be argued that China has "emerged without having converged", and is simply playing veiled power politics. An important question is how to involve China in a constructive governance agenda, and on which issues: connectivity and the environment may be suitable.

Third, technological advancement is leading the world into a zero marginal cost knowledge economy with the potential to radically shift comparative advantages (though it is debatable whether this takes place more predominantly on a geographic basis due to legacy issues or a functional one). With only loose, difficult to enforce disciplines, the current rules over intellectual property rights and state subsidies cannot prevent a brutal erosion of technological rents enjoyed by developed countries to the benefit of countries capitalizing on this gap between rules and reality. This is a major concern vis-à-vis China.

The question is how to (re)establish and maintain core principles. Fast-changing trade structures call for distinguishing the foundational principles of trade, which should remain invariant, from the operational rules, which need to be adapted as trade patterns evolve. Since it is easier to create new rules than to reform existing ones, recent practice has been to bypass WTO blockage through club arrangements, which often explore deeper regulatory policy coordination.

Session III - Clubs and the new trade governance arrangements

Wide differences in development levels and degrees of economic integration call for a differentiation of trading arrangements. Arms-length exchange of goods and deep integration within the framework of global value chains and bundles of goods and services cannot be governed in the same way. The latter especially do not require border provisions but also behind-the-border provisions. As the WTO is increasingly unfit for purpose, countries are bypassing it through club arrangements, with the more or less sincere hope of integrating the rules thus agreed upon into the WTO framework.

There are three main forms of club arrangements compatible with WTO principles: preferential trade agreements (PTAs); plurilateral agreements (PAs); and critical mass agreements (CMA). PTAs are exceptions, provided for by WTO rules, to the most-favoured nation (MFN) principle, and are generally concluded on a regional basis. PAs allow subsets of the WTO membership to agree to certain disciplines applying to signatories only; CMAs are agreements among a set of countries that have the greatest stake/interest in an issue, with the benefits of whatever is agreed extended to all WTO members, whether they join or not. They are all, primarily, responses to the abuse of the consensus requirement, put in place to tackle the differences in sectoral priorities and patterns of integration among states within the WTO.

PTAs, while to some extent discriminatory and trade-diverting, can extend to regulatory policy, allowing for the creation of harmonized rules and thus deeper economic integration, dealing with the gaps in WTO rules (although some argue they do not have a good track record in that respect). On the other hand, they generally do not address certain distortionary policies giving rise to large spill-overs, like state subsidies or production origin requirements. Excepting the CPTPP/TPP-11, they are generally closed clubs, lacking clauses allowing for third-party accession.

PAs and CMAs, as a form of "open plurilateralism", may be useful to multilateralise some PTA elements within the WTO framework. However, it appears that they can only work for some issues and operate at a lower level of ambition, acting more as a focal point for good practices fostering regulatory convergence instead of actively mandating it. Nevertheless, relying on the WTO framework, they offer greater transparency and accession opportunities, lower administration costs, and a surer dispute settlement mechanism. Different trade instruments can be considered depending on the issue or objective at hand and the size of the set of countries involved.

At the end of the day, any system of clubs will have to build on basic trade principles, and will require institutional machinery that would be inefficient to re-create for each club. The WTO can provide the needed support functions and other machinery clubs will need. The MFN and national treatment principles, endowed with the necessary flexibility, ensure multilateral reciprocity. The WTO's single undertaking principle, however, is a major constraint, and is arguably no longer realistically achievable due to the abuse of the consensus requirement. On the other hand, in negotiation there is a temptation to link issues, so as to pair gains and concessions and present a give-and-take narrative; though this may only be applicable if a country enjoys actual leverage.

An underlying issue is the purpose of the trade arrangement: trade per se, or trade as a vector to project influence. It is obvious that the latter is the case for the US and China, and less so for the EU. When this is the stake, incentives to participate must go beyond those of just trade. More generally, these arrangements can serve as patches to the trade governance system; alternatives to it, or a means to make it evolve.

Session IV - Governance implications of the interaction between trade and other policy areas

Stimulating trade, at some point, begins to necessarily involve some regulatory coordination in order to maintain a level playing field, and turns into deepening economic integration. Four major policy areas interact with trade in this sense:

- First is currency. Countries may seek to benefit by manipulating the exchange rate to their advantage, and managed trade and managed exchange rates may be trade-offs. In a world of floating exchange rates, however, prices adjust leading to short terms gains only at best. In terms of governance, this issue is best managed by its proper institution, the IMF.

- Second is tax policy. It is claimed by some in the US that the WTO ignores distortions caused by the fact that not all countries impose VAT. This is not necessarily discriminatory under WTO rules and can be addressed in its current framework, but could benefit from dialogue (with the OECD for example).

- Third is environmental policy. Trade policy has long ignored the negative externalities it entails which drive climate change. One way to address these could be Nordhaus' proposal of a Climate Club, a club arrangement imposing tariffs on non-members as a sort of carbon border tax; it appears difficult to craft one in a non-discriminatory fashion, however. Another way would be to negotiate an elimination of fossil fuel subsidies within the WTO framework, on a similar template to that of the agreement on agriculture. These subsidies could be redeployed to fund renewable energy projects or to alleviate energy poverty, but industry lobbying and lack of political will are serious obstacles to this scheme.

- Fourth is national security. Trump has recently alleged this reason as grounds to levy tariffs on steel and aluminium imports. It is held to be self-judging, as no country can credibly judge the national security interests of another, and until now has been seldom invoked: there is therefore little jurisprudence to turn to for guidance. Such a linkage is dangerous because of its inherent lack of justification and

> scope for unduly seeking to constrain a partner's foreign policy: the US threatening to impose sanctions on EU companies after withdrawing from the JCPOA, for example.

It is true that linkage of trade and other issues has at times been abusive, as special interest groups can wield influence to extract advantages. These special interest groups can have concerns at first glance far removed from trade. It is questionable whether trade agreements and the WTO are the proper fora for advancing and adjudicating these claims. However, deepening economic integration means that interaction of trade and other policies becomes inevitable. This involves going beyond minimal, relative standards mandated by national treatment, to advance harmonized standards. This can threaten democratically determined national preferences. These should be debated openly in top level discussions rather than being left solely within the WTO.

Trade is one of the rare fields of global governance where a binding dispute settlement system (still) exists. Since it is difficult to parse the degree to which trade can be dealt with as a standalone issue, linkage with other policy areas runs the risk of overburdening it. This is not necessarily the case, as WTO rules allow for forbearance and flexibility for measures which may be distortionary to trade but are informed by genuine national preferences, on labour or environmental standards for example. Some, even more optimistically, are confident that if restored to its proper functioning it can be used to impose genuine duties on states. Be that as it may, there is consensus that a narrow focus on trade may foreclose dealing with the "causes of Trump".

Seminar programme

19 JUNE

20.00 – 22.00	*Welcome dinner and keynote address*
	Lim Hng Kiang | Former Minister for Trade, Singapore

20 JUNE

09.00 – 09.10	Introduction by **Bernard Hoekman** | EUI and **Jean Pisani-Ferry** | EUI
09.10 – 11.00	**Session I - Has global trade governance broken down?**
	Introductory remarks: **Alan Wolff** | WTO, **Mark Wu** | Harvard
11.00 – 11.20	*Coffee break*
11.20 – 12.40	**Session II - Trade structures and trade institutions**
	Introductory remarks: **Sébastien Jean** | CEPII
12.40 – 13.40	*Lunch*
13.40 – 15.00	**Session III - Clubs and the new trade governance arrangements**
	Introductory remarks: **Bernard Hoekman** | EUI
15.00 – 15.20	*Coffee break*
15.20 – 16.40	**Session IV - Governance implications of the interaction between trade and other policy areas**
	Introductory remarks: **Robert Howse** | NYU
16.40 – 17.30	**Wrap-up - Lessons for global governance**
	Introductory remarks: **George Papaconstantinou** | EUI and **Jean Pisani-Ferry** | EUI

Seminar participants

Giorgio Barba Navaretti	Centro Studi Luca d'Agliano
Suman Bery	Bruegel
Emily Blanchard	Tuck School of Business
Adrien Bradley	Robert Schuman Centre, EUI
Bernard Hoekman	Global Governance Programme, Robert Schuman Centre, EUI
Robert Howse	New York University
Sébastien Jean	Centre d'Etudes Prospectives et d'Informations Internationales
Knud Erik Jørgenson	Aarhus University
Brigid Laffan	Robert Schuman Centre, EUI
Jean-Pierre Landau	Banque de France
Lim Hng Kiang	Former Singapore Minister for Trade
Doug Nelson	Tulane University
George Papaconstantinou	School of Transnational Governance, EUI
Ernst-Ulrich Petersmann	Law Department, EUI
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, Robert Schuman Centre, EUI
Miguel Poiares Maduro	School of Transnational Governance, EUI
Michael G. Plummer	Johns Hopkins University, School of Advanced International Studies
Stefan Profit	German Federal Ministry for Economic Affairs and Energy
Denis Redonnet	DG Trade, European Commission
André Sapir	Bruegel
Alan Wolff	WTO
Mark Wu	Harvard Law School

The Governance of Global Financial Safety Nets: Fit for Purpose?

Seminar insights[73]

Erik Berglof[74], George Papaconstantinou, Jean Pisani-Ferry and Andrés Velasco[75]

1. Financial globalisation has reshaped financial interdependence and increased the demand for global financial safety nets. The IMF-centred safety net of the post-war decades was quantitatively and qualitatively adequate in a world of limited capital flows and mostly national banking. It does not respond to the needs of a world of unfettered capital flows, global value chains, market interdependence and international banking. Under such conditions, global financial safety nets must consist of several coordinated layers whose combination matches the potential needs of financially open countries.

The current international regime departs from the 1990s template in fundamental ways. Capital flows are increasingly driven by push factors resulting from the global financial cycle and US monetary policy, rather than pull factors from domestic policies. Ergo, while conditional assistance remains the right response to capital outflows from domestic policy errors, it may not be the right response to externally-driven boom-bust financial cycles and self-fulfilling crises. At the same time, in times of stress, commercial banks doing business in foreign currency face

73 The seminar was held on 1-2 April 2019 in London (United Kingdom), jointly organised with the London School of Economics.

74 Director of the Institute of Global Affairs, Professor in Practice in the Department of Economics at the London School of Economics.

75 Dean of the School of Public Policy at the London School of Economics; former Finance Minister of Chile.

liquidity shortages but may lack adequate foreign currency collateral, needing access to an international lender of last resort.

2. Economic and political reasons explain why the IMF alone cannot respond to such needs. Tackling financial account crises may require amounts of financial assistance that exceed by a wide margin what the multilateral system can realistically mobilise. Whereas the overall pool of resources available for international financial assistance has tripled in proportion to world GDP, IMF permanent resources represent only one-eighth of available resources excluding national reserves. In addition, whereas IMF governance correctly limits the politicisation of lending, it also limits availability of precautionary support. Despite attempts to broaden the scope of its facilities, the Fund is not yet well equipped to provide unconditional liquidity to prequalified countries. Stigma effects and a reluctance to move away from conditional lending explain why it has not succeeded.

The IMF is also not better prepared to provide liquidity support to commercial banks operating in foreign currency. Covering such needs is an extension of the traditional role of central banks acting as lenders of last resort to commercial banks. They cannot be substituted in this role by an international institution. By the same token, the Fund cannot exercise conditionality towards central banks providing liquidity to their banking sector. Speed and scale require this operation to be based on trust.

3. Massive accumulation of reserves at national level is indicative of pervasive distrust in the multilateral Bretton Woods system. Reserves-to-GDP and reserves-to-trade ratios have reached unprecedented levels. Preference for such costly self-insurance, most notably in Asia where it emerged in reaction to the Asian crisis of the late 1990s and the IMF programmes that followed. Its rise amounted to a first major departure from the principle of mutual insurance embodied in the IMF articles of agreement. It signalled that several emerging countries regarded the Fund as excessively driven by the perspective, and even the interest of the advanced Western countries.

4. In a significant departure from the established multilateral regime, a three-layer system has come into existence. In addition to national reserves, it consists of:

- *Bilateral support schemes, especially through swap lines.* Such swap lines may serve as confidence-signalling devices, macro-financial support, trade- or currency-promoting instruments, or channels of provision of international currency liquidity to banks ;

- *Regional safety nets* to provide financial assistance to participating countries. There are by now seven, uneven in terms of size, institutional infrastructure and potential effectiveness, developed in part for resources, in part in response to IMF mistrust;

- *Multilateral financial assistance* through the IMF, in the form of traditional conditional assistance or of liquidity provision schemes granted to prequalified countries.

- Such a system is necessary in a world of deep financial integration with private financial institutions, not only states, needing access to liquidity and with regional spillovers, especially in currency unions, justifying mobilising resources from neighbours and partners. As things stand, however, this network does not constitute a coherent system, in terms of coverage, resources, capabilities, predictability. It is questionable whether it will evolve into a coherent system, or degenerate into fragmentation.

5. Within the GFSN, coordination problems are being addressed pragmatically, but difficult issues remain unsolved. Coordinating them raises issues of:

- *Availability.* Commercial, political or geopolitical considerations weigh on the choice of countries to which liquidity lines are being provided by major central banks;

- *Conditionality*. Even if institutions share the same philosophy the aims, maturity and scope of loans may differ, and so will the associated conditionality;

- *Terms of lending*. Whereas Fund lending conditions are broadly uniform across countries, bilateral or regional lenders may tailor theirs to programme countries;

- *Debt relief*. Multilateral debt relief granted to insolvent borrowers is in principle based on objective criteria and broadly uniform across countries; this is less true for bilateral or regional lenders, which may be based on economic or strategic interest and even seize collateral instead of participating in a multilateral restructuring;

- *Seniority*. The hierarchy of official creditors raises difficult issues of principle, especially when loans were provided at the same time and on the basis of tightly coordinated conditional programmes.

6. While the central role of the IMF in the global financial architecture is generally regarded as essential, its future cannot be taken for granted. The Fund is now part of a heterogeneous network where it is neither dominant nor indispensable. This may affect fundamental principles of the international financial architecture such as equality of treatment and transparency. More fundamentally, the IMF was part of a post-war order characterised by a monetary and financial architecture dominated by the US. Whether this can evolve into a more symmetric multipolar architecture where several currencies coexist and power is more evenly distributed is highly uncertain.

7. Architecture issues and governance issues cannot be separated. As the dominant veto player, the US exercises overwhelming influence over the IMF but is not willing to increase its resources significantly. China, India and other emerging countries are unlikely to invest much into the future of the institution as long as they feel massively underrepresented in its governance. Europe is a staunch supporter of the Fund but is unwilling to renounce the influence that it currently enjoys within it. Unless addressed as a matter of urgency, this configuration portends the risks of a persistent deadlock in the reform of the international financial architecture and of its eventual fragmentation.

Keynote – Financial Safety Nets: A European Perspective[76]

Thomas Wieser, Non-resident fellow at Bruegel. Former President of the Economic and Financial Committee/ Euro Working Group

We are gathering ten years after the Vienna Initiative was launched*. It was a cooperative solution to a problem whose gravity few suspected at first and which needed adaptability and flexibility to arrive at. The banking system in central and eastern Europe (CEE) was largely owned non-domestically, and when the crisis hit, liquidity started to flow out. There was strong incentive to be "first out the door", to defect first, as in a standard prisoners' dilemma. And there was a deplorable Western European lack of concern about potential consequences. The lesson from this episode is that closer integration implies spillovers, which have consequences for the allocation of supervision responsibilities and for the distribution of losses.*

Back then the risks were understood, but not taken seriously by sovereign decision-makers*. Western Europe governments had to be convinced that it was in their interest to nudge banks headquartered in their countries to stay in CEE in order to stabilise the macroeconomic situation. No coercion mechanisms existed, so leadership had to emerge, and cooperative structures and principles of loss attribution had to be invented in a crisis situation. The stars aligned and good cooperation was achieved, thanks perhaps to enlightened self-interest or the positive dynamic of an epistemic community, but these are all but guaranteed in a future crisis. Crisis structures and clear and transparent principles for crisis management should rather be put in place in good times.*

Turning to the euro crisis, the situation can be likened to "trapeze artists with only some safety nets"*. It is only when the ECB provided assurance of a full safety net that speculation was deterred and that the doom loop was dampened. Yet the ECB cannot play the role of a national central bank, and despite the fact that the ESM is fairly well equipped, monetary union remains incomplete.*

The relation of regional to global safety nets in the European case remains unclear*. The division of labour between the ESM and the Euro-*

76 Summary by Adrian Bradley

pean Commission, as well as the role of the ECB in future Eurozone programmes remain in question, as does the involvement of the ESM with countries outside the Eurozone, and their cooperation modalities, both in and out of crisis situations. Moreover, the participation of the IMF in possible future Eurozone programmes is now uncertain. Should it participate, the combination of EU and IMF conditionality remains an issue; and were the IMF not be involved, there is the question of member states' buy-in to the institution.

One reason why IMF participation is likely to remain necessary is that the ESM has little to no autonomy from national governments and parliaments, while the IMF does*. Although the nature of the contingent liabilities resulting from conditional assistance are the same for IMF and for ESM loans, member states' parliaments do not regard them in the same way. The autonomy of the IMF and, to be clear, the lack of direct democratic control of its decisions are a good thing, because otherwise it would be a slow-moving Leviathan. It should also be observed that it has thus far been insulated from the vagaries of the Trump administration.*

The EU should better prepare to deal with financial turmoil in its neighbourhood*. Both the ESM (for assistance) and the ECB (for swap lines) face legal and political limitations. Yet the implicit interdependence model of policymakers relies too much on trade linkages and tends to underestimate financial linkages. In view of the situation in the near neighbourhood (Ukraine, Balkans, Mediterranean), the EU should develop a strategy for contributing to financial stability beyond its borders.*

Seminar minutes

Adrien Bradley

Session I - The GFSN: An irreversible departure from Bretton Woods?

The first speaker enumerated a number of points touching on recent developments:

- Governance issues and the GFSN are linked: revised IMF governance through its quota increase made recourse easier, especially in emerging markets (EMs). Quota issues are very political; but politics can change, especially in crisis. It is however difficult to convince politicians to increase resources for safety nets: to maintain momentum, it is thus important to keep making the point it is necessary.

- It is difficult for the IMF (or other international organisations) to handle swap lines: providing quick, cheap and large amounts of money is incompatible with its governance structures. Despite Fed support in short-term liquidity lines for EMs, the resulting Flexible Credit Line (FCL) was too small and expensive; however, it paved the way for large balance of payment precautionary facilities. It may be the avenue of precautionary arrangements is more fruitful to pursue for the IMF and RFAs.

- Discussions of governance must confront the roles of the US and China. The US has a de facto veto on IMF reform, and does not yet accept the necessity of a safety net with more resources. China's approach to multilateral safety nets is unclear, while being forthcoming bilaterally with its own conditionality and lack of transparency.

- The relationship between global and regional safety nets is a difficult one. There has been much back-and-forth with Chiang Mai, but progress is slow. The urgency of the situation with the ESM made it so that modalities (e.g. debt solvency analyses) were not discussed ex ante. Cooperation guidelines are developed, but more is needed.

- The role the private sector can play is underestimated: crises can be attractive times to invest, but only if there is "light at the end of the tunnel". Precautionary arrangements can be helpful in these situations, though exit may be tricky.

The second speaker recalled that freeing capital movement was a major departure from Bretton Woods. He then criticised the mental model whereby crises requiring financial assistance are the result of either policy mistakes or exogenous shocks; it would be more correct to analyse them as shifts of expectations leading to self-fulfilling moves to bad equilibria. Such shifts can arise from several mechanisms, including the "original sin" of borrowing in dollars (Argentina) or the "doom loop" between banks and sovereigns (Europe). To rule some of these out a lender of last resort is necessary.

This analysis implies that the standard debt solvency paradigm and the categorisation of countries as "sinners" vs. "virtuous" are both problematic. This suggests a large, rapid, and ex-post unconditional (though ex-ante conditional) GFSN, as a deterrent which would not need to be used. Potential recourse could be granted by prequalification to avoid stigma. This seems preferable to uncertain access to non-transparent swap lines or patchy RFAs with heterogeneous rules.

A large part of the discussion revolved around assessing the relative successes of the IMF and ways forward. Many agreed with the first speaker, arguing that the Fund had in fact performed well in the past 15 years: the GFSN commands eight times more resources than in 2007, IMF cooperation with the EU has worked well in most cases (excluding Greece), and no one questions its central role any longer. While in the 1990s the proposed Asian Monetary Fund was rejected as a rival to the IMF, now all RFAs cooperate with it: ESM assistance for example is conditional to participating in an IMF programme. Nevertheless, the Fund's firepower is insufficient. Crisis catalysed action to increase it, but growing capital flows means it will have to work with RFAs. In the crisis the ESM disbursed in the EU three times more than the IMF has done so globally.

"In governance discussions, there are two elephants in the room: the US and China.

The IMF should also rely more on precautionary facilities; attempts to develop them, however, have been frustrated by member reluctance, often for contradictory reasons. To increase its firepower, the IMF could involve the private sector or borrow itself on financial markets, though this last option, a taboo in debates, would likely require a politically herculean change in quota nature, and imply higher lending costs.

To one participant's interrogation on the appropriateness of capital flow management measures, another responded that the IMF's stance was coming to "a more modern view"; one participant recalled such measures have been common in many Asian countries, and perceived as sensible by financial markets there. Another put forth the idea that the IMF could review the quality of sovereign assets to instil a measure of trust, but was answered that it could never do so in sufficient depth.

Some participants cautioned against the IMF having to rely on RFAs or swap lines to supplement its activity, as clear lines of responsibility and governance practices are still missing, and impartiality cannot be assured. Others warned that overly ambitious conceptions of safety nets invite moral or political hazard. Prequalification for assistance could be a problematic signal if made public, and may carry a stigma, while potential subsequent disqualification could trigger adverse market reaction.

One participant questioned why the IMF's centrality is unchallenged. It used to rest on its resources, expertise, and the quality of the institution itself; only the last justification still stands, but it is unclear for how long. Another answered that it is the only institution with a global mandate; it provides a forum for all to discuss issues, and is equipped with a good decision structure for what it is meant to do. Its expertise derives from its large number of programmes, giving it unique hands-on practical knowledge. Another however recalled the importance of getting the diagnostic right, to justify conditionality.

In concluding, the first speaker nuanced IMF success: before the crisis, its funds were in decline, and their emergency increase was temporary: they expire in 2020. Internal discussions on governance and norms of behaviour were set aside during the crisis to "keep everyone in the room" and achieve quota reform; it is an open question how long the status quo can last. Prequalification and precautionary arrangements are the solution to moral hazard: this was discussed but deadlocked over subsequent potential disqualification. Two issues remain outstanding for private sector involvement: unclear conditions for debt restructuring, and possibility of capital flows management measures.

> *"We are learning to do internationally what we learned to do nationally a century ago: create a lender of last resort."*

The second speaker summed up the problem of the GFSN as creating an international lender of last resort. Central banks perform this function quickly with large amounts ex post. Thus, developing prequalification mechanisms is important, and would imply turning the IMF into a kind of rating agency; which in turn would imply that it would be tougher ex ante, in order to be able to provide assistance unconditionally ex post. The speaker concluded on a pessimistic note: that the global financial crisis had huge repercussions, deteriorating political conditions worldwide, and that it is uncertain whether democracy could survive another crisis of that magnitude. The problem is deeper and the system needs more than just tweaks.

Session II - Swap lines: What are they for?

Swap lines address different problems than the IMF does. They are meant to assist international banks facing foreign currency funding pressures (usually in dollars). Drawing on bilateral swap lines, central banks can perform the function of lender of last resort to the banking system. The alternative would be for the requesting central bank to use up its foreign exchange reserves and risk capital outflows. The question is whether to move from specific uses of swaps to broader uses, to avoid the need for costly self-insurance, and what framework would be necessary to do so. The crux of the problem is that there is a tension between the full discretionary firepower of central banks and an institutionalisation that would abolish this discretionary character.

The first speaker highlighted key lessons from the use of swap lines from a market point of view. They served two different purposes in the crisis, depending on destination. To advanced economies, they were motivated by self-interested domestic monetary policy concerns: they alleviated a dollar crunch in destination states but also avoided unwanted dollar appreciation domestically. To EMs, they were motivated by geopolitics and a genuine desire to fight contagion. They were useful in turning market sentiment around, despite the fact that only four states were designated recipients, and only two (S. Korea and Mexico) drew upon their swap line.

> *"At the time, Fed swap lines were the only game in town."*

From the point of view of European banks these lines are still needed, due to remaining dollar liquidity mismatches and low dollar coverage ratios. Dollar lending has doubled since 2007, which may be creating conditions for another potential dollar crunch. There is no substitute for Fed swap lines since they are liquidity creation from scratch; but other pockets of liquidity exist and could be made available. As the Fed is unlikely to extend swaps to EU EMs (e.g. Poland), the ECB could play a role in stewarding swaps for the entire banking union. The question of euro swap lines must also be confronted in view of an enhanced global role for the euro.

The second speaker recalled that there are three types of swap lines: Fed swap lines, meant to support banks, and explicitly not for balance of payments difficulties; small, conditional and discretionary Fed swap lines to a few selected Ems, designed to provide means to intervene in capital flows or exchange rates; and (of a clearly different nature) People's Bank of China (PBOC) swap lines to its 32 counterparts, meant to support exporters and the push for the renminbi to become an international invoicing currency.

IMF facilities and swap lines are both meant to remedy capital flows crises, which affect banks. In the crisis, banks faced acute currency mismatches; only the Fed could remedy this by lowering the cost of "synthetic dollars", but it made sense that partner central banks operated according to their domestic market knowledge and carried the counterparty risk. It was an effective strategy. Two issues can be pointed out however: first, swaps can strengthen the bank-sovereign doom loop, rendering IMF intervention necessary; second, swaps are by design meant to deal with short-term liquidity problems; but if the problem is one of solvency, its scope could require IMF intervention.

In sum, central banks are best equipped to deal with certain disruptions, and therefore swap lines are an essential tool that cannot be replaced by IMF programmes. However, the IMF can have a role to play, for example by evaluating the contingent liabilities involved in swap lines, by drafting swap line arrangements, or by underwriting some swap contracts as a fiscal counterpart to monetary programs. This need not trigger conditionality, but the quality of the collateral could be a problem; in turn, the IMF could take the exchange rate risk and play a role in determining the haircut if necessary. One participant noted that the IMF had considered underwriting swap lines but concluded it was difficult to do so within its current framework. This has been the origin of its Short-term Liquidity Swap proposal, which might materialise in the next few years.

Another participant suggested the ECB, like the Fed, gave swap lines out of self-interest for domestic financial stability, using monetary policy tools in line with its mandate. But, mindful of its own balance sheet risks, it could only give them to member states with sound fundamentals. This meant that it had to offer some member states (PL, HU, LT) repos instead of swap lines. It has standing arrangements with G10 countries, Denmark and China, and temporary arrangements with other countries. He suggested the ECB approach is flexible, tested, replicable, part of a framework and effective; but found it difficult to see how it could be developed further. Another participant recalled the growing interest in turning the euro into a global currency, and called for making clear the implications of this: the ECB would have either to endorse the fiscal risk, or be backed by a treasury, both of which are not yet possible.

One participant argued that the forex swap line network had been the key backstop in the crisis, and pointed out that in addition to uncertainty about their renewal in the future, there is a large gap as there is no line between the US and China. The participant argued that if swap lines are now key and the system is more bilateral, there is considerable uncertainty over what might happen if a crisis hits China. One avenue the participant sketched out was a "chain swap", whereby the ECB would draw on the Fed to extend a line to the PBC; but others considered this an abuse of the system that would quickly see the line shut down. One participant returned to the question of the political contingency of swap lines, questioning why European countries were relying on swaps and not building dollar reserves like Asian countries.

Discussion also revolved around the political questions and risks of central banks wielding such discretionary power given the non-negligible fiscal risk. The argument that they perform the function of lender of last resort in foreign exchanges was broadly accepted, though necessarily context-dependent. Some participants were uncomfortable with central banks taking inherently political decisions, conditional on the tacit agreement of political authorities; one added that despite the demonstrable usefulness of swaps for domestic monetary management, they are (especially in the US) not perceived well by the public, who see it as "lending to foreigners". One participant recalled the awkward experience of having the IMF push for a swap line with another country while both the government and the parliament were opposed.

> *"We're all second-guessing what central banks will do the next time around."*

The discussion concluded in broad agreement that multilateral nets cannot substitute swap lines: both layers are necessary, and it is equally necessary to minimise the blurring of their edges. It was argued that central banks should provide clear principles for their use of swap lines so that market actors can make informed decisions.

Session III - Regional financing arrangements: IMF complements or substitutes?

The first speaker recalled the importance of the links between trade and finance: apart from traditional trade finance proper, the development of global value chains has driven FDI and financial support for transactions along the chain, thereby increasing liquidity needs. EMs have become more exposed to market sentiment. Whereas in the past they built foreign exchange reserves to avoid having recourse to the IMF, they are doing so now to counteract market volatility. At the same time, they are being denied swap lines by the central banks of advanced economies. In a similar process to the one that led foreign exchange accumulation, RFAs have emerged in reaction to advanced countries' lack of trust in the emerging countries and to the latter's mistrust of the IMF. As long as these problems are not fixed, RFAs will continue to flourish. But, swaps, RFAs and the IMF are not substitutable: it comes down to which is most easily callable.

The second speaker delved deeper into the details of RFAs. There are seven major ones today (ESM, CMIM, BRICS CRA, EU BoP assistance facility, EU EFSM, AMF, FLAR) but are heterogeneous in age, types of issues they deal with, funding source, conditionality, terms/duration of lending, relationship with the IMF. They have been interacting and learning from each other and the IMF more intensely since the crisis. They accept the centrality of the Fund, and are collaborating with it on surveillance, coordination of programme design, and co-financing. RFAs are considered as potentially more lenient than the IMF, but also as having better expertise due to being "closer to the ground" – an expertise that can conversely be clouded by partisanship. The speaker highlighted the positive role of RFAs and the cooperation they can produce thanks to different competitive advantages.

> *"The odds are getting stacked against having an orderly system."*

One participant challenged this view of complementarity, taking the example of the EFSF and Greece. The EFSF was born because a large part of the European political system was adverse to involving the IMF and there were disagreements over Greece's debt sustainability. The speaker answered that those arguing against IMF involvement eventually lost out; the subsequent ESM made IMF involvement mandatory. Another participant reported the IMF has developed flexible principles for coordination with RFAs and the learning process is still ongoing. The Greek case had prompted the Fund to revamp its debt sustainability toolkit and take political considerations (keeping the Eurozone together) into account. Another participant expressed concern over RFAs encountering the same problems the IMF and the ESM have, such as enforcing conditionality, market misperception and negative reactions, and blame-shifting.

> *"There are two kinds of arrangements: those with money, and those without. A regional arrangement without the elephants is just a bunch of monkeys."*

Discussion revolved around the mechanics of cooperation, as well as China's Belt and Road Initiative. One participant classified the BRI as an unorthodox RFA, and expressed concern over its political underpinnings and future deployment; there was agreement that concern was warranted, and that IMF reform is necessary to maintain China's buy-in to the institution. On the mechanics of cooperation, one participant advocated joint scenario planning for crises, while stressing the importance of communication in ensuring acceptability of measures taken.

A participant opined that the true issue at stake, along with governance structures, is the constituency to which the institutions involved respond to, and deplored the lack of top-down coordination from the G20. Another suggested the important issue was resource size. As regards cooperation between RFAs and central banks and RDBs, it was said that there are always informal talks, as central banks are shareholders in both. The discussion concluded with participants concurring that common principles are needed, sufficiently strong to ensure a degree of consistency across safety net layers; but it is unrealistic to expect common rules, as circumstances and political environments differ.

Session IV - Managing a multi-layer and more diverse GFSN

The first speaker suggested that the international system may be more asymmetric than acknowledged and more fragile than recognised. He recalled the Bretton Woods system was designed to serve US interests, and US hegemony over the current system is still far stronger than the UK's was over the 19th century's gold standard. He dissented from the earlier agreement that the IMF stands at the centre of the system (and disagreed that it can in any sense be apolitical), putting forth that the central actors in the system are the US Treasury and Fed. With the dollar as international currency, the lender of last resort is in fact the Fed, and it will not pre-commit itself to granting swap lines: the US will keep its options open on weaponising its currency. Accumulation of dollar reserves is no protection; holders can be prevented from accessing them.

> *"The current system may be shifting in uncomfortable ways. Have we been thinking radically enough? […] In this field, power politics is the name of the game."*

With China seen as a challenger to the system, the IMF is in an impossible position: if moves are made to give China and India the weight they deserve, the US may oppose its veto or walk away; if they are not, it cannot be called truly multilateral and its legitimacy suffers. It is still possible, but not likely, that the "China threat" will dissipate like that of Japan in the 1980s, and that the US will pivot back from President Trump's politics. But otherwise, the development of regional currency blocks ($, €, RMB) is a real possibility.

The second speaker tempered this view, suggesting the US has always had a pragmatic, if instrumental relationship with the IMF, and that its current behaviour is simply more naked. China professes a commitment to multilateralism, but is at the same time sowing the seeds of a parallel financial universe by building up its own structures such as the BRI and the AIIB, and massively developing its fintech and data handling capacities. The world may end up being split between the PayPal world and the Alibaba world.

Both speakers agreed that the IMF's governance is outdated, but expressed doubts that the articles of agreement could be reformed. Nevertheless, technical work is being carried out under the "Integrated Policy Framework" umbrella. Further revamping, for example through larger arrangements to borrow, may be possible; G20 impulse is helpful in this respect.

Discussion bore on the previously discussed themes of the importance of maintaining the IMF as an institutional lender of last resort and as the key, multilateral part of the financial safety net in a multipolar world. Doing so requires at minimum the buy-in of the democracies, to ensure pull on others. It was observed that there is some room to reallocate quotas without the US losing its veto power, playing on their three components (overall resource levels, calculation formula, and member state weights) - probably to Europe's detriment, and the possibility is at the mercy of US electoral timings.

> *"The hegemon tends to endure; but until when?"*

Turning to the EU, recommendations were made to strengthen its participation in, and linkages with, the GFSN. This should be achieved in several ways, more or less politically probable: by producing safe assets, consolidating swap lines and developing forward market capacity to favour euro invoicing, also deepening EMU and giving itself fiscal capacity, and completing banking union. Some participants argued that a multipolar currency system has already emerged.

Several participants recalled the difficulty of reconciling slow, small-scale technical reform within the IMF and other international financial organisations and the political necessity to ensure continued democratic allegiance. The system is already not seen as completely legitimate anymore in advanced economies. A 4-pillar system might serve the interests of EMs better than that in the past. One participant countered however that GFSN elements are patchy and that the IMF's share in GFSN reserves is falling. Another highlighted the importance of unpacking the IMF: its staff, its board, its different constituencies.

Wrap-up - Lessons for global governance

The first speaker likened the GFSN to a bucket, half-full after the crisis but leaking. The system is fragile: one or more of its nodes may fail in a crisis, which bolsters the case for RFAs as another layer in it. He asked whether the IMF might be split into its surveillance and lending functions. In his opinion, it makes sense to more actively involve the private sector; central banks were originally private, it would be more productive to make private players part of the solution rather than a problem to deal

with. He concluded by urging the recognition that more crisis prevention measures are needed: regulation, macroprudential instruments, and capital flow measures.
The second speaker summed up by giving seven points.

1. The evolution of the GFSN has been conditioned by governmental wills, and has caused at times large and unequally distributed costs.

2. Different parts of it perform different actions;

3. And this diversity can be seen as a sort of strength.

4. The IMF cannot do the job alone; it is stretching its statutes as it is, has little room or time to evolve to work with the rest of the system, and faces strong political and social headwinds.

5. RFAs are very heterogeneous and still finding their place — and it is clear some matter much more than others (ESM).

6. The purpose of the GFSN itself is changing, due to both endogenous and exogenous factors.

7. Governance of the GFSN is an increasingly messy affair, as there is little political drive to reform and clear it up. The G20 may play a role here, but it is worrying that its legitimacy is being corroded in advanced economies and emerging markets alike.

Seminar programme

1 APRIL

19.30	*Welcome dinner and keynote address* **Thomas Wieser** | Former President of the Economic and Financial Committee / Euro Working Group and Bruegel

2 APRIL

9.00 – 9.15	*Introduction* by: **Erik Berglof** | LSE, **Jean Pisani-Ferry |** EUI
9.15 – 9.30	*Tour de table*
09.30 – 11.00	**Session I – The Global Financial Safety Nets: An Irreversible Departure from Bretton Woods?** Introductory Remarks: **Reza Moghadam** | Morgan Stanley, **Andrés Velasco** | LSE
11.00 – 11.30	*Coffee break*
11.30 – 13.00	**Session II – Swap Lines: What are they for?** Introductory Remarks: **Isabelle Mateos y Lago** | Black Rock Investment Institute, **Ricardo Reis** | LSE
13.00 – 14.30	*Lunch*
14.30 – 16.00	**Session III – Regional Financing Arrangements: IMF Complements or Substitutes?** Introductory Remarks: **Urjit Patel** | Former Head of the Reserve Bank of India, **Klaus Regling** | European Stability Mechanism
16.00 – 16.30	*Coffee break*
16.30 – 18.00	**Session IV – Managing a multi-layer and more diverse GFSN** Introductory Remarks: **Charles Goodhart** | LSE, **Martin Mühleisen** | International Monetary Fund

18.00 – 18.30	**Wrap-up – Lessons for Global Governance**
	Introductory Remarks: **Charles Bean** | LSE, **George Papaconstantinou** | EUI

Seminar participants

Charles Bean	LSE
Erik Berglof	LSE
Patrick Bolton	Columbia University, Imperial College
Creon Butler	Cabinet Office, UK
Mark Bowman	HM Treasury
Adrien Bradley	Robert Schuman Centre, EUI
Pietro Catte	Banca d'Italia
Karolina Ekholm	Ministry of Finance of Sweden
Nicola Giammarioli	European Stability Mechanism
David Gillespie	Oliver Wyman
Charles Goodhart	LSE
Hans-Joachim Klöckers	European Central Bank
Jean-Pierre Landau	European Bank for Reconstruction and Development
Isabelle Mateos y Lago	BlackRock Investment Institute
Reza Moghadam	Morgan Stanley
Martin Mühleisen	International Monetary Fund
Piroska Nagy-Mohacsi	LSE
George Papaconstantinou	School of Transnational Governance, EUI
Ant Parham	HM Treasury
Urjit Patel	Former Head of the Reserve Bank of India
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, Robert Schuman Centre, EUI
Klaus Regling	European Stability Mechanism
Ricardo Reis	LSE
Polly Sculpher	HM Treasury
Christina Segal-Knowles	Bank of England
Beat Siegenthaler	UBS
James Talbot	Bank of England

Adam Taylor	HM Treasury
James Usmar	HM Treasury
Shahin Vallée	LSE
Dimitri Vayanos	LSE
Andres Velasco	LSE
Edouard Vidon	Banque de France
Thomas Wieser	Former President of Economic and Financial Committee/Euro Working Group and Bruegel

Migration Governance - A Common Approach?

Seminar insights[77]

Andrew Geddes[78], George Papaconstantinou and
Jean Pisani-Ferry

1. Global migration governance is important to study, not because of its successes but because of its failures. It is the oldest form of economic interdependence: it developed long before any international trade took place. And yet, there is no comprehensive global regime for migration governance and barely any regional regimes. Although mass migrations triggered by geopolitical, natural or economic events, and the response to them, involve strong cross-country spillovers, international cooperation is generally weak and ineffective – if not conflictual.

2. Analysis has to start from the unique characteristics of the field. Chief amongst these characteristics is a high asymmetry between the origination and the destination of migratory flows; this has repercussions on (dis-)aligning incentives and hence on the difficulty in arriving at commonly agreed solutions and governance rules. It 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. The recent flows which have dominated the policy debate are simply a more visible component of broader displacement and of deeper trends. Interdependence tends to be regional rather than global. States

77 The seminar was held on 20-21 May 2019 in Florence (Italy), jointly organised with the Migration Policy Centre at the EUI's Robert Schuman Centre for Advanced Studies.

78 Chair in Migration Studies and Director of the Migration Policy Centre, Robert Schuman Centre for Advanced Studies, European University Institute.

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” (the protection regime, the travel regime, and the labour migration regime); however, these cannot always be distinguished in practice and decisions taken for one regime may spill over onto the other ones.

3. Interactions across layers and amongst countries are complex and impacts are disputed. The evidence on the migration costs and benefits for sending and receiving countries depends amongst other factors on the scale of migration, demography, skill levels, and the time horizon involved. “Brain drain” for sending countries is often combines with “brain waste” in terms of over-qualification for existing jobs in receiving countries. There is significant substitutability across different migration layers. For example, restrictions to labour migration lead more potential migrants to seek asylum. There can also be significant substitutability across countries. Home countries are often substitutable when considered as pools of labour. Destination countries are often substitutable when considered from the point of views of personal safety and economic opportunity. For these reasons there are major spillovers across layers and amongst countries (e.g. the effects on country A’s labour migration policy on refugee flows into country B). Such substitutability makes estimates of costs and benefits of migration harder.

4. The migration governance regime is incomplete and fragmented. The migration governance landscape is characterised by high heterogeneity of preferences amongst countries, and as a consequence by few rules, no institutions, and no enforcement at a global level. It is mainly characterised by frequent unilateralism, patchy regional agreements, a web of bilateral agreements as well as by the intervention of subnational actors (cities, NGOs). The relevant knowledge base regarding both patterns and impacts has become highly politicised and is as a result also highly contested. Unlike what happens in other fields where “epistemic communities” have significant influence on policy, the debate on migration governance tends to be driven by ideological beliefs rather than by hard facts. An additional complicating factor is that migration cannot be easily separated from other fields (trade, aid) in negotiations between receiving and sending countries.

5. The flawed governance regime has major social, economic and political impacts. Recent crises have highlighted the major human and welfare costs for people of mass and often sudden migratory flows that are being opposed through unilateral and often very brutal measures. 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 flaws and the lack of a migration governance regime, including a commonly agreed set of core rules and procedures for migration and assimilation. The toxic and often fact-free debate surrounding migration in destination countries has had adverse domestic political consequences, polarising positions (liberal rights vs. majority rule, national vs. human security), with some countries choosing ethnic homogeneity irrespective of economic outcomes. It has also undermined migration regimes such as that for international protection that enjoy governance structures, making it harder to arrive at commonly accepted international norms and agreements.

6. A hesitant and controversial step forward at global level. Spurred by the 2015 migration crisis in Europe, the Global Compact for Migration (GCM) affirms for the first time a multilateral approach to managing migration and provides common but non-binding principles for national policies and international agreements. The agreement is softer than soft law, with no monitoring but regular reviews. However, while it remains non-binding, and cannot be invoked to claim rights in courts, it could progressively become more binding by repeated reference in legal practice. Nevertheless, despite its deficiencies and limited character, the GMC is a step forward; its usefulness will be tested in its implementation. In principle the GCM could produce effects through peer pressure, potentially through courts and by providing a template for international agreements; it has the advantage of setting out a framework and a menu of possible measures/policies for discussion and implementation. In practice it may have already backfired; during its adoption it has been misrepresented by demagogues, with the US and some European countries withdrawing, and generally little ownership). In addition, the GCM may be flawed in specific respects, such as in its approach to regulating labour migration.

7. Going beyond the inadequate response at European level. The discussion surrounding migration in EU MS has obscured the potential gains from a common high-skill labour migration policy, which would arguably help limit the EU disadvantage vis-à-vis US, and harmonisation of policies to create legal pathways of migration to the EU. The recent migration crisis in Europe has highlighted the fact that a no-border space and heterogeneous asylum policies are incompatible; the asylum and migration debate has had inevitable spillovers onto the Schengen regime. Europe's asylum system is broken; the internal coordination regime is beyond repair: it is inefficient, with no agreement on principles, captured by interior ministries, and externalities that are not dealt with. The external joint action regime remains ineffective: the EU lacks competence and means to negotiate with source countries or transit countries, and states do not cooperate. A workable solution requires (a) coalition of like-minded countries, (b) single law and a single agency for asylum policy, (c) coordination in relationships with third countries.

Seminar minutes

Adrien Bradley

Session I - Deciphering the migration governance landscape

The first speaker introducing the session sketched out four points currently driving and affecting global migration governance:

1. Economic, political, social, demographic and environmental changes form broad trends informing migration dynamics. Economically, the mutation of regulatory environments has increased pre-existing expectations for governance, as well as created new ones, on the part of citizens (not only in migration). Politically, state-to-state conflict has decreased, which bodes well for migration governance, but this may conceal new challenges such as intra-state displacement. Social media have become a prime vehicle for inflammatory disinformation about migration. Demographically, while world population growth is slowing, an "African youth bulge" might contribute to migration patterns in the future. Finally, the likely catastrophic effects of climate breakdown on migration are raising particular concerns.
2. While historically multilateralism was used to smooth over power differentials and reinforce states (and was perceived as doing so), appetite for it is diminishing. Absent its possibility, governance is produced through other means: "minilateralism", soft law instruments, involvement of sub-national (cities) or non-national (NGOs) actors.
3. Migration governance is so complex because it is so difficult to reduce to broad categories to think about and deal with their governance. The three regimes concept (protection, travel, and labour migration) can be supplemented with more regimes: for international students, family reunion or retirement abroad for example, complicating the governance landscape.
4. Difficulties abound for migration governance going forward. Right-wing nativists employ populist tactics use migration governance fail-

ures as a wedge issue, polarising electorates and profoundly affecting politics, nationally, regionally and globally. This undermines migration regimes that already enjoy governance structures, such as the international protection regime: for example, support for asylum claims is fragilised by their conflation with economic labour migration to developed host countries. In turn, transit countries are seeing their leverage increase. The political leaders of cities, important and underestimated usually positive actors in migration governance, may cave under the multiple pressures they are facing, further fragilising migration governance.

The second speaker introducing the session covered similar ground in five points:

1. Migration governance is a patchy and weak regime complex whose existing structures, especially at the sub-national and the regional levels, have potential for bolstering; recent developments have been uneven, however.
2. Perceptions (especially of decision-makers) frame action, though the situation may have changed factually: the perception that migratory pressure at the border is a "new normal" may be without empirical grounding.
3. Mobility is increasing worldwide, but unequally: European citizens enjoy twenty times the mobility of African citizens. The trend is towards divergence and greater gaps in mobility opportunities.
4. Careful attention must be paid to the structure and drivers of attitudes towards migrants in host countries. There is significant evidence that the cleavage over "globalisation" has become more salient than ever in developed host country politics, especially its migration aspect, and this must be taken seriously. While some will be intractable, others' attitudes are amenable to change.
5. Research, data and knowledge production on migration are progressing, providing better evidence of trends and dynamics, but it remains difficult to connect it effectively with decision-makers.

The ensuing discussion revolved around the problems caused by the complexity stemming from overlapping migration governance regimes and the subsequent lack of policy coherence. One participant recalled that governments have in fact little power to control migration: its true drivers are the migrants themselves, the intermediaries assisting their migration (and often profiting from it), and the businesses who will hire them. Some governments are even giving up more control, privatising border control and search-and-rescue functions. Beyond harming migrants, poorly thought-out policies can harm established patterns of migration, or have negative spillover effects on other states; but sometimes what looks like bad policy is in fact the point.

Multiplying obstacles to migration or outsourcing migration control functions is not irrational, but functions as deterrence, a signal in domestic politics, or a means to apply pressure in international politics. One participant suggested it is illusory to expect policy coherence, as people are not coherent themselves, employing undocumented workers while deploring their supposed effect on the economy, or rejecting migrant workers but welcoming international students. The complexity and diversity of the migration landscape is often understated.

> *"The US is currently in a governance arrangement of 'how much can I get away with'. Migration is used as a bilateral irritant or sweetener… It's sheer bloody-mindedness, and it's working."*

Discussion also touched upon questions about the reliability and presentation of indicators and their effects on attitudes towards migration. Policy-making should rely on data and facts, but discourse surrounding migration is notoriously impervious to them. Experts already face difficulty in swaying public opinion, but decision-makers aren't much more receptive; they often presume that their electorate is hostile to migration and act in consequence, in a self-fulfilling vicious circle reinforced by media and politicians misrepresenting the situation as an ongoing existential "crisis" for host countries. In fact, attitudes towards migration are more complex and less hostile than presumed.

Negative attitudes to migration are generally attributed to two causes: economic concern over redistributive outcomes, and cultural concern over "identity", with the accelerating factor of mass media and the manipulation of content. One participant disagreed with this characterisation, arguing that economic concerns are what really matter and that cultural concerns are a form of "false consciousness" where migration is scapegoated. Another cautioned that evidence on this is patchy, but that the psychological dynamics of concern over migration are clear enough: it is easy to activate and difficult to shift. Inflammatory narratives play well in electoral politics, which compound the problem precisely because they cannot be fulfilled. Governments also engage in damaging doublespeak in governance fora, professing toughness on migration and making a show of uncooperativeness, while quietly signing up to implementation measures. Resulting anti-migration attitudes may originally target a fraction of migrants, but quickly affect all of them, discouraging even officially desired migrants.

One participant drew attention to the fact that measured attitudes may not be towards migration per se, but of its control and management, and that focusing on integration could provide potential for a fruitful dynamic. Another advocated humility in the expert community, recalling the near-universal approval of trade liberalisation while the dynamics of the redistributive effects turned out to be deeper and more complex than touted. One participant summed up the changes in attitudes and policy by distinguishing three types of issues: those with low salience, where special interests have a large potential to drive policy; and those with high salience, which can be contested, or not. Of the high-salience issues, the uncontested ones (like growth) will be driven by general public opinion. High-salience contested issues (as migration has become in the last decades) will no longer be driven solely by special interest groups, nor by the public (since it is contested): in this case parties are the ones who will drive the issue.

There was also discussion about another factor of complexity: the interdependence of migration and other fields of global governance such as trade, development, or climate change. Attitudes to one do not correlate well with another: the left/right cleavage remains more pertinent. Existing international treaties and agreements, though imperfect, can be key tools for accountability and policy-making; while at the national level it is important to emphasise that migration is not a destabiliser to a previously balanced system, but an integral part of it. One participant recalled that migration is only one side of the story: 96% of the world population is not mobile, often trapped in poverty and exposed to deleterious conditions: it is the richer and more capable of the global poor who can migrate to escape their situation.

The speakers concluded the session by summing up the consequences of the increased salience of migration. It has been seized upon in political narratives, driving a discussion based on issues of security and leading to instances of its weaponisation. Its intertwining with other bilateral, thematic and geographical processes is increasingly recognised and engaged with, if not always acted upon effectively. Rhetoric surrounding it, heavily influenced by media (traditional and social) and far-right nativists employing populist tactics, can become reality in governments and administrations with little critical examination. The increased salience of migration has not translated enough to attention paid to source countries however, where important regional and sub-regional dynamics and processes remain under-examined.

> *"There is a democratic deficit inbuilt in migration: the people who decide are not the ones who are affected."*

Session II - Labour mobility and skills

The first speaker introducing the session presented three basic challenges in matching demand for skills in host countries with mobile labour.

1. Harmonisation of policies to create legal pathways of migration to the EU has had limited success and created few effectively binding frameworks, due to member state (MS) reluctance to establish joint strategies.
2. The asylum regime is inappropriate to deal with labour migration. Cooperation with origin countries has become a priority, but there is intense political tension.
3. A better match of academic or professional skills of migrants to host country needs requires a system of competence checks, which remains to be developed.

The second speaker recalled the fact that the educated and/or skilled are twenty times more likely to migrate than average. There is a global market for skills, but in fact migration flows are extremely concentrated, with half of the total going to the US, another quarter to Anglophone countries (principally the UK), and the remaining to the rest. The need for a regulatory framework is evident but attempts to integrate this into a policy narrative encounter virulent resistance, and tend to fail if there is no long-term path to integration. On the side of origin countries, there is concern over brain drain, but it is perhaps overstated: it creates incentives for these countries to retain and train their human capital. Trade and migration are complementary: both build bridges, enhancing the circulation of positive factors of production. The speaker saw less scope for governance mechanisms, judging that, at least for highly skilled migrants, market mechanisms might work well enough.

Discussion focused on the relative costs and benefits of skilled migration to origin and host countries. While skilled migration can give rise to fears of brain drain, which is naturally viewed unfavourably by origin countries, discourse has shifted to how it can be leveraged for their benefit, through skill transfer programmes or encouragement of return migration. These countries already benefit from the remittances sent back by migrants, which exceed FDI in Africa for example; and their departure may level inequality with low-skilled workers there. Brain drain fears are often exaggerated however: “brain overflow”, whereby skilled workers do not meet with adequate demand, may be the more pressing problem. Correspondingly, there is “brain waste” in host countries, where migrants are overqualified for the positions they hold: in the US for example, a full half of migrants hold degrees. This points to the need for programmes to recognise skills and competences (acquired formally or informally). In the long term however this phenomenon can result in a persistent failure to concentrate and agglomerate high-skilled workers in origin countries, compounding international inequality.

One participant, summing up the dynamic, identified the basis for cooperation in this case as the interest in counteracting long term excessive concentration in host countries and its negative consequences for development and growth in origin countries, and asked what policy tools could be employed to do so, apart from outright transfers or restrictions (preferably temporary) on migration flows. Another participant contested the identified basis for cooperation as unsound, since developing origin countries in fact gain in the short term and therefore have little incentive to oppose flows: they diminish unemployment and thus stabilise social conditions, while ensuring much-needed remittances.

> *“Host countries gain; skilled migrants gain; origin countries lose short term but win long term. So what to do?”*

Many participants argued against restricting flows on normative grounds; some advocated instead, more or less ambitiously, the use of industrial policy, the creation of larger, regional poles to spread the costs and benefits, enhanced mobility schemes ensuring circular flows, or joint host/origin country training schemes; but short term electoral concerns make it difficult for MSs to cooperate with EU institutions on pilot projects for legal migration. One participant highlighted that to regulate migration, policies in origin countries (such as encouraging education, return, specialisation, niching in a sector, greening…) have the most impact. Another participant recalled that almost all legal migration in developed host countries are guest worker programmes that, without integration programmes, have not had a good track record in effectively regulating migration. Moreover, they are accused of inflaming xenophobia, despite a compromise where newer migrants are allowed access to the labour market but excluded from welfare state benefits. This poses the question of countries, such as Japan or Hungary, who prefer economic stagnation or decline as the price to pay for ethnic homogeneity.

Discussion also focused on the tension between high- and low-skill migration, by way of contrasting legal avenues of migration: the labour regime and the protection regime (while they do not map exactly to each other, there is a fair degree of overlap). Most participants agreed that the line between the two regimes is blurring, a worrying development. One participant strongly advocated keeping these two regimes strictly separated, arguing that both have different logics, and that if legal pathways for migration don't exist then the asylum regime will be abused to that end, putting it in danger. One participant questioned how the existing two regimes could be strictly separated, as they follow similar processes and feed into each other.

> *"We need good governance for asylum; we need governance tout court for economic migration."*

Another participant suggested that it is difficult to disentangle asylum seekers and economic migrants, but that the former tend to arrive in waves whereas the latter tend to arrive as a more steady flow; another responded that however difficult to parse, these categories matter very much as they confer different bundles of rights and access to labour markets. In any case, all will need to acquire or upgrade their skills to integrate the labour market of their host country; thus programmes to facilitate this in short time are necessary, as are integration programmes that will take longer. However, looming automatisation and digitalisation will impact future migration flows as well as host country societies, increasing the imperative for reskilling and upskilling of workers. One participant evoked the importance of not leaving by the wayside refugees who due to injury or trauma cannot join the labour market; another recalled that while in general labour market participation of refugees takes longer, the situation consistently rebalances after the second or third generation. Concluding the session, the first speaker recalled that skilled migration is self-selecting; it is a normative question with serious consequences whether decision-makers act on concern over their country's human depletion: pithily put, acting to prevent ghost towns may end up creating zombie states. The good situation of the origin country is key to fostering return migration. The second speaker took the EU as an example, deploring its limited competence and limited appetite of its MSs for developing migration policy, urging experimentation on the national level to create a dynamic of regional progress, possibly leading to harmonisation.

Session III - The Global Compact for Migration

The first speaker introducing the session presented the process leading to the GCM and its content. Mounting salience of migration as an issue led to it being taken up in various international fora, until the 2015 migration crisis in Europe tipped the balance, spurring the UN process towards adopting the GCM. It enjoyed a large consensus initially (only the US refused to even be involved in its negotiation), but the decision to delay formal adoption and endorsement at Morocco's request, so it could organise the ceremony in Marrakesh, allowed opposing forces to mobilise and spread disinformation, leading to a number of countries to drop out of it.

The GCM is the first internationally negotiated agreement on migration in all its aspects: not legally binding, it is a political and fairly coherent document affirming a multilateral approach to managing migration, achieving balances between individual rights and states' prerogatives, and between origin and host countries. It is structured in three baskets: reducing the negative drivers of migration (such as smuggling and trafficking); amplifying its benefits (investment, development, using migrants' skills, etc.); and bringing order to the process (improving data collection and their quality, providing relevant information to migrants, etc.). It contains three kinds of objectives: specific and non-controversial (e.g. data collection); specific but controversial (e.g. cooperation on returns); and broad and idealistic (e.g. eliminating discrimination). MSs decided to include such numerous and heterogeneous measures and objectives to dilute the more contested issues. It is much too early to gauge its effectiveness, but it has the merit

> *"The GCM is an incremental step in the right direction. It's full of lofty goals, all on paper; but at least they're down on paper."*

of setting out a framework with a menu of measures. Time will tell whether their implementation will be effective or not, yet there are cautious grounds for optimism.

The second speaker focused on the objective of regulating labour migration contained in the GCM, arguing that there exists a gap between its contents and the reality of labour markets, which will obviate its effectiveness. Its objectives touching upon labour market access are in tension with the use of temporary work permits, the major tool of developed countries. These are awarded in function of labour market tests to evaluate demand for certain skills from employers, to show that no domestic workers are available; whereas the objectives emphasise the right to change employers. But if migrants can change jobs or sectors, this negates the original incentive to facilitate their migration.
The speaker thought it better to focus on defining a core of rights for migrants (as ILO has done for workers) and was pessimistic about the GCM's effect on regulating labour migration. The first speaker offered a rejoinder, recalling that the GCM had emerged in response to anarchical mass flows, not narrower, practical concerns over labour markets; and that the value of the GCM lies in its process as the first global negotiation over migration, overcoming taboos in previous migration governance fora.
Discussion revolved around on the drawbacks and benefits of the GCM. Whereas many participants expressed measured praise towards its content and relief that it managed to be adopted at all despite mass diffusion of inflammatory "fake news", some felt it was not ambitious enough. One participant pointed out the positive impact of civil society groups in helping to draft it, in a fairly open and transparent process: even migration-critical groups were invited to contribute, but elected not to. This NGO involvement may have diminished state ownership of the text. Several participants agreed that these non-state actors will be key in the implementation and review processes.

"It wasn't the best time or place for the GCM. It's better to have it than not, but it really could have gone the other way."

Some participants drew attention to the fact that negotiation was conducted by foreign affairs ministries, creating tension with home or labour ministries who will be the ones to deal with the effects. Others questioned the feasibility of the prescribed measurement and reporting, citing the example of crisis-hit and displaced populations. One participant quipped that it is easy to criticise ex post: the process will go through gradual, long term build-up. If having it in place will stop some abuses, and if it can it be used proactively, then the benefits will outweigh the drawbacks.

A prominent part of the discussion focused on just how legally binding the GCM is and might be in the future. Participants concurred that it was explicitly designed as non-binding "soft law"; the text pays overt obeisance to national sovereignty. It is a statement of principles followed by a "shopping list" of measures states can pursue, with no obligatory actions or sanctions. It can be referenced in legal practice, but not invoked to claim rights in courts. However, it can gain bindingness progressively by repeated reference, linkage and use in related processes (one participant suggested the SDGs), as its language and principles spread down and out; the European Parliament has already made reference to it. Origin countries could take into account other countries' action on its measures in undertaking new bilateral (or regional) agreements with them.

The session concluded with the first speaker elucidating the envisaged implementation method of the GCM: it is the responsibility of states, which have no individual formal monitoring and reporting obligations or standardised indicators. A global review will be conducted in four years however, as well as alternating regional reviews. The speaker reflected on the role of EU MSs, who at the time of the crisis needed to involve origin countries and thus bought into a global process which may have unexpected consequences for them. The second speaker advocated for more and better data collection and scholarship to obtain a granular understanding of key issues at regional and national levels.

Session IV - Migration governance in the EU

The first speaker introducing the session presented some statistics on migration in the EU and drew conclusions. Asylum-seekers represent a tiny 0.4% of all cross-border movements. Since the financial crisis, labour migration has almost halved; asylum claims spiked during the 2015 migration crisis but are rapidly declining (40% of Council meetings at the time dealt with this subject); it is family migration that contributes most to migration to the EU. 30% of migrants end up in three MSs (DE, UK, IT); 90% end up in 10 (+ ES, FR, SE, AT, BE, NL, PL; the latter because of flows from Ukraine).

Responsibilities for different aspects and types of migration are splintered between the Commission and MSs; the latter's uncoordinated decisions create externalities, while they compete to attract skilled migrants. The situation is sub-optimal: third countries could more easily be approached by the Commission, and marketing the EU as a single destination could make it more attractive. The crisis spurred the Commission to strengthen the external dimension of the Schengen system supporting inter alia naval action in the Mediterranean, with mixed results. It also facilitated "gentleman's agreements" with Turkey and Libyan actors and developed carrot-and-stick approaches towards other sending countries (mostly African), with some effectiveness, but at the cost of belying its professed values.

However, it failed in resettling already arrived migrants, as some MSs flatly refused to implement the first Council QMV decision in this field. The EU faces a number of challenges stemming from migration: with an ageing and shrinking labour force, it must attract the right migrants for its labour markets, while ensuring the freedom of mobility of its citizens, the protection of refugees, and the security of all on its territory. Moreover, it must manage its diverse societies and promote integration. One major challenge, however, is that historically European conceptions of national identity integrate migrants much less easily than those of other states such as the US or Canada.

The second speaker covered similar ground with a more institutional lens. The EU needs a longer term strategy to protect freedom of movement and deal with demographic challenges, detached from a narrow and unhelpful focus on security; at the moment there is no common view and thus no common policy. Migration governance is especially difficult due to the intertwined competences of the institutions and the MSs, which blame the former when things go wrong; cities can be powerful actors (for better or worse), but do not receive adequate support. The EU brings a striking amount of resources to the table, but much of its impact is wasted due to lack of coordination and inability to foster synergies. The humanitarian/security/development/external relations nexus that lies at the heart of migration is inextricable; but more so for MSs alone.

However, the EU has many design flaws in dealing with migration: the Dublin asylum system suffers from serious flaws, and is not balanced by a corresponding system for labour migration; in external relations, the unanimity requirement in the Council and the EEAS being walled off from relevant issues with domestic impact (e.g. trade) is a serious impediment. In order for the EU to grapple with the challenge properly it needs a complete set of sectoral policies at its disposal; to acquire this, it needs

> *"If we don't manage to fix this, it might be an existential threat to the Union… Let's put it this way: in this area, the Union has to grow up."*

political will and the backing of MSs. It has begun to seriously engage with origin countries, but more work is needed.

One participant was extremely critical of the state of EU migration governance: obstinacy in maintaining the failed Dublin "non-system" is now threatening the Schengen system. Countries of first arrival failed to apply it due to lack of means and general EU solidarity; this, plus lack of mutual recognition by MSs in asylum decisions, led to forum-shopping by migrants, and in the end has fed far-right populist nativism. EU-tabled reforms are completely inadequate, proposing more of the same. This obstinacy is not irrational however, since the point of the system is deterrence rather than actual governance; moreover, it is now deeply embedded in the administrative cultures of EU institutions and MSs (where one very negative factor is the management of asylum by home ministries).

Even more danger lies in outsourcing asylum (as in e.g. the deal with Turkey): it runs against all professed European values and MS constitutions; and what's more is not even efficient. A fitter, three-level system could be a solution: a revamped asylum regime (with e.g. mutual recognition of asylum decisions, an EU asylum agency with real authority); a new humanitarian regime (which could accommodate climate refugees for example); and a labour regime to deal with economic migration. Yet, host countries' concerns over identity or their choice of homogeneity over growth must be taken into account somehow as well.

Discussion pursued the theme of flaws in EU migration governance and ways forward. Participants concurred for the most part that the focus on security concerns, linking border control, immigration and cross-border crime to asylum, is unhelpful; so are ethically dubious stopgap agreements. One participant disagreed however that this focus on security concerns is strong in the foreign policy facet of migration, questioning what a strongly coordinated EU foreign policy would be able to effectively achieve, and arguing that smaller policy items (e.g. visa facilitation for countries included in the EU's Neighbourhood Policy) could have broad reverberations.

One participant questioned the Commission's role in asylum externalisation, asking how it can better evaluate and monitor coordination partnerships largely put in place by the European Council and regain influence; another replied that it does not enjoy much competence in this area and is hemmed in by MSs, as the ignored QMV decision on resettlement demonstrated. New attempts at coordination will have to take a basis that MSs are profoundly divided on the issue, to the point where legally binding decisions are not implemented and with no possible sanction to boot. Another participant put forward that the principle of differentiated responsibility could have been applied, whereby recalcitrant MSs could have refused resettlement but paid more of the costs. One participant urged passionately to not miss the forest for the trees, recalling that the main goal should not be to salvage systems, but people.

The session concluded with the first speaker questioning the hard practicalities of EU solidarity: if a MS receives significant funds with little improvement, it is difficult to justify spending more. Mutual recognition is double-edged: asylum rejections by migration-critical MSs would have to be recognised too. Relocation is unjust because for many the destination country will be designated arbitrarily, and is in any case extremely difficult to enforce. The second speaker echoed points made in discussion, regretting the lack of tools and clear governance mechanisms at the Commission's and MSs' disposal, and drawing a comparison between the migration crisis and the Eurocrisis. The fundamental question is how to share the burden: there is a window of opportunity now with the drawing up of a new EU budget and rule of law consultations with certain MSs.

Wrap-up - Lessons for global governance

> *"This has been the rawest seminar."*

The speaker introducing the session summed up the points made during the day and pointed out some under-discussed issues such as supra- or sub-state levels of governance (regional consultation processes; cities), the role of transit countries, or GCM implementation. Discussion touched upon the patently insufficient political action in the face of crisis and mass human suffering; one participant urged to maintain a politics of hope rather than a politics of fear. Another participant underscored the tensions at work in migration governance: the liberal rights regime vs. majority rule, national vs. human security, expertise vs. values.

Seminar programme

20 MAY 2019

19.30	*Welcome Dinner*

21 MAY 2019

09.00 – 09.10	*Welcome and Introduction*
09.10 – 09.30	*Tour de table*
09.30 – 11.00	**Session I – Deciphering the migration governance landscape** Chair: **Jean Pisani-Ferry** | Tommaso Padoa-Schioppa Chair, EUI Introductory remarks: **Marie McAuliffe** | International Organisation for Migration, **Andrew Geddes** | Migration Policy Centre, EUI
11.00 – 11.30	*Coffee Break*
11.30 – 13.00	**Session II – Labour mobility and skills** Chair: **Ninna Nyberg Sørensen** | Danish Institute for International Studies Introductory remarks: **Petra Bendel** | The Expert Council of German Foundations on Integration and Migration, **Hillel Rapoport** | Paris School of Economics
13.00 – 14.00	*Lunch*
14.00 – 15.30	**Session III – The Global Compact for Migration** Chair: **Joseph Kofi Teye** | Centre for Migration Studies, University of Ghana Introductory remarks: **Kathleen Newland** | Migration Policy Institute, **Martin Ruhs** | Migration Policy Centre, EUI
15.30 – 15.45	*Coffee Break*
15.45 – 17.00	**Session IV – Migration governance in the EU**

	Chair: **Andrew Geddes |** Migration Policy Centre, EUI
	Introductory remarks: **Rainer Münz |** EU Commission, European Political Strategy
	Centre, Claus **Haugaard Sørensen |** Norwegian Refugee Council
17.00 – 17.30	**Wrap-up – Lessons for global governance**
	Chair: **George Papaconstantinou |** School of Transnational Governance, EUI
	Introductory remarks: **Pascal Brice |** Former Director, French Office for the Protection of Refugees and Stateless Persons
17.30 – 18.00	*Farewell Cocktail*

Seminar participants

Petra Bendel	The Expert Council of German Foundations on Integration and Migration
Tito Boeri	Bocconi University, Italy
Adrien Bradley	Robert Schuman Centre for Advanced Studies, EUI
Pascal Brice	Former Director, French Office for the Protection of Refugees and Stateless Persons (OFPRA), France
Tiziana Caponio	Migration Policy Centre, EUI
Sergio Carrera	Migration Policy Centre EUI; Centre for European Policy Studies (CEPS)
Cecilia Corsi	Robert Schuman Centre for Advanced Studies; University of Florence, Italy
James Dennison	Migration Policy Centre, EUI
Franck Düvell	German Centre for Integration and Migration Research
Malin Frankenhäuser	International Centre for Migration Policy Development
Andrew Geddes	Migration Policy Centre, EUI
Leila Hadj-Abdou	Migration Policy Centre, EUI
Tomáš Jungwirth	School of Transnational

	Governance, EUI
Thomas Klau	Asylos
Reuben Joseph Babatunde Lewis	School of Transnational Governance, EUI
Patrick Marega	International Labor Organisation (ILO)
Mehari Taddele Maru	Migration Policy Centre, EUI
Marie McAuliffe	Migration Policy Research Division, International Organisation for Migration (IOM)
Rainer Münz	EU Commission, European Political Strategy Centre
Philomena Murray	University of Melbourne; Director, Comparative Network on Refugee Externalisation Policies
Kathleen Newland	Migration Policy Institute
George Papaconstantinou	School of Transnational Governance, EUI
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, Robert Schuman Centre, EUI
Hillel Rapoport	Paris School of Economics
Alexandra Ricard-Guay	Migration Policy Centre, EUI
Martin Ruhs	Migration Policy Centre, EUI
Gabriella Sanchez	Migration Policy Centre, EUI
Claus Haugaard Sørensen	Norwegian Refugee Council; Former Director-General, EU Commission, Civil Protection and Humanitarian Aid Operations
Ninna Nyberg Sørensen	Danish Institute for International Studies
Imogen Sudbery	Policy and Advocacy, International Rescue Committee (IRC)
Joseph Kofi Teye	Centre for Migration Studies, University of Ghana
Anna Triandafyllidou	Global Governance Programme, EUI

Extraterritoriality and Cooperation in Competition Policy

Seminar insights[79]

George Papaconstantinou, Jean Pisani-Ferry and Guntram Wolff[80]

In a context where a few global firms dominate key sectors worldwide, the proper functioning of product markets rests on enforcing both a non-distortive trading regime and pro-competitive competition laws. Whereas trade is governed by multilateral rules, however, there is no global competition law nor a global competition authority. Competition policy remains in the sole remit of national authorities operating under national law. National decisions, however, have strong extraterritorial effects. This raises significant international coordination issues.

1. A case of voluntary cooperation amongst national authorities. Competition provides an illuminating case of global governance through voluntary cooperation of independent national authorities. The key ingredients of this model are the following:

- Policy objectives are largely similar across countries;
- Policy implementation is almost everywhere delegated to independent national authorities whose mandates are therefore largely similar;
- National authorities cooperate informally in assessing potential cross-border effects of policies;

79 The seminar was held on 16 October 2018 in Bruxelles (Belgium), jointly organised with Bruegel.

80 Director of Bruegel.

- They recognise the right of their partners to take decisions which apply to firms in their own jurisdiction, provided they are respond to demonstrably harmful effects of firms' behaviour;
- Within the framework of their mandates, national authorities refrain from taking decisions that would be disproportionately harmful to partner countries.

While this model has some resemblance to the one at work amongst central banks, there is a significant difference: central bank decisions do not target specific economic actors in partner countries, whereas competition authorities do. In merger control cases, they may impose remedies such as the sale of assets located outside the border of their jurisdiction.

2. A model whose permanence cannot be taken for granted. This model has been in operation successfully for more than two decades. About half of the competition cases dealt with by authorities in large countries explicitly involve cross-border dimensions. The global competition network includes about 130 countries. The resilience of this model however rests on ingredients whose permanence cannot be taken for granted:

- The convergence of competition mandates was largely due to the similarity of those of the two main players: US and EU. Until recently, China's competition policy was underdeveloped and competition laws were largely copied on those of the two incumbent powers. As China develops its own competition policy philosophy and as other newcomers play a greater role, the commonality that has characterised competition regimes worldwide may not last;

- Even if legal texts remain similar, the environment of competition authorities may change. Pressures from policy departments in charge of industrial or trade policy may undermine the peaceful coexistence between competition policy authorities;

- Ad-hoc cooperation between competition policy authorities does not deliver a first-best result. Depending on the size of the corresponding market and the degree of concentration of the firms involved, decisions by national authorities may suffer from under-enforcement (for small countries) or over-enforcement (for large ones). Equity in the distribution of costs and benefits of competition rulings can therefore not be taken for granted. Such asymmetry will grow as digital business develops and gives rise to heightened competition concerns.

Seminar minutes

Adrien Bradley

Session I - The extraterritorial reach of competition policy decisions: evidence, successes and pitfalls

There is no global competition policy, nor a global authority in charge of coordinating national competition authorities (CAs). National (or European) authorities rule independently on the basis of their domestic mandate, which is to uphold the welfare of domestic consumers. But intensified cross-border economic integration increasingly leads them to pronounce on the behaviour of foreign firms and to impose extraterritorial remedies (for example, to condition the approval of a merger on the divestiture of assets held outside the jurisdiction of the competition authority). Such extraterritoriality especially regards merger control, but may also apply to cases of abuse of dominant position or to cartels. More than half of merger or cartel cases investigated by the European Commission nowadays involve an extraterritorial dimension.

The origins of the extraterritorial reach of competition policy are to be found in the US Sherman Act of 1890, which spelled out what became known as the "*effects doctrine*": that the reach of competition policy decisions can extend beyond borders when foreign firms' behaviour is having "direct, substantial and reasonably foreseeable effects" on domestic consumers. This was broadly endorsed by the EU and provided the basis for a series of landmark decisions, of which best known is the 2001 decision declaring the GE-Honeywell merger incompatible with EU law.

> *"It is a strange system, that shouldn't work on paper, but does in practice"*

Extraterritoriality in competition policy raises five main issues.

- First is the obvious question of *sovereignty*: states targeted for the allegedly anti-competitive behaviour of undertakings based in their jurisdiction may complain of overreach and infringement into their domestic affairs. Until now cooperation has prevailed and disputes have been avoided, but this is by no means guaranteed.

- Second is the issue of *consistency*. Peaceful coexistence among national authorities requires as a necessary (though not necessarily sufficient) condition a high degree of convergence of competition laws and their applications.

- Third is increasing *complexity* in the system and the widening scope for potential conflict. The number of competition authorities and regimes has more than doubled in the last decade, numbering some 130 currently, forming a network of different rules, standards and procedures, with both overlaps and gaps. Their status vary: they can be independent authorities, or tied to the judicial system, which can impact their work and cooperation.

- Fourth is the *opportunistic use of competition policy*. A state's competition authority, especially if it is insufficiently independent, may selectively or strategically enforce its rules, furthering domestic interests and favouring protectionism. One participant pointed out that a CA's mandate can include elements that go beyond competition policy as commonly understood, which can enable this kind of behaviour (South Africa's competition authority's remit over "diversity of ownership" of undertakings, for example).

- Fifth is the problem of *under- and over-enforcement* of competition regimes depending on the size of the relevant markets. No firm can disregard the EU market, but the competition regime of small, less economically robust states might be under-enforced, even if there is significant economic harm to people, because of little effective power on the global stage. Conversely, a state's competition regime may be over-enforced due its global power; or because that state's competition authority is the last one involved in a case to deliver its ruling, and thus will hold much greater bargaining power and influence on the final result.

Cooperation among competition authorities: principles and practice

In legal terms, extraterritoriality is asserted, in principle, to preserve the integrity and proper functioning of one's own market. In the US, the well-established *effects doctrine* has led to quite broad claims. The EU's dominant approach is similar but slightly narrower: its *implementation* *doctrine* aims to catch activities "implemented" by undertakings in its jurisdiction. The EU has been prudent in adopting the effects doctrine approach, though it has been less shy to do so for merger control cases. Participants all acknowledged that legal determination of where and when it is justifiable to claim extraterritoriality is necessary and important, but many highlighted the fact that in practice, however, it cannot ignore political concerns, as well as the geopolitical and geoeconomic weight of the parties involved.

In practice, competition authorities manage these concerns by coordinating on three levels. First is the important, still emerging practice among competition authorities of the use of *comity*, whereby they attempt to take into account principles, rules and interests of their counterparts in elaborating their rulings. This is meant to avoid direct jurisdictional conflict and calling the sovereignty of another state into question.

Comity can be *negative* or *positive*. In its negative form, a CA will voluntarily refrain from intervening if that would lead to a hard conflict of law in implementing the remedy it deems appropriate. In its positive (and less frequent) form, one competition authority may ask its counterpart to remedy the anti-competitive behaviour affecting it, which originates in its counterpart's jurisdiction. Comity can be stronger or weaker, and more or less institutionalised. One practitioner, however, cautioned that comity is observed more in books than in practice, and that the main competition authorities do not often formally invoke this principle.

Negative comity corresponds to unilateral restraint, and positive comity consists in asking and relying on another authority to provide redress. In between are less defined forms of cooperation, based on case-specific discussions between competition authorities. For example, the Australian competition authority may assess a global merger, and decide to defer to the EU and the US authorities, which are investigating the same case. One participant estimated that around half of merger cases are settled this way.

Fully institutionalised comity consists in a formal bilateral cooperation agreement on competition policy. This corresponds to a second level of cooperation and was inaugurated between the US and the EU in 1991. This kind of agreement officialises agreed-upon cooperation processes, a step up from unilateral notification regimes and *ad hoc* consultations, and has proliferated internationally in the past decade.

On a third level, CAs participate in exchanges in international forums, most often within the OECD and the International Competition Network

(ICN) established in 2001 following the failed attempt to create a global competition system with a home in the WTO. These interactions have allowed progress on aligning views and establishing best practices, creating a solid epistemic community. ICN principles (as well as the OECD ones) help ensure convergence of views between competition authorities and provide guidance in case of differences.

One participant deemed the resulting rules to be fairly robust, and remarked that states are in fact changing their laws to comply with them, but also observed that they may have been "low-hanging fruit" and that further convergence may prove more difficult, for example on tools of industrial policy, or on issues raised by digitalisation.

State of play

The strongest points of convergence so far have involved, for the most part, catching the worst offenses and risks in competition policy, where enforcement interests are highest, namely cartels and horizontal mergers. One participant noted no major divergences in approach across the world, both in legal and effective terms. The weaker points, where divergences remain, are more ambiguous categories of cases, such as foreclosures, abuses of a dominant position, or export cartels. Participants agreed on the difficulty of getting states to agree on what constitutes anti-competitive behaviour for these.

Furthermore, legal mandates may represent obstacles to a proper enforcement of competitive behaviour: whereas the EU law neither mandates nor prohibits taking into account the effect of anti-competitive behaviour on foreign consumers, US law explicitly excludes it. One participant underlined the fact that the legal appreciation of these cases is still evolving, even in the EU, while reminding that there is a strong incentive for common approaches to avoid conflicts and diverging outcomes, as they may damage a competition authority's legitimacy. Peer pressure was deemed an effective tool.

Participants speculated on what a global competition authority might look like. Such a global body would require a large-number multilateral agreement, establishing rules compatible with all involved states' sovereignty claims. It would be optimal for enforcement in theory, though the cost and methods of doing so remain open questions. It would also

> *"Ironically enough, competition authorities may work best as a cartel."*

raise serious redistribution issues. Thus, it is far from clear that it is a realistic possibility.

Participants also debated the scope for including competition policy in the WTO, as has long been proposed, and as was the original plan for the International Trade Organization in the Havana Charter of 1948. They tentatively agreed that while the issue of subsidies could be integrated to the WTO, there is little scope for much else. The idea of an international body dealing with competition issues is by no means new, and its repeated failure has led to cooperation between CAs as a "third best".

Session II - Rivalry and cooperation among competition authorities: towards fragmentation or convergence?

The China challenge

The multiplication of competition authorities in recent years has raised the fear of more frequent international tensions. Of particular concern has been China: first due to its unsanctioned, or even government-led anti-competitive behaviour of its state-owned enterprises (SOEs), and second due to the evolution of its competition policy and authorities and their increasing assertiveness on the international stage.

The concept of competition policy in China was in large part "imported", so the mandate of its authorities is quite similar to those it mimics in the West. In practice however, there is a lack of experience and expertise, and much depends on which authority is dealing with which undertaking. Fundamental questions such as the respective role of SOEs, the Party, and the government in competition policy, or the very compatibility of a planned socialist market economy and competition policy, remain unanswered, if not unasked.

> *"Protectionism and easy politicisation make it difficult to deal with China"*

China's competition policy has developed gradually and very recently. Its Antimonopoly Law came in force in 2008 with three main bodies tasked with enforcing it (including the Ministry of Commerce), in different domains and at different levels. Consumer protection is not a key objective; rather, it is to curb inflationary pressure. The enactment of the

Fair Market Review System followed in 2016, designed to allow some of the competition agencies to review local government actions for potential negative effects on the market. Only a few cases have been examined though, and there are no clear guidelines or sanctions. Finally, three large agencies, including one of the CAs empowered by the Antimonopoly Law, were merged in March 2018 into a "super market supervisor". It is an ongoing process whose effects are not yet discerned.

Three avenues can be envisaged for cooperation with China. The first is to give China some latitude, while making efforts to elaborate rules for a proper role of SOEs at the technical level. A second is to refuse to let competition policy be used for protectionist purposes. At this point, this means discouraging China's temptation to escalate the trade war the US has launched. The third would be to aim for a higher goal, namely co-writing new rules for a new economy, characterised by platforms, big data and AI. China is moving very fast in these fields, aided by Chinese consumers who adopt technology avidly as well as by Chinese governmental support; one participant assured there is genuine interest in cooperating with the EU and US in this field.

The future of US-EU cooperation

Participants engaged in a historical analysis of the development of competition policy in the EU and the US and their relationship, in order to review critically claims of convergence and divergence. As one recounted, the US led in this area before the EU caught up around the turn of the century, fostering deregulation in member states and establishing the Single Market. Now, most EU member states rate better than the US in industry competition indexes. The same participant compared a fragmented US competition policy system to a more coherent EU one, and shared three concerns: that broadening the sphere of public policy will raise the risks of conflict between competition policy stakeholders; that a self-proclaimed "political" Commission can lead to increased misunderstandings, especially on state aid; and that populism could unwind competition policy and impact European integration itself.

What can be expected from US competition policy looking forward? In the last decades US authorities seem to have been more lenient than their EU counterpart. Will the stance of the Trump administration lead to a more pronounced departure from pro-competition practices and a divergence between EU and US policy philosophies? This would involve heightened risks of transatlantic conflict. Beyond the bilateral dimension, divergence between the US and the EU would have profound consequences for competition policy globally.

Several participants pointed out elements of continuity in the US approach. As far as competition policy is concerned, until now the current administration has not broken with past behaviour. But things may change, and President Trump's apparent willingness to selectively enforce competition policy risks damaging its reputation. One may question how resilient current arrangements may prove to be in the face of potential profound changes in behaviour.

Participants debated whether the fact that competition authorities share common objectives ensures similar outcomes: one participant made a parallel with central banks, their domestic objective of price stability, and their tradition of cooperating closely. Several participants remained unconvinced that disputes can be avoided, pointing out competition authorities' differentiated effects on customers of different countries, temptation to interpret or distort their mandate in service of other objectives, and lack of dispute settlement mechanisms.

There was also debate over the definitions and delimitations of competition policy and industrial policy. As one participant characterised it, to general approval, industrial policy means industrial development spurred by the state, using tools that can be categorised as anti-competitive behaviour such as exclusionary practices, vertical mergers or state aid. Thus, competition policy, with its focus on non-discrimination and a level playing field, is perceived to have a strong potential to hinder industrial policy, especially in China. One participant asserted that industrial policy seldom works, generating instead negative spill-overs such as overcapacity and bad loans, giving examples from the Chinese solar and electric vehicle industries.

How resilient is the global competition regime?

Participants agreed that changing patterns of trade and the development of services and digitalisation made closer cooperation in competition policy a necessity, and some regretted the impossibility of a global body dedicated to dealing with this field. It was recalled that strong epistemic communities, like that of competition policy, can fall prey to self-absorption and disconnection from the flow of events, even if it is underpinned by a robust body of theory and common understanding of its practice.

Another participant judged that global governance of competition policy has functioned fairly well as a "second best" system, buttressed by a commonality in its implementation and understanding of its relevant law, coexistence (or comity) promoting cooperation and limiting damaging assertions of extraterritoriality, and a common culture reflected in the epistemic community. But the governance system seems to be somewhat fragile and non-resilient, relying on assumptions that all stakeholders are pursuing the same goals and playing by the rules.

"The functioning of the global competition policy system is a miracle to be preserved."

Seminar programme

16 OCTOBER

14.00 – 14.15	Introduction by **Maria Demertzis** | Bruegel, **Jean Pisani-Ferry** | EUI and **Guntram Wolff** | Bruegel
14.15 – 15.45	**Session I - The extraterritorial reach of competition policy decisions: evidence, successes and pitfalls** Introductory remarks: **Laurent Eymard** | MAPP, **Carles Esteva Mosso** | DG COMP
15.45 – 16.15	*Coffee break*
16.15 – 17.45	**Session II - Rivalry and cooperation among competition authorities: towards fragmentation or convergence?** Introductory remarks: **Fan He** | Peking University, **Mario Monti** | Bocconi University, and **André Sapir** | Bruegel
17.45 – 18.00	**Wrap-up - Lessons for global governance** Introductory remarks: **George Papaconstantinou** and **Jean Pisani-Ferry** | EUI
18.00 – 19.00	*Closing reception*

Seminar participants

Geneviève Barré	Asia-Europe Foundation
Suman Bery	Bruegel
Adrien Bradley	EUI
Maria Demertzis	Bruegel
Carles Esteva Mosso	DG Competition (Mergers)
Laurent Eymard	MAPP
Gabriel Felbermeyr	ifo Centre for International Economics
Hugh Gimber	Blackrock
Joachim Glatter	Merics

Fan He	Peking University
Brit Hecht	BBVA
Mathew Heim	Bruegel
Alexander Italianer	European Commission
Sébastien Jean	Centre d'études prospectives et d'informations internationales
Mario Monti	Bocconi University
Julian Nowag	Lund University
George Papaconstantinou	School of Transnational Governance, EUI
Pier Luigi Parcu	Robert Schuman Centre, EUI
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, Robert Schuman Centre, EUI
José Rivas	Bird & Bird
André Sapir	Bruegel
Vincent Verouden	e.ca Economics
Guntram Wolff	Bruegel

The Governance of International banking: Regulating for Crises, Past and Future

Seminar insights[81]

Elena Carletti[82], George Papaconstantinou and Jean Pisani-Ferry

In 2009 then-Treasury Secretary Tim Geithner described the newly created Financial Stability Board (FSB) as the "fourth pillar" of global economic governance alongside the WTO, the IMF and the World Bank. In reality, the FSB is far from having the legal competences, clout and resources of the other three organisations. It serves as a coordinating body and as an intermediary between the political G20 and the series of public and private bodies in charge of the various segments of financial regulation.

1. International banking regulation: A coordinate-and-review model. In this context, international banking regulation – a segment of global financial regulation – provides a telling test case for assessing the effectiveness and adequacy of international regulatory coordination. Its *modus operandi* is to set common non-mandatory standards, whose implementation is subject to external monitoring – in short a *coordinate-and-review* mechanism:

81 The seminar was held on 11-12 September 2018 in Milan (Italy), jointly organised with Bocconi University and the Florence School of Banking and Finance.

82 Professor of Finance, Bocconi University; Scientific Director, Florence School of Banking and Finance (Robert Schuman Centre for Advanced Studies, European University Institute)

- Common regulatory standards (for, e.g., capital and liquidity ratios) are agreed upon within the framework of the Basel Committee for Banking Supervision (BCBS), a 28-members body hosted by the Bank for International Settlements. These standards are negotiated amongst participating governments, with significant indirect involvement of industry representatives;

- Participating countries or entities such as the EU are free to decide if and to what extent they transpose the standards in their legislation, while they remain fully responsible for their enforcement;

- The BCBS monitors both the legislative transposition of the agreed standards (adoption) and their effective implementation at jurisdiction and bank levels. It carries out quarterly compliance assessment reports, whose results are published. Other governments and market participants are therefore informed in real time of both the conformity of the national legislation with the agreed standards, and their actual implementation;

This micro-prudential regulatory coordination system is complemented by cooperation procedures for macro-prudential oversight and banking crisis resolution. However, these procedures are less formalised and as things stand their effectiveness is disputed. At any rate, there is no evidence one can rely on to assess their effectiveness.

The regulatory coordination system can be assessed from three complementary perspectives:

- *First, how effective is the overall harmonisation of financial stability standards?*

- *Second, how adequate is the regulatory framework resulting from international coordination?*

- *Third, how resilient to disruption emanating from outsiders is the prevailing regime?*

2. An effective harmonisation of banking solvency and liquidity standards. The answer to the first question is that *the overall harmonisation of banking solvency and liquidity standards* is fairly effective. Although not mandatory, the agreed standards are implemented in most participating jurisdictions, as illustrated by the general rise in capital ratios and liquidity ratios. Cases of non-compliance are limited. Furthermore, the system seems to have successfully passed an important test, as the US under President Trump has not significantly departed from commitments inherited from the previous administration.

There are several reasons for this qualified success. To start with, standards are negotiated by national regulators with the indirect participation of industry representatives. This ensures a high degree of ownership of the agreed benchmarks, which then serve as yardsticks of financial soundness. External compliance monitoring provides national regulators an incentive to implement them thoroughly; failure to do so is regarded by markets and the community of the other regulators as a sign of fragility. Banks themselves, especially international ones, have a strong incentive to anticipate the agreed compliance deadlines, in order to ensure high-quality ratings. In short, reputational concerns on the part of regulatory jurisdictions and the banks reinforce the effectiveness of an otherwise toothless regime.

3. The adequacy of international standards is however disputable. The answer to the second question, regarding *the adequacy of the regulatory standards resulting from international coordination*, is much less positive. Basel II, the set of regulatory standards agreed upon in 2005 that went into force shortly before the Global Financial Crisis, has gone down in financial history as a blatant case of regulatory capture: major banks had successfully lobbied for low, loosely defined capital and liquidity ratios, and an excessive reliance on the largest financial institutions' internal risk assessment models. In retrospect, Basel II regulation was evidently not demanding enough, not strict enough and not uniform enough.

Arguably, this failure – which contributed to the severity of the crisis – has largely been corrected with the substitution of the Basel II standards by those in Basel III. Nevertheless, even the Basel III framework can be criticised for regulatory limitations and gaps.

4. The regulatory regime is vulnerable to disruptions emanating from outsiders. The answer to the third question regarding the *resilience* of *the existing regime*, is unfortunately that it is vulnerable. As for any sectoral regulation, economic agents outside its scope – fintechs, but also platforms and market places – benefit from relative regulatory leniency. The growing blurring of the distinction between "banks" and "non-banks" may provide a significant regulatory advantage to the latter, with the result that overall effectiveness is being diminished. The same applies, though to a lesser extent, to the participation in global banking of financial institutions not headquartered in the major advanced economies. These may benefit from excessive regulatory leniency or forbearance.

5. Trade-offs in international regulation. Analysis therefore suggests that international regulatory harmonisation through voluntary coordinate-and-review schemes involves three significant trade-offs:

- An *implementation-quality trade-off*: The closer the involvement of national regulators and industry representatives in regulatory design, the stronger the chances of thorough implementation. However, this may be at the cost of biases in the content of the regulation;

- A *thoroughness-coverage trade-off*: As for any regulatory club whose membership remains open to new applicants and does not provide defined advantages, stricter regulation may discourage certain jurisdictions to participate;

- An *ownership-resilience trade-off*: ownership is facilitated by the like-mindedness of participants, be it in institutional or sectoral terms. But to leave out the potential disruptors involves the risk of leaving the problems they may pose outside the scope of the regulatory endeavour.

Keynote – Global dimensions of Banking Regulation[83]

Vítor Constâncio, Former Vice-President of the European Central Bank

I thank the Organisers for inviting me to speak at this event, included in the very topical project on the Transformation of Global Governance. There are certainly several drivers behind the idea of this project. The first, is the concern about the potential fragmentation of the multilateral system of international governance that has been built up after 1945. The fears stem from the present disturbing US policies, the emergence of new powers, especially China, and the growing relevance of populist nationalism as the backlash to the crisis and the excesses of globalisation. These tendencies have been historically the harbinger of global disasters.

The deep geo-political change induces a second motivation for our general subject, as it simultaneously increases the need for cooperation but also adds to the complexity of getting consensual decisions on all kinds of domains. Multipolarity increases the heterogeneity of interests, the intricacy of new problems generates institutional inertia, the whole process leading to what David Held and co-authors characterised as gridlock in international cooperation. [84]

However, I see gridlock not just as a difficulty to act but rather as an incapacity to provide appropriate responses to the problems that now beset the world, our democracies, and a liberal multilateral system. The system cannot be protected without significant changes, correcting flaws that became more apparent after the Big Recession: extreme inequalities in advanced economies; more intrusive trade agreements intruding too much on national social contracts; financial instability generated by the ever-increasing role of finance; environmental damage.

There were many warnings about the potential socio-political consequences of hyper-globalisation, beyond the benefits of higher economic

83 Keynote speech at the Workshop on "The Governance of International Banking: Regulation for crises, past and future" included in the "The Transformation of Global Governance Project" - Milan, 12th September 2018.

84 See Hale, T., Held, D, and K. Young (2013) " *Gridlock: why global cooperation is failing when we need it most*" Cambridge: Polity Press; and Hale, T., Held, D, (ed) (2017) " *Beyond gridlock*" Cambridge: Polity Press.

efficiency. In 1996, Ralf Dahrendorf wrote about the contractor trinity of competitiveness, social cohesion and freedom and foresaw that "A new authoritarianism may indeed be the main challenge to liberal democracy in decades to come." [85] In 1997, Rodrik published his first book expressing concerned with "…making globalization compatible with domestic social and political stability" [86] and introduced his globalization paradox in 2011, exploring the incompatibility between deep global integration, democracy and national sovereignty" [87]. Already in 1988, on the pages of the magazine *Foreign Affairs*, and later in some scholarly papers, Jagdish Bhagwati, a staunch defender of free trade and globalisation, railed against the excessive instability of free capital movements that did not have the same theoretical justification of free trade and were more an ideology of the "Wall-Street / Treasury complex" as he put it[88]. In 2004, Paul Samuelson published a paper demonstrating with impeccable theory, that a productivity jump by a less developed country, China, could generate trade effects negative to an advanced economy, the US, showing that free trade may lead to some country losses, beyond the well-known losers and winners within each country. In a spirited answer to the critics who worried about his supposed apostasy on free trade, Samuelson concluded that "It may be of interest that none of my chastening pals expressed concern about globalization's effects on greater inequality in a modern age when transfers from winners to losers do trend politically downward in present-day democracies."[89]

These and other warnings were not heeded by many ruling establishments, including in our profession, blinded by the gains in economic efficiency and general growth, the spectacular decline of poverty in emerging countries and the illusory hopes on pure trickle-down distri-

85 In a speech at the British Academy in 1996, included as chapter 7 in the book "*After 1989: morals, revolution and civil society*" MacMillan Press, 1997.

86 Rodrik, Dani (1997) "*Has globalization gone too far?*"

87 Rodrik, Dani (2011) "*The globalization paradox: Democracy and the future of the world*", WW Norton & Co. ; see also Rodrik, Dani (2018) "*Straight talk on trade: ideas for a sane world economy*" Princeton UP

88 Bhagwati, J. (1988) "The Capital Myth: the difference between Trade and Widgets and Dollars" in *Foreign Affairs,* Vol 77, no 3; see also Bhagwati, J (2002) "Globalization and appropriate Governance" UNU/Wider Annual Lecture

89 Samuelson, P.A. (2005) "Response to Dixit and Grossman" in *Journal of Economic Perspectives, Journal of Economic Perspectives* Vol 19, no 3; see the original article in *Samuelson*, P.A. (2004) " Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization" in *Journal of Economic Perspectives* , vol 18, no 3, Summer of 2004

bution in advanced economies. The consequences are now being felt in the spreading of populism in an increasing number of democracies and widespread divorce between populations and expert elites. The global system of governance was not able to address the identified risks and challenges, continues to be unprepared to correct flaws and steer a more intelligent inescapable globalisation.

Fortunately, I don´t have to dwell on these big subjects today, as my remit is much narrower, centred on financial regulation, particularly on banking. International standards and governance for finance and banking developed over the years into a complex network of institutions with different degrees of independence, sometimes with some overlapping competences. Some of them are even private, like the IASB in accounting or ISDA in derivatives contracts. What they produce is some form of soft law, made of standards and recommendations, and expect compliance via legislation transposition by different jurisdictions or simply voluntary implementation. The public institutions of the network decide by consensus and are involved in a diplomatic game subject to significant asymmetries of international power and a relevant role played by the big private institutions that are addressees of the regulations and are part of the domestic politics that interacts with the diplomatic negotiations, as theorised by Robert Putman (1988)[90].

This multilateral system evolved with the growing internationalisation of finance and the occurrence of disturbances that triggered waves of regulatory initiatives. In Banking, it started modestly in 1972 with the creation of the Groupe de Contact, followed quickly by the Basel Committee in 1974, formed by the G10 on the wake of turbulences in exchange rates and banking markets with the failure of the German bank Herstatt. The Concordat, signed in 1975, focused in matters of supervisory guidelines for subsidiaries and branches of international banks. The Basel I Accord emerged in 1988, following the Latin American debt crisis and the S&L disaster in the US. Both created the need and the domestic pressure for higher capital for American banks and Basel was used by the US to generalise the additional requirements internationally and ensure a level playing field. This logical pattern of the influence by the financial hegemon, usually seconded by the UK, has been repeated in other instances. The outcome was, nevertheless, a compromise, as the US had a preference for a leverage ratio but had to accept a risk weighted capital ratio solution.

90 Putman, R. D. (1988) "Diplomacy and domestic politics: the logic of two-level games" in *International Organization*, vol 46(3) 639-64

Basel I was crude and created incentives for banks to go for riskier assets with the same capital charge and to take off assets from the balance-sheet, spurring securitisation in the early 90s. Developments of risk management, particularly the invention of Value-at-Risk (VAR) modeling led to the major victory for the industry of convincing regulators to include it in the 1996 Market Risk Amendment to Basel I. VAR is not even a good measure of risk, as it says little about the amount of losses. Assuming normality and the principle that a reliable estimation requires at least 30 observations per parameter, the introduced rule of a capital charge 3 times the VAR for a horizon of 10 days at the 99% percentile, implies for statistical reliability, the existence of 109 years of data that are obviously not available[91].

As capital ratios were decreasing, in 1998, the Basel Committee announced a new Accord to substitute Basel I, to promote "safety and soundness" of banks, stating that the new regime would keep at least the same capital as with Basel I and would ensure "competitive equality" of treatment. In the end, the powerful lobbying by industry through the IIF, ISDA, ICMA, ISLA and other industry bodies, influenced the final outcome in two important ways: first, the introduction of internal models to assess also credit risk, reserved in practice for the big banks that could build them; second, an exceptionally low risk weight for securitizations and the elimination of an initial proposal for an explicit capital charge for credit derivatives risk[92]. Consequently, the 4th official QIS estimated that the Advanced-IRB banks would have a median reduction of 31% and 5th QIS showed a 26.7% average capital reduction for Advanced-IRB banks and an increase of 1.7% for banks on the Standardised Approach, in stark contrast with the initial announced objectives[93]. Basel II was an egregious example of regulatory capture by the big credit institutions.

Despite its limitations, concluded in 2005, the new standard had little

91 At 1% occurrence probability, one day horizon event occurs 3.65 times a year; so, to have 30 observations, 10.95 ears; for a ten days horizon that means 109.5 years, as pointed out in Brown, Aaron (2012) " *Red-blooded Risk: the secret history of Wall-Street*" John Wiley $ Sons. Aaron also explains that while since 1980 GDP almost doubled but financial business quadrupled and the additional capital needed for that did not come from more invested savings but from "capital creation" by re-defining it in terms of risk-based assets value (see page 348).

92 See Lall, R (2012) "From failure to failure: the political economy of international bankingn regulation" in *Review of International Political Economy*, 19:4 609-638. See another critical view of Basel II in Tarullo, Daniel (2008) "*Banking on Basel: the future of international financial regulation*" Peterson Institute for International Economics.

93 Lall, R. (2012) ibid

time to start before the financial crisis came to change everything. Even so, Basel II was not fully applied, in the US by absence of timely legislation and in Europe because subtle interpretations allowed jurisdictions not to apply the output floor of 80% of the Standardised Approach capital calculation, defining a maximum deviation of 20% that could result from using internal models, an issue that would beset the negotiations to finalise Basel III.

I went through this brief historical detour, to illustrate some of the conditions surrounding the production of multilateral standards and regulations. Naturally, the financial crisis, triggered a major new effort to step up financial regulation. The standards already approved and implemented, although positive in general, are below what was initially expected.

The new capital requirements for high quality capital for loss absorption were on the low side and part of them even in the form of a buffer, supposedly to be depleted in stressful situations. Adding the 2.5% conservation buffer, the total common equity requirement was set at 7%. The leverage ratio was finally fixed a just 3% of Tier 1 capital, allowing a multiplier of 33 times that capital. Fortunately, market pressure and the use by supervisors of the SREP and Pillar 2, led to the present situation of a common equity capital ratio on average of 14% in the euro area. Recall that 7% was precisely the average ratio in 2007 for the euro area banks. Significantly, the leverage ratio has also been increasing and the average for euro area banks is now above 4. Before the crisis, the extraordinary expansion of the financial sector was not enabled by savings invested in the capital of financial institutions but mostly by a redefinition of risk capital and its endorsement by regulators. A few significant European banks had a leverage ratio (equity over total assets) of just 1.5% to 2% while capital ratios were well above the regulatory minimum of 8%. The "magic" of internal models to calculate risk weights in regulatory capital explains the difference, although the low leverage ratio meant that a loss of 3% of total assets would wipe out banks' capital.

Resistance to the new standard was, nevertheless, fierce. The IIF published a study in 2010 with the conclusion that a 2 percentage points increase in the capital ratio would induce a 3.1 loss of GDP in the euro area. A justified level of capital between 15% and 20% has been the conclusion of numerous papers in academia or in central banks: Miles et al

(2011)[94], Brooke et al (2015)[95], William Cline (2017)[96], Morris Goldstein (2017)[97] or Firestone et al (2017) from the FED showing that even considering the protection of TLAC, the optimal range of the capital ratio lies between 13 % and 25%[98].

The same pattern of resistance manifested itself in relation with the two new liquidity ratios. In the end, the LCR was weakened but the NSRF essentially resisted and played already a role in the reduction of the credit/deposits ratio of European banks from 144% in 2007 to 116% today. In the deciding period about the two ratios, what we heard from the industry referred to the impending catastrophes if the standards were approved. Both are nowadays complied with without any upheaval.

Regarding the too-big-to-fail problem, the series of adopted measures were more consensual: the prohibition of public bailouts in Dodd-Frank and the BRRD; the G-SIB surcharge; the TLAC or higher MREL in the EU; the streamlined cross-border bank´s resolution. This last point is in a state of flux with details about implementation among major jurisdictions still to be finalised. For instance, the somewhat ambiguous changes introduced by the US in its Orderly Liquidation Authority, created some doubts about the single point of entry regime. The remaining concern is that the framework may not be appropriate to deal with general financial crises like the one we just had, when the problem is the existence of too-many-to-fail banks. Examining the history of crises, it is hard to avoid the conclusion that such situations require public intervention to backstop liabilities and recapitalise the system. Exceptional interventions that were carried out in the crisis are, however, no longer legally possible in several

94 Miles, D., J. Yang and G. Marcheggiano (2011), "Optimal bank capital", *Bank of England, External MPC Unit, D.P.No. 32*.

95 Brooke, M., O. Bush, R. Edwards, J. Ellis, B. Francis, R. Harimohan, K. Neiss and C. Siegert (2015), "Measuring the macroeconomic costs and benefits of higher UK bank capital requirements" *Bank of England Financial Stability Paper 35*.

96 Cline, W. (2017), "The right balance for banks: theory and evidence on optimal capital", *Peterson International Institute of Economics*.

97 Goldstein, M. (2017), "Banking's final exam: stress testing and bank capital reform", *Peterson International Institute of Economics*.

98 Firestone, S., A. Lorenc and B. Ranish (2017), "An empirical economic assessment of the costs and benefits of bank capital in the US", *Finance and Economics Discussion Series, Federal Reserve Board, Washington, D.C., No. 2017-034*.

jurisdictions[99].

Other reform domains were treated in a much lighter way. For instance, the one related with the so-called shadow banking, whose role was in the crisis greatly depended from the use of securitisation, repos and OTC derivatives. The creation of inside liquidity by repos was important for the funding of the housing bubble[100].

The crisis itself made securitisations and repos shrink significantly. In the U.S., broker-dealers changed into banks, making the shadow banking sector smaller. Post-reform, securitisations became less attractive being now subject to higher capital charges, securities vehicles were consolidated with bank sponsors and repos and some OTC derivatives have moved to central clearing, which leaves the still unresolved issue of CCPs safety and resolution. The overall progress in reducing risk in STFs and derivative markets has been significant but might not be enough. No effective regulations prevent the expansion and misuse of those instruments in any future euphoric episode. The recent recommendations by the FSB regarding the re-hypothecation and re-use of securities in repos are in my view not sufficiently far-reaching[101]. Concerning the use of margins and haircuts, the FSB recommendations to introduce minimum initial levels are also quite narrow: they exclude sovereign paper and transactions between regulated institutions and apply only to non-centrally cleared operations. Going forward, more may have to be done. Setting minimum margins and haircut floors would limit the build-up of leverage and reduce the procyclicality of current margin and haircut setting practices[102].

99 For the U.S. see Geithner, T. (2016), "Are we safer? The case for strengthening the Bagehot arsenal", *Per Jacobson Lecture at the 2016 Annual Meetings of the IMF and WB*. See also Bernanke, Geithner and Paulson in the NYT " What we need to fight the next financial crisis" at https://www.nytimes.com/2018/09/07/opinion/sunday/bernanke-lehman-anniversary-oped.html?smid=tw-nytopinion&smtyp=cur

100 See Bayoumi, T. (2017) *ibid* , page 73.

101 See Financial Stability Board (2017), "Non-cash collateral re-use: Measure and metrics", Policy Report and Financial Stability Board Policy Report (2017), "Re-hypothecation and collateral re-use: Potential financial stability issues, market evolution and regulatory approaches".

102 See Constâncio, V. (2016), "Margins and haircuts as a macroprudential tool", remarks at the ESRB international conference on the macroprudential use of margins and haircuts, 6 June 2016 available at8 https://www.ecb.europa.eu/press/key/date/2016/html/sp160606.en.html ; see also Constâncio, V. (2017), "Macroprudential policy in a changing financial system", remarks at the second ECB Macroprudential Policy and Research Conference, 11 May 2017 available at https://www.ecb.europa.eu/press/key/date/2017/html/ecb.sp170511.en.html

Furthermore, the policy recommendations by the FSB to address vulnerabilities arising from asset management activities are also too soft. They cover guidelines for the sector and reporting and monitoring but not real new powers for supervisors. They refer to liquidity mismatch between fund investments and redemption terms, operational risk, securities lending activities and leverage reporting by investment funds, including synthetic leverage built up usually with OTC derivatives. Leverage requirements for investment funds, already partially introduced in Europe, represent an important point.

The final aim should be to extend LR requirements to a broader set of financial institutions as recently proposed by Dirk Schoenmaker and Wierts (2016)[103]. That should include the risks posed by synthetic leverage from the use of derivatives.

Another aspect to highlight is that the whole set of reforms has taken a long time to be approved and it is still far from implementation. In Europe, the Leverage Ratio, the NSFR, the Fundamental Review of the Trading Book are included in the revisions of the CRD /CRR, expected to be approved until December. The package related to the finalisation of Basel III has yet no proposal for transposition and includes: the treatment of Operational Risk; the new Standardised regime of risk-weights for credit risk; the revision of the Credit Valuation Adjustment (CVA) in derivatives; the important revision of the Internal Models for credit risk and finally, the overall output floor of 72.5% binding the effect of using internal models which is to be gradually introduced until 2027! All the other points I just mentioned are entering into force only in 2022 or 2023.

This delay of many years since the crisis to conclude the new regulatory regime resulted from institutional and political gridlock and has created a lot of uncertainty affecting banks´ behaviour. It also generated so-called reform fatigue and opened the door to continuing pushback against regulation.

After the change of Administration in the US, the expectation was that some backtracking in regulation would happen. This risk has not

103 A convincing argument for a wide application of leverage ratios can be found in Schoenmaker, D. and P. Wierts (2016), "Regulating the Financial Cycle: An Integrated Approach with a Leverage Ratio", *Duisenberg School of Finance - Tinbergen Institute Discussion Paper, TI 15- 057 / IV / DSF 93*. The risks from synthetic leverage have been outlined in ECB Financial Stability Review (2015) "Synthetic leverage in the investment fund sector" Box 7, May. See also V. Acharya (2014), "A Transparency Standard for Derivatives," in *Risk Topography: Systemic Risk and Macro Modeling*, M. Brunnermeier and A. Krishnamurthy (eds), Chapter 6.

disappeared, and international weakening or fragmentation may still develop. However, so far, divergences of regulatory implementation have not been very significant. In assessing the first round of transpositions of Basel III, the Basel Committee considered that the US was largely compliant and the EU not compliant for two reasons: first, for allowing banks that have adopted the IRB (internal models) to use zero risk weights for credits to the public sector and reduced weights for SMEs; second, for the exemptions of a capital charge resulting from the CVA (Credit Valuation Adjustment) on certain derivative transactions with public entities and non-financial corporations.

This year, two Reports from the US Treasury and some initiatives in the US Congress (The Choice Act), pointed to possible significant changes, regarding the Leverage Ratio (reduction and exemption for Sovereign Bonds and repos), the LCR, the NSFR, the market risk rules (FRTB) and the possible of the OLA (Orderly Liquidation Authority). In the end, the changes approved by the US Congress were much softer, namely, some exemptions for small and community banks as well as the increase from $50 to $250 billion the threshold for the enhanced supervisory regime, although the FED was granted the power to make justified exceptions. Later, the Leverage Ratio was reduced to big banks (G-SIBs) by replacing the current 2% leverage buffer add-on with a leverage buffer set at 50% of each firm's G-SIB risk-based G-SIB surcharge; reducing the current 6% threshold for covered insured depository institutions (IDIs) that are subsidiaries of G-SIBs to 3% plus 50% of the G-SIB surcharge. At the same time, the methodology of stress tests was softened. It seems strange to introduce these changes at the peak of the cycle, facilitating expansion even further, but even after these modifications the US is still compliant with the Basel standard of just a 3% LR.

In Europe, the texts under discussion for final approval of the revised CRD IV / CRR contains several differences from the Basel III text, concerning the LR, the NSFR and the FRTB, deviations that were opposed by the ECB in its public opinion[104]. In the LR case, these refer to the exemptions for inter-group exposures, for pass-through exposures of regulated savings, for export credits and the initial margin for derivative exposures related to client clearing. The NSFR proposals also comprise

104 See OPINION OF THE EUROPEAN CENTRAL BANK of 8 November 2017 on amendments to the Union framework for capital requirements of credit institutions and investment firms, at https://www.ecb.europa.eu/ecb/legal/pdf/en_con_2017_46_f_sign.pdf

four signalled deviations whereas the FRTB issues are basically related to the proposed transition regime. Hopefully, not all these deviations will remain in the final text and their material impact on banks´ prudential ratios will have to be carefully assessed. I believe that we can conclude that the risks of regulatory fragmentation foreseen since last year have, overall, not materialised.

There are several reasons why financial regulation seems less prone to divisions than we see happening in the trade or environment fields. In an interesting paper, Young and Pagliari (2015)[105] analysing quantitively the reactions of the regulated sector to regulatory consultations in energy, pharmaceutics, agriculture, telecommunications, and finance, find clear evidence that the unity of views and preferences is higher in finance than in all the other sectors. This is related with the wider reaching of finance as an economy infrastructure and the weakness of the intervention of outsiders lobbying about financial regulation with different objectives.

I think we could also add the view that financial products are some sort of club good, where the group of suppliers and owners share mutual benefits, making several characteristics of these goods only collectively excludable. This feature of not being pure private goods, highlighted among others by Selmier (2014) and Cerny (2014)[106] partially elucidates the unity of lobbying positions and explains why there are many examples of self-regulatory associations in the sector. This sometimes facilitates regulatory compliance, as peer pressure and the threat of ostracism exerts some degree of discipline. Nevertheless, as Cerny (2014) puts it "… from a political economy perspective, finance goods, like many other club goods, are provided not according to the logic of market efficiency, but rather that of market control and manipulation". This angle links well with the criticism of the market efficiency hypothesis by Dimitri Vayanos and Paul Wooley (2008)[107] and the Wooley (2010) analysis of rent-seeking

105 Young, Kevin and S. Pagliari (2015) " Capital United? Business unity in regulatory politics and the special place of Finance" in *Regulation and Governance* and also available at City, University of London Institutional Repository http://openaccess.city.ac.uk/12093/1/Young%20and%20Pagliari%20-%20Capital%20United%20~%20Forthcoming%20in%20RegGov.pdf

106 W.T. Selmier II (2014) "Why club goods proliferated in investment finance" ; P G. Cerny (2014) " Rethinking financial regulation: risk, club goods and regulatory fatigue" . Both texts are chapters of the book edited by Thomas Oatley and W. Kindred Winecoff "*Handbook of the International Political Economy of Monetary Relations*" Edward Elgar, 2014.

107 Vayanos, D. and P. Wooley (2008) "An institutional theory of momentum and reversal", The Paul Wooley Centre for the study of capital market dysfunctionality wp n. 1

and principal-agent problems that " … do a good job of explaining how the global finance sector has become so bloated, profitable and prone to crisis"[108] Some of his recommendations to mitigate these features are the wider use of GDP-linked bonds, the recognition that mark-to-market accounting is inappropriate when pricing is inefficient, and that " … regulators should not automatically approve financial products on the grounds that they enhance liquidity or complete markets". I would add to this list the overhaul of housing finance to further reduce the risks of funding mortgage credit with short-term deposit liabilities. Many ideas have been put forward to change this[109] including tilting even more the NSFR to correct that bias; encouraging securitisation with low maturity transformation; creating a new type of financial institutions specialised in mortgages or, introducing a new type of mortgage contract that would have more equity participation by lenders in exchange of sharing the returns of appreciating housing prices, proposed by Mian and Sufi in "House of debt".[110]

Housing credit has been growing steeply in importance for banks in most jurisdictions over the past decades, as shown by Jordá, Schularick and Taylor (2016) in their paper "The great mortgaging"[111]. In 17 developed countries, the weight of real estate bank lending in total credit increased from 25% of GDP in 1980 to 69% in 2010. As they highlight: "… the core business model of banks in advanced economies today resembles that of real estate funds" They also show how mortgage credit has shaped the business cycles in the last decades, has created financial instability and contributed to slower recoveries associated with high household debt. It is, therefore, odd that the issues of housing finance have not been addressed by regulators and policy makes in different ways. Macroprudential policies, like Loan-to-value or (better) Debt-to-income, help to mitigate the risks but they still confront great resistance in being used and may not be sufficient.

Let me add a brief reference to the institutional framework that organises the governance of production and enforcement of financial

108 Paul Wooley (2010) "Why are financial markets so inefficient and exploitative – and a suggested remedy" Chapter 3 of the book by Adair Turner and others (2010), *The Future of Finance: The LSE Report",* London School of Economics and Political Science.

109 See Goodhart, C. and E. Perotti (2017), "Containing maturity mismatch", *VoxEU*.

110 Mian, K. and A. Sufi (2014), "House of debt", *University of Chicago Press*.

111 Jordá, O., M. Schularick and A. Taylor (2016), "The great mortgaging: housing finance, crises and business cycles", *Economic Policy* Vol 31, n. 85.

regulation. The big changes, after the crisis, were the strengthening of the G20 political role at the top of the process and the transformation of the FSF into a Financial Stability Board that, however, was never given the competences to become the fourth pillar of the global economic architecture in charge of financial regulation announced by the US Treasury Secretary. It has now the coordinating role in preparing G20 decisions, working with several standard setters, and issuing recommendations about financial institutions not covered by the Basel Committee. Initial overlaps with the IMF have been streamlined and settled, with the IMF keeping his dominant role in analysing financial stability through country FSAPs and the compliance reports concerning the implementation of Standards and Codes. I do not think that it is worthwhile to consider changes in the international Institutions roles and competences about financial regulation.

Summing up, progress was made in stepping up regulation to make the system safer but, despite the big financial crisis, no deep structural change was introduced to properly tame finance and debt, making the system prone to new crises.

Seminar minutes

Adrien Bradley

Global banking regulation: Why and how

The aftermath of the global financial crisis prompted regulators, legislators and industry actors to reflect on what went wrong, why, and what could be done. Cross-border finance had provided a massive credit boom, and leveraging enabled a huge amount of borrowing, facilitating the accumulation of risk and heightened vulnerability in the system. These features amplified the effects once the crisis erupted in 2008. Crises in the 1990s and early 2000s had been more contained, forcing authorities to rethink models and innovate.

As one participant pointed out, the alleged benefits of cross-border banking do not command consensus. They are not derived from a widely accepted theory, as for example is the case for trade). This helps explain why it is difficult to present a straightforward argument for global convergence of financial regulation: there are just as strong arguments for decentralising the governance of scaled-down and less internationalised banks. Assuming banks remain what they are, there seems to be some convergence around the notion of public goods in global finance. However, some reactions to the crisis aiming at securing these may have in fact exacerbated the downturn, from which the system is only just recovering ten years afterwards.

> *"There is no Ricardo of finance."*

Session I - Regulatory convergence or divergence

Effectiveness and quality of global standards

Banking regulation post-crisis has been challenging to implement, and it is unclear whether it is effective. Most (if not all) participants agreed, however, that had the regulation in place now been in place before the crisis, the effects of the crisis might have been considerably lessened – but it would not have been averted. One participant noted that failings in banking regulation have run concomitant with a deeper shift in the nature of the activities of banks, from deposit collection and lending to more profitable asset management activities; another suggested that regulation might be more efficient by targeting banking activities rather than institutions traditionally understood as banks. One participant asserted that as financial crises are in fact inevitable, the point of regulation is to limit the burden to taxpayers when one strikes again.

Some participants were optimistic, noting several encouraging advances. Basel III standards have spread through a mix of peer pressure and international cooperation, increased capital and common equity requirements and liquidity ratios in a bid to ensure stability in the financial system. Regulatory consistency is monitored by the Basel Committee on Banking Supervision. A framework is emerging for the resolution of troubled cross-border banks. The EU has been building a banking union, strengthening its ability to prevent crises and deal with them.

Others were however more pessimistic about the state of current regulatory coverage. A rush to implement outdated and ultimately inappropriate structural measures took attention away from governance issues proper. Important issues (such as wholesale funding, money market funds, shadow banking, or special purpose vehicles) were more or less left out; national accountability was completely ignored. International measures clashed with national interests, decreasing political will to implement them effectively, spurring risks of regulatory competition and a race to the bottom. Banks now face poor returns on capital, and unless their profitability improves, their ability to perform intermediation functions might be impaired. Credit might dry up, impacting growth.

Basel III is a set of global standards that at least has the virtue of existing, allowing comparability across banking institutions. But, as one participant observed, it remains an empirical question whether there is, from a positive point of view, difficulty in attaining convergence; or, from a negative point of view, significant divergence. Different national circumstances in politics and the industry make the setting and implementation of global standards a thorny coordination problem. This is compounded by the fact that these standards now seem to blur the line between regulation and supervision. One participant mused that this reflects a deeper, "philosophical" shift in regulatory strategy from setting ratios and benchmarks for banks to defining and testing their capabilities.

The EU framework

As one of the epicentres of the crisis, the EU has responded by initiatives to strengthen its regulatory environment. The creation of the Single Supervisory Mechanism and the Single Resolution Mechanism have streamlined *ex ante* and *ex post* measures to ensure financial stability in the Eurozone. According to many participants, the emergence of the banking union in the EU has significantly consolidated the regional regulatory landscape. It remains incomplete however without a common deposit scheme, and the problem of sovereign exposure (the "doom loop") remains. National resistances hamper quick and effective implementation.

The EU's regulatory preference goes to heavier supervisory demands, focusing on structural issues. In an underlying divergence in preferences, the US prefers a lighter touch with more emphasis on personal responsibility within banks. But both face the same regulatory dilemmas: the question of the distribution of costs that regulation can imply, and the fact that a desire for reinforced supervision requires a more complex system. Keeping supervised institutions at arms' length means the supervisor will have less information at their disposal, whereas a more embedded supervision is costlier and makes regulatory capture that much more of a risk.

> *"Having uniform regulation without uniform supervision is like having a lighthouse and not switching it on."*

One participant noted the critical role of big data in supervision efforts and expressed concern about the EU's data protection regime towards that end. Taking a broader view, one participant highlighted the potential for regulatory divergence inherent in supervision activities, since they entail a degree of subjective appreciation for the situation at hand, based on different methodologies and different underlying interests.

What should be done at global level?

Several participants were in agreement that global regulation should be concerned with core issues, leaving detail to the national level; many however recalled the concomitant risk of regulatory divergence. One participant expressed sympathy towards the agenda of international regulatory convergence, but called attention to its prior failures and path dependency. Increasing the footprint of international regulation could provoke a backlash; and transnational supervisory colleges were mentioned as a type of structure capable of handling a lean regulation agenda at the regional level.

On the issue of divergence in enforcement, another participant noted that whereas taking repressive measures against bad conduct within banks is relatively robust, enforcement of prudential regulation is weak and contested. The EU itself has been found materially non-compliant with Basel III, and has not yet faced pressure sufficient to enact corrections. While one participant asserted that this is a case of significant divergence, another felt that it is relatively unimportant and that the development of the assessment process outweighs it.

One participant identified two major challenges for regulatory convergence: the place of China in the international banking system; and the Trump administration. China's banking sector is now the largest in the world, but remains almost completely opaque and detached from global regulatory standards. While it is moving towards global integration, control of the banking system remains largely politicised: benignly, this can be considered a stabilising factor; or malignly, as a worrying lack of rule predictability and supervisory transparency and honesty.

On the American side, thus far, the Trump administration has not initiated significant regulatory divergence, despite President Trump's manifest aversion for multilateral methods. Deregulatory action has only brought supererogatory American standards down to match lower global ones, despite heated rhetoric from Trump loyalists like Congressman McHenry, who sent a letter in January 2017 to then Chair of the Federal Reserve System Yellen, demanding the US withdraw temporarily from all international financial regulatory bodies until President Trump could appoint officials that "prioritise America's best interests".

Divergence appears limited for now, though this may be the result of a relatively hierarchical structure of global finance, thus far dominated by large players from selected jurisdictions. Most participants agreed that there are two more pressing issues. First is the complexity of regulatory coordination: domestically with other policies, internationally between regulators, and at both levels for macro policies. Second is citizens' hostility towards international financial regulatory efforts, stoked by populism: one participant pointed to the current backlash against elites, wondering whether such regulatory efforts were not merely "shuffling chairs on the Titanic."

Session II - Crisis prevention and macroprudential coordination

The counterpart of higher interconnectedness is systemic risk. Following the global financial crisis, a consensus emerged on the necessity of macroprudential policy to help prevent crises (or at least smoothen financial cycles and improve bank resilience). MacroPru policies aim at complementing the microprudential approach, which is oriented towards ensuring safety and soundness of individual financial institutions. MacroPru regulation is actively implemented in a number of jurisdictions, even though its objectives, contours and effectiveness are hotly debated.

While recognising that it has had positive effects on real estate markets and credit growth, one participant was critical of macroprudential regulation as designed until now. He deemed it too focused on banking institutions and the real estate sector, and too limited to the national level. It was pointed out that national supervisors often have little incentive to stop build-ups of known causes of financial imbalances (such as credit or real estate booms) until spillovers become egregious; and that build-up of less well-understood causes of imbalances (due to maturity transformation or shadow banking for example) remain unaddressed. Another participant noted that macroprudential policies are "necessary, but not sufficient," as they do not deal with problems such as regulatory capture or leakages, or "credit populism".

> *"It's all about mortgages and housing credit."*

Macroprudential policy raises a host of coordination issues. It was observed that these concern both coordination across policies and coordination across jurisdictions. The latter is difficult because macroprudential policies may involve significant spillovers (especially when credit markets are dominated by foreign banking institutions) and because instruments have to be tailored to the specificities of different credit markets. Participants touted the governance of MacroPru policy efforts as a modestly successful example of a transnational regulatory network, cautioning however that it would be difficult to scale up to global governance.

Some participants were critical of macroprudential policies *per se*, asking whether they were not redundant in the face of monetary policy. They did admit however they might be useful in the limited case of an exogenous shock where monetary policy stays unchanged. Speaking against this view, one participant pointed out the relevance of macroprudential policies in the Eurozone, doubting whether monetary policy can "fill in all the cracks": where there is a single monetary policy, macroprudential policies can tend to the national level.

Another participant concurred, suggesting that "the fact that monetary policy goes in all the cracks is part of the problem, not part of the solution," recalling that these policies appear to deal primarily with the real estate market. Echoing this, one participant recalled that central banks have several instruments at their disposal, and that the issue is calibrating them so they complement each other. The same participant warned that since financial stability is a public good, it is imperative to connect practitioners and the general public, and to reduce complexity in the system for better governance and transparency.

Session III - Cross-border resolution

Ten years after the global financial crisis, a strong point of consensus which has emerged is that formal procedures or frameworks are necessary to resolve financial institutions in distress, especially those that engage in banking activities across borders. None such framework existed pre-crisis, and the several bank collapses, starting with Lehman Brothers, demonstrated that disorderly insolvency is an unaffordably costly event. Now, firms and authorities have realised the need for clarity and transparency in managing a bank's failure and assigning costs. One imperative that has emerged, in the face of citizen's backlash, is to avoid bailing out institutions with public funds, even if they are deemed "too big to fail".

Cross-border resolution presents particular problems however. An international border between parent and subsidiary means that there is more than one responsible supervisory authority. Appreciations on the viability of the institution and who has the power to decide that resolution is required necessarily vary, as well as how resolution liquidity and new equity should be provided. This is the inevitable consequence of information asymmetry and diverging interests. There are good reasons to be sceptical about how adequate current resolution instruments are in an international context. The important time dimension in resolution, also questions how long the perspective of institutions and regulators should extend regarding the viability of a troubled institution. One participant warned that "when there is a liquidity crunch, timing constraints don't conform to models".

One participant called attention to the problem of ensuring continuing operations after resolution, prompting a discussion over the ultimate objective of the process. Many participants agreed that resolution should not necessarily imply liquidation and exit: in the EU at least, resolution aims to salvage what is salvageable. Many also agreed that liquidity could be provided by central banks if the institution undergoing resolution is solvable, though there was debate over how long it should be extended and under what conditions.

"The thrust of resolution in the EU is about rescuing; not winding up and bankruptcy."

Some participants criticised current resolution frameworks. One likened resolution requirements as "making banks carry their own coffin, which might not even fit in the end"; another wondered whether the resolution process was not mostly for psychological benefit. Broad consensus was reached in characterising resolution as financial reconstruction, useful to manage situations of a globally systemically important bank failing. It is less than clear however whether resolution strategies could treat a generalised crisis: situations where public intervention is necessary to backstop liabilities and eventually recapitalise the system can still arise. While the development of resolution regimes in all jurisdictions (except China) is a notable achievement, they are not a panacea.

Session IV - Challenges of digital transformation

Digital transformation is profoundly reshaping banking activities, while regulation can only hope to play catch-up fast and smartly enough to avoid potentially dire outcomes. Information technology and the huge amounts of data it requires and processes are being used to disrupt traditional banking activities. Cryptocurrencies challenge the very idea of fiat currency, while the blockchain technology they are based on has the potential to radically disrupt banking infrastructure. The threat of cyberattacks has become the new normal for banks, with potentially serious consequences for global financial stability.

"Pandora's box is open."

One participant raised three aspects of transformations due to big data for consideration. First, that big data will be used to devise new financial services; second, that big data will increasingly condition market entry and the landscape of competition within the sector; and third, that these changes will have implications for systemic risk and regulatory efforts. A banking model of the future was sketched out, based on a small number of platforms (due to high entry costs), resembling Amazon, providing products, services or applications relying on data storage and analysis (with much lower entry costs), creating an environment with more competitive prices at every stage.

Other participants debated whether more competition was always positive, highlighting that new entrants and new products could bear significant, or even systemic risks, while escaping regulatory attention. Another underlined the enormous advantage to incumbent platforms, questioning the extent of predicted disruption and envisaging rather a slow eviction of riskier activities from the industry. Yet another was sceptical of the Amazon analogy and professed to be unconvinced about comparison in cost structures. Many agreed however that fintech would soon catch the attention of regulators, most likely due to consumer protection issues: as one participant asked, "Who is responsible if an algorithm gives bad advice?"

Another participant underlined the similarities between the technology and banking sectors, in that they both establish sophisticated platforms to match supply and demand. In their ideal state, the empirically-derived methods and procedures in both are highly standardised, scalable, fault-tolerant, safe and secure, structured around quality with robust testing and clear methodologies to do so. Both try to operate in organised and relatively transparent ways, relying on trust to exchange information globally. This is a solid basis for synergies, which the industry is already taking advantage of; the same participant estimated that IT staff in large banking institutions represented up to a quarter of the total workforce, and that it is standard for US boards to include at least one person, or even a committee, with some expertise in technological stakes and issues.

On the other hand, traditional banking institutions are also under siege by tech firms moving into banking territory. They remain protected for now by a "wall" of sector-specific regulation, reserving their exclusive right to accept deposits: as one participant asserted, "The deposit contract is the linchpin [of banking activities]… Whichever fintech company offers to accept deposits is a bank and should be regulated as such." However, banks have had to face major disruptions such as losing exclusivity of the management of payment systems and the rise of peer-to-peer lending (especially in China), bypassing commercial banks and the central bank system in settlements. Another concern is cryptocurrencies, though one participant dismissed them as speculative assets, not currencies, assuring that "Currency needs the power of the state. Fiat currency cannot exist without it."

Banks are apprehensive of this complex and fluid environment, and some are asking for regulatory action and enforcement, while potential systemic risks are still poorly understood and the full implications of current changes are not yet clear. Some participants argued that heavy regulation on some issues was an appropriate response to slow financial innovation, "a train going at 200mph". Others argued instead that the absence of regulation can work positively, not granting legitimacy to the use of an instrument (like cryptocurrencies) by not giving it regulatory ground to establish itself.

Wrap-up - Lessons for global governance

All participants agreed that digital will be the point of focus of future banking regulation, but differing emphasis was put on the equilibrium between on one hand risk and innovation, and on the other regulation and the contested concept of systemic risk. Most agreed that supervision would have to evolve as well in a more global direction. Overall, there was consensus that reforms in the governance of international banking need to ensure they are fighting the battles of tomorrow, not those of yesterday.

Seminar programme

12 SEPTEMBER

19.30 – 20.00 *Welcome apéritif*

20.00 – 22.00 *Dinner, speech and working session: Global dimensions of banking regulation*

Introduction by **Elena Carletti** | Bocconi University and Florence School of Banking and Finance, EUI

Keynote Speaker: **Vítor Constâncio** | Former ECB Vice-President

13 SEPTEMBER

09.00 – 09.10 Introduction by **Donato Masciandro** | Bocconi University and **Jean Pisani-Ferry** | EUI

09.10 – 11.00 **Session I - Regulatory convergence or divergence**

Introductory remarks: **Martin Hellwig** | Max Planck Institute, **Nicolas Véron** | PIIE

11.00 – 11.15 *Coffee break*

11.15 – 12.45 **Session II - Crisis prevention: Macroprudential coordination**

Introductory remarks: **José Manuel Campa** | Banco Santander, **Luiz Awazu Pereira da Silva** | BIS

12.45 – 13.45 *Lunch*

13.45 – 15.15 **Session III - Crisis management: Cross-border resolution**

Introductory remarks: **Mark Flannery** | Warrington College of Business, **Andrew Gracie** | formerly Bank of England

15.15 – 15.30 *Coffee break*

15.30 – 17.00 **Session IV - Challenges of digital transformation**

Introductory remarks: **Jan-Pieter Krahnen** | Goethe

	University of Frankfurt, **Lara Warner** | Credit Suisse
17.00 – 17.45	**Wrap-up - Lessons for global governance**
	Introduction by: **George Papaconstantinou** | EUI and **Jean Pisani-Ferry** EUI

Seminar participants

Giorgio Barba Navaretti	Centro Studi Luca d'Agliano, University of Milan
Guido Bichisao	European Investment Bank Institute
Adrien Bradley	Robert Schuman Centre, EUI
Stefano Cappiello	Bank of Italy
Elena Carletti	Florence School of Banking and Finance, EUI; Bocconi University
José Manuel Campa	Banco Santander
Vítor Constâncio	Former Vice-President of the European Central Bank
Paolo Fioretti	European Stability Mechanism
Mark Flannery	Warrington College of Business
Federico Fubini	Corriere della Sera
Francesco Garzarelli	Goldman Sachs
Andrew Gracie	Formerly Bank of England
Martin Hellwig	Max Planck Institute for Research on Collective Goods
Jan-Pieter Krahnen	Goethe University of Frankfurt
Domenico Lombardi	Banca di San Marino
Donata Masciandro	Bocconi University
Stefano Micossi	Assonime
Stilpon Nestor	Nestor Advisors
Marco Onado	Bocconi University
George Papaconstantinou	School of Transnational Governance, EUI
Luiz Awazu Pereira da Silva	Bank for International Settlements
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, Robert Schuman Centre, EUI
Alastair Ryan	Bank of America Merrill Lynch
Fabrizio Saccomanni	UniCredit

Pierre Schlosser	Florence School of Banking and Finance, EUI
Andrea Sironi	Bocconi University
Agnieszka Smoleńska	EUI
Kaushalya Somasundaram	HSBC
Nicolas Véron	Bruegel; Peterson Institute for International Economics
Silvia Vori	Bank of Italy
Lara Warner	Credit Suisse
Spyridon Zarkos	European Banking Authority

Taxation Governance in Global Markets: Challenges, Risks and Opportunities

Seminar insights[112]

George Papaconstantinou, Jean Pisani-Ferry and Pascal Saint-Amans[113]

Progress in tax governance: a miracle or a new paradigm?

1. Amongst the different global governance policy areas, tax governance presents a unique contrast: with taxes at the core of national sovereignty, it would in principle be a particularly difficult area for effective tax coordination and cooperation arrangements to be agreed on and implemented; for decades, indeed, lasting cooperation failures led to ever-increasing tax avoidance. And yet, in practice there has been substantial progress in recent years, and while hard challenges remain to be tackled, international cooperation undoubtedly benefits from a momentum. Some speak of a "miracle"; others of an aberration; or, perhaps, a new paradigm for collective action has started to emerge. Whichever way, there are important broader lessons for global governance to be drawn from the circumstances and methods in which progress has been achieved, as well as from the limits encountered in the search for workable solutions in global tax governance.

112 The seminar was held on 18-19 February 2019 in Paris (France), jointly organised with the OECD.

113 Director of the Center for Tax Policy and Administration at the OECD

2. Beyond the issue of sovereignty, major obstacles hamper international cooperation in the field of taxation:

- First, preferences differ across countries as regards both the level and the structure of taxes;

- Second, tax competition pays off: many countries can individually benefit from lowering effective tax rates on highly mobile factors;

- Third, players in the tax competition game are not only countries: we have witnessed the endogeneous emergence of aggressive subnational tax jurisdictions that are not part of the web of international policy cooperation agreements;

- Fourth, the global framework for international coordination is seriously outdated: its essential principles reflect the channels of interdependence that characterised the goods-producing economy of the early 20th century, not today's technology-driven, digital, service-intensive economy; furthermore, it relies on a myriad of heterogeneous bilateral agreements rather than on common rules.

3. Yet results have been obtained despite all these obstacles. As far as individuals are concerned, bank secrecy and the resulting evasion from income and wealth taxes is largely a thing of the past: 150 jurisdictions have committed to exchanging information on request and close to 90 participate in automated information exchange through about 4500 bilateral conventions. According to the OECD, bank deposits in international financial centres have decreased by one-third since 2008 and a significant part of this decline is attributable to cross-border information exchange. No equivalent result has been reached as regards multinational corporations, but a structured multilateral process has started within the framework of the *Base Erosion and Profit Shifting* (BEPS) initiative of the OECD. Moreover, discussions are being held on possible cooperative solutions to the tax challenges arising from digitalisation.

How progress was achieved, and where

1. Progress achieved in the field of bank secrecy was due to a confluence of factors:

- Acute public finances needs in a series of countries;
- Public opinion pressure for international tax fairness following the crisis;
- A conceptually simple problem to solve (abolishing banking secrecy);
- One country (the US) using its power and extra-territorial reach to impose change;
- An alignment of interests of the largest advanced and emerging sovereigns participating in the G20;
- The existence of a nimble institution which seized the moment (OECD).

2. It was a case of unilateralism helping pursue multilateralism. Intentionally or not, the unilateral US decision to coerce financial institutions to disclose individual data (through the FATCA scheme) resulted in triggering international discussions on a cooperative solution to tax evasion. After the goal of ending bank secrecy was supported by other major economies and endorsed by the G20 in 2008, the (small) veto players that had successfully blocked any agreement within the framework of the EU or the OECD were forced to concede defeat.

3. The role played by the OECD illustrated how institutions can flexibly serve global governance beyond their formal remit. The OECD convention does not give it an explicit mandate in the field of taxation and it does specify that all decisions are taken by unanimity by its member countries. And yet, it served as a venue for international tax discussions that included non-member countries and jurisdictions and resulted in overcoming long-standing oppositions to cooperation. Instead of the organisation functioning on the basis of its formal mandate and rules, the OECD secretariat was effectively tasked by the G20 to work in inclusive format and to participate in putting pressure on reluctant players (including some of its members).

4. Implementation still lags behind commitment. Despite success in legislating, enforcement and supervision remain problematic, and for a number of countries a lack of capacity building limits the effectiveness of data exchange.

Why corporate taxation and the challenges of digitalisation have not been successfully tackled yet

1. Efficiency and equity issues raised by reform of the international regime for corporate taxation are an order of magnitude larger. As far as efficiency is concerned, existing formulas for allocating taxing rights among tax authorities is based on an outdated model of international interdependence. They 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. But interests are not aligned when it comes to defining methods to apportion profits or determine where value is being created in a digitalised economy. As far as equity is concerned, reform is bound to raise major distributional conflicts: while ending bank secrecy only resulted in losses for wealthy individuals and a few tax havens, a comprehensive solution to corporate tax avoidance will create winners and losers amongst major countries. Against this background, the BEPS framework has helped improving transparency and curbing the development of preferential tax regimes, but progress towards tackling tax avoidance has been limited thus far.

2. The way forward is not to separate out the taxation of digital services, but to redefine principles and instruments for corporate income taxation in a globalised, digital economy. Problems with taxing providers of digital services are not fundamentally different from those when taxing other multinational companies. They are just bigger and more visible. 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.

3. Whether or not the international community is able to rise to these challenges will have deep consequences for efficiency, equity and the legitimacy of globalisation. The issue of global corporate taxation is not a technical issue for specialists anymore. It affects business models and internationalisation patterns. And as citizens worldwide are now acutely aware of the problem, failure to tackle it undermines support for continued international economic integration.

4. It is possible, but by no means certain, that unilateral action will again help unlock multilateral discussions. Though their motivations and stances towards international cooperation differ markedly, the Trump administration's decision to effectively impose a minimum taxation on the global income of US multinationals (through the BEAT and GILTI schemes) may be a game-changer in the same way the Obama's decision on FATCA was instrumental to end bank secrecy. After it has lowered the corporate income tax rate markedly, the US government has now a vested interest in taxing all multinational companies, including the digital ones.

5. The outcome of this discussion will also have institutional implications for the governance of globalisation. For some, the current framework of tax cooperation provides a template for achieving results in other fields. For others, it is an idiosyncratic setup, useful in exploring solutions in increasingly intractable tax areas, but exhibiting problems in enforcement and monitoring, with effectiveness already showing diminishing returns, and difficult to replicate in other policy areas.

Keynote – A European perspective on recent developments in international tax coordination[114]

Pierre Moscovici, European Commissioner for Economic and Financial Affairs, Taxation and Customs

Global taxation problems have achieved a great amount of salience in recent years, with the leaks of confidential documents swaying public opinion and bringing the issue to third place in citizens' concerns in a recent Eurobarometer poll. The speaker was pleased to recall that thanks to the work of the OECD under G20 instruction, 14 international proposals against tax evasion as well as 8 against tax fraud have been adopted by EU member states since 2014: more than in the 20 preceding years.

The speaker emphasised three guiding principles for working towards coordination in international taxation: transparency, cooperation, and modernisation. Much progress has already been made on transparency: banking secrecy has for the most part been abolished with the extension and automatisation of exchange of information procedures, making it more difficult to hide revenues and assets. Efforts are under way to make reporting of tax planning schemes mandatory in EU member states by 2020.

On international cooperation, there is robust dialogue with states who use their taxation rates as a comparative advantage. The speaker emphasised that working only within the European perimeter was insufficient, crediting interactions between the EU, the OECD and the G20 for a good implementation of rules and an effective name-and-shame process against non-cooperative jurisdictions. To one participant questioning the wisdom of EU designs for a digital services tax while the US-led trade war ratchets up, he answered that it was not such an uncooperative move, as different reactions had come back from different parts of the administration: for example, the Trade Department was openly hostile whereas the Treasury was not opposed.

Finally, the speaker recalled the need for modernising outdated tax rules leading to tax injustice, highlighting the European Commission's proposals for VAT reform (which could recover 50b€ per year), for a consolidated

114 Summary by Adrien Bradley.

corporate tax base, or for a digital services tax. He deplored the fact that despite successes in fighting tax fraud and evasion, certain member states have been blocking these bolder proposals due to the unanimity imperative, and voiced his support for unblocking the issue with the passerelle clause and advocated for clearer governance within the EU, with a Eurozone Minister for Finance with powers over taxation. The speaker concluded by looking forward to action on digital taxation and a unified EU position for the G20 in Osaka.

Seminar minutes

Adrien Bradley and Alexander Sacharow[115]

Session I - The framework for transparency and exchange of information: achievements and shortcomings

Critical to the social contract is the idea that all must pay their fair share of taxes. Before the global financial crisis, it was estimated that a significant proportion of global wealth (some 6% or 9T$) was held in offshore accounts, impacting developing and less-developed countries disproportionately. Information exchange was very limited due to banking secrecy. Public outrage after the crisis and a series of leaks detailing how individuals and multinational corporations (MNCs) were avoiding paying their fair share goaded governments to step up their abilities to identify and capture mobile tax bases.

Effective action was initially slow beyond conditional information exchange upon request, prompting to G20 reaction in 2008. In 2009, the Global Forum on tax transparency and Exchange of Information, which now includes more than 150 jurisdictions, created and implemented a peer review mechanism, ensuring a level playing field on the application of information exchange on request.

But it was unilateral action by the US that had game-changing effects, paving the way for further multilateral initiatives on automatic exchange of financial information. The 2010 Foreign Account Tax Compliance Act (FATCA) used the US market power to coerce financial institutions to report data concerning US citizens or face penalties. This created problems in jurisdictions where complying meant violating domestic law. Their financial actors lobbied for a solution, kicking off the debate on information exchange led by the OECD. FATCA conventions and concepts were essentially multilateralised by the OECD and were adopted in 2014 as the Common Reporting Standard (CRS), instituting automatic exchange of information. While concerns exist about the information's quality (it does not include assets such as real estate for example), its usability for developing countries, or its potential misuse by authoritarian regimes, it is a powerful step forward in international taxation governance.

115 Research associate at the German Bundestag and the Hertie School of Governance.

To date, 108 jurisdictions have agreed to automatic exchange of information (excluding, notably, the US), 90 have begun exchanging, and 95B$ has been recovered. However, success was attained only because the interests of the largest sovereigns aligned with other countries' against those of tax havens: there was no developed/developing countries divide since the benefits of cooperation were non-rival. Attempts to replicate this strategy for corporate taxation would most likely backfire due to the underlying distributional issues. Politicians have celebrated perhaps prematurely and complacently the progress made, out of step with public opinion for whom it is less effectively visible; the result may be increased demand for more radical change.

Discussion among participants focused on present challenges in automatic exchange of information, remaining problems in taxation governance (especially corporate taxation), and anticipated the discussion of taxation of the digital economy. One participant praised the ongoing work within the OECD's Global Forum on tax transparency and exchange of information as well as the OECD/G20 Inclusive Framework on base erosion and profit shifting (BEPS) on outstanding issues such as beneficial ownership, transfer pricing, taxpayer rights, and country-by-country reporting, while recalling the difficulty of supervision and enforcement even when national legislation has been enacted.

Exchanges took place over the necessary degree of transparency of the information exchanged: while some confidentiality is necessary to ensure member states' trust in the instrument, more transparency can be a powerful tool. Several participants underscored the fact that data exchange without capacity-building is ineffective, even for developed countries: one pessimistically remarked that we could be facing a situation where "Before, rich people lied and governments did not know; now, rich people lie and governments do not act." To one participant remarking that taxation, for simplicity's sake, had long focused on immobile factors of production, which led governments to taxing those they were accountable to, another participant suggested that corporate taxation could be conducted at the individual level for the same reason: this would require more global cooperation, but raise less thorny distributional issues.

> *"Before, rich people lied and governments did not know; now, rich people lie and governments do not act. Which is better?"*

Some questioned whether the issue of corporate taxation is as intractable as was presented, since it is has an (admittedly difficult) distributional conflict, but with the possibility of recovered income and side-payments. One participant asserted that the US had solved the issue for itself by imposing a minimum tax on MNCs headquartered in its jurisdiction to capture stateless income, whereas the EU had not. The same participant had to concede, however, that such a tax only works for some large jurisdictions; it is residual, creating a floor unlikely to impulse additional cooperation; and it only works as a global solution if there are compliance mechanisms to ensure no defectors.

It also leaves the problem of mobility intact, and questions were raised as to whether the level of the tax is sufficient to discourage offshoring. Nevertheless, with revenue thus assured, it is ironically the US which is willing to shift the principle to taxation from source to destination market base, whereas it is the EU that is reluctant due to the distributional issues: it seems to prefer to try to capture revenue from American tech giants and platforms, but not have its own big companies or financial institutions taxed elsewhere. To the unease over the method used as expressed by one European participant, an American participant responded that American unilateralism had been an effective use of realpolitik that had benefitted both the US and the world; but later exhorted other countries to put pressure on the US to join the CRS.

Session II - Tax coordination and the digital economy: Alternative ways forward

Digitalisation of the economy has not only disrupted traditional business models, but also triggered a difficult debate on its taxation: most (if not all) countries, as well as large and increasing swathes of public opinions worldwide believe it is still not being taxed in a satisfactory manner. Earlier iterations of BEPS sought to address the issue but backfired in strengthening the arm's length principle while deadlocking over transfer pricing rules, creating perverse incentives for companies to offshore profits. This led to the US unilateral move to minimum taxation. While at first glance this rationale can be invoked to justify the EU's proposed Digital Services Tax (DST), as well as similar measures being enacted in European countries while it stalls (France in particular), some argue it would conflict with existing and developing tax treaties, or that it is a quick-fix solution, artificially separating the digital economy from the rest of economy (ring-fencing). The crux of the debate is how to allocate profit depending on observable factors: much more than BEPS, this raises difficult distributional issues.

The OECD lists two other models for capturing the same revenue apart from the DST, which is based on “significant economic presence” in a given jurisdiction and aims at changing the definition for permanent establishments of businesses. The UK proposal is based on “user participation”, but does not avoid the problem of ring-fencing. The US favoured proposal is based on “marketing intangibles” but poses difficulties regarding the substantiation of linking intangibles with specific markets and the apportionment of market intangibles to other intangibles.

Taking a wider look, the failure in capturing the digital economy is merely an extension of the fact that large enough companies can essentially choose where to make profits and pay tax. Public pressure, especially brought to bear after the LuxLeaks, has been a driver of change, but it is slow, difficult, and there is an enormous lack of data that could contribute to better policy formulation and the emergence of international leadership. In this context, unilateral or regional measures (such as the DST) have their use, as they can jumpstart action.

> *“Allocation is the biggest question: who gets what and why?”*

Participants agreed that revenue and employment impact on states is a concern in this debate, though some argued that changes in tax policy may be less of a factor than believed. All agreed that smaller, developing countries have specific issues requiring consideration. One participant analysed digital profit in three categories: IP rent, brand rent, and data rent, and insisted that the principle that data has taxable value should be recognised. Participants largely agreed that more and better data is needed to achieve a better understanding of the global landscape.

The discussion centred on the three big approaches to digital taxation. The proposed European DST promises a fast solution for taxing the digital economy, but it only captures some digital business models, and member states are deadlocked. It was also criticised on the grounds of being protectionist, based on a minimum tax threshold, and potentially involving double taxation issues actionable before the ECJ; it was argued that if this approach were to prevail it would be better to apply at least at OECD level. Moreover, the UK opposes this approach within the EU. Its own user-based contribution approach, and the US marketing intangibles approach were credited for circumventing a thorny debate on source/destination allocation.

While the US had been unwilling to change the transfer pricing model more than marginally, and had rejected discussions of digital taxation under the previous administrations, its recent tax reform had a structural effect causing it to find renewed concern over its own tax base. It endorsed BEPS and unilaterally enacted its own minimum tax legislation in an attempt to effectively capture stateless income and tackle low tax payments of digital companies. It was argued that this approach could be an effective instrument to stop the race to the bottom of corporate tax rates. However, it was rebutted that such a tax only works for large jurisdictions; it is residual and creates hardly any revenue for smaller jurisdictions, and by establishing a floor it can inadvertently turn it into a ceiling. It also leaves the problem of mobility intact, and questions were raised as to whether the tax is sufficient to discourage offshoring.

> *"Tax rules are the cream on the coffee: the business environment is the coffee."*

Nevertheless, the US is now disposed to tax the digital economy, whereas it is Europeans who are reluctant. One participant strongly defended continuing work on updating current transfer pricing rules as the politically feasible incremental step, and drew attention to the underlying conceptual debate over whether users should be considered sources of value (and therefore be considered for corporate taxation), or providers of data in exchange for services. Others cautioned that the issue might not be resolvable by corporate taxation measures alone, and that following through on these measures might entail having to accept abandoning some local tax policy competition.

Session III - Assessing the institutional framework: participation, incentives and the drivers of cooperation

Speakers examined the institutional framework that has emerged after BEPS and sought to identify further drivers of cooperation. The OECD and the G20 have gained new roles, in part by exploiting the sudden political consensus around ending banking secrecy. While they are impressive achievements of international cooperation, new tax policy instruments raise the question of their inclusivity and efficiency, first numerically speaking, but also notably with regard to developing countries. The EU has emerged as an important agenda setter, but suffers tax policy questions of its own. NGOs and civil society groups have also emerged and taken active part in the process.

Globally, there is an encouraging growing commitment to avoid double non-taxation, but the increasing complexity of the landscape causes uncertainty and unpredictability. Other dangers loom. Poorly designed unilateral action in a tense global context can be used or interpreted as protectionist measures. Moreover, the pace of technology may impose speedy responses, which may be equally poorly designed, whereas international coordination is a much slower process. The arm's length standard is no longer fit for purpose and it is unclear what can replace it; perhaps radical changes such as a destination-based cash flow tax or residual taxation. But most options under consideration involve some form of modifying allocation, a redistributive problem. The digital economy taxation debate reflects the underlying absence of a strong shared sense of what is value creation and how tax revenues should be shared.

Participants wrestled with the issue of trust, between all actors and stakeholders: countries, governments, NGOS, tax administrations, and tax paying citizens. Without trust there can be no effective leadership or cooperation. The OECD was deemed effective at mitigating double taxation, but perhaps less suited to tackling evasion and avoidance; the EU however disappointed in generating cooperation and policy change. A lack of dispute settlement mechanisms incentivises countries to deviate from their commitments, while their necessary complexity in the face of proliferating complex new business models hampers the implementation of the agreed-upon rules.

One participant proposed a game theoretic approach to the situation as a repeated coordination game (but partly exhibiting characteristics of a prisoners' dilemma); another voiced doubts that any perfectly satisfactory answer could be found for the problem of profit allocation. Somewhat incredulously, one participant asked whether a "miracle" had taken place, where a conceptually simple yet vexing problem (banking secrecy) had been resolved by a conjunction of crisis, aligned interests, and a nimble institution which seized the moment.

"Have we witnessed a miracle?"

Another participant praised the OECD's method as the most promising, recalling the need to quickly lay down foundational principles in view of the Osaka G20 in June. Another refuted the idea that special rules are needed for the digital economy, and against its current “barter economy” where users trade their data for services under conditions of poor understanding and control, sketched out a speculative economic governance scheme based on individuals possessing their data and monetising it as they wish, a possible basis for a “universal basic data income”. One participant drew attention to the intimate proximity between sovereignty and tax policy: whereas its sensitivity had impeded progress, effective international cooperation has vastly improved, flowing down from ministerial level to national tax departments through peer-review mechanisms.

While participants agreed that one should not simply pay lip service to inclusivity and that technical assistance must be provided to countries that require it, there was disagreement on who might provide it best between the OECD and the UN as a better representative of non-OECD countries' interests. The complexity of the system was also a concern for some, though others refuted that a more complex system is necessarily more unfair; one participant highlighted the fact that increased complexity affects workers doubly, by enabling profit-shifting and corporate opacity.

One participant brought up the understudied interaction between tax and competition policy, and warned that the monopolisation of the digital economy was unsustainable. Another remarked that attempts to tax away monopoly profits, using tax policy as a second-best substitute for competition policy because it proved incapable of breaking them up, would test the limits of a fragile system. Another participant contested the characterisation of the digital economy as populated by monopolies, suggesting instead that they are monopsonies on data collection, and that competition policy is poorly equipped to address such a situation.

Wrap-up - Lessons for global governance

Summing up, one participant returned to the current “miraculous” (and under-acknowledged) progress in international tax governance, driven by a nimble institution exploiting a newly salient political urgency, and questioned whether diminished returns should be expected due to the difficult issues lying ahead. Personal taxation reform being difficult enough to elaborate and implement, corporate and digital taxation will be even more so. Perception of the situation as a zero-sum game might make it difficult to do anything else than tinker with the current framework, while unilateral action is taken and the underlying problems posed by few large tech companies go unaddressed. The participant recalled that these might be better solved if the nexus between tax and competition policy were explored.

In the discussion, participants' exchanges involved national sovereignty implications of monitoring and enforcement, their effectiveness, as well as interpretations of principles and concepts like value creation. It was agreed that some kind of international yardstick for profit allocation is sorely needed.

One participant welcomed the debate over allocation and value creation, drawing a parallel to the practice of competition policy: in both, it is necessary to come to an agreement over where profit lies and whether it is legitimate and taxable. The same participant drew a further parallel with climate change action and banking supervision to explore the line between enforcement and monitoring mechanisms, and their effectiveness. Another participant responded that whereas it is unclear what value creation is, it is becoming clearer what it is not, which was the focus of the earlier iteration of BEPS.

> *"It is important to have this discussion in tax analysis, similar to the one in competition analysis: what is this profit and what part is legitimate and taxable."*

Some participants reiterated criticism towards the EU, internally paralysed due to leadership dissonance (UK) and its own internal decision procedures (unanimity), and recalled that the current driver of change is, unexpectedly, the Trump administration. One affirmed that whereas the other EU leaders boast concern for tax issues in the G7, their minimum taxation proposal is really meant to counter American designs on the reallocation of taxation, and that it might give rise to race to the bottom problem: the minimum rate floor could turn into a ceiling. They expressed doubts of the existence of a digital economy, arguing that speaking of a digitalisation of the economy may be more appropriate, and reminded participants that it is still the US that is blocking serious work on taxation solutions for inclusive growth and against inequality (capital taxation), as well as for environmental challenges (transport fuel tax); though a recent Republican shift on the subject of carbon taxes may change this. Participants echoed the caution against politically improbable action that could destabilise a fragile system.

Seminar programme

18 FEBRUARY

19.30	*Welcome dinner and keynote address*: **Pierre Moscovici |** European Commissioner for Economic and Financial Affairs, Taxation and Customs

19 FEBRUARY

09.00 – 09.15	*Introductory remarks by:* **Jean Pisani-Ferry |** EUI
09.15 – 09.30	*Tour de table*
09.30 – 11.00	**Session I** - **The framework for transparency and exchange of information: achievements and shortcomings** Chair: **Mateja Vranicar Erman |** Former Minister of Finance of the Republic of Slovenia Speakers: **Monica Bhatia |** OECD, **Itai Grinberg |** Georgetown Law School **Claire Waysand |** Cercle des économistes
11.00 – 11.30	*Coffee break*
11.30 – 13.00	**Session II** - **Tax coordination and the digital economy: Alternative ways forward** Chair: **Alain Lamassoure |** Member of the European Parliament Speakers: **Will Morris |** PwC US, **Paul Tang |** Member of the European Parliament
13.00 – 14.30	*Lunch*
14.30 – 16.00	**Session III** - **Assessing the institutional framework: participation, incentives and the drivers of cooperation** Chair: **Stephen Quest |** European Commission, DG Taxation and Customs Union

	Speakers: **Ruth Mason |** University of Virginia, **Liselott Kana |** Ministry of Finance of Chile	
16.00 – 16.30	*Coffee break*	
16.30 – 17.00	**Wrap-up - Lessons for global governance** Introductory remarks: **George Papaconstantinou |** EUI	
17.00 – 18.00	*Farewell cocktail*	

Seminar participants

Andrew Auerbach	OECD
Monica Bhatia	OECD
David Bradbury	OECD
Adrien Bradley	Robert Schuman Centre, EUI
Robert Danon	University of Lausanne
Aisling Donohue	MGPartners
Joachim Englisch	University of Münster
Mateja Vranicar Erman	Former Minister of Finance of the Republic of Slovenia
Tatiana Falcão	European University Institute
Itai Grinberg	Georgetown Law School
Helmut Herres	Ministry of Finance of Germany
Reijer Janssen	Ministry of Finance of the Netherlands
Julien Jarrige	OECD
Liselott Kana	Ministry of Finance of Chile
Alain Lamassoure	Member of the European Parliament
Jean-Pierre Lieb	E&Y
Philippe Martin	Sciences Po
Ruth Mason	University of Virginia
Nara Monkam	African Tax Administration Forum
Will Morris	PwC US
Pierre Moscovici	European Commissioner for Economic and Financial Affairs, Taxation and Customs
George Papaconstantinou	School of Transnational Governance, EUI

Grace Perez-Navarro	OECD
Severine Picard	OECD Trade Union Advisory Committee
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, Robert Schuman Centre, EUI
Natalia Pushkareva	European University Institute
Stephen Quest	European Commission, DG Taxation and Customs Union
Thomas Rixen	University of Bamberg
Alexander Sacharow	Hertie School of Governance
Pascal Saint-Amans	OECD
Ludger Schuknecht	OECD
Paul Tang	Member of the European Parliament
Coen Teulings	University of Cambridge
Claire Waysand	Cercle des économistes

The Governance of Trade, Finance and Macroeconomic Cooperation: A Historical Perspective since the 1970s

Seminar insights[116]

Emmanuel Mourlon-Druol[117], George Papaconstantinou and Jean Pisani-Ferry

1. The 'paradise lost' feeling that there was a golden age of global governance dominates policy reflections. Nostalgia of this golden age inspires recommendations to make globalisation sustainable again by revamping its rules and by strengthening the institutions that support it. Recurrent calls for a "new Bretton Woods" illustrate the attractiveness of an idealised past.

2. But the core task of historians is to de-idealise the past and this applies very well to global governance. Even a cursory assessment of a few key episodes of the recent decades leads to question the widely held assumptions that there was a time when the global economic governance framework was comprehensive, unified, rules-based and cooperative.

3. The framework of governance rules and institutions was never comprehensive enough to cover adequately the multiple channels of interdependence. In fact, tension between the actual pattern of integration and the institutional set-up has been nearly permanent and the history of global governance is one of institutional arrangements catching up slowly and haphazardly with reality.

116 The seminar was held on 14 November 2019 in Florence (Italy).

117 Senior Lecturer at the University of Glasgow's Adam Smith Business School.

- International trade offers a case in point: the Uruguay round launched in the 1980s was intended to fill existing gaps in the sectoral coverage of the international trade rules, while an enlargement of membership in the GATT (not least to China) was being pursued in parallel. It was an ultimately successful, but conflictual and imbalanced process, the outcome of which generated frustrations and grievances on the part of emerging as well as advanced countries;

- Supervisory coordination in banking and finance is another case. Attempts to define an international regime for supervision and resolution started in the 1970s but failed to produce meaningful results and degenerated into weak cooperation procedures. It is only in response to successive crises (the Latin American debt crisis of the 1980s, the financial accidents of the late 1990s, the global financial crisis of 2008) that rules were tightened and that monitoring procedures were strengthened.

4. **Complaints about the fragmentation of the global governance regime go back to the 1970s at least.** The lack of a coherent, or even unified regime was actually one of the key motivations for instituting regular summits of the heads of state and government (the Gs). At the first summit in Rambouillet in 1975, British PM Harold Wilson already complained about the proliferation of institutions; but he, and his colleagues, noted at the same time that these institutions gathered officials at ministerial level only. Heads of government did not have an international forum where to meet on a regular and frequent basis. The G7, and later the G20, took up the responsibility of orchestrating the responses to prevailing challenges – by coordinating national policies but more often by setting priorities and tasking institutions. Whether the emergence of this rather informal mode of governance (and of the parallel institution of the European Council, whose creation occurred a little earlier, in 1974) should be regarded as a testimony of the failure of the rules-based institutional order, or as a necessary complement to it, is a matter for debate.

5. The "rules-based" regime was never entirely rules-based – or when it was, rules could be breached. This is very apparent in the monetary field. Surveillance of national policies has generally been toothless and even the concepts that underpin it have been left trailing reality. In the early 1970s the US unilaterally departed from the rules of the Bretton Woods system by taking the dollar off gold, devaluing it and ultimately going for a floating exchange rate regime. This was a major break away from a fundamental rule of the post-war system. Their decision represented a trauma for Europe. It created confusion and international tension, before cooperation resumed and eventually resulted in defining new rules.

6. A recurring theme of the history of global governance has been whether it changes because of the need to adapt to evolving interdependence structures or as a result of power struggles between participating nations. If anything, the question has gained relevance in today's context.

Seminar minutes

Adrien Bradley

Session I - Macroeconomic cooperation and leadership in the 1970s

> *"We need to look at the 1970s and 1980s for the norms that still govern our international organisations."*

The speaker introducing the first session noted that the early 1970s were a time when international relations were widely perceived to be in the throes of a multifaceted crisis. The decision of the US to unilaterally terminate convertibility of the dollar to gold in 1971 effectively brought the Bretton Woods system of fixed exchange rates to an end. This was compounded in 1973 by OPEC's decision to proclaim an oil embargo against nations perceived as supporting Israel during the Yom Kippur War, quadrupling the price of oil. The sense of urgency in the face of generalised crisis was underscored by a shared epistemic script based on a fear of a repeat of the crisis of the 1930s and the Second World War that ensued. Also furthering this sentiment was the Cold War context, where leaders felt they had to present a united front to prove the superiority of their values and economic system.

The situation led heads of state and government to look for new venues where they could discuss macroeconomic cooperation. Existing fora such as the UN, the IMF or the OECD (or on the European level, the Council of the EU) were felt to be unfit for that purpose, too formal or too technical. Other international gatherings were emerging at the same time, such as the meetings in Davos and the Trilateral Commission, but they were private endeavours. It was also felt that reliance on expert solutions was fuelling a democratic deficit, and that global governance was impaired due to a fragmentation of issues. In the context of increased interdependence, specialised institutions were perceived as unfit for the purpose of strengthening across-the-board cooperation.

December 1974 saw the creation of the European Council, bringing together European heads of state and government (of Belgium, France, West Germany, Italy, Luxembourg, the Netherlands, plus the newly joined Denmark, Ireland and the U.K.). The creation of what would become a key pillar of the EU institutional architecture followed informal summits in 1961 and 1969. In a similar vein, November 1975 marked the first G6, bringing together for informal exchanges the heads of state and government of the world's major industrialised countries (France, West Germany, Italy, Japan, the UK and the US). Canada was invited to join in 1976, completing the G7. Annual G7 summits soon became a pillar of global economic cooperation (and they lost their informality).

Three historical milestones stand out: the 1975 Rambouillet Summit, the 1978 Bonn Summit, and the 1985 Plaza Agreement on exchange rates, which was followed by the 1987 Louvre Accord. The Rambouillet Summit is noteworthy in that it was the first of its kind, acknowledging the collapse of the Bretton Woods architecture and the new international monetary non-system. While French President Valéry Giscard-d'Estaing had initially envisaged a summit on narrower monetary issues, German Chancellor Helmut Schmidt helped broaden the scope, setting the themes of macroeconomic cooperation that have remained on the agenda since.

The Bonn Summit is remembered for producing a comprehensive agreement on Japanese and German reflation as well as on the US fight against inflation. More generally, it reflected the shifting international balance of economic weight, away from the US dollar and towards Europe and Japan. The agreement was celebrated at the time, but was short-lived; despite this, it is remembered by some as having been very successful, while others (especially in Germany) regard it as having produced ill-conceived plans. In contrast, the Plaza and Louvre Accords were landmark international agreements between G7 member states (France, West Germany, Japan, the US and the UK, joined by Canada for the Louvre Accord). Beyond the agreement to depreciate and the stabilise the US dollar, they delivered an exchange rate coordination regime that lasted for several years.

> *"The core job of the historian is de-idealise the past."*

While the G7 meetings are not treaty-based, their creation resulted in lasting governance changes, plugging a glaring gap in global governance and enabling leaders at the highest level to exchange and develop shared diagnoses of the economic situation and the economic challenges. These changes were not necessarily major in terms of *outcome*, but certainly in terms of *process*: a permanent forum for cooperation and trust-building was established that offered the leader the possibility of setting priorities for technical discussions and of reaching agreements that involved cross-sectoral trade-offs (for example on trade and at the same time on exchange rates). Nevertheless, these arrangements remain informal, with a low level of enforcement. This executive deficit in global governance persists today.

In the discussion that followed the presentation, one participant reflected on the role of the US then and now in setting up and maintaining governance arrangements, seeing concern over the lack of rules and constructive search for political discussion arrangements at the time; this was met with a rejoinder that it was the US which had toppled the Bretton Woods system to begin with. One participant recalled that the Bretton Woods rules-based system was far from autonomous, requiring significant intervention to keep exchange rates stable.

"It's all about the US."

Participants debated whether the establishment of the G7 reflected a failure of formal institutions and a breakdown of a rules-based system, or whether it simply filled a gap in that same system. One participant noted that the continuation of G7 meetings was by no means acquired from the start, only resulting from an informal agreement in 1977, comparing it with the institutionalisation of the European Council in the 1986 Single European Act. Another contested the parallel, arguing that the European Council resulted from the European Community's institutional development whereas the establishment of the G7 reflected institutional failure. The same participant expressed surprise that the involvement of heads of state and government was not seen as necessary until then, and reflected on the evolution of the method of their meetings, from a direct, "hands-on" approach to one of agenda-setting.

Session II - The challenges to the governance of trade in the 1980s

The speaker introducing the second session suggested that the trade governance regime was under great pressure by the 1980s for five main reasons. First, several commodities like agricultural products and textiles were exempt from GATT disciplines, and the absence of an agreed framework led to tensions between developed and less developed countries. Second, trade in services was expanding without corresponding

GATT rules. Third, advanced countries were beginning to feel frustration over the lack of protection of intellectual property rights. Fourth, emerging economies had an increasing weight in global trade but they were either acting as free riders within, or weren't part of GATT. Fifth, finally, GATT's relevance was diminishing: China was not (yet) part of it and major geopolitical and economic changes (such as China's economic reform and the opening up of formerly socialist countries) were not reflected in the governance of international trade.

These tensions provided the impetus for an American-European "deal" to seek to strengthen the rules and institutions of the multilateral trade regime while integrating new members: this was the origin of the Uruguay Round and the resulting creation of the WTO.

GATT rounds until the 1960s had mostly focused on reducing tariffs. The Kennedy Round, started in 1964, added anti-dumping as a concern; the Tokyo Round, started in 1973, significantly expanded the agenda by including non-tariff issues. The Uruguay Round began in 1986, concurrently with China's accession request, and ended in 1994: it not only achieved further tariff reductions, but also saw the inclusion of services (GATS), intellectual property rights (TRIPS) and investment (TRIMS) under its remit, as well as an agreement to gradually include textile and agricultural products in its disciplines. It also transformed the GATT into the WTO, a full-fledged international organisation equipped with a binding dispute settlement mechanism. Its creation had been strongly advocated by European countries and Canada, with the argument that liberalisation had to be matched by institutionalisation.

> *"As Pascal Lamy said, 'If you liberalise you must organise'."*

In hindsight however, institutionalisation went against long-held US preferences, concerned with maintaining their sovereignty and wary of creating more international bureaucracy. As far as trade negotiation were concerned, developing countries have considered that they gave up more in the Uruguay Round negotiations than what they gained; and while international trade volumes increased, it is unclear whether the negotiated tariff reductions and assorted agreements can be held directly responsible, though it has become part of the WTO's self-promotional narrative.

China's bid for GATT/WTO accession took 15 years of negotiation, but it finally gained membership in 2001. Its aim was to stabilise and gain larger access to Western markets in order to support its export-led economic growth. On the other hand, the US's aim was to oblige China to abide by enforceable trade rules, while pushing Chinese leadership to reform the country's economy so as to make it more compatible with the global capitalist economy. In this, the US's strategy changed from containment under George H. W. Bush to engagement under Bill Clinton, the latter being a driver for Chinese accession. In contrast, the European priority was to place economic and trade relations with China under a legally binding framework. China did not gain its accession cheaply however, having to make protocol commitments substantially exceeding those of other members. However, one seminar participant noted that China effectively retained a number of tariffs, while gaining by being freed from its burdensome annual review of trade relations by the US Congress.

The Uruguay Round was the last to be dominated by American and European interaction and preferences, as evidenced by the stalemate of the Doha Round where developing countries have reshaped the bargaining dynamics. Both the US and the EU shifted priorities to pursuing plurilateral agreements like TTIP and TPP, with the more or less explicit goal of isolating or forcing compliance on China. While TTIP foundered for political reasons, TPP, however, was repudiated by President-elect Trump, whose approach to trade governance has been explicitly transactional and bilateral. Participants agreed that while US grievances against the WTO began before his tenure, he has imposed tariffs on steel and aluminium under the dubious pretext of national security, and has been blocking the nomination of judges to the Appellate Body, gravely threatening the multilateral trade regime.

In the discussion, participants agreed that challenges in trade governance have stemmed from both geopolitical and structural factors. On the one hand, the system was dominated by the US and European countries, refusing to play by the agreed-upon rules once they suited them no longer and cede some of their power to newcomers, provoking a backlash on their part. On the other, it was changing patterns of trade that made the system meant to govern it obsolete. Participants questioned the degree to which the WTO could function with the US acting in bad faith, groundlessly invoking the national security "nuclear option", or indeed without the US, to which the answer was pessimistic.

One participant asked why the establishment of the WTO coincided with the rise of regional trade agreements, taking the example of NAFTA.

Another explained that NAFTA was designed as an alternative to the Uruguay Round by aiming for deepening regional integration, and that opinion is mixed on whether it was a stumbling block or a stepping stone to further trade liberalisation. The same participant noted however that other trade agreements of the time were mainly geopolitical and had little to do with trade *qua* trade.

Session III - Financial account liberalisation and the challenges to the governance of finance

The speaker introducing the second session suggested that the late 1970s and the 1980s were a transformational period for the international monetary system, whose governance challenges bear more than a passing resemblance to those of the 2000s. The period saw a rapid internationalisation of banking and finance, with corresponding financial innovation and risk; accompanied by, on the other hand, trade protectionism, commodity shocks (especially oil), and accumulation of sovereign debt. Accordingly, attempts were made to bolster existing and set up new governance frameworks to face these challenges. Elements of these comprise the IMF and bilateral central bank swaps, to provide emergency liquidity, and the Basel Committee, to provide uniform banking guidelines: an incipient global financial safety net.

Bilateral central bank swaps were part of a two-tier global financial safety net before the 1970s. Renewable swap lines were established in the 1960s, climbing to significant amounts. Recourse to these lines was a "first line of defence", before having to go to the IMF.

When the US suspended dollar convertibility, effectively kicking off the world floating exchange rate regime, the IMF attempted to head off and mitigate potential effects by publishing its important surveillance decision in 1977, which remained unchanged until 2013. It puts forth the *obligation* for members avoid manipulating exchange rates or the international monetary system; and *recommends* that members intervene in the exchange market to counter disorder, while taking into account other members' interests. An additional provision was added in 2007 to the surveillance decision, that members should avoid exchange rate policies that create external financial instability. The decision specifies the situations in which the IMF can engage a dialogue with a member state; but appreciation of when this is warranted is inevitably very difficult due to the political sensitivity of such a decision. This kind of dialogue is in any case only advisory and bilateral, and has displayed a mixed record in effectiveness.

The IMF's Special Drawing Rights system had been introduced in 1969 to supplement a shortfall of preferred foreign-exchange reserve assets. They underwent reform in the 1970s and 1980s. The SDR was made the unit of account of the Fund in 1972, but more ambitious plans such as devising a "market SDR", to be used widely in global financial markets, or allowing the creation of an SDR-denominated substitution account housed in the IMF to facilitate reserve diversification and shift exchange rate risk away from the dollar, foundered mostly due to US disinterest.

International financial surveillance was glaringly lacking in the 1970s. A series of bank failures and fraud led in 1974 to the creation of the Basel Committee on Banking Supervision (BCBS) by the G10[118], plus Luxembourg and Spain. The committee was established within the Bank for International Settlements and it is composed of central bank and regulatory authority representatives. Original projects for an early warning system or a coordinated supervisory arrangement were quickly abandoned due to sovereignty concerns, falling back on informal communication and best practice sharing. This "Basel Concordat", established in 1975, failed however to draw clear-cut rules about where responsibility for supervision ultimately laid between home and host countries, since international supervision had been rejected.

"BCBS members were like regulatory generals fighting the last war."

The BCBS works as an informal forum encouraging convergence towards common standards and approaches. However, its functioning at its inception was reluctant and slow, and the standards it produced were backward-looking and, since they were negotiated with the banks it was attempting to regulate, vulnerable to regulatory capture. The three painstakingly negotiated Basel Accords have done little to prevent crises, and still rely on national interpretation and implementation of their guidelines. Rules-based financial regulation may not be an optimal solution: incentives-based regulation may work better, due to the pace and depth of innovation.

In the discussion, seminar participants remarked that issues con-

118 Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, UK, US

sidered novel today are in fact not new, though significant qualitative changes have taken place. They agreed that some past and present governance problems were common, such as issues with the IMF's traction, legitimacy and even-handedness, or the difficulty of requesting help from the Fund due to stigma; or more broadly, the fact that the burden of adjustment still weighs on for the greater part on debtors. One participant noted that a regional/global two-tier global financial safety net system has already emerged, sharing the same problems as the bilateral/global system preceding it: the global level remains too weak, while at the infra level creditors may have difficulty refusing to extend loans to close partners. They also likened private information held by banks as a kind of wealth, which prompted another participant to observe that willingness to share this kind of information with a central repository is growing and that it would be useful to have a global authority capable of presenting a complete picture of the financial situation.

Wrap-up - Lessons for global governance

Summing up, it was put forward that increased systemic complexity may have favoured fragmentation; but it may be perception of complexity that is the more relevant factor. In keeping up with the core historian's task of de-idealising the past, all three speakers thus insisted that the widespread impression that today's crises were more complex than those that occurred 20, 30, or 50 years ago was often a retrospective construct: policymakers confronting these problems in the past equally felt overwhelmed by the complexity of policy challenges then. The challenges of the credibility of institutions, and of their trade-off between inclusivity and efficiency, remain. The institutions themselves display continuity through structural shifts, which have sometimes been brutal; in parallel, solutions to their problems have also displayed surprising continuity.

European University Institute

ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES

SCHOOL OF TRANSNATIONAL GOVERNANCE

TOMMASO PADOA SCHIOPPA CHAIR

Seminar programme

14 NOVEMBER 2018

9.00 – 9.30	*Welcome and introduction*: **Emmanuel Mourlon-Druol** | University of Glasgow, **George Papaconstantinou** and **Jean Pisani-Ferry** | EUI
9.30 – 10.30	**Session I - Macroeconomic cooperation and new international groups** Introductory remarks: **Emmanuel Mourlon-Druol** | University of Glasgow
10.30 – 10.50	*Coffee break*
10.50 – 11.50	**Session II - The challenges to the governance of trade** Introductory remarks: **Lucia Coppolaro** | Università di Padova
11.50 – 12.50	**Session III - The challenges to the governance of finance** Introductory remarks: **Catherine Schenk** | University of Oxford
12.50 – 13.00	**Wrap-up - Lessons for global governance** Introductory remarks: **George Papaconstantinou** and **Jean Pisani-Ferry** | EUI

Seminar participants

Grace Ballor	Max Weber Programme, EUI
Adrien Bradley	Robert Schuman Centre, EUI
Klodiana Beshku	EUI
Stefano Cappiello	Florence School of Banking and Finance, EUI
Lucia Coppolaro	Università di Padova
Emmanuel Mourlon-Druol	University of Glasgow
Alfonso Iozzo	Intesa San Paolo
George Papaconstantinou	School of Transnational Governance, EUI
Antonio Padoa-Schioppa	University of Milan
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, Robert Schuman Centre, EUI
Anna Sakurai	School of Transnational Governance, EUI
Massimiliano Santini	School of Transnational Governance, EUI
Catherine Schenk	University of Oxford

PART III:
The Final Conference

The Transformation of Global Governance project final conference "New World, New Rules: Collective Action Repurposed"

Keynote speech – A perfect long storm

Tharman Shanmugaratnam[119]

First, let me say I was quite impressed by the materials circulated coming out of this project, which is, to my mind, the most serious effort to think about globalisation, multilateralism and collective action problems given the challenges we now face. I don't see that similar thoughtful questioning effort taking place anywhere else currently. So I'm very happy to be part of this process. And let me offer you some thoughts and some questions in that spirit.

We must think about the meta-challenges that we face, quite apart from all the specific challenges of for example the WTO and digital trade, etc.: the meta-challenges that are going to occupy us for years to come.

First, of course, we have the challenges of the **existential climate crisis and health insecurity**. And I put them together because the science is firm enough that the problems we face are intrinsically related to climate change: the deterioration of the natural ecosystem is what damages its capacity to keep viruses and pathogens out. They will come more often, and take more lives. That is already baked into the system. So that's the first meta-challenge, and by far the most existential of them.

The second challenge has to do with the **sharpening divergences**, both domestically and globally. The pandemic has accentuated these

119 Senior Minister and Coordinating Minister for Social Policies in Singapore.

divergences. There is a very real risk of a rollback of the process of modest convergence that we began to see on the part of the developing world with the advanced — except for some middle-income countries, which I think are reasonably well placed for this next phase of global development. But a large part of the developing world, a large part of humanity, is now very seriously at risk, not just from the rolling waves of the pandemic, but the long tail of consequences coming off of it. And the consequences of that rollback and that renewed divergence rather than convergence will obviously not be economically concentrated there, as divergences are also sharper in the advanced world than we've seen in seventy years.

It's not just inequality, which is in a way the easiest thing to notice, whether income or wealth inequality. It's deeper, longer, and more corrosive because it's really a divergence of opportunities. It's not about static inequality. It's really a divergence in life opportunities and a sense of life opportunities that is now sharper than it has ever been in the last fifty years. This sense of loss will continue to affect those who are less educated and estrange workers from essential yet poorly paid or recognised jobs. I think there is a sense of urgency here that is now sharper than it's ever been before. So globally and domestically, we now have to think not in terms of aggregate economic growth, per-capita income growth, productivity growth, but think about divergence, and think of it not just in static terms. I think of it the way human beings think about it: what's my life going to be; my children's lives. It's always a projection, of hope or despair.

The third meta-challenge, related to the first two, is that of **ethnonationalism**, as well as its global projection in terrorism. It was always there in history; always there beneath the surface. But it is now coming to the fore, both in the advanced world and in the developing world, in country after country. It is far more pronounced than it used to be. It feeds off the insecurities coming out of domestic economic divergences, that sort of social estrangement, and the loss of security coming off climate change and the pandemic. But it's not just an outcome. It is also a force, a source of instability. And that has to be regarded as a challenge facing not just the global system, but also national futures.

Fourth is the **loss of trust** between nations globally: in international institutions, domestic institutions, and domestic politics. And that's probably the most corrosive. Again, it comes out of the first three major challenges, and is not just an outcome, but also a force. The deficit of trust globally is going to make it very difficult to address the challenges of climate or pandemic security. And it also makes it more difficult to address domestic emergencies. It is a function not just of the economic divergences in the sense of different futures different people face now, but also a function of some phenomenon of a new era; in particular, the way in which information is constructed and disseminated. That's a big challenge. Social media, the algorithms of the platforms that dominate social media, are a big, new challenge. And this can be seen in the epidemic, the pandemic of misinformation. Even basic tenets are open to polarisation. Continuing weakening of trust domestically leads to the loss of a sense of togetherness, and to a sense of us versus them.

These are challenges that are sharper than they were before, but the combination of the four means they're reinforcing each other.

Some think of the world in terms of unpredictable shocks. But it's actually not fundamentally about shocks. It's not about stochastic occurrences. There is a pattern, and there's a way in which one can predict that these things will happen. One can't predict the timing. One doesn't know which extreme weather events will happen more often, but one knows they will happen. Science is full of these patterns. And not only are there patterns that are predictable, but the long term consequences of shocks themselves when they occur are. They change the trajectory, the gradient. So this is not even a perfect storm, since many bad things are happening at the same time. This is **a perfect *long* storm**.

At home, we must organise ourselves domestically and internationally to confront and tackle this political storm. We'll have to decide whether it will be about individual nations, or whether it requires a new multilateralism.

We do not have the luxury of a grand reconstruction. The multilateral order was born from a moment in time when a unipolar world had come out of such devastation that it was possible to create new institutions; although as one of your papers pointed out very wisely, it was always a somewhat more legalistic and nebulous ideal compared to its reality. We cannot hope for a Florentine Renaissance coming out of the Black Death because, fortunately or unfortunately, our pandemic is not yet on that scale of human and political devastation. So do we let things proceed without reform, so as to wreak more devastation, so that finally the world wakes up? Do we want the chance of a Renaissance, a gilded story of dealing with existential crisis, at the cost of so much human life? Its political manifestations would be imponderable. So we do not have a choice. We neither have the choice of a grand reconstruction, nor the choice of letting the system run to the ground in the hope that somehow political leadership is motivated to do something bolder, more fundamental.

So what we have to do is to find a way of building on what we have and **reorienting multilateralism** — and reorienting it along these lines, not in the same old tired way. That really is a challenge: how do we start from a disarticulated, incoherent system, and gain momentum? A dynamic of continued strength has to be a basic orientation: not a grand reconstruction, but a dynamic where countries and their citizens see that there are benefits in mutual respect and collective action: tangible, real benefits. The incentive is not just something called global order. This is not just for the sake of international cooperation, but nations reaching for benefit. That's the challenge. And it is doable.

This is the focus of a project that I have worked on with one of our speakers, Ngaire Woods, another member of this independent panel. We think it's doable because if you think of the institutions we have and how we can refocus them more effectively, get them to work together more effectively, we can actually do certainly better than we've done in the last two years. We can avoid the large-scale collective failure that we've seen in the last two years.

It requires first, most fundamentally, shifting from thinking about international cooperation in terms of foreign aid for some other people, towards thinking of it in terms of **collective investment in global public goods** (GPGs) that all nations, rich and poor, benefit from. It should not be seen as foreign aid coming out of a budget. And that fundamental shift in thinking is what we need. We have to make far better use of our international financial institutions: the Bretton Woods institutions, plus a range of regional development banks and development finance initiatives that have been created over the last few decades. They are catalysers through funding: they catalyse private funding with their initial resources, and are able to catalyse policy reform for governments by steering them towards the right investments. They are unique institutions, with a multiplicative ability. We know that the World Bank (WB), the IMF and the regional development banks must be repurposed for a world where the principal challenges are not country-originated challenges, but the systemic challenges of the global economy.

The principal challenges facing developing countries especially are going to be the challenges of climate change, because they are going to get the short end of the stick. So refocusing these institutions, as well as global central banks, for a world where the global commons are the central challenge that individual nations face is going to be critical. And it will be the shareholders that will have to take that very seriously as well. Three quarters of the staff of these institutions will agree with everything I have just said — but the shareholders must take it seriously too. This means they have to replenish resources regularly; they've got the resources to do so. These are not big amounts of money. If that is not done, the world will be forced into a false dichotomy of choosing between global commons or dealing with poverty eradication and the continuing challenges of development. It should not be either or. We can refocus these institutions to put the global commons at the core of our findings and have a holistic vision of what economic and social development is about.

Second, we have to **strengthen global health organisations**. For two decades, the whole approach to global health security has been shifting away from the WHO, the multilateral institution, towards bilateral donors doing their own thing. And we have seen the creation of a constellation of semi-independent agencies, the Global Fund for AIDS, TB and Malaria, GAVI, and several others, all doing a wonderful job within their own specific domains. But it is still a fragmented landscape. And what was weakened was the concept of multilateral funding for a multilateral organisation that has been fundamentally disempowered, which is how we ended up here. There is no global coordination, no systemic coordination. And even in its core rules, the WTO has to change. It needs reform. It needs strengthening. It needs more predictable funding. And the amounts of money required are really going to be modest compared to what is spent when there is a pandemic. So we have to restore multilateralism to a central place in global health security.

Thirdly, we need a **new multilateral funding mechanism**, to provide an overlay on top of this siloed landscape of different global health organisations and international financial institutions doing bad things because the system is gravely underfunded. The investigation others and I conducted, and it was a very conservative one, arrives at an estimation requiring a doubling of today's funding, which is $15 billion — about 0.02% of world GDP. Affordability is not the issue at all. We proposed a new global fund to be able to provide flexibility and to raise funding across these institutions, not as a new diplomatic agency, because more fragmentation is not desirable, but as a mechanism to fund these different agencies to plug the gaps of the system. That can be done with a small amount of money.

I can tell you that even those numbers are balked at — even by advanced countries, for whom it is eminently financially rational because the small amounts of money spent on prevention are going to be dwarfed by several hundred times by the cost of fixing a crisis. It is financially reckless to not be spending on prevention and preparedness, to be putting up the nominal sums of money required to safeguard the system. And the fact that it is balked at reveals the fundamental problem of political incentives within countries, which I'll come to later on, and which is the most fundamental problem.

We will have to accept the necessity of a certain flexibility and agility in the deployment of financing. If we go for the fiction that everything has to be decided upon by a universal, fully legitimate audience, we all know what can happen: donors will not contribute large sums of money, decisions will be a process of trying to reach the lowest common denominator, and decision-making will be paralysed. Conversely, neither the G7 nor even the G20 can assure this, because they are unrepresentative. But we have to make do with the institutions we have, which is why the idea of **a more broad and institutionally engaged "G20+"** would ensure better representativeness coupled with nimbleness, while donors would have a sense that they have a say in the deployment of their contribution.

We will also have to have pragmatism about how we move forward. Clubs and networks of first-movers should be harnessed, but attention must be paid that they are not acting alone. There should still be some articulation with the UN system, a connection to the UN General Assembly. But there is a tension that I want to be open about: many developing countries now say that everything has to go through the UN system or to be regional, because that's the only fully legitimate set of actors. But there's some cognitive dissonance, because no one was objecting all this time to bilateral arrangements, or the power of non-state philanthropy. Everyone accepted the priorities of the Gates Foundation. Yet they do not accept a broadening of decision-making to involve a group of countries beyond the G20 or G20+. So we have to avoid thinking in terms of the extremes of either zero multilateralism, which everyone was very happy with, and full and perfect multilateralism. There's a large space in-between for using clubs of nations, acting in the best interests of the global system, with monitoring and accountability and civil society applying pressure enough to make a difference.

None of what I spoke about, none of these four meta-challenges can be addressed without addressing the **US/China relation**. We have seen an astonishing rise in negative sentiment in the United States towards China. If you look at the Pew Global Research Studies, in just three years, the proportion of people, both Republican- and Democratic-leaning, who view China unfavourably has risen from 50% of the population to three quarters in just four years. We don't have similar surveys in China, but I would not be surprised if it were similar. There's the same stiffening of attitudes, largely if you ask me, in reaction to what's taking place outside of China. But there's also that loss of trust between the two leading nations of the world. And until we have a community where the game is not about making sure that the other side loses more than I do, we are not going to be able to solve these larger problems of the world and the large problems that these individual nations face.

I'd like to point out the **criticality of trade**, open trade, as a solution to the world's problems, and have this taken very seriously, because old opportunities for developing countries to participate in global supply chains through labour intensive industrialisation are now getting more limited because of technology and the pace of innovation. It was already picking up with digitally enabled automation and robotics in particular, driven by the market economy, and has accelerated due to the pandemic. I would say that there still is a significant window of opportunity for developing nations — but it is finite.

The next five years are critical, and require some **new economic development strategies**. Africa's regionalisation is lagging behind the rest of the world, despite significant margins for gains in specialisation and scale, which is critical for productivity growth; the Africa Continental Free Trade Area must step up its pace. Fortunately, trade in services is still thriving, and this is a very significant opportunity coming out of digitalisation for developing countries and individuals everywhere in the world. People who previously had difficulty getting access to markets outside of their hometown, country or whole region can now do so: women in particular. So this is potentially an empowering technological development. But we've got to get nations, local governments, universities, local communities to use open trade, including the use of digital platforms (much maligned for good reasons, which should be fixed). E-commerce is a real opportunity to help small firms and someone who previously didn't have a chance to integrate global supply chains.

Finally, the theme that I mentioned briefly earlier, which we do not yet have a system for: we will not be able to develop a sustained spirit of mutual cooperation globally without addressing the disarticulated, despondent state of **domestic political systems** and domestic opinion. You cannot rearticulate the global system without regard for the domestic. Focus should be on policies, not politics: we have reached the limits of existing models of economic and social policy of the centre-right and centre-left, and they require remodelling. Yes, people want to keep enjoying the benefits of the existing systems. But that's a defensive reaction. No one wants things to be taken away from them. But there's no optimism coming out of this model.

We have reached the limits as to the optimism and sense of togetherness that can be created through redistribution alone. We need **regeneration, not redistribution**. We need opportunities to be created, social mobility. These are basic values of social democrats, but they require different methods. In fact, we need more than ever the basic values, the core tenets of the centre-left, but we need a new method and a new policy mix. It requires finding ways in which a pluralistic political environment — which has its strengths, because that's actually the greatest strength of the democratic system, the fact that it is able to deal with different opinions, different preferences, different interests, different identities, even without the system breaking down — can deal with the challenges we have seen in recent times, not just about diversity of views and interests, but about increasing incoherence and inaction in the face of challenge, inaction in the face of national challenge, and, of course, the most pronounced inaction in the face of the challenge of global climate change. This is where I really don't have the answers.

So how do we take advantage of the strengths of democratic societies to build a sense of challenge, to build a sense of urgency and to mobilise people? It must surely be possible in a democratic system to tell people what is in their own interest, and to have people themselves demand what is in their own interests. It must really be possible. And the fundamental problem we have is that unwillingness to take the very obvious necessary steps to prevent and repair the damage rather than wait for things to happen.

This is a **problem of political incentives**. Politicians don't last long. We don't have a very strong incentive to do the right things for someone who comes for the long haul. So we have to make the moves and mobilise the actors of real civil society, NGOs, and businesses. If you think of climate, before climate change mitigation and adaptation strategies, there's a momentum building amongst businesses who see this as an opportunity. It is remarkable what a big vision it is, how the legal system must change, but these are the actors, civil society, business communities, that can have a lot of pressure on politicians in advanced democracies. We need to have them apply pressure on the politics of the moment, and define the movement's interests, a movement for public interest in a way that makes it attractive for political parties to respond.

I say this too easily, but it seems to me that if you just rely on electoral politics as is without civil society and we don't get a broader set of stakeholders, we are trapped. And that's why we keep running into the problems that we run into. There is an incentive for them. So that's why I think of the political green shoots coming off of the climate crisis in particular, because more than any other crisis, people that have been apathetic are mobilising. The young are mobilising civil society, and those are the green shoots of democratic politics that must be further encouraged and mobilised.

So we must act. As Jean mentioned, in one of your papers, the old globalisation is dying; the new one is not yet born. I think the new one has to be born out of a spirit of idealism and pragmatism that starts at home, and it can come out of steps that are taken to create that dynamic for the future rather than the search for perfection and exactitude. I always remember the wise words of Dag Hammarskjöld, the great UN Secretary General: the United Nations wasn't created to take humankind to heaven, but to save it from hell.

Discussion

Q - In global health, we are facing a situation where billions in output gain is left on the table because of international reticence to actively advancing global vaccination. Why is that?

A - We all sense why: for some reason, no one blames politicians for spending in a crisis, but parliaments will refuse granting finances for prevention efforts. Explaining why it is in one's own interest to mainstream preparedness is a democratic challenge. It is possible to do, but requires leadership and new methods of communication, as well as mobilising civil society and creating incentives for businesses. I have not seen this happen yet, but it must be possible.

Q - Students, including here at the EUI, seem to not need an explanation of the urgency for action on climate; they are already mobilised, thinking long-term, and drawing in the older people around them. Which lever should they be pointed to? And, regarding your framework of meta-challenges, the first two (the existential climate crisis and sharpening divergences) intersect: how can we empower those most affected by existential threat? How can we give a sense that action is possible, yet fair for first movers who will bear the brunt of costs? How do we reflect the doingness of youth in international organisations?

A - You seem to have answered the question on the necessity of youth involvement better than I can. I'll make three points.

First, let's think of the acceptability of a carbon tax for example: there must be a perception that the overall system is fair, so that the specific necessary costs are accepted. I don't believe this is an Olsonian problem, where minorities have leverage because they incur concentrated benefits or costs. The fundamental challenge here is that everyone will face diffuse costs, in order to head off diffuse costs in the future. A fair system would mandate some personal sacrifices, for all, on a progressive scale, in counterpart for tangible benefits. On the issue of pandemic security, a local hospital would have to be seen as doing better; especially in developing countries.

Second, we can build on national initiatives that show the right way. For example, the US Operation Warp Speed was in some ways quite un-American: government-led, thinking ahead of time on research, development and distribution of vaccines. It was a monumental effort by government. The agencies involved (BARDA, etc) are technocratic like central banks, relatively isolated from politics. There is a need to create more such technical/scientific bodies and empower them to carry out their tasks. If even the US can do it, everyone can.

Third, I don't think the democratic imperative to vaccinate one's own population can be overcome, so pandemic supply capacity should be developed and maintained ahead of time to avoid the waste and inequality we've seen so far. This requires partnerships with private industry — but with a whole new set of instruments. It is a new challenge in public policy; but it can't be just national, it needs international coordination. Coordinating vaccine manufacturing alone is very difficult, as it involves hundreds of ingredients; and distribution is the even greater challenge. But this social investment has the highest return in this decade.

Q - On the diagnostic side, should there not be incentives to adopt a multidisciplinary approach to analysis to avoid new crisis? And on the normative side, politicians don't incorporate spillovers, counterfactuals, or repeated games; this is deadly. So don't incentives need to change here too? As you've suggested, work on promoting European public goods has demonstrated that showing policy makers that pursuing global goals is in their own, tangible interest.

A - Again the question provides its own answer. I would point out two big incentive issues. Developing countries don't have incentives to invest in GPGs, which are mostly domestic or regionally located. IFIs need to recognize that more grants are needed — not concessional loans. It is an investment for the world, which can be made conditional on these countries investing in measure with their capacity. This is a major issue in retooling IFIs. The private sector on the other hand doesn't have incentives to prepare for pandemics, because that means the constitution of underutilised capacity. Some way should be found to use this capacity in normal times. Incentives again are missing in acting in the domestic as opposed to the global interest, vaccination being the sharpest example. Epidemiologically, we should be vaccinating the most vulnerable everywhere; but if a domestic population feels insecure, it won't support international cooperation. But on the other hand, there is the risk of breakthrough infections; booster shots do not seem to be urgently necessary, but there is medical case for them. So there is a tragic trade-off.

Q - My concern is with public trust. Brexit for example shows that people can be persuaded to choose irrational policies. Independent agencies, such as the US CDC, can certainly be effective, but warn of an overload of responsibility without a sharing of political responsibility. Relatedly, their effective communication is hampered by the problems of penetrating disinformation, which is even more difficult than persuading. As a result, in Texas for example, there are crowds of people who are somehow simultaneously triumphant that Trump hastened the development of the vaccine and adamantly opposed to taking it. So what can be done?

A - This goes back to the epistemological crisis of construction and dissemination of information. We don't have an answer for this yet. Technocratic bodies often do better than politicians; at least in the US. Democracy accommodates technocratic and accountable bodies: let them do the job.

Q - I have two questions. First, any endeavour on a new multilateralism is complicated by the US/China relationship, which at the moment is not good at all. What should Europeans do? Second, services are indeed a trade enabler, but accelerating climate change looms behind intensification of trade. How can a balance be found?

A - First, on the EU's role between the US and China, I start thinking as an economist. There is more FDI in China than ever before. Why? Because investors see opportunity in the market, and don't find the operating environment too oppressive. Requirements of transfer of intellectual property or restrictions on investment are less intense now. People want to be part of the Chinese economy. So there would need to be overriding strategic reasons for non-cooperation, which I don't think exist. Still, a level playing field needs to be ensured, and China held to its commitments.

Seasoned observers will recognize that today's efforts to restrict China from technology will hurt, but only delay things. And the consequence of attempting to contain China in this way will end up with China both technologically proficient despite this and independent from the US. This is a fundamental strategic point: Singapore for example knows to engage both China and the US deeply: at regional and sub-national levels. China knows it's a big country, but it can be handled. In that regard, choices on technology need a principled stance based in national interest, not industrial partiality. Such a position won't be deeply loved, but understood. The EU has a bigger role than small country: it can afford to take a more strategic, long-run view of China.

Second, on carbon in trade in services, the digital transformation has meant the increase in use of energy-intense data centres. Greening them is an interesting opportunity. As with everything, digitalisation can be positive if fair distribution is assured.

Q - I'd like to make four points. First, while the Renaissance was indeed an information revolution, an ideas revolution, coming at the expense of the Black Death, it also had its downsides: civil war, the Inquisition, Savonarola — an information war. Second, on governments and the future: they are consistently looking in the rear-view mirror. They do spend; but on the wrong risk, the last war. How can this mechanism be updated? Third, you've spoken of clubs and new alliances, reinforcing technocratic bodies and IFIs, but also of the importance of infranational actors. There is a tension here. How can a reinforcement of top-down bodies be reconciled with the empowerment of new, non-state actors? And fourth, specifically on pandemic prevention and mitigation: it is a true GPG, one example where club solutions should not be expected to optimal, as opposed to a great many other issue areas. Could you elaborate on the notion of a club to stop future pandemics?

A - First, on the tension you speak of, thinking in terms of opposing technocracy and civil society. Indeed, a tension exists. But both share the benefit of being separated from short-term politics. The tension exists, so a solution can't rely on one or the other. We need technocratic bodies like BARDA or its inceptive European version HERA to deal with huge, complicated problems. We need institutions that outlive an electoral term. But we also need the urgency from civil society to shape politics and ensure the right priorities and the right allocation of public spending. Technocracy needs to be accountable.

Second, on clubs. We must use the space between the extremes of concentrated, unrepresentative bodies and fully representative but atomized and paralysed bodies. The largest contributors cannot use their funding power to reinscribe hierarchy. A club or a group must be accountable for its actions, but able to fit in a room. It cannot be just the largest economies, or the most developed countries: regional organisations like the African Union need to be present; rotation should be organised to mitigate exclusivity. It is urgent to go about things creatively. In this light even the notion of a pandemic treaty is a good idea, though it will take a long time to complete. And the world is burning.

Q - I have two questions. First, going back to the US/China relation and the EU's role: there is not only the issue of trust, but also a genuine diversity in systems and preferences, which seems to be sharpening. Are there policy areas or levers to prioritise for successful cooperation? Second, on the tension between more technocracy and increasing public distrust. How can this be reconciled? And if this distrust is obstructing short-term capacity to act, which needs political power and legitimacy, how can work begin to be engaged across policy areas?

A - Climate and health action are the most fertile grounds for cooperation between the US and China. It is not happening at the moment because China feels besieged. Getting China on board requires some skill, which seems regrettably absent now. There is a timeframe mismatch: it was recently the hundredth anniversary of the Chinese Communist party, which led to a major exercise of future-looking. The Party wants to think in multi-year, decade terms. On the other hand, President Biden says that China "won't catch up on my watch" — but his term is the span of time he has. Going further requires statecraft, which stems from the strong beliefs from politicians and their projection. We know that issues won't be solved without the US and China. And China wants to play a part: it didn't want to set up the Asian Infrastructure Investment Bank (AIIB) — it wanted a commensurate say in the WB. There needs to be an enlightened, medium/long view on China, being tough when necessary, but engaging closely when in the common interest.

Public distrust can only be combatted by political leaders. Talented political leaders can shape public opinion and direct it, rather than reacting piecemeal and damaging public trust.

Q - I have an implementation question regarding the momentum on climate action: how can it be built on? And on reinforcing technocratic bodies: should national ones be reinforced and then induced to coordinate, or should supranational bodies be privileged?

A - The reinforcement of technocratic bodies and the establishment of clubs are eked-out, highly contingent solutions to problems for which the counterfactual is disastrous. But they are only one facet: they must be balanced by accountability and responsiveness to civil society.

Finally, returning to global health concerns, thinking exists on networking regional and domestic initiatives, supplied with vaccine overstock. Some pre-emptive rules on the pharmaceutical companies would be necessary, but much is doable. Cepi will play a key role here. Epistemic communities, such as the African CDC or the network of scientists developing the mRNA vaccines, have been shining stars in this crisis. Global health needs more public funding; it has to be run technocratically, but with accountability. Rules of the game must be quickly established for vaccine distribution. The current situation is indeed imperfect — but better than the counterfactual.

Conference minutes

Adrien Bradley

1. What Has Changed?

1A. Evolving patterns of interdependence

The session opened with the **chair introducing some historical insights** of important authors of international political economy (IPE), since evaluating change in patterns of interdependence requires some kind of benchmark. 19th century efforts to create a global economy, as per Karl Polanyi's "Great Transformation", caused unimaginable distress across national economies; efforts to solve these problems after the Second World War collided with Gunnar Myrdal's observation of an international integration still competing with national integration, to the disadvantage of poorer countries.

As Richard Cooper reminds us, even richer countries are constrained by the costs of interdependence, and face the same disruptions it can birth, in trade or capital flows. And as Robert Gilpin reminds us, another factor of disruption are transnational corporations (TNCs), though some states uniquely benefit from their presence, and use them to project their interests abroad. Susan Strange would add that this does not mean that states can control them, nor their systemic effects. In many ways, the world has become as William Greider predicted: one, ready or not. But whether this unity born of interdependence and efforts to further it will last, fragment, or evolve into something new, is the question.

The **first speaker** made two broad points on contemporary changes in patterns of trade interdependence. First, a conventional telling would have that **globalisation was spurred by the ICT revolution** in the 1990s (the "second unbundling", allowing the separation of conception, production and consumption), and peaked in 2008 due to the global financial crisis (GFC). A finer-grained analysis reveals that 85% of the decline is due to China and the US, and that the former peaked before and the latter afterwards, while the rest of the world kept rising.

China's peak is arguably a sign of convergence towards the normal situation of a mega-economy like Japan: its initial industrialisation was very trade-intense, but the market effect of its large domestic economy is bringing industry back in and a certain degree of disengagement (as happened for the US and Japan, and is starting to take place in India). Its role in global value chains (GVCs) is changing: it is buying less and selling more in value-added terms. This changes the nature of interdependence; but economic reliance on China remains badly underestimated. Any deglobalizing attempt would more resemble Brexit than a Cold War confrontation: Chinese industry is much more embedded in the world economy and Western states than the Soviet bloc ever was. In the short-term, it is impossible to disconnect from Chinese industry; they are the OPEC of industrial outputs.

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Second, the cost of moving services and data is halving every two years, radically faster than the cost of moving goods. By some measures (including trade in services embedded in goods), trade in the former has already overtaken the latter in value-added terms. Trade in intangibles, "**weightless globalisation**", will continue to grow in importance. It has few governance instruments, and benefits from non-restriction commitments by richer countries in GATS (mode 1, services supplied from one state into another state via telecommunications or postal infrastructure), and a moratorium on taxing data flows; but at a deeper level, it is materially hard to capture because of the disjunction in the value chain between the service and value chain leading up to it. An architect can build a house in another country given the proper qualifications, but can outsource all the underlying work with little to no control; a general value-added tax on services seems unfeasible.

Digitalisation is also accelerating automation and the process of globalisation. This will displace white-collar and professional workers in richer countries; a huge upheaval, since they represent 80% of the workforce. Conversely, this will represent an export opportunity for the middle classes in developing countries; a greater one than the past one based on manufacturing. Finally, weightless globalisation is harder to micromanage than trade in goods, but easier to cut off: this explains the higher degree of fragmentation in the digital world than in the real world, and changes

"As a futurologist said, 'The future is already here — it's just not very well distributed.'"

Baldwin

the nature of protectionism and industrial lobbying. As a futurologist said, “The future is already here — it’s just not very well distributed.”

The **second speaker** addressed changes in **patterns of financial interdependence**. The post-War situation saw the US in a dominant position and a world with some multilateral rules and institutions. There is now a trend to multipolarity, but networks remain very asymmetric (with the US, EU and China as major nodes) and differentiated. The value-added trade network is very different from the financial network for example, with China disappearing as a major player from the one to the other. Interdependence implies co-movements of international financial variables: global capital flows are tightly correlated to global asset prices (with a negative correlation to risk), and to commodity indices and private liquidity.

The drivers of these movements are central banks, especially those of the three major actors, but there is asymmetry here too: while all three play important roles in the global commodity and trade cycle, the financial cycle is primarily driven by the US Federal Reserve, by the ECB to a lesser extent, and not at all by the People’s Bank of China. Financial safety is at risk: the dollar-dominated network with free capital mobility engenders sudden stops and amplificatory movements; developing countries are unable to hedge the currency risk; the IMF’s resources are too small compared to the international capital flows; **the international lender of last resort (ILLR) remains the Fed** (via swap lines). The effect of digitalisation on financial safety is largely unexplored. The trend towards multipolarity will further complicate crisis resolution mechanisms and the ILLR function, and will magnify the issue of the quality of macroprudential regulation of large financial intermediaries, as competition may lead to a race to the bottom.

On the backdrop, **global risks are looming larger due to climate change** and the higher frequency of extreme climate events, loss of biodiversity, and the pandemic threat to global health security, challenging the resilience of the financial network. There is a lack of finance for long-term growth- and welfare-enhancing projects such as protecting and maintaining global commons. A reform of fiscal governance, along the lines of banking regulation, could begin to address this by budgeting liabilities from future events based on expected losses: investing in these long-term growth- and welfare-enhancing projects would decrease this liability. This approach would work more easily for health-related spending (because it currently has more obvious and huge calculable returns) than for green investments, which suffer more from the free-riding problem and would need institutional support. In either case however, the idea is to expand the concept of risk management: to predict a richer set of expected liabilities, to make these risks visible and bring a long-term contract to citizens to deal with them.

The ensuing **discussion** clarified issues and stakes of **regulating trade in services**. Value-added taxation of trade in services should not pose a problem in a digitized world where everything is much more traceable — in theory. It has long mostly been zero-rated by states simply due to the logistical difficulty of data collection; it is mismeasured, and there are scarce tools and scarcer resources to improve it. Governments are simply not set up to do so. Its "weightlessness" makes it faster and harder to capture. It is a problem to be solved, a new front in the regulatory process.

The services problem stems from an asymmetry in treatment of factors of production dating back to GATS, privileging the liberalisation of capital flows over flows of people (reduction of mode 4, services provided by movement of natural persons from one state to another; no creation of a counterpart institution to regulate flows of people). Despite a "unilateral disarmament" on the part of richer countries at the time (since they were service exporters), this "original sin" was noted in developing countries. Automation and telemigration change the balance; but this asymmetry should be revisited, despite the political difficulty. It was offered that thinking in terms of provision of services (expanding mode 4) would replace a migratory lens on the question with a trade lens, just as the trade lens has integrated financial flows with trade in financial services (but it is important to note that trade in services is only one part of migration).

Discussion turned to **digitalisation of finance**, which has produced an increasing volume of crypto-currencies and assets. These create a number of negative spillovers and risks: not only in monetary policy and financial stability, but also in fiscal policy due to their potential for tax evasion; in cyber policy due to their potential for attack and use in criminal activity (cyber-ransom; cyber-attacks are positively correlated with the value of crypto-currencies); and in environmental policy due to their huge energetic cost. Participants warned that they erode macroeconomic tools to maintain commons, and major actors (the EU in particular) are falling behind the regulatory and institutional curve. Lobbies are already actively slowing the closing of regulatory gaps, and a combination of a hands-off regulatory approach and technical complexity has made a forceful response from the regulatory community and policy makers difficult.

More broadly, discussion explored the influence of **international regimes in shaping global interdependences**. One participant asked provocatively whether regimes have any effect at all: while the WTO and bilateral investment treaty network may have some effect, it can be argued that the IMF has been irrelevant since the collapse of the Bretton Woods regime, and that much-lauded emerging governance networks (e.g. the International Organization of Securities Commissions IOSCO) have little practical effect. If interdependence is orthogonal to regimes, then policy design in a non-designed regime becomes quasi-futile. It was countered that the trade regime, in particular in services, evidently shows effects on interdependence patterns (states pursuing bilateral liberalisation as multilateral efforts stalled; the rise in trade in services in non-regulated sectors). Also, financial regulatory regimes are more effective than the monetary regime: the latter is too deeply pervaded by dollar supremacy and US hegemony. Financial regulatory regimes have demonstrable effects: that is why regulating crypto-currencies is an urgent task.

A participant interrogated the functioning of cooperation of elements of the **global financial safety network** (GFSN) beyond pragmatic crisis cooperation, as its centre has gravitated away from the IMF to regional and bilateral arrangements. Chinese lending and reliance on the US as ILLR are concerning. If more currencies (like the renminbi) are used as liquid instruments in international financial institutions (IFIs), lack of joint provision in a crisis would be catastrophic if the Fed's firepower is insufficient. Regionalisation of the ILLR function is difficult given the ease and speed of financial interconnection, as China's financial rise makes it poised to become a macro-player.

1B. The rise of the global commons

The **chair** gave an IPE perspective on commons. Rather than a "rise", it would be more correct to speak of a "recognition" of the commons: it has been fifty years since the debate over Donella Meadows' report to the Club of Rome on the limits to growth. GDP as a base for economic measuring has been criticised as insufficient since its inception, as Stephen Macekura recalls; it fails to measure the value of commons completely. Elinor Ostrom's important work on common pool resources (CPRs) provides tools to address the issue, but collides with the scale of the problems. Charles Kindleberger's work on financial stability as a CPR and how to build and enforce institutions for CPR dilemmas has long been taken to suggest that a hegemonic power must guarantee the system. But the US is no longer capable of filling this role, as Robert Keohane described — almost forty years ago. So the debate on what to do with global institutions and commons has been going on for over a quarter of a century; it is more urgent now, but not new.

The **first speaker** suggested evidence on the evolution of **action to preserve the climate as a global commons is mixed**. Emissions are still rising, and registered nationally determined contributions in the framework of the UN COPs still amount to a 16% rise (though China's has not yet been made available). Still, existing commitments, if fulfilled, could bring the world to "only" slightly over a 2°C warming range. The major change is that climate problems (and a commons lens) are now part of "high politics"; this speaks to a need to look beyond the basic framework of the collective action problem to understand and govern them.

Climate action stands at the top of international and domestic policy agendas, and is salient to voters; it is seen less as a discrete field and more as a structural, cross-cutting reality. Yet, governments are still not making it a substantive priority. This is a mistake. As climate disruption intensifies, distributional politics will turn existential: "who gets what and how" will turn into "who gets to survive". In this situation, the collective action model of the tragedy of the commons, a large-n prisoner's dilemma where no actor has individual incentives to act unless a sufficient number of others do as well, is reshaped by its systemic character and induction into high politics.

The model's assumptions do not hold: there are benefits as well as costs to action, actors have different preferences, and the costs and benefits are partially a function of preceding action. Alternatives models, of catalytic cooperation, polycentricity, or of two-level game distributional politics, may yield richer insights. Slow and early decarbonisation was the path not taken; now, the world must enter late but rapid decarbonisation, despite the difficult politics, in order to avoid a future of existential politics and radical, risky adaptation strategies such geoengineering.

The **second speaker** addressed the **digital world as a kind of global commons**. The promise of an open internet, empowering individuals and spreading democratic values and liberty, has given way to a very different reality. The quasi-indispensable digital layer of our lives, this ecosystem of different products and services, technologies and innovations, is all ran and governed, deployed and serviced by TNCs. This has profound implications for the public interest: critical infrastructure for national security, information spaces for public debate, and even public health are all in the proprietary hands of the private sphere. Understanding of decisions and outcomes produced by AIs and algorithms is increasingly difficult, risking further loss of agency of not only regulatory and legislative bodies, but also citizens, academics and journalists.

These dynamics are already evident in antitrust or digital content cases, both civil and criminal. Beyond the technical complexity involved, there is a negative loop of unworkable proposals based on insufficient data and algorithm transparency. The temptation of technical solutions or regulating based on the latest incident or scandal should be avoided, to deal with the systemic implications of a massive redistribution of power in digital ecosystems from the public to the private domain.

> *"'Who gets what and how' will turn into 'who gets to survive'."*

The **third speaker** suggested the **optimal degree of interconnectedness** is intimately related to what kind of global commons is considered, and is a rich research agenda. Climate is a true global commons: nothing can be done to affect the level of interconnectedness of the atmosphere. But interconnectedness can be manipulated in global health, for example: the rate of viral replication depends on policy choices regarding travel restrictions and testing. Animal and food travel restrictions exist for this reason: to slow the spread of pathogens. There is a "commons trade-off" between global health and unimpeded travel: more rigorous testing and quarantine measures can gain valuable months in containing spread, but would correspondingly restrict freedom of travel.

The optimal integration question surfaces again in trade, as some GVCs are diversifying while others are reshoring; in the digital world, with issues of data protection, data sovereignty, and national security; and in finance, where epidemiological tools work well to model how crises spread. It may be better that China is not fully integrated financially with the rest of the world, given the recent troubles of its property developer giant Evergrande. Second, the keynote was right to point out the potential of a concentrated yet inclusive group, such as the proposed "G20+", but regional approaches should not be neglected. Europeans must ask this question, because other major actors are. So third, the EU must think critically about its role and agency; it has a real chance to lead on climate action, but must devise the proper incentives to mitigate free-riding, of which the proposed carbon border adjustment mechanism (CBAM) is a start.

The ensuing discussion addressed the **importance of proper terminology**. CBAM may not properly be an "incentive" mechanism, as opposed to a Nordhaus-style club, but political implementation in practice will inevitably combine aspects of both: as it is, it is already more domestically driven than targeted at Chinese decarbonisation. "Optimal" interconnectedness is highly political, case-specific, and dependent on other factors: Evergrande may be less of a threat to global financial stability than tax havens and crises stemming from developed countries' policy (in)action. The experience of the Eurozone shows that grave consequences follow financial integration without stabilisation institutions.

"Commons" has a specific, technical meaning to economists and political scientists; politically, it is still a relatively empty word that states can claim to uphold without concrete action: Brazil can sign on to protecting global commons while claiming the Amazon as a national resource. Conversely, it resonates with the educated lay public. The atmosphere is certainly a true global commons, and the concept of spillovers is too broad to capture the specific nature of the interdependence at stake. But other issue areas, the digital world in particular, stretch the metaphor: it has many layers, from the basic layer of interconnection standards to the upper layer of content; and many different ways to slice the layers. If not a single commons or GPG in the strictest sense, it is still a kind of global public infrastructure.

One participant stressed the importance of **catalysing transnational cooperation to address global commons problems**. The Paris Agreement has a chance of succeeding this way: companies investing in greener technology hastens the transition, while civil society maintains pressure. Transnational actors have a vested interest in solving the problem: noteworthy developments in this direction are the turn to legal codification and judicial enforcement of ecocide, or granting commons such as rivers legal personality; the International Organisation for Standardisation (ISO), a backbone global standards-setting organisation, has announced that it will review all its 24,000 standards for alignment with Paris Agreements objectives over the next few years. This is not the case for the digital world, where governments are letting big tech companies take control, and seem to have few tools at their disposal.

It was countered that Polanyi's quip about the marketisation of society also applies to the digital world: "Laissez-faire was planned". States choose not to act; the ones that do usually do so for illiberal purposes. It is up to democratic states to mount a coalition to preserve their values and head off risks in the face of both big tech companies and autocratic governments. This would involve horizontal pre-conditions of transparency, to understand how data is used by companies and establish more accountability; as well as vertical or sectoral measures, such as more specific **"rules of the road" for the use of data** in health services, education, or advertising. Given the level of interconnection and divergent preferences, this would mean accepting a certain level of fragmentation. It should also be recognised that not all democracies have the necessary capacities: democracies are not necessarily rich countries.

Discussion returned to climate action. First, the EU does enjoy a genuine lead, but it represents a relatively small volume of emissions. CBAM may or may not work to encourage China to accelerate its decarbonisation, so more tools are necessary, such as **technology transfers and climate finance**. The Chinese emissions trading system (ETS), which began national operation in July 2021, has an opportunity to learn from EU ETS mistakes; but China's stated goal of letting emissions rise until 2030 and attaining net-zero by 2060 is troubling. Equally troubling are the initial global estimates of EU ETS effects on macroeconomic aggregates and redistribution: they are not negligible. Second, a Nordhaus-style club might work better sectorally rather than economy-wide, with a consensus among major economies; this would harken back to 1980s-style deals between major economies of the time and a booming Japan. Agreeing on production standards and penalising non-compliant products would indeed create friction in the trade regime, but would avoid a painful discussion on general carbon pricing.

A question, to whom should data harvested from the digital commons belong, was answered with another quip: "In the US, data belongs to the big companies; in China, to the state, in Russia, to the secret services; and in Europe, to the individuals." It tells a truth: the EU claims to produce a societal (and environmental) model that protects its citizens better than the rest of the world. But promoting it abroad remains an uphill battle, while other major actors push hard for their own.

1C. Geopolitics and global governance

The **chair** gave a brief IPE account of economic interdependence and geopolitics. Edward Carr, a foundational realist, had already pointed out the advantage of rich, industrial states in exercising power through economic interdependence in 1939. David Calleo and Benjamin Rowland had demonstrated the extent to which the US manipulated the world economy it created to impose its will on the globe in 1973. And recently, Henry Farrell and Abraham Newman have published an important paper on how interdependence is weaponised in asymmetric networks. If there is a risk that justifies fragmentation and drawing down interdependence, this is it.

The **first speaker** picked up on the expertise/accountability conundrum in designing institutions and clubs as solutions to collective action problems, using the case of **sovereign debt**. The concept may be more useful rhetorically and politically than analytically; but the fact remains that claims cannot be extinguished like in company bankruptcy proceedings, and are hard to enforce because of sovereignty norms, giving rise to creditor coordination problems. In the past, sovereign debt problems have been dealt with in fairly predictable, modular process: an IMF-anchored and clubs-complemented "House of clubs".

The system's modularity made for more or less discrete blocks possessing a measure of internal coordination and discipline, with matching boundaries and stable relations: the shift from loans to bonds at the turn of the 1990s merely swapped one club for another (London Club to Paris Club-led restructuring process). Cross-conditionality ensured their link-up, and the sequencing of the process had become a norm. The IMF anchor gave a centre of gravity for financing and information dissemination and production, despite what that meant in terms of accepting the "Washington consensus" on conditionality, and despite US actions as the unaccountable financial hegemon. The system was relatively efficient; but overall benefits of its outcomes can be questioned.

The system's modularity has collapsed in the past decade, but it has been a long time coming. New actors are not necessarily invested in existing institutions, as they seek new safety nets, or as they take uncategorisable, public/private hybrid forms due to fundamental differences in political-economic organisation (e.g. the Chinese Development Bank, or sovereign wealth funds). Contracts, creditors, debtors are dynamic and fluid, and no longer match. The IMF is no longer the system's centre of gravity financially or informationally; "debt" itself has become fuzzy, as definitions diverge ("hidden debt") and lack of data and transparency hobble clarification efforts. There is no more clear sequencing. Boundaries are blurred between domestic and external, public and private, safe and credit assets; the House of clubs has melted.

The system's elements are still evolving: countries such as China, India and Saudi Arabia have indicated willingness to take on Paris Club-type creditor responsibilities, but basic coordination and implementation problems remain. Governing sovereign debt is not a new challenge; attempts go back to the League of Nations. Nor are clubs a new solution. But rather than the conditions of a successful club, the attention must be on what constitutes success, how is it measured, and who decides whether it has been achieved.

> *"The presumption should be that public debt is public."*

The **second speaker** agreed that weaponised interdependence is the "new reality" governments must face; not only in the economic or digital domain, but also in issues like migration (e.g. Turkey or Belarus threatening to open their borders with the EU). This is significant for the EU because it has historically internalised interdependence as a strength, a source of security rather than insecurity. Surprisingly, its citizens would in their majority expect it, rather than its member states, to play a major role in a possible "new Cold War" between a declining US and a rising China. Given this context, the speaker offered three predictions.

First, there will be a new sensitivity around sovereignty — but regarding TNCs and big tech companies. Sovereignty wars in the US and China will mean fighting Alibaba and Facebook and Google. In times like these, states nationalised assets; now, they are trying to nationalise elites, grappling with the problem of how to create state-minded companies to ensure national security. Nowhere is this more evident than in the technology industry: securitisation is under way, not just decoupling. The EU had carved out powerful regulatory capacity precisely because it does not have technology industries as powerful as the US and China; a more polarised world will challenge this capacity.

> *"Sovereignty wars in the US and China will mean fighting Alibaba and Facebook and Google."*

Second, polarisation means that as the US and China become the biggest players and the "liberal international order" fades, **middle powers** will display entrepreneurship, deploying new forms of power. The foreign policies of Russia and Turkey are already examples of weaponised interdependence, following the footsteps of the major powers. The US will continue to rely on sanctions, further risking its structural power in the financial system as allies chafe under the forced assumption of US foreign policy priorities, and with fewer returns. They are more akin carpet bombing than precision weapons, as the US found out when it caught US-linked companies while sanctioning a certain Russian oligarch: the micro effects of sanctions are unclear, but relations between companies rather than between states are clearly the more important factor.

Third, this points to the nature of power under interdependence: power is the capacity to throw your problems onto others. The US managed to make its financial crisis everyone's crisis, which is a measure of its power; the EU's sovereign debt crisis only made a problem for itself. The Cold War saw two fairly independent blocks; a new Cold War between the highly interdependent US and China would present a very different picture, and likely not be so cold.

> *"Power is the capacity to throw your problems onto others."*

The **third speaker** pursued the theme of realist analysis of the entanglement between geopolitics and economic interdependence, specifically for the EU. Geopolitics, in the sense of the importance of territoriality, has not disappeared: the EU faces the return of violent border changes and increased military presence at its borders, and some member states have very real fears of armed conflict or land grabs. But economic interdependence has fashioned a new, **geoeconomic world** where power relations play out in a multiplicity of ways, and where other actors are more adept at them. The US/China rivalry is, in a sense, secondary to the contest of regimes: the US is gearing up a broad strategy aimed at rallying democracies against authoritarian regimes which, while laudable, may continue to tie the EU to other US priorities it does not share.

Technological development and its strategic use will continue to accelerate the consolidation process, internationally (despite the US recently weaponizing interdependence against the EU more blatantly than usual under Trump) and domestically (e.g. Chinese social control). This raises the anxious question of the margin for systemic change if one actor is a technologically-enabled totalitarian regime. The EU still suffers from the asymmetric distribution of its competences: it has deployed some to some effect (trade, competition, regulation), but others remain underdeveloped (foreign policy). It is stuck thinking protectively in terms of relative gains, rather than strategically in terms of power balance. Still, a kind of **EU transnational community of practice** is emerging; here too climate action is newly salient, with a surprising engagement of corporate actors.

The ensuing discussion developed the idea of **debt as geopolitical leverage**. It was asked whether Chinese lending had demonstrable effects on decision-making in recipient countries, and more broadly whether the new system emerging from the melted House of clubs to deal with sovereign debt problems can accommodate China. It was answered that rather than the effects of Chinese debt contracts (flexible and dynamic, and more standardly commercial than commonly assumed), which are only starting to become apparent, the issue is the leverage they provide. Another troubling element is the cross-linkage of Chinese Development Bank loans with other Chinese interests in a recipient country: default on a minor project could jeopardise much bigger loans. As clubs are "softer" institutions, they can be more flexible or nimble, but interfunctionality of the system and its broader goals are the question. There is a need for deliberate systemic design, keeping in mind the challenge of balancing accountability and expertise. States have a greater role to play: they are not simple market players like sometimes defective companies. They wield political authority, and can project it.

Discussion further developed questions of **foreign policy and hard power for the EU**. One participant summed up the EU's weak position as having substituted sanctions for a foreign policy out of lack of vision, outsourced its security to NATO and by extension the US (which is turning towards the Indo-Pacific, whereas the EU's greatest risk area is the Sahel), and losing its economic edge on the technological frontier. The EU will not be able to hold on to its market and regulatory power if it does not take steps to reinforce its technological and digital capacities for security and defence, leveraging its scale and innovation potential to spread civilly as the US and China have done.

Genuine EU hard power may be impossible (a more realistic scenario may be a grouping of European NATO countries); if not, it will be a long time coming. The decision on the Franco-German Future Combat Air *System took* four years, and its development and production are estimated to take fifteen; the EU had the material capacity to defend the Kabul airport during the recent US retreat of Afghanistan, but did not have the decision-making capacity to act in time. The EU's economic and industrial power are irreversibly geopolitical; it should prioritise jointly using and developing the capacities it has as a regional power, with clear if modest goals, rather than attempting to deliver "hard power" for its own sake.

Discussion widened to the questions of **world regional and middle powers** and the EU's place. Regional powers fear irrelevance, and are driven to prove their capacity. The EU has been a very successful regional power, grasping for global power, but its dynamic has been stalled since its latest enlargements. It has trouble dealing with the smaller states in its neighbourhood (promised accession or not), and its surrounding middle powers weaponizing interdependence (e.g. Russia with energy). It sometimes completely lacks tools or competences (e.g. Turkey with migration). There is a crisis of the EU as a regional power: everything starts from managing one's neighbourhood, and the EU must stabilise its regional order with larger investments in material and projective capacities, and stronger decision-making institutions.

Russia is a special case of middle power, carrying status over from its past as linchpin of the Soviet Union and main opposing block in the Cold War; it has long been heavily security-oriented (e.g. considering currency reserves as a matter of national security), and now perceives itself as uneasily leading China on strategic culture and power projection, as France perceives itself as leading Germany in this regard in Europe. But the asymmetric character of the relationship is clear, and tensions often cool it. Russia works for a common front with China in Europe, but separately in Asia, desiring independent links with India and South Korea for example. But the recent AUKUS alliance might disrupt this strategy: a Russian minister declared it was detrimental to Russian as well as Chinese interests. In the end, the difference will be made between middle powers following a state-centric logic of power projection in their region (e.g. Russia and Turkey around the EU, or Turkey, Iran, and Israel in the Middle East), and true regional powers, born of the pursuit of a transformative logic of cooperation among the region's states.

One participant cautioned against stressing a "turn" from geopolitics to geoeconomics: geopolitical considerations of the use of economic and regulatory instruments, while heightened today, are not new. But it remains true that traditional geopolitics, territorially rooted, is less and less equipped to handle the increasingly complex and voluminous yet immaterial and lightning-speed flows of digitally-enabled economic interdependence. One participant pointed out the difficulty of integrating security and defence concerns as opposed to integrating economies, taking the example of the EU. It was answered that while existing global security governance arrangements live on, increasingly threatened by non-renewal and loss of credibility, the US is turning to the regional security of the Indo-Pacific (which is equally crucial to EU interests) with the AUKUS alliance and impulse to the Quad (US, Japan, Australia, India).

The EU has a huge amount of catching-up to do, and there is no evidence it has even thought about it: neither Brussels nor Berlin have an answer on what to do if China invades Taiwan, like they had no answer on Hong Kong. It was added that the idea of embedding the climate game in the trade game (itself embedded in the security game) via some kind of climate club now seems quaint, as the climate game claims the highest order spot given its existential stakes; but the question remains whether this shift means the EU will be willing to swallow anything from China for cooperation on climate action, or whether conflict could ensue if cooperation is not forthcoming.

2. What Have We Learned?

2A. Lessons from failures

The **chair** opened the session by recalling the importance, in questioning what went wrong where, to also ask for whom. It is also important to question whether lessons have been learned from failures at all: while the revival of GPG thinking is welcome after it went into hibernation after the GFC, the concept dates back to Inge Kaul's seminal contributions when she was director of UNDP's Office of Development Studies in the early 2000s. It is notable that the original concept was very oriented towards providing GPGs for developing countries, whereas now the focus is on the major players and whether they can cooperate to do so.

The first speaker contrasted the ongoing systemic crisis due to COVID-19 and the past one in global finance, regretting that what we have learned is that we are creatures of habit, stumbling over the same stones. The response to the GFC was largely cooperative: scared international leaders at the G20 delivered, more or less, coordinating on fiscal and monetary stimulus, restricting protectionism, beefing up financial regulation, and beginning work on international taxation that is now bearing fruit (and fossil fuel subsidies phase-out, which is not). China was mostly cooperative, especially in delivering fiscal stimulus for recovery.

> *"What we have learned is that we are creatures of habit, we keep stumbling over the same stones. "*

But times have changed: the **response to COVID-19 has been much less cooperative** and rules-based and more marked by power relations, presenting a mixed picture. On the financial side, fiscal stimulus has been globally uncoordinated, further stratifying states who can afford cheap money and those who cannot. Vaccination efforts, broadly, are a failure: while transnational scientific coordination was a success, as was international institutional coordination and creation to facilitate vaccine access technologically and through charitable sharing (e.g. Access to COVID-19 Tools Accelerator ACT-A, COVAX facility), failure to coordinate production has led to bottlenecks in GVCs, and neglect of the crucial "final mile" in distribution (between storage and arm, necessitating medical personnel and infrastructure), are jeopardising the entire endeavour. At least the EU has managed to put together a common response and is gearing up towards a Health Union; there is a realisation of the need to aggregate efforts at a higher level in a hitherto jealously guarded national competence, which is having knock-off effects on the fiscal side of the debate as well. It remains to be seen whether this dynamic is a one-off for the EU. But both these crises highlight the fact that the system is no longer state-centric — and this is a big factor.

The **second speaker** spoke on the **lessons learned from populism** in politics. There is a malaise in democracies globally and in particular developed ones, where perceptions of a better material future seem foreclosed, and trust in institutions and even democracy has decreased. While the "outrage machine" of social media amplifies negative views of the world, a deeper transformation is at play: populists exploit the possibilities for radically new transparency afforded by digital media on corruption, drumming up support for themselves against the current elites, whose ownership of mainstream media cannot entirely block out information dissemination. This process only catalyses secular trends of globalisation and automation without properly compensating their losers (leading to further job polarisation), against a backdrop of crisis legacy: post-GFC countries hit harder by austerity return a greater share of the vote for populist politicians. Fortunately, these kinds of mistakes were not repeated from the GFC to the COVID-19 crisis in the EU, which orchestrated significant support for its citizens.

Mismanagement of migration also drives populism: it must be noted that while the long-term trend is stable globally (≈3% foreign-born population on average), it is higher and rising in developed countries (≈6-11% in the EU and OECD); but Europe seems uniquely reticent to integrate migrants. Radical transparency on corruption cuts both ways: authoritarian states use the same weapon as populists in democracies to entrap or expose opponents, deteriorating the possibility of any kind of social or institutional trust. The challenge of populism is really one of democratic leadership: when voters want competent politicians but also someone "like them", it is difficult to combine competence and the ability to talk with and back to people in order to lead them.

Any answer to the populist backlash must address its causes, involving redistribution, reskilling, fighting tax evasion, strengthening antitrust and, despite its difficulty, better managing migration and integration. The class gap between politicians and voters must be addressed, by increasing the use of participative tools, and selecting and training politicians in a different way: whole parts of the French political class went to the same high schools and elite educational and training institutions, developing entire political careers without ever interacting with real people.

The ensuing discussion added another lesson for consideration, from the **failure of the WTO**. Its predecessor, the GATT, was slow and difficult; the WTO has been basically incapable of deciding on anything. A different dynamic pertained in the GATT, where the EU, US, Canada and Japan Quad came to decisions as a club and the system worked through constructive free-riding: developing countries were exempted from tariff concessions but got the global benefits of liberalisation negotiated by the Quad through their market weight (≈80% of the world economy) and the most-favoured nation principle. This "don't obey: don't object" logic has turned to "you must obey: so everyone objects" with the WTO; judicial enforcement, universal rules, and consensus-based decision-making seem an impossible trinity.

Meanwhile, trade liberalisation has boomed anyway, even on tough topics and to previously very closed states (e.g. Vietnam) — but through regional and plurilateral agreements. One participant added that the inclusion of China has also been a big factor: constructive free-riding only worked if the Quad did, whereas now the acrimonious relationship between the US and both the WTO and China have led the US to leave the WTO crippled, and China to assert itself regionally and globally with trade (Chinese application to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership CPTPP; Belt and Road Initiative).

One participant sought clarification on the relative causality of **endogenous and exogenous factors for regime failure in trade and finance**. A more endogenous account would have the trade regime overextending itself by taking on an impossible institutional trinity and generating backlash from its major stakeholder the US due to its quasi-judicial order and constraint of trade strategies; a more exogenous one would have China be the shock. Similarly, an endogenous account would have a triumphant IMF overextending itself by pushing for capital account liberalisation in the mid-1990s, but thereafter mismanaging crises and imposing excessive and/or partial conditionality; a more exogenous one would have shocks that its resources were insufficient to deal with as the cause for its decentring and the regional layering of the GFSN (e.g. the creation of the European Stability Mechanism).

Participants agreed that while the China shock was the acid test that revealed its weakness, the trade's regime failure is mostly endogenous, with exchange of concessions getting too difficult to manage and a US system captured and having become extremely hostile against the WTO by lawyers and lobbyists. It was added that inability or unwillingness to address developing countries' concerns is another endogenous factor. The financial regime's failure is similarly endogenous, but its coherence should not be compared to that of the WTO: the IMF saw the GFSN more as a sum of bilateral programmes, rather than taking a more systemic view; its "Washington consensus" was more of an à-la-carte manifesto than prescriptive injunctions, and its policy drives were heavily abetted by national interests (e.g. US & France for capital account liberalisation). Further decentring of the IMF is driven by the US taking a more decentralised view of the GFSN, allowing the Fed to support its bilateral layer with discretionary swaps, even pushing in recent years for the deletion of the mention of an IMF-centred GFSN in G20 communiqués.

> *"I've never seen an agreement in the WTO capsize because we couldn't respond to Mali or Chad on cotton, or to Ecuador or Columbia on bananas, or to Vietnam on shoes. But I've seen agreements capsize because of China and the US."*

Discussion also developed the track of challenges and **lessons learned from the populist phenomenon**. Politicians should feel confident in the legitimacy of their office as a basis to push for change in order to head off problems, including the provision of GPGs: they must understand that that they have responsibility and agency at the transnational level. State action has effects against populism. Elimination of corruption and tax evasion are a good place to start work on improving public trust: laws already exist for it, digitally-enabled transparency facilitates it; it only needs more qualified personnel in treasuries and civil services. One participant offered dramatic figures: it is estimated that ≈$8 trillion is held offshore, of which ≈$1 trillion of Russian origin; Russia represents ≈2% of world GDP and ≈12% of its offshore wealth.

Conversely, the migration narrative is completely captured by populists in Europe, despite lessons being learned on integration (e.g. Austria) and many member states needing labour. European states are rather unique in not being able, overall, to integrate many migrants: they have received a tiny fraction compared to Turkey, Lebanon or Jordan (which counts a magnitude of 10% per capita of refugees). Populism remains a threat in Europe because it is so easily activated by both economic shocks and opportunistic creation (e.g. the quick Islamophobic turn of the Austrian far-right ÖVP).

Compensation for the losers of globalisation and automation remains a thorny problem, as it is difficult to fix thresholds for payoffs to those affected when the impact on economic systems and people is systemic and funds are lacking. Reskilling and life-learning require entirely new tools, as governments don't know what needs to be taught and companies don't want more expensive labour. Institutions are scarce and insufficient: the European Globalisation Adjustment Fund is unwieldy and small, incapable of commanding political weight. Place-based policies could be appropriate if bottom-up needs are appropriately linked with top-down funding.

The compensation problem will only get thornier for climate change and a **just transition**; one participant proposed exploration of budget-neutral carbon taxes with per capita redistribution, but another disputed whether it would suffice. One participant compared the failure of the trade regime with the Kyoto climate regime: a single set of unilateral rules brought low by the US and free-riding. The Paris Agreement may not tally up, but its bottom-up, pledge-and-review dynamic is different. Another participant warned that while climate change is indeed an existential problem, so is the threat of technologically-enabled totalitarianism. It may be the first time in history that technological innovations are actually conducive to dictatorship: big tech companies get money and data for working with China, while China gets new technology to deploy for social control (e.g. facial recognition). The same participant quipped that Fukuyama's "End of History" is still possible, as China's model remains normatively and practically inadequate in the long run; it will just take longer.

2B. Promising experiments

The **chair** opened the session by reflecting on the turn to experimental and reflexive governance design in theory and in practice, and on the possibilities of informal, non-treaty-based governance structures offer.

The **first speaker** took on the case of **international taxation**: in theory an unlikely candidate for a promising experiment, given both its weak incentives and legal and institutional basis for cooperation. Policy-makers do not act to maintain a global commons like the international tax base based on the benefits they gain for doing so balanced against their domestic costs; they act entirely in terms in perceived domestic benefits. This is why it took a significant crisis to spur change in the system (much akin to Jean Monnet's quip that the EU is the sum of its solutions forged in crisis): the OECD's 15 actions against Base Erosion and Profit Shifting (BEPS) resulted from globally energised domestic concerns on tax avoidance and arbitrage, transparency, and curbing TNCs in the wake of the GFC, endorsed regularly by the G20 and G8/7 from 2012 (first steps on information exchange) to 2016 (implementation). 14 are agreed upon, ranging from very soft recommendations and guidance, to less soft definitions and minimum standards, to a hard Multilateral Instrument, a multilateral revisory treaty for bilateral tax treaties. The last action (Action 1), on tax challenges arising from digitalisation, still casts a shadow, but real benefits have been reaped on transparency and exchange of information. It was a real challenge keeping the US on board, but the US has embraced the process under the Biden administration, as global and domestic incentives continue to mostly align.

Lessons for good international policy cooperation are drawn in the framing paper, but can be complemented. Principles for achieving cooperation indeed include sharing a common diagnosis of problems and being able to show success in implementation; but should also include doing so tangibly and on an agreed timeline, and coordinating in an inclusive way (Russia was still part of the G8 at the beginning of the process; the OECD's Inclusive Framework has been instrumental to its success). Supporting conditions indeed include an independent, trusted international organisation to support the analytical and technical work. The OECD has achieved this role, though it was hard-fought and China was initially suspicious; mutatis mutandis, the expansion of the Financial Stability Forum (FSF) to the Financial Stability Board (FSB) granted it more trust.

Indeed there must a continuity of priorities in the agenda: G20 meetings now seem to have a new agenda every time. But it is also important to ensure continuity in representation members to ensure credibility in negotiation; on this point the European Commission has won the battle or representation at the G20 against the Council (which also allows it a measure of leverage against certain member states). Finally, the **international agenda must be rooted in domestic agendas** for coherence and mutual support; US concern for paying for huge infrastructure programmes explains the progress in pillar 2 (attaining a global minimum level of taxation) of the latest agreement on BEPS implementation in the Inclusive Framework.

The **second speaker** took on the case of **banking regulation**, speaking to the ability of the Basel machinery to achieve agreements and high compliance without much suffering from holdouts; but purposefully setting aside the question of the quality of substance of its agreements. The Basel Committee on Banking Supervision (BCBS) is hosted by the Bank for International Settlements (BIS), but while the BIS is a treaty-based organisation, the BCBS' decision-making bodies are more akin to spontaneous order; its outputs are soft law standards, which are nevertheless routinely incorporated in domestic hard law and spread due to its membership of key states. The BIS staff has a very important role as an invisible secretariat for the BCBS. The organisational culture is collegial: there is a very strong belief that the game being played in the BCBS is super-repeated and not zero-sum, creating an environment where interests and social norms reinforce each other. There is a shared sense of identity among its members in their community of practice and insulation from domestic politics, and a high social cost to holdouts. But a very specific balance of actors casts a doubt on the replicability of this institutional setup (e.g. central bank and regulator rivalry with domestic treasuries).

An informal, flexible hierarchy further facilitates the BCBS' work, where the geometry of decision-making varies according to the subject, but keeps a common core (the Economic Consultative Committee). Policy-making in financial stability works according to the weakest-link theorem applied to a subset of states: the system is only as strong as its weakest link, but focusing decision-making on the major actors should guarantee it. It is incorrect to argue that financial stability is a domestic problem, not a structural one: free capital flows signify ipso facto interdependence. No state on the planet with free capital flows — certainly not the US, and certainly not the UK, as the current two Western states with big and diversified international financial centres — is capable of preserving domestic financial stability on its own. Yet, the BCBS does not want to expand beyond countries with internationally active banks and securities businesses: other than going against its weakest-link small club logic, devising standards for developing countries is seen as more of a job for the WB.

The system is staring down two failures. First is neglect of the development of cyber-currencies and cyber-attacks: international regimes are nested in the security game, and there is a lack of attention to the security implications of these topics in financial stability. Second, the system has notoriously failed on shadow banking: the FSB (also hosted by the BIS and working with the BCBS) expanded its membership out of legitimacy concerns, but has been mostly paralysed in terms of concrete outputs since.

The **third speaker** offered three provocations. First, there is a **troubled relationship between inclusive legitimacy and effectiveness**, which seems to be a long-term trade-off. The bad outcomes of the BCBS' Basel II standards alluded to and eluded by the second speaker were caused by the very reasons it was obtained: the institution was a safe space for a small group to get to an agreement, but its seclusion meant capture and unaccountability. Worse, it reinforced its own lack of transparency: calling the BIS to know the next date of a Basel Committee meeting is countered with confidentiality requirements, whereas calling major banks yields the date, times and agenda (though steps since have been more consultative and transparent).

"No state on the planet with free capital flows — certainly not the US, and certainly not the UK, as the current two Western states with big and diversified international financial centres — is capable of preserving domestic financial stability on its own."

The West is fixated on the US/China rivalry, which ricochets in the G7 and G20, but there is genuine anger in the rest of the world that their concerns are not heard and addressed regarding the specific challenges they face: their economic challenges post-crises, their health challenges in the face of toxic politics of vaccination production and sharing (enough vaccines will soon be produced to vaccinate the world, but developed countries are on trend to corner them), and the challenge of their increasing exposure to climate change. These fault lines are not only developing because their interests are not heard, but because the G20 is on track to create self-defeating outcomes, like Basel II. As vaccine nationalism creates viral variants that defeat the purpose, green fortresses could be as many disincentives for others to green their policies. Closed-door effectiveness is not effective long.

Second, it is **easy to fall into the presumption that less polarised societies will cooperate more easily globally**. (A speaker in a previous session spoke on populism and politics; arguably, this is more a failure of national responses than one of international cooperation.) The conceit that cohesion is automatically conducive to cooperation is the new version of democratic peace theory. Perhaps the opposite is true under some conditions: polarised societies could make international cooperation easier, through elites reaching out to each other. There is historical precedent, at the end of the 19th century, and again in the 1990s: economic polarisation within countries created the incentives for a transnational elite to forge rules amongst themselves for their benefit. And perhaps, conversely, a more divided world can facilitate inner cohesion, by designating a common enemy.

Third, continuing on this point, the height of international rivalry in the Cold War was indeed nonetheless marked by two forms of cooperation: between blocs (e.g. arms control) and within blocks (e.g. NATO, OECD, Comecon). In the US/China strategic rivalry, international cooperation continues (if contested); in contrast, changes and contestations within alliances (e.g. the Afghan retreat, the AUKUS submarine deal undercutting France) offer resets to what cooperation means, but also possibilities for better cooperation. The role of competition is underplayed in how cooperation improves.

This is visible for example in the competition for the leadership of one's national for international organisations (and the anxiety of seeing Chinese nationals lead them): it has forced other countries to think about what this means. Effective leadership of an international organisation means bringing together a coalition of countries (not necessarily the two most powerful); finding ways to fund it (not just project-by-project, with a holistic view); and attracting outstanding personnel and fostering a good organisational culture.

The chair noted the shift in discourse from lessons learned to **pro-**

cesses of social learning and role of identity in epistemic communities in the first two speakers, and the emphasis on leadership and agency as opposed to structure in the previous sessions.

Discussion complemented the picture on **taxation coordination**. Participants expressed doubts on its success: its first three phases have been decreasing successes underpinned by principles, while its latest phase is more questionable. Progress on first eliminating bank secrecy was uncontentious and backed by right principles. Second, progress on BEPS was based on good principles, complemented by a sound process of adjustment. The G20 and OECD are rightly credited for a success of "semi-formal multilateralism", if club-impulsed; the multilateral success of the OECD's Inclusive Framework, based on peer-review, is not recognised enough. Third, taxation of new business models, even if based on sound principles, is foundering on disagreements between the EU and the US (which wants to protect its TNCs); on this, the EU and the UK are the right track.

But now, establishment of a global minimum tax seems less the result of consultation or economic reasoning and more the result of major actors having their way: removal of discretion from countries to offer tax incentives for real activity, especially developing ones, forces them to compete on wages and labour costs. It may not be considered a success in the future. Moreover, periodic leaks of increasing magnitude keep demonstrating the misdeeds of the tax management industry and its clients, and TNC taxation remains low. It was answered that while things could have been done better, and are hampered by US/EU tension, tax competition without a floor is too exploitable by malintentioned actors, and the overall criticism is harsh for what is still a second-best solution.

One participant added that the US role had been understated: its strong unilateral move with the Foreign Account Tax Compliance Act (FATCA to recover offshore wealth in 2010 was "rough justice" that forced the rest of the world towards agreement. Some of its own states are tax havens. Another participant added that OECD involvement dates from earlier than 2012: in the immediate aftermath of the GFC in 2009, Gordon Brown had obtained from it a politically sensitive list of tax havens unvetted by its member states. It had nothing to do with the GFC, but it was a politically effective populist answer to populist anger. The global minimum tax is the same: it may not have sound economic rationale, nor have significant economic benefits to individual countries despite the fairly large sums it will capture overall, but it is important symbolically, to show that globalisation can deliver. It is important to note that the Inclusive Framework is its own beast, and not a multilateral institution; its secretariat is the OECD, but it is independent from it, the G7 or the G20, and it strenuously sends the message that it works to be inclusive of countries not usually heard in these fora. This has been key to its success.

Discussion turned to other promising experiments. The FDI regime is a web of 2-3000 bilateral investment treaties undergoing judicialization and streamlining: the International Centre for Settlement of Investment Disputes, tied to the WB, has grown in importance, and they are beginning to be harmonised and their provisions embedded in trade agreements. The competition regime is a fragile, qualified success: it seems to work despite the absence of hard rules or a focal international organisation and the presence of significant extraterritorial effects, relying on a networked epistemic community of independent authorities with a common culture; but it faces headwinds from its enmeshment in security, trade, industrial policy, and from a potential clash with Chinese priorities.

> *"I recall one of the architects of Dodd-Frank telling me, 'We know we're following the G20, but there can't be a whisper of it.'"*

Multi-stakeholder partnerships (more or less old, with or without significant international organisation orchestration activity) such the Global Gas Flaring Reduction Partnership, the Consultative Group on International Agricultural Research, or Gavi The Vaccine Alliance demonstrate the power of civil society, the private sector, and transnational philanthropy. Many experiments are under way, though many have problems of legitimacy and transparency. This is why replicability of institutional setups should always be questioned: configurations of actors and interests are always deceptively diverse.

Discussion pursued the theme of **national and global linkages**. Polanyi's Great Transformation gave rise to John Ruggie's fragile "embedded liberalism" post-War: domestic bargains were reflected in international policies (for the West at least). But this compromise has continued to collapse in stages since the collapse of the Bretton Woods system; it hung on the Cold War rivalry, as a big incentive for political and economic elites to strike bargains was the fear of communism. One participant questioned whether it is possible to sift out positive- from zero-sum games everywhere to pursue both in parallel: it has been possible for international taxation so far, but seems doubtful on technological leadership; climate action is the big question mark.

Climate assemblies have the makings of promising experiments despite their current lack of sophistication and critical mass (one participant stated that they would have to involve millions of people in order to command weight). They should seek to complement representative democracy, against national parliaments whose incentives in international policy-making are to pass the legislation to get the credit, or distort and reject it as intolerable supranational interference; managing their local concerns is key.

The session concluded with one participant stressing that good policies and policies that command popular support are not necessarily dichotomous, despite the way it seems due to the populist wave, and that a quick, closed-door solution can be the author of its own demise; cautioning that too much technocratic isolation is profoundly wrong; and recalling that **fine analysis can often unearth islands of cooperation from apparent broader rivalry**.

2C. What to build upon

The **chair** opened the session by reflecting on the question of what to build upon, given points made earlier about loss of centres of gravity and the importance of coherence in design. Some regimes may require different orders of change, according to Peter Hall's classification: beyond some tinkering or more extensive reform, some may require paradigmatic, "third-order" change.

The **first speaker** struck a sombre note. The US behaviour has been regrettable over the last two decades, if not the last two centuries; Europe's recession of the populist wave is laudable, though more attributable to random fluctuations than to concrete policies. Trusting that the right policies would deliver support and legitimacy was excessively naïve, and trusting technocrats to deliver this did not work. But rather than the fault of technocrats, it is the fault of privileged interest groups that keep people down and maintain the power structures that keep them down. Paradigmatic change is indeed necessary, but it must begin in changing basic international attitudes, norms, and values. This is a "Hail Mary" strategy: this is not something that can be consciously designed.

Rather, **suitable transnational movements should be identified**

and fostered, in which less attention should be paid to input legitimacy (stakeholder outreach and inclusion) than to output legitimacy (tangible improvements; coalitions are buildable to achieve real progress in eliminating some human rights violations, promoting global vaccination and health, and mitigating climate change). There is a strong case for change by exploiting opportunities, pushing hard if an opening is seen (e.g. Merkel with migration); the intellectual focus on shades of multilateralism and varieties of institutions obscures the necessary focus on agreeing on which issues should be addressed in priority, and which actors are partners and which are rivals. All this does not diminish the potentials of clubs and networks; but everything starts with values and norms.

The second speaker struck a similar pessimistic note: on a good day one doesn't find very much to build upon, and on a normal day one finds nothing. The last decade or so has seen the emergence of a "G-minus-two" world. A Kindlebergerian view would have interregnums between hegemons, G-Zero worlds where incumbent and aspirant fail to cooperate to provide GPGs (which can lead to war); in the last decade, US/China tensions are not only failing to supply GPGs, but are actively supplying global public bads. Their rivalry is indeed reinforcing their cohesion: the US Congress can barely pass legislation except against China. The devastating evidence of this "G-minus-two" world is the pandemic response. With multilateral institutions like the WTO and the Bretton Woods IFIs either moribund or incapable of delivering good responses, there was no better opportunity and need for cooperation: like climate change, its root in independence was manifest, as were the relative costs of preparedness as opposed to fixing the problem; unlike climate action, its costs were more immediately calculable.

> *"On a good day one doesn't find very much to build upon, and on a normal day one finds nothing."*

The lack of cooperation on health bodes ill for climate; cooperation on climate action with China cannot realistically be hived off from other issues. Exhortation on climate is now dead in the water: action should be focused on fostering genuinely financially viable technologies and prevention of catastrophic "six sigma" (i.e. extremely rare) climate or health events. This is the world the West, and especially the US, has brought down on itself: it should relinquish leadership, starting in the multilateral organisations; the last seven of eight leaders of the IMF and WB, selected by the US/EU monopoly, all had clouds cast over their personal probity but resulting in no institutional change.

The **third speaker** recalled previous points on institution and regime building. The need for collective action is greater than ever, with forces pushing in the other direction: some successes can be observed, but there is no more possibility for foundational moments like the post-War, and the US is both linchpin and spoiler of the system. There has been a stunning lack of preparedness and cohesion: the previous SARS crisis saw a very different global reaction, with the international community condoning the WHO overstepping its competences and ambitious reform of its International Health Regulations (IHR).

These gestating reforms were precipitated by crisis: **actors need to be prepared to seize these moments**. The IHRs need further reform in the wake of COVID-19: they constrain trade and travel restrictions, because of the risk of opportunistic protectionist measures, but epidemiologically speaking states were not entirely wrong in imposing them; measures such as these require coordination. Vaccines were developed with little concern for the needs of developing countries regarding production and storage. The COVAX facility ensures a degree of distribution, but it is not the best tool, and failure to support distribution down the line ("last mile" to the arm) damages trust in global institutions.

The gearing up towards the Glasgow COP reveals a stupendous appetite for quantitative targets, despite little evidence they work: focal points work better individually than collectively. There is a need for more holistic understanding of what the system is doing, rather than what individual countries are doing. The **intersection of trade and climate** should be watched: while CBAM could be used to rebalance differences in carbon-based "competitiveness", it does not really foster collective action. Conversely, multilateralization of such coercive measures could collectively change behaviour, although trade is inherently bilateral whereas climate action is collective, so liberalisation is achieved more easily than climate action is through the possibility of reciprocity.

The possibility of **Nordhaus-style climate clubs** says nothing of their membership or the conditions for their formation: the balance of small group size, critical mass and fairness is difficult here too (an agreement would have to cover at least half of world trade and major actors such as the US, the EU, China and India). Some measures have been unhelpful or divisive; there has been a lot of frustration, and thus pressure for change. A multilateral approach is more strategic because it can take a holistic view, answering the need to change whole sectors (e.g. energy). Fortunately, the Paris Agreement allows room for parallel approaches. But the best climate treaty has been the Kigali amendment to the Montreal Protocol (on reducing ozone layer-damaging gasses), which firmly embeds climate action in trade.

One participant added that in a world of decisively second-best solutions, it seems three types can be distinguished. One solution can be to **exclude**, keeping the number of participants in clubs low so as to maintain a degree of homogeneity and manageability of participants at the table; but at a cost to representativeness, legitimacy, and creativity of solutions. Another solution can be to **dilute**: specialised institutions or regulators in each country (e.g. competition policy practitioners or central banks) can achieve cooperation through their shared belonging to an epistemic community; but at the cost of policy delegation and distance from the democratic process. Finally, a solution can be to compromise with the targets of action (e.g. the BCBS and banks), which grants easier implementation, but at the risk of easier capture. Solutions should be matched to problems, with attention to keeping them within the scope of national democratic political decision-making.

Discussion pursued a climate track. The Montreal Protocol may have been a successful example of an alliance of countries deciding to regulate industry by removing its profit incentive; but it was overdetermined. The US was on board, and the intellectual property of the biggest industrial producer of the targeted gasses, DuPont, was expiring: so it could lobby for the Protocol, having no more profits to make and aborting a competitor industry of generic replacements. There is a danger of learning the wrong lesson with the Montreal Protocol; it lives on as a successful step forward in transnational scientific cooperation, and more attention should be paid to its mobilisation of significant amounts of finance for developing countries. More broadly, sequencing on climate action is important, but not as much as taking the first step, which can snowball and catalyse cooperation. Getting youth involved should be a priority, and can bring them closer to politics.

One participant countered that **coordination games** are in a sense secondary: the climate game is being embedded in the trade game, but the trade game is embedded in the security game. An imagined cohesive West delivering on climate change would fear sanctioning a recalcitrant India for fear of splitting the Indo-Pacific Quad, and would hesitate to risk escalating tensions with a recalcitrant China. Changing international norms and values is indeed a "Hail Mary", contending with actors like Russia or China which contribute actively to domestic problems. There is a wide spectrum of solutions and responses, but its extremes include outright submission or outright war.

Another participant added points on the **militarisation of politics**. Active disinformation from countries with the wrong intentions weakens democratic polities. This combines with growing numbers of disaffected war veterans, vulnerable to "stab-in-back" narratives as in the 1930s: there are difficult efforts to make on demilitarisation and integration to avoid more conflict as a means to "control" them. There was clarity on values and distinctions of partners and rivals in the 1930s and the post-War period; international organisations embody this, giving mixed results for EU and a slowly dying WTO. Some militarisation, or at least heightened rivalry can result from rethinking and reviving values, but faith in institutions cannot derive from process alone.

Discussion widened to solutions and their conditions. One participant agreed with the need to mobilise values as well as public opinion based on them (especially the Western countries suffering from deep domestic malaise), but also agreed with the expressed scepticism on the capacity for international organisations and their stakeholders and shareholders to engage in bold reform, even in the face of catastrophe. The world is left to rely on creative alliances and clubs, whose effectiveness may not necessarily trade off with inclusivity legitimation: major decisions in multilateral institutions like the IMF are subject to its biggest shareholders, with the staff working around them as best they can to provide more of a true GPG, whereas clubs have the merit of an informal and flatter table. Some of these creative alliances may be inevitably incremental. Another dimension to legitimacy and effectiveness is coherence, over time and different stages: vaccination is an example where many different actors came together institutionally and with innovative financing, but failed on production and distribution.

"It all starts with values and norms."

3. What Is To Be Done

3A. The repair agenda

The **chair** recalled that many have died with the question "What is to be done?" on their lips. The framing paper's interrogation of "what realistic governance agenda can be formed" in what "feasibility space" underlines the theme of tension between agency and path-dependent structure. As previous speakers mentioned, the proliferation of games, with different actors and different payoffs is too dizzying to attempt to consciously redesign; so, drawing on Ruggie's insight that the key to post-War era was embedded liberalism, the task is to re-embed it in domestic, yet interconnected social contracts. The repair agenda must be green, but is hobbled by materially and ideationally exhausted multilateral institutions.

The **first speaker** proposed that the OECD take up the **climate just transition** as part of the repair agenda, in a kind of "inclusive framework for carbon", but also conceded the difficulty of the endeavour. Many countries have different starting points, and many are far from meeting their climate commitments, but all have similar efforts to achieve: the OECD can help them focus on providing GPGs, dealing with spillovers, and ensuring alignment of global and national goals. A Nordhaus-style club would be more ambitious than the Paris Agreement, exacting high carbon prices and penalties for non-members.

A recent German climate club proposal would be slightly different, establishing a carbon price or an explicit mechanism if non-members provide an equivalent level of abatement; this is more palatable to large countries that might be excluded (e.g. the US, which does not have a national carbon price but whose states have various forms of regulation and green subsidies). The German plan also provides compensation for less advanced economies that would join. It thus combines a positive and negative agenda; but many details remain unclear. In contrast, the OECD (possibly nested in a G20+ framework, though this would increase coordination costs) could provide a forum to compile policies (including base, measure price/abatement equivalence, and subsidies definition), transform all measures into a single comparable "price", and model systemic efficiency. Healthy fights are of course to be expected; and it is probable that the overall price of reducing emissions with non-market instruments is in fact higher than with a carbon tax.

National just transitions have higher political-economic difficulties and costs, like the previously discussed trade compensations for globalisation; this is why they should be internationally and inclusively coordinated. The German compensation for exiting coal by 2038 is estimated to cost €50 billion and concern 77,000 people directly and indirectly, in two poorer mining regions. It supports the regions and the workers and provides tailored support for infrastructure, innovation, and job markets. But it is very costly, estimated at some €580,000 per person. Yet it is supported in Germany because of the quality of the policy design and explanation. Similar support exists globally for the creation of green infrastructure if funded by a carbon tax.

The **second speaker** evoked the role of the G20 in orchestrating the repair agenda. **Geopolitics** is the biggest problem; the new US administration has made a U-turn and is explicitly calling for more multilateralism now (which is a good sign), but the trust of repeated informal talks is missing with China (though a great deal of cooperation is had on the technical level). The G20 is shaping its agenda around some commons (health), and there is agreement to work on financial and health preparedness. But another problem is the limited horizon of politicians; momentum can halt completely with a change in the US administration. Analytics, data, and learning from past mistakes are key to overcome this. There are reasons for optimism: lessons are being learned (for example, that politically-driven agreements cannot succeed without backing analytical work, like the defeated Multilateral Agreement on Investment); monetary and fiscal cooperation has been very fruitful in the last year. Debt is piling up; but an extremely dangerous shock has been absorbed.

The new US administration is very open to work on climate action, but firmly against carbon pricing. The G20 has revived a study group (started by China seven years ago) to analyse the financial implications of 2050 targets, which is now made permanent and co-chaired by the US and China. It is tasked with producing an action plan and a road map, and is meeting with private sector actors to develop metrics and taxonomies. The G20 is also informed by work from the FSB (a grandchild body to the G20) and central banks through it; it is delivering actions on company disclosure of emissions to the G20. The G20 has managed to keep together on climate action, despite some "usual suspects", but problems inevitably emerge when discourse moves from the technical to the political.

Delivering banking regulation for financial stability through the

BCBS has been a substantial success; now, non-banks and fintechs are the issue. This is the province of the FSB (which works, if slowly) and IOSCO (which does not).

Public opinion and education are the two main conditions of maintaining political momentum. Public opinion has been thrown into chaos with digitalisation, and there is little education to be had on issues of global governance for the average citizen. But as the G20 is engaged in a major effort to mediate world powers, it is also trying to engage more broadly, "behind" the finance track.

The **third speaker** recalled previous points and picked up the theme of **outside contributions to the G20**. There is a deficit of global governance and GPGs are not being supplied; this is aggravated not only by rivalry, but by COVID-19 as well. Global order is stagnating and disintegrating: reconstruction efforts must encourage major players to provide GPGs. Priorities must be identified due to resource limits: in a pandemic, health is the obvious one. But emerging issues (e.g. e-commerce, AI) need attention as well, to build appropriate governance structures.

Reform of the global governance system should start with **incentivising major actors to provide GPGs**. Attention should be paid to the coordination of global and regional levels: as the EU and now Asia show (the Regional and Comprehensive Economic Partnership RCEP accounts for ≈30% of world population and ≈30% of global GDP), trade growth has been driven by regions; but events have shown that GVCs can be disrupted by extra-regional shocks. The EU can play the role of a bridge between the US and China, and of an objective coordinator for reform in international organisations, calling on its normative power. The G20 is a vital coordination mechanism, but faces problems of enforcement. It should establish a working group establishing an annual report on global risk, to aid prioritisation and empower enforcement by organising precautionary task forces or delegating tasks to international organisations or consultative bodies like the T20.

Discussion centred on the issues of a just transition. The cost estimates of the German coal exit are striking: there may be a disconnect between ambitions and macroeconomic implications, and climate will only be taken seriously when it is in the finance ministries. Participants warned that central European countries would not be able to afford such policies (much less developing countries), apart from predictable political difficulties in the Council; some compensation to owners of emissions-heavy infrastructure will be necessary and politically practical if morally tenuous (like the compensation of slave owners historically). Other participants countered that transitions in developing countries does not have to be expensive (South Africa's coal exit is estimated at $20 billion over 20 years), and argued that efforts should be concentrated there, or at least coordinated with a more systemic view.

This is where the OECD has a special role to play: an **inclusive framework on carbon** would address issues of equity and sequencing. It can analyse the costs and benefits of the knockoff effects of changes in production functions due to compensations, contribute to work on mandatory company emissions disclosure and climate accounting, and share data with the wider scientific and academic community. It can provide an inclusive forum to discuss the methodological problems of equivalence eluded by CBAM (though it may be moving from the idea of calculating carbon content of goods to categorising them as "good" or "bad"); or even perhaps address the difficult question of the necessity of nuclear power. It could also work sectorally, taking advantage of existing coalitions of the willing. Still, difficult issues of concentration remain: oil and coal industries, as well as the countries that support them must be dealt with. The world is moving from advocacy to reality on climate change and just transitions; just throwing money at the problem does not suffice to empower people in a just transition.

Discussion also touched on the priorities and conditions of a successful repair agenda and the G20. One participant questioned both the positive view of the G20, given that its inability to rise to the occasion with COVID-19 as it did for the GFC and its inclusivity problems, and the real effectiveness of a common knowledge base in establishing a common base for action. It was answered that the G20's effectiveness depends on the ability of the hosting county to steer it: optimism was warranted for Italy's tenure, but a decade-long window would yield a more pessimistic picture. Its "troika" (coordinating past, present and future presidencies) ensures some agenda continuity, though not enough. The inflation of its final communiqués reflects the fact that it may already count too many members around the table (horizontally and vertically: e.g. involvement of guest and observer countries; different ministries and sub-national bodies). Discussion on its work cannot proceed without analytics and data, like those of the German case.

One participant proposed that, if a cooperative repair agenda is separable from geopolitics, priorities for **the EU taking on the role of an international bridge** could be climate, taxation, health, and poverty reduction issues. Participants agreed that the idea of a global risk report is a good one: this task could be given to the Framework Working Group of the G20. Participants disagreed on further institutionalisation of the G20: one participant claimed it needs more structure, but another argued that its process needs to be inverted so leaders can first build a vision through informal exchanges, then involve the technical level.

3B. The building agenda

The **first speaker** picked up topics from the previous session and addressed the **role of the G20** in the building agenda for the near future.

The German coal exit plan may include a level of overcompensation, but will likely benefit from state aid rules, which are being discussed in the European Commission; they may have to be rethought further for a just transition. The big elephant in **climate financing** is economically rational yet politically impossible investments in third countries, and will feature in G20 discussions; climate financing itself is a big elephant, whether pursued multilaterally or through clubs (which must involve developing countries in some way). It is to be noted, from a governance point of view, that the plan benefited from soliciting a proposal from a committee of out-of-government interested parties. Its sequencing may be questionable, and its phasing-out by 2038 may strand non-profitable assets, but establishing the counterfactual is difficult.

The G20 process has gotten huge, involving several ministries and 9 different kinds of global civil society groups: its big machinery delivers frustration. Sherpas already play the role of leaders in building a vision from a small group where informal talks are possible: they are the core of the negotiation process over the whole year, often sit in ministries, and work best when they enjoy broad mandates from and close coordination with their head of state or government. Upcoming G20s will focus on the obvious priorities: health and climate action.

Arguably, the G20 has worked to some extent on health, helping to establish the COVAX facility and compensation mechanisms; but distribution remains a failure. Inclusive climate clubs should be pursued (not in the G7 however), though the US' stance and financing modalities remain key questions; the G20 is on track to deliver a pledged $100 million, and the financial track is fairly united and actively exploring its role in climate action. Issues of foreign policy (e.g. Afghanistan), technology and trade, and China's role will also be discussed; all of these weighty topics stir worry about the G20's unity. But multilateral work is slow, and needs patient dialogue. Leadership matters; who we elect matters. Dialogue must be patient, but also frank (e.g. with China), and open to cooperation in other areas.

A building agenda starts with the **repair and reform efforts underway in existing institutions**. There is hope for a narrow agreement in the WTO (fisheries); the G20 is discussing trade and exploring the possibilities of existing and new agreements. IFIs are beginning to seriously integrate sustainability in financing. The G20 has launched a notable infrastructure initiative, with a working group at leaders' level and closely coordinated with finance ministries. But progress remains difficult due to issues of representation in existing institutions and deep divergences on policy issues. Health needs more clear governance: ACT-A, COVAX, and the multilateral task force on fairness (uniting the leaders of the WTO, IMF, WB, and WHO) have been major multilateral responses to the crisis, and there have been many bilateral agreements and national initiatives, but the architecture needs to be clarified. Alternative structures and institutions (e.g. the AIIB) can be challenges to a unified repair agenda. Huge foreign policy issues loom, and working together across the big divide of political systems means that some need to be boxed or controlled somehow.

The G7s and G20s are "soft" institutions that have been quite successful, despite their growing complexity; the input from consultative global civil society is valuable if voluminous, and there are efforts to try to commit presidencies, who naturally want to host a comprehensive G20, to smaller agendas. In the end, the quality of the presidency determines the success. It is interesting to note that the next three G20s will be presided by large developing countries: Indonesia, India, Brazil. Apart from the G20, the European Council will discuss strategic autonomy soon: strengthening the transatlantic relationship is also part of a building agenda, given the recent AUKUS alliance.

The **second speaker** addressed the conditions of a building agenda, taking the case of **digital data flows**. Three institutional points can be made. First, clubs don't necessarily hamper multilateral agreement; they can be strategically used in a building block approach. Second, investments are key, both multilateral and regional. Third, collective leadership can overcome the framing paper's "Kindleberger trap", where no hegemon exists to provide necessary GPGs.

Free flow of data without unreasonable intervention is imperative for highly globalised and digitised economic activity. Former Japanese

Prime Minister Abe proposed a Digital Free Flows with Trust (DFFT) initiative in 2019, which was taken up at the G20 that year. The DFFT aims to restrict data protectionism, while preserving trust by preventing outflows of secret or private data. It includes three principles: free flow data across borders, no data localisation requirements, and no disclosure requirements. All three were included in CPTPP, and in some bilateral agreements; RCEP member states couldn't agree on the third principle.

Digital trade negotiations are ongoing in the WTO, but their outcome is unpredictable. Heterogeneity of preferences has made this multi-track approach inevitable; creation of smaller groups is driven by the pragmatic impulse to improve the business environment rather than hang on to endless negotiation, in the face of increasing global economic competition. If multilateral institutions with hard rules have to settle for a low level of ambition, actors will pursue bi- and plurilateral arrangements where it is easier to agree on rules with higher ambition; these can draw in more members, raise ambition of competitors as well, and keep momentum for eventual multilateral agreement.

This kind of building block approach must be adaptable to situations: the CPTPP was salvaged from the withdrawal of the US from the TPP, and it is now exploring wider participation from countries interested in revitalising their economies through integration after the COVID-19 shock. The UK has applied (raising geographical questions), and so have China and Taiwan (raising explosive questions); South Korea and others are showing interest. But a building block approach must also be aware of the situation, and capable of efforts to change it: the Montreal Protocol was a success not just because of the threat of trade sanctions, but because root factors were understood and addressed (concentration of the industry, existence of substitutable technology at reasonable costs).

There are **three conditions** to bridge this building blocks approach to the multilateral level. First, a club should keep a high level of ambition over time, and not undermine it to widen participation. China for example is welcome in the CPTPP, if it respects all of its rules, including those on labour, state-owned enterprises, data, and climate action. Designing agreements is a promising way to lift ambition, and to explore the design of "governance of governance".

Second, **soft institutions should be promoted**, especially in areas where the creation of hard institutions is unfeasible because of a high heterogeneity of preferences, based on expanding mutual trust and shared expectations of behaviour. The DFFT integrates such a soft approach.

Alternative structures and institutions (e.g. the AIIB) cannot be excluded. Maintaining trust also requires surveillance and transparency; the WTO enjoys a small but professional secretariat, but the CPTPP does not yet. Existing international organisations (even clubs) can contribute by working as a platform to achieve consensus on more detailed principles: the OECD has done good work on taxation, steel, and trusted government access to private data. Past international organisations like GATT contained valuable principles that regions can revive. Inclusion of non-state actors to build consensus is increasingly important.

Third, **responsibility must be shared more broadly**: it is not only a question of international fairness, but also a resilience mechanism for commons, which would not be dependent on the whims of a hegemon. The role of "interveners" in international design, actors who engage in design with the necessary assets to implement, should not be underestimated. Collective leadership, as demonstrated by former TPP member states going on to forge the CPTPP, can be such an intervener, complementing the absence of hegemony in a multipolar world and providing an escape from the Kindleberger trap. As situations evolve, so can commons and institutions; the Kindleberger trap is escapable not only through hegemony or rigid institutional arrangements, but also through the power of soft institutions.

One participant intervened by highlighting the different perspectives proposed: on the one hand, the G20 is fundamentally sound; on the other, action should be rooted elsewhere. The question is **how to embed geopolitical rivalry**: if the US/China rivalry will be the main structuring factor, then all-encompassing institutions won't work and risk degenerating into ineffective, UN-like talk shops. There is value in learning from the positive models of clubs of soft institutions, and value in existing institutions which can repurposed in a building blocks approach, though often with difficulty: the OECD is an important case, whose evolving mandate and flexible membership, combining clubs and inclusiveness and delivering tangible results (e.g. tax). The question is how far this model can lead, in the face of the Kindleberger trap.

One participant countered that for all their flaws, talk shops at least provide venues for actors to avoid war by continuing to meet and discuss; even when dysfunctional, they can act as platforms supporting a building block approach (e.g. WTO and plurilateral agreements). On the other hand, clubs for existential issues like climate action is questionable: it is hard for two powers to agree when the other might be a relative benefi-

> *"In the late 19th century, endless meetings in the Hague missed the biggest power struggle, and the world sleepwalked into war."*

ciary. The Kindleberger trap evokes the inter-War period, but the late 19th century can also be invoked as historical parallel for the present: endless meetings in the Hague missed the biggest power struggle, and the world sleepwalked into war.

Another participant picked up on this theme: if cooperation cannot tangibly deliver, there remains value in meeting, and the G20 is indeed an important mechanism to get people meeting to avoid war. From an almost accidental US creation, its importance jumped after the GFC; it met the OECD's involvement initially with suspicion, as did developing countries. But the OECD has proved the value of international organisations that do "research of research" in **setting a building blocks agenda**: its work to share information to capitalise on what is available has created synergy with the trust created by discussions between leaders of states and international organisations in the G20. Its biggest problems remain continuity in the absence of a permanent secretariat, and its growing cumbersomeness; it also lacks relays to the private sector.

Discussion concluded with both speakers addressing points raised. One replied that the G20 is imperfect, but works well enough and should be kept as a focal point of soft coordination. Efforts to expand it or institutionalise it much further (e.g. with a permanent secretariat) should be resisted, in the interest of its efficiency; the spontaneity of the presidency is an important factor. Caution should be kept in a building blocks approach: creation of more committed subgroups is already established practice, but this is sometimes at the expense of existing institutions and inclusivity (trade), and some issues require the widest participation (climate). The G20 is necessary for coordination in this respect. The other added that the variety of priorities makes a multilayer discussion inevitable: the G20 track is not exclusive of other approaches; a successful building blocks approach would ensure that each not be exclusive of others, and that each be compatible with eventual multilateral integration.

3C. The "whole of governance" agenda

The **first speaker** addressed two factors "connecting the dots" for a whole of governance agenda. First, there is an **increasing interrelation or overlap of policy domains**: within economies, between economies, and between policy domains. The economic is becoming more geopolitical: macro-financial policy used to be efficiently delegated to finance ministers and ministries, central banks and IFIs, but coordination is increasingly difficult; dollar weaponization remains. Technological advance adds to the challenge: trade and finance are increasingly going digital. Countries are asserting control over technology and data, at the risk of new fault lines: ring-fencing of data and localisation rules are as many barriers to trade and finance and as many global efficiency losses.

It is necessary to carve safe spaces where countries can continue to collaborate and protect the global financial system despite political tensions; the BIS offers such a space in its Innovation Hub, which is exploring central bank digital currencies and supervisory and regulatory technology (suptech, regtech). Within economies, the growing weight of big tech companies and non-bank finance are systemic concerns; there is a revolution in payments and banking, and big tech companies are accelerating their advances into finance. International cooperation may be slow, requiring patient, difficult dialogue between central banks and regulators, but there is also a need for a level of collaboration at the national level between financial regulators, competition authorities and privacy authorities that does not exist today. This need for cross-institution, cross-disciplinary collaboration can also be applied to climate action.

There will be temptation to ask past successful frontline institutions (e.g. central banks) to play a major role again, but their effectiveness was predicated on their narrow mandate, which gave them legitimacy and the ability to exercise broad discretion in their field; they have no such competence or political legitimacy over climate action, though there are measures they can engage in at the margin. Since new multilateral institutions with hard rules seem unfeasible, transnational networks of technical authorities should be created and promoted across policy fields, to collect and exchange information, and build common social capital and trust. This has been done with more or less success within policy fields; it remains to be done across domains. The G20 can serve as an institutional basis to do so.

Second, in the recent fragmentation of global governance, **the US never completely retreated** (e.g. extending dollar swaps during the pandemic). It is still upholding certain responsibilities (or the Fed has); a fuller US retreat would create a huge void. This is why networks, coalitions and clubs should be strengthened as building blocks; also regions, in the spirit of the EU; and around common objectives (climate) and values. But rosy visions of transnational cooperation should not obscure truths of a multipolar world: clubs are inherently exclusive, and can generate geopolitical tensions. This is why it is important to be inclusive in consultation at least, like the "Eurogroup in inclusive format": discussions are painful, but important to create acceptability of measures. Any constituted group should be mindful of its inherent bias towards itself (e.g. a self-satisfied G7).

The world is flatter for the diffusion of ideas, produced in transnational epistemic communities: this generates possibilities for new political mobilisation (e.g. Greta Thunberg and a disenfranchised global youth), but also new systemic risks from further decoherence of jurisdictional, electoral, public policy instrument and currency boundaries (e.g. Facebook's plan for a private currency).

There is also lack of coherence between increasing demand for certain GPGs and supply: in the absence of a truly benevolent hegemon, the EU has a responsibility to build up the necessary networks and blocks, drawing on its 65 years of experiences to share with the world; its members already enjoy tools at their disposal, unavailable to non-members, to deal with globalisation. The EU needs to build credibility with better narratives and explanations of what its institutions and budget deliver, and to provide more public goods at the European level with its coordinating, regulatory and fiscal capacities in order to reap economies of scale and reinforce its position in global discussions. It needs to finish overhanging integration tasks so it can use its scarce political capital to speak on the world stage with a single voice.

The **second speaker** picked up on the many ideas brought to the conference and sketched out **reflections on a whole of governance agenda**. The idea of letting the system crash in hope of a wakeup moment should be categorically rejected: beyond its negative normative aspect (huge amounts of suffering and death), it is also not the way history works. Crisis breeds crisis: Brexit and Trump can be traced to the GFC. Inequality, polarisation and despair grow in crises, and populations demand leaders to address them: Roosevelt and Churchill's brilliant leadership and tenacity in pursuing a vision of a better world through the Second World War were not simply an outcome of them being scarred by the First; Churchill was electorally deposed six weeks after victory because his vision was insufficiently radical, opposed the welfare state, safety nets and job guarantees people wanted. The Bretton Woods institutions were similarly the result of a collective demand, carried by a small group.

There is too much focus on the "global" part of global governance; it should be put on **concrete problem-solving in groups**. Action builds confidence in the ability to work together; more should be done on vaccination in this spirit. The re-politicisation of youth due to crisis is both an opportunity and a threat; they easily turn to radical views. Coalitions of the willing can be suspicious because of concerns of illegitimacy, due to exclusiveness or internal bullying, so the new model should be constituencies of the affected (in the spirit of Gavi or BEPS): joiners are as important as first movers (the African Union can play an important role in this respect).

> *"There is too much focus on the 'global' in global governance... Selected actors moving first and not waiting really matters."*

The rivalry between IFIs and alternative structures and institutions, like new multilateral development banks, cannot be productively addressed without fixing the former's leadership legitimacy problems, and sorting out their respective domains: the IMF is encroaching upon traditionally WB topics like gender, inequality or climate. Sub-national actors (cities), the private sector and civil society must be deeply embedded in bodies that did not envisage their participation at their creation in the mid-20th century. Many big problems are solvable as a small group because the constituency itself is one: a dozen countries (or some twenty historically) are responsible for 80% of emissions; anti-microbial resistance is driven by six (if the EU is counted as one). Selected actors moving first and not waiting really matters, as well as remaining open to being joined.

This is especially relevant for health preparedness, because pandemics can emerge from anywhere; and indeed the greatest threat comes from developed countries due to the risk of terrorism there. The cost of bioterrorism has lowered dramatically: the damage one person can do with a bio-agent and a drone has changed the risk agenda and geometry completely, with knock-off effects on intelligence gathering and privacy issues; mail-orders of DNA snippets should be as restricted as nuclear centrifuge technology. The track record of risk assessment and prediction bodies is mostly dismal, though intelligence agencies tend to do better; but though many of their published reports included pandemic threats, nothing was done. Pandemic prevention would have cost a battleship. If the G20 is to hold a summit on risk, it should better hold it on the changing risk framework, the new ease of spread of global public bads: **the "butterfly defect" of globalisation**.

The US/China rivalry is the biggest threat to constructive action; the EU's pivotal role is not to solve the problems between the two, but to maintain momentum while they are in gridlock, with widening segments of actors. There is an urgent need for a "Nixon goes to China" moment, because tensions can lead to accidents and escalation to conflict. But beyond that, the pandemic has derailed development by a decade: it is on track to have killed 20 million people, and immiserated 150 million. The Sustainable Development Goals have been completely taken over by events: this is the biggest development disaster we've seen in our lifetimes, since the war, and possibly in history. It is not a time to cut aid to developing countries like the UK is doing; the EU should step up in its stead. The point is more broadly applicable to clubs: they can lead to a competitive race to the bottom, and it is up to its members to do the right thing instead.

> *"Pandemic prevention would have cost a battleship!... This is the biggest development disaster we've seen in our lifetimes, since the war, and possibly in history."*

One participant intervened with two points. First, the remark that there is an excessive focus on the "global" of global governance is pertinent. But pandemic security for example intrinsically requires a global approach to surveillance and vaccine and treatment development and production, as preparedness requires multiple vaccine and treatment candidates ahead of time; resilience of regional distribution cannot be assured because of the global entanglement of GVCs. Developing countries cannot afford independent arrangements: a global system is required. It must be buttressed by the agency and innovation capacity of subnational and regional entities (the African CDC is particularly commendable in this respect), and the private sector (BioNTech and its mRNA technology was a small, relatively unknown player before the pandemic). A parallel can be made: Roche acquired GenEnTech, but only managed to develop synergies by guaranteeing it a measure of independence. New forms of multilateralism and networks including these non-traditional players as well as technocracy must be promoted; with a trade lens; and appropriate attention paid to their contrarian voices.

Second, incentives for preparedness should be recalibrated through fiscal accounting: expected losses due to predictable events can be built into today's balance sheets as implicit liabilities; the OECD can do good work on this. But there is also the issue of the political narrative, the evil genius of Trump's "MAGA", Farage's "take back control", Le Pen's "on est chez nous". It's got so much pathos, it appeals to the emotions; you can't counter that by saying, "let's cooperate on non-rivalrous, non-excludable goods". You need something that appeals to the pathos. The youth feel this: that it's our commons being taken away from us. This political narrative must be made immediate, present, and urgent.

Fiscal accounting needs a complete overhaul, not just integrating carbon taxes and pricing: for fairness overall, where everyone pays some cost. One participant added that the transparency for action afforded by fiscal accounting should be extended to public debt. The level of hypocrisy is stunning: there is rightful, yet excessive focus on Chinese lending, whereas Western lenders are just as non-transparent. The presumption should be that public debt is public.

Another participant made two points, and an observation. First, the view of the EU as occupying a potentially precious position in geopolitics, exerting regulatory power and mediating deep divides, may be naïve. It depends on the US for security, despite its more normative aspirations due to the weight of its history; the US and China do not hesitate to attempt to deploy divide-and-rule tactics against it (e.g. Trump and Poland, China and Hungary). The EU must secure its autonomy from them. Second, the IMF "eating the WB's lunch" is striking: its embrace of gender, inequality and climate issues gave it a route out of illegitimacy (and to celebrity leaders), but it is neglecting the tasks within its purview, and taking on the WB's without the necessary capacity. Finally, there is a disturbing aspect to highlighting the importance of leadership when it is far from assured that the most competent people will be selected for the leadership of international organisations.

One participant confirmed that the EU can lead by maintaining momentum: after a US administration very hostile to climate action, the new US Special Presidential Envoy for Climate John Kerry met with European foreign and climate ministers, apologizing for the interlude

"But there is also the issue of the political narrative, the evil genius of Trump's "MAGA", Farage's "take back control", Le Pen's "on est chez nous". It's got so much pathos, it appeals to the emotions: you can't counter that by saying, "let's cooperate on non-rivalrous, non-excludable goods". You need something that appeals to the pathos! The youth feel this: that it's our commons being taken away from us. This political narrative must be made immediate, present, and urgent."

and thanking the EU for carrying the torch. The EU has capacities to regulate for public goods, both its own and globally. Promoting networks is a valuable objective in advancing building blocks, but the question of achieving coherence remains. Another participant recalled the importance of **mandate flexibility** (the OECD case), managing membership tensions (especially when the US and China are involved in one body), and the question of how international organisations are listened to; global governance is only as good as its leaders, and their selection indeed stands to be improved.

Speakers concluded the session by addressing points raised in discussion and in the wider conference. One speaker developed a bold concept on health security: just as standby scientific research and pharmaceutical production and distribution capabilities could be central but globally available, so too could pandemic surveillance and response; **a "Manhattan project" for health security** could employ existing biosensor technology and data to detect incipient pandemics and transmit warnings to "pandemic swat teams" empowered to fly into an incipient crisis zone and seal it off.

A constituency approach mitigates risk of capture: rules on climate for example cannot be elaborated solely by the twelve biggest emitters because that would be like having the mafia bosses in the room to write the penal code; but elaboration of rules on financial stability is different because of the different game structure. **Rethinking risk is a massive topic**, and indeed requires overhauling actuarial accounting: its logic implies a static operational base, whereas the world is a dynamic, complex system with new and bigger spillovers, where risk arises from different nodes in different networks out of a combination of globalisation, technological change, and increased inequality.

The question returns to the optimality of interconnection: globalisation is the greatest source of wealth and cooperation, but also risks due to its "butterfly defect". Complex dynamic systems lead to instability: you can't have an airport hub without the risk of spreading pandemics, you can't have financial centres without the risk of spreading financial crises, and you can't have computers and global cyber-connections without the risk of cyber-attacks. Discourse of a post-pandemic "reset" or "bounce back" is worrying, because it demonstrates that the need for new thinking for a new system, fit for the 21st century, is not integrated and understood well enough.

The EU should indeed stand up for itself: it was wrong to cave in to the US on banning Huawei technology, and can leverage the US' reliance on it (e.g. in intelligence gathering).

The IMF's encroachment on WB priorities is partly the effect of the WB not doing its job; it is less that the IMF is neglecting its own tasks, and more that it is exercising more judgement in when to act. It is not desirable to go back to the "bad old" IMF of the 1970s-1990s; a greater tolerance of debt and less rapid responses can be a good thing. The recent increase in Special Drawing Rights is to be welcomed, especially if it benefits developing countries.

The other speaker made three points. First, the IMF's straying from its tasks is a concern: previously successful institutions with narrow mandates (like central banks) run the risk of getting overburdened by further expectations, then losing credibility when they cannot deliver, resulting in further loss of efficiency. **The IMF should be an actionable institution, not an aspirational one**. Second, systemic consistency requires leadership, which can create relatable narratives to politically join the global and national levels; technocracy is incapable of this. Third, rethinking risk requires data that in many areas does not exist or is not sufficiently aggregated. The OECD is a good candidate to engage in such an effort for climate measures and instruments, like the BIS does for bank flows. Constitution of a common knowledge base is also a (modest) GPG, as well as a practical agenda; it should be applied to health security too.

The chair synthesized the kinds of questions raised in the session and in the wider conference. First, there are the geopolitical questions of global governance: the major actors (especially the US and China) produce the greatest systemic risk, but are also relied upon to manage it; discussions confirmed that the rest of the world cannot remain on standby and should act to rein them in or act aside from them. Second, there are the questions of the politics of global governance: issues of lis-

"You can't have an airport hub without the risk of spreading pandemics, you can't have financial centres without the risk of spreading financial crises, and you can't have computers and global cyber-connections without the risk of cyber-attacks."

tening and being listened to, and the tension between small groups and inclusivity. The "all affected interests" principle in democratic theory (dating back to Roman law) can be recalled here, echoing the constituency approach: discussions confirmed that multistakeholder outreach must be vertical and horizontal, not limited to states. Third and finally, there are the regional questions of global governance: the EU featured heavily in discussions, but encouragingly more as an actor with a wealth of experiences to share and learn from than a model to be emulated.

Programme

Thursday 30th September 2021

19.30 Welcome dinner and keynote (Tharman Shanmugaratnam)

Friday 1st October 2021

08.45 - 09.00 Welcome coffee

09.00 - 09.30 Welcome and introduction (Alexander Stubb*)

Introductory remarks
(George Papaconstantinou, Jean Pisani-Ferry)

I – What has changed? (Chair: Erik Jones)

09.30 – 10.30 **IA – Evolving patterns of interdependence**
(Richard Baldwin, Hélène Rey)

10.30 – 10.45 Break

10.45 – 12.00 **IB – The rise of global commons**
(Thomas Hale, Marietje Schaake*, Guntram Wolff)

12.00 – 13.15 **IC – Geopolitics and global governance**
(Anna Gelpern, Ivan Krastev*, Daniela Schwarzer)

13.15 – 14.30 Lunch break

II – What have we learned? (Chair: Diane Stone)

14.30 – 15.45 **IIA – Lessons from failures**
(Arancha Gonzalez, Sergei Guriev)

15.45 – 16.00 Break

16.00 – 17.15 **IIB – Promising experiments**
(Marco Buti, Paul Tucker*, Ngaire Woods*)

17.15 – 18.30 **IIC – What to build upon**
(Adam Posen*, Arvind Subramanian*, Scott Barrett*)

20:30 Dinner

Saturday 2nd October 2021

III – What is to be done? (Chair: Kalypso Nicolaïdis)

09.00 – 10.15	**IIIA – The repair agenda** (Laurence Boone, Ignazio Visco, Lin Ren*)
10.15 – 11.30	**IIIB – The building agenda** (Lars-Hendrik Röller*, Toshihide Kasutani*)
11.30 – 11.45	Break
11.45 – 13.00	**IIIC – The "whole of governance" agenda** (Benoît Coeuré, Ian Goldin)
13.00 – 13.15	**Concluding remarks** (George Papaconstantinou & Jean Pisani-Ferry)
13.15 – 14.15	Farewell lunch

* remote participation

Participants

Richard Baldwin	Graduate Institute Geneva
Scott Barrett	Columbia University
Laurence Boone	OECD
Adrien Bradley	EUI
Marco Buti	European Commission
Benoit Coeuré	BIS
Anna Gelpern	Georgetown University
Ian Goldin	Oxford Martin School, University of Oxford
Arancha Gonzalez	fmr. Minister of Foreign Affairs, Spain
Sergei Guriev	Sciences Po
Thomas Hale	Blavatnik School of Government, University of Oxford
Erik Jones	Robert Schuman Centre for Advanced Studies, EUI

Toshihide Kasutani	fmr. Ministry of Economy, Trade and Industry, Japan
Ivan Krastev	Centre for Liberal Strategies, Sofia
Stefano Micossi	Assonime
Kalypso Nicolaïdis	School of Transnational Governance, EUI
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, RCAS, EUI
George Papaconstantinou	School of Transnational Governance, EUI
Adam Posen	PIIE
Hélène Rey	London Business School
Lars-Hendrik Röller	German Chancellery
Marietje Schaake	Cyber Policy Center, Stanford
Daniela Schwarzer	Open Societies Foundation
Tharman Shanmugaratnam	Senior Minister, Singapore
Diane Stone	School of Transnational Governance, EUI
Alexander Stubb	School of Transnational Governance, EUI
Arvind Subramanian	Watson Institute for International & Public Affairs, Brown University
Paul Tucker	Center for European Studies, Harvard
Ignazio Visco	Bank of Italy
Guntram Wolff	Bruegel
Ngaire Woods	Blavatnik School of Government, Oxford
Lin Ren	Institute of World Economics and Politics' Chinese Academy of Social Sciences

Main take-aways

George Papaconstantinou and Jean Pisani-Ferry

The take-aways below represent the main points emerging from the "New World, New Rules: Collective Action Repurposed" final conference as these were identified by the conference organisers. As such, they do not necessarily reflect the views expressed by individual conference participants. In the same vein, the text summarises the conclusions from the rich presentations and discussions that took place in the conference but does not aim to offer a synthesis of all the analytical and policy issues explored in the context of the Transformation of Global Governance project. A synthetic view emerging from the project is presented in the two papers included in the first part of this e-book.[120]

The starting point

- **The world needs to face up to a fundamental contradiction.** The range and severity of problems whose solution requires international collective action is unprecedented, but the obstacles to cooperation to address them are stronger than ever. Geopolitical shifts, conflicts, changes in attitudes towards international rules, and transformations in the intensity and shape of international interdependence drive this contradiction.
- **We are living through a perfect *long* storm**. Global interdependence is undergoing a fundamental transformation. What was once regarded as a unified system is fast morphing into a multi-polar regime characterised by the coexistence of alternative policy preferences. Facing up to this perfect *long* storm requires a systematic analysis of the nature of the transformations under way in different policy fields (*what has changed?*), of the scope for global collective action and of the nature of existing impediments (*what have we learned?*), before discussing the strategy to be followed and type of policy responses that can be put forward (*what is to be done?*)

120 See Part 1, pages 6 to 63.

What has changed?

Fundamental changes in the nature and shape of interdependence, global commons at the core of the policy agenda, and the impact of geopolitics mark today's global governance framework.

Evolving patterns of interdependence

In a context of heightened global risks, the current regimes governing international trade and investment have struggled to keep up with evolving patterns of technological, economic, and financial interdependence patterns and multipolar financial interdependence.

- **Trade patterns are evolving towards intangibles.** Largely spurred by digitalisation, globalisation has involved a halving of the cost of moving services and data every two years, radically faster than the cost of moving goods. Trade in intangibles, "weightless globalisation", continues to grow in importance, while digitalisation is also accelerating automation and the globalisation process.
- **Financial interdependence is multipolar but asymmetric**. The new pattern involves multipolarity, but with very asymmetric and differentiated networks (with the US, EU and China as major nodes). In this environment, financial safety is at risk: the dollar-dominated network with free capital mobility engenders sudden stops; developing countries are unable to hedge the currency risk; the IMF's resources have not kept up with the development of international capital flows; the international lender of last resort remains the Fed (via swap lines); the effect of digitalisation on financial safety is largely unexplored; and crisis resolution is made more complicated, when in a context of multipolarity, macroprudential regulation may involve a race to the bottom.
- **Global risks are looming larger.** Climate change and a higher frequency of extreme climate events, loss of biodiversity, and the pandemic threat to global health security challenge the resilience of the financial network, while there is a lack of finance for long-term growth- and welfare-enhancing projects to protect and maintain global commons. Risks can also be traced to the

digitalisation of finance, with the implications of crypto-currencies and assets for financial stability, monetary and fiscal policy, cyber, and environmental policy due to their huge energetic cost. They erode macroeconomic tools to maintain commons, and we are falling behind the regulatory curve.

- **The influence of international regimes in shaping the new global interdependences remains problematic and limited**. If interdependence is orthogonal to prevailing regimes, then policy design in a non-designed regime becomes quasi-futile. Nevertheless, the new environment is characterised by "variable geometry" regimes and emerging governance networks, some of which have had an impact on interdependence patterns: in trade, where states have pursued club-like solutions where multilateral efforts stalled; and in financial regulatory regimes which have proved more effective than the monetary regime (the latter being too deeply pervaded by dollar supremacy).

The rise of the global commons

The "recognition" of the commons (climate change, health security, the digital infrastructure) has emerged as the most urgent global governance issue.

- **In climate, the urgency is not matched by results.** Climate action is salient to voters,; yet, governments are still not making it a substantive priority, while emissions are still rising, and existing commitments are insufficient. The world must now enter late but rapid decarbonisation, despite the difficult politics. As climate disruption intensifies and is inducted into high politics, distributional politics turn existential, and the collective action model changes. Alternative models, of polycentricity, catalytic cooperation, two-level game distributional politics, may yield richer insights.
- **Digital infrastructure is also a kind of global commons**. But its utopian promise has given way to a very different reality. The quasi-indispensable digital layer of our lives, is ran and governed, deployed and serviced by big tech, further privatising public interests. Understanding the decisions and outcomes produced by AIs and algorithms is increasingly difficult, risking further

loss of agency of regulatory and legislative bodies, but also citizens. It is urgent to deal with the systemic implications of a massive redistribution of power in digital ecosystems from the public to the private domain.

- **The pandemic propelled health security to the top of the global commons agenda**. There was no better opportunity and need for cooperation, yet global reaction fell short from the previous SARS crisis, when the international community condoned the WHO overstepping its competences and submitted to more binding international rules. Vaccines were developed with little concern for the needs of developing countries, and while a degree of distribution was secured, failure to ensure the "last mile" to the arm damaged trust in global institutions.
- **The optimal degree of interconnectedness is related to the type of global commons**. Climate is a true global commons: the level of interconnectedness of the atmosphere is a given. But interconnectedness can be manipulated in global health: viral replication depends on policy choices regarding travel restrictions and testing. There is a "commons trade-off" between global health and unimpeded travel. The optimal integration question surfaces again in the digital world, with issues of data protection, data sovereignty, and national security.
- **How to catalyse transnational cooperation depends on the "commons" in question**. The Paris Agreement has a chance of success: companies investing in green technology hastens the transition, while civil society maintains pressure. In terms of states, carbon clubs should be complemented by technology transfers and climate finance. The digital world is a different case; States choose not to act and are letting big tech take control.; those that do, usually do so for illiberal purposes. For democratic states to preserve their values and head off risks from both big tech companies and autocratic governments, horizontal transparency pre-conditions are necessary, to understand how data is used by companies and establish accountability; as well as vertical measures, "rules of the road" for data use in health, education, and advertising. Given interconnection and divergent preferences, this means accepting a certain level of fragmentation.

Geopolitics and global governance

Weaponised interdependence is the “new reality” of global governance, in the economic or digital domain, but also in issues like migration.

- **Geopolitics and economic interdependence are entangled**. Interdependence has fashioned a new, geo-economic world where power relations play out in a multiplicity of ways and the sensitivity around sovereignty now extends to transnational corporations and big tech companies. Traditional geopolitics, territorially rooted, is always present; but it is less and less equipped to handle the increasingly complex flows of digitally-enabled economic interdependence. In this context, the major actors (especially the US and China) produce the greatest systemic risk, but are also relied upon to manage it.
- **New global actors present a particular challenge**. They are not necessarily invested in existing institutions; for example they seek new financial safety nets, and their financial institutions take public/private hybrid forms due to fundamental differences in political-economic organisation (e.g. the Chinese Development Bank, or sovereign wealth funds). States have a greater role to play: they are not simple market players; they wield political authority and can project it.
- **The dynamic of the EU has stalled**. It has been a very successful regional power, grasping for global power, but suffers from asymmetric distribution of its competences: it has deployed some to some effect (trade, competition, regulation), but others remain underdeveloped (foreign policy). It is thinking protectively in terms of relative gains, rather than strategically in terms of power balance. It will not be able to hold on to its market and regulatory power if it does not take steps to reinforce its technological and digital capacities for security and defence, leveraging its scale and innovation potential. But it should prioritise using and developing the capacities it has as a regional power, with clear if modest goals, rather than attempt to deliver “hard power” for its own sake.

What have we learned?

Learning involves drawing from failures, identifying encouraging experiments in distinct policy areas, and building on promising collective action norms and processes.

Lessons from failures

How we respond to crises, to the advent of populism, to specific institutional failures and how we compensate the losers of globalisation all offer lessons for global governance.

- **Covid did not generate the same cooperative response as the global financial crisis.** In the global financial crisis, G20 leaders worked to coordinate responses across policy fields, with a cooperative US and China. The response to Covid has been more marked by power relations. Fiscal stimulus has been globally uncoordinated, stratifying states who can afford it and those who cannot. Transnational scientific coordination was a success; but failure to coordinate production has led to bottlenecks in global value chains, and neglect of the "final mile" in distribution are jeopardising the endeavour. Importantly, both these crises highlight the fact that the system is no longer state-centric.
- **Addressing populism in politics requires both agency and confronting root causes**. There is a malaise in democracies globally and in particular developed ones, where perceptions of a better material future seem foreclosed, and trust in institutions and even democracy has decreased. Any answer to the populist backlash must address its causes, involving redistribution, reskilling, fighting tax evasion, strengthening antitrust and, despite its difficulty, better managing migration and integration. The class gap between politicians and voters must be addressed, by more participative tools, and selecting politicians in a different way. Politicians should feel confident in the legitimacy of their office as a basis to push for change, including provision of global public goods: they must understand they have responsibility and agency at the transnational level.

- **In trade, the WTO is failing but variable geometry solutions can work**. Before the WTO, the EU/US/Canada/Japan club came to decisions and the system worked through constructive free-riding: developing countries were exempted from tariff concessions but got the global benefits of liberalisation negotiated by the club through market weight and the most-favoured nation principle. With the WTO, judicial enforcement, universal rules, and consensus-based decision-making seem an impossible trinity. The inclusion of China has also played a role: the acrimonious US relationship with both the WTO and China have led the US to leave the WTO crippled, and China to assert itself regionally and globally with trade. Meanwhile, trade expansion has continued at somewhat lower pace, even on tough topics and to previously closed states, but through regional and plurilateral agreements.
- **Endogenous factors mostly explain regime failure in trade and finance**. While the (exogenous) China shock was the acid test that revealed its weakness, the trade's regime failure is mostly endogenous. Inability or unwillingness to address developing country concerns is another endogenous factor. The failure of the financial regime is similarly mostly endogenous, with the IMF overextending itself by pushing for capital account liberalisation in the mid-1990s, but thereafter mismanaging crises and imposing excessive and/or inadequate conditionality. Further decentring of the IMF is also driven by the US taking a more decentralised view of the GFSN, allowing the Fed to support its bilateral layer with discretionary swaps.
- **Compensation for the losers of globalisation, automation and climate is hard**. It is difficult to fix thresholds for payoffs to those affected when the impact on economic systems and people is systemic and funds are lacking. Reskilling and life-learning require entirely new tools, while institutions are scarce and funding insufficient. The compensation problem will only get thornier for climate change and a just transition, prompting the need of exploring solutions such as budget-neutral carbon taxes with per capita redistribution.

Encouraging experiments

Th recent period has seen a turn to experimental governance design, and the possibilities of informal, non-treaty-based governance structures.

- **International tax coordination is an unlikely but qualified success.** In a policy area with weak incentives and institutional basis for cooperation, a significant crisis managed to spur change: the OECD's actions against Base Erosion and Profit Shifting resulted from concerns on tax avoidance, transparency, and curbing transnational corporations in the wake of the global financial crisis, with these actions endorsed regularly by the G20 and G8/7. Sharing a common diagnosis of problems, being able to show tangible success in implementation, coordinating in an inclusive way, and an independent, trusted international organisation to support analytical and technical work were important elements but US activism was instrumental. The G20 and OECD are rightly credited for a success of "semi-formal multilateralism", if club-impulsed. But progress is showing its limits: eliminating bank secrecy was uncontentious, progress on BEPS was complemented by a process of adjustment, but the taxation of new business models is up against disagreements between the EU and the US. The global minimum tax remains a second-best solution that can however show global governance delivers.
- **Banking regulation: partly effective, but not replicable.** The Basel Committee has been able to achieve agreements and high compliance. Its decision-making outputs are soft law standards, incorporated in domestic hard law and spread due to its membership of key states. There is a strong belief that the underlying game is super-repeated and not zero-sum, in a system that is only as strong as its weakest link, creating an environment where private interests and social norms reinforce each other. There is a shared sense of identity among members in a community of practice, insulation from domestic politics, and a high cost to holdouts. But a very specific balance of actors casts a doubt on the replicability of this institutional setup, and its opacity undermines effectiveness. The system is also staring down two failures: neglect of the development of cyber-currencies and cyber-attacks, with lack of attention to the security implications of these topics in financial stability; and failure in addressing shadow banking.

- **There are promising elements of cooperation in different policy areas**. The web of bilateral investment treaties is undergoing judicialization and streamlining, and the International Centre for Settlement of Investment Disputes has grown in importance, its provisions now embedded in trade agreements. The competition regime is a fragile, qualified success: it seems to work despite absence of hard rules and in the presence of significant extraterritorial effects, relying on a networked epistemic community of independent authorities with a common culture; but faces headwinds from enmeshment in security, trade, industrial policy, and a potential clash with Chinese or US priorities. Multi-stakeholder partnerships such as Gavi demonstrate the power of civil society, the private sector, and transnational philanthropy. Climate assemblies have the makings of promising experiments despite their lack of sophistication and critical mass. Many experiments are under way, though replicability of institutional setups should always be questioned: configurations of actors and interests are deceptively diverse.

What to build upon

In a fragmented world characterised by second-best solutions, and a sombre assessment of the difficulties in collective action, building on promising processes and norms is key.

- **Suitable transnational movements should be identified and fostered**. Less attention should be paid to their input legitimacy (stakeholder outreach and inclusion) than to output legitimacy (tangible improvements). There is a strong case for pushing change by exploiting opportunities; the intellectual focus on shades of multilateralism and varieties of institutions obscures the necessary focus to agree on issues to be addressed in priority, and which actors are partners and which are rivals. All this does not diminish the potential of clubs and networks; but everything starts with values and norms.
- **Sharing leadership can help overcome rivalry and fragmentation**. In the last decade, US/China tensions are not only failing to supply global public goods, but are actively supplying global public bads. The devastating evidence of this is the pandemic response. The lack of cooperation on health bodes ill for climate;

cooperation on climate action with China cannot realistically be separated from other issues. Action should be focused on fostering genuinely financially viable technologies and preventing catastrophic climate or health events. This West, and especially the US, should now help overcome rivalry and fragmentation by sharing leadership, starting in multilateral organisations.

- **Climate clubs can complement multilateral approaches.** Their membership or the conditions for their formation however matter: the balance of small group size, critical mass and fairness is difficult (an agreement would have to cover at least half of world trade and major actors such as the US, the EU, China and India). A multilateral approach is more strategic because it can take a holistic view, answering the need to change whole sectors (e.g. energy). Fortunately, the Paris Agreement allows room for parallel approaches. But the best proven solution has been to firmly embed climate action in trade (e.g. the Montreal Protocol).
- **Solutions should be matched to problems**. In a world of second-best solutions, three types can be distinguished. One solution can be to exclude, keeping the number of participants in clubs low so as to maintain a degree of homogeneity and manageability of participants at the table; but at a cost to representativeness, legitimacy, and creativity of solutions. Another can be to dilute: specialised institutions or regulators in each country (e.g. competition policy practitioners or central banks) can achieve cooperation through belonging to an epistemic community, buttressed by common norms; but at the cost of policy delegation and distance from the democratic process. Finally, a solution can be to compromise with the targets of action, which grants easier implementation, but at risk of easier capture. Solutions should be matched to problems, while keeping them within the scope of national democratic political decision-making.
- **The pursuit of values needs creative solutions**. The need to mobilise values and public opinion based on them (especially in Western countries suffering from deep domestic malaise) is hindered by the limited capacity for international organisations and their stakeholders to engage in bold reform, even in the face of catastrophe. The world is left to rely on creative alliances and clubs. Some may be inevitably incremental. Another dimension to legitimacy and effectiveness is coherence, over time and dif-

ferent stages: vaccination is an example where different actors came together institutionally, with innovative financing, but failed on production and distribution.

What is to be done

Preserving core principles but adapting governance to the new environment requires repairing what can be saved, building on what works and pursuing a "whole of governance" agenda.

The repair agenda

The repair agenda is hobbled by exhausted multilateral institutions that have been increasingly contested or paralysed. The task is to re-embed it in domestic, interconnected social contracts.

- **A broader "G20+ should orchestrate the overall repair agenda**. In a context where geopolitics is the biggest problem, a broader G20+ would ensure better representation coupled with nimbleness. The G20 is already shaping its agenda around some commons (health), and there is agreement to work on financial and health preparedness, backed by analytics, data, and learning from past mistakes. The G20 has revived a study group to analyse the financial implications of 2050 targets, now made permanent and co-chaired by the US and China. It is tasked with producing an action plan and a road map, and is meeting with private sector actors to develop metrics and taxonomies. The G20 should establish an annual report on global risk, to aid prioritisation and empower enforcement by organising precautionary task forces or delegating tasks to international organisations or consultative bodies like the T20.
- **The OECD should have a role in the climate just transition as part of the repair agenda**. It could help countries focus on providing global public goods in a kind of "inclusive framework for carbon", dealing with spillovers, ensuring alignment of global and national goals. A Nordhaus-style club would be more ambitious than the Paris Agreement, exacting high carbon prices and penalties for non-members, possibly also providing compensation for less advanced economies that join, thus combining a

positive and negative agenda. The OECD (possibly nested in a G20+ framework) could assist in providing a forum to compile policies, transform measures into a single comparable "price", and model systemic efficiency.

- **Major actors need to be incentivised to provide global public goods**. Attention should be paid to the coordination of global and regional levels: as the EU and now Asia show, trade growth has been driven by regions; but events have shown that global value chains can be disrupted by extra-regional shocks. The EU can play the role of a bridge between the US and China, and of an objective coordinator for reform in international organisations, calling on its normative power.

The building agenda

A building agenda is necessary for fields that do not enjoy strong governance institutions or are not internationally inclusive, and their collective action problems go inadequately addressed.

- **Reform existing institutions and clarify governance architectures**. There is hope for narrow agreements in the WTO; the G20 is discussing trade and exploring the possibilities of existing and new agreements. International financial institutions are beginning to seriously integrate sustainability in financing. The G20 has launched a notable infrastructure initiative, with a working group at leaders' level. But progress remains difficult due to representation in existing institutions and deep divergences on policy issues. Health needs clearer governance: ACT-A, COVAX, and the multilateral task force on fairness (uniting the leaders of the WTO, IMF, the World Bank, and the WHO) have been major multilateral responses to the crisis, and there have been many bilateral agreements and national initiatives, but the architecture needs to be clarified. Alternative structures and institutions can be challenges to a unified reform agenda. The G7 and G20 are "soft" institutions that have been quite successful, despite growing complexity; the input from consultative global civil society is valuable if voluminous, and there are efforts to try to commit presidencies to smaller, targeted agendas.
- **A framework for digital data flows is part of a building agenda**. Free flow of data without unreasonable intervention is imperative

for a highly globalised and digitised economic activity. A balance needs to be struck between restricting data protectionism, while preserving trust by preventing outflows of secret or private data. Heterogeneity of preferences has made a multi-track approach inevitable; creation of smaller groups is driven by the pragmatic impulse to improve the business environment rather than hang on to endless negotiation, in the face of increasing global economic competition.

- **A building-block approach can bridge clubs to the multilateral level**. Clubs don't necessarily hamper multilateral agreement; they can be strategically used in a building block approach. There are three conditions to this. First, a club should keep a high level of ambition over time, and not undermine it to widen participation. Second, soft institutions should be promoted, especially where the creation of hard institutions is unfeasible because of a high heterogeneity of preferences, based on expanding mutual trust and shared expectations of behaviour. Third, responsibility must be shared more broadly: it is not only a question of international fairness, but also a resilience mechanism for commons, which would not be dependent on the whims of a hegemon. Collective leadership can be such an intervener, complementing the absence of hegemony in a multipolar world.

The "whole of governance" agenda

Governance fields are inextricably interrelated; these spillovers are likely to be the main testing grounds for governance arrangements in the future.

- **Policy domains increasingly overlap and this calls for new approaches**. The economic is becoming geopolitical: macro-financial policy is increasingly difficult to coordinate; dollar weaponization remains. Increasing digitalisation of trade and finance adds to the challenge. Countries are asserting control over technology and data, at the risk of new fault lines, with ring-fencing of data and localisation rules. Within economies, the growing weight of big tech and non-bank finance are systemic concerns. International cooperation may be slow, requiring patient, difficult dialogue between central banks and regulators, but there is also a need for a level of collaboration at the national level between financial regulators, competition authorities and privacy authorities that does not exist today. This need for cross-institution, cross-disciplinary collaboration can also be applied to climate action. Since new multilateral institutions with hard rules seem unfeasible, transnational networks of technical authorities should be promoted across policy fields, to collect and exchange information, and build common social capital and trust. This has been done with more or less success within policy fields; it remains to be done across domains.

- **Despite fragmentation, the US never completely retreated from global governance**. It is still upholding certain responsibilities (e.g. extending dollar swaps during the pandemic); a fuller US retreat would create a huge void. This is why networks, coalitions and clubs should be strengthened as building blocks; also regions, in the spirit of the EU; and around common objectives (climate) and values. But rosy visions of transnational cooperation should not obscure truths of a multipolar world: clubs are inherently exclusive, and can generate geopolitical tensions. This is why it is important to be inclusive in consultation at least.
- **Transnational epistemic communities matter**. The world is flatter for the diffusion of ideas, produced in transnational epistemic communities: this generates possibilities for new political mobilisation, but also new systemic risks from further decoherence of jurisdictional, electoral, public policy instrument and currency boundaries.
- **The political narrative of reaction to dispossession is powerful**. Its emotional appeal fuels both the evil genius of xenophobic populists who want to take back their country and the hope of the youth who want to take back their commons. It cannot be countered by proffering technical cooperation on non-rivalrous, non-excludable goods. What is needed is a political narrative that also appeals to emotions, that is present, and urgent.
- **The EU has a role to play**. Given the lack of coherence between increasing demand for certain global public goods and supply, the EU (and its members) has a responsibility to build up the necessary networks and blocks. The EU can lead by maintaining its momentum and providing more public goods at European level with its coordinating, regulatory and fiscal capacities to reap economies of scale and reinforce its position in global discussions. It needs to build credibility with better narratives and

explanations of what its institutions and budget deliver and to finish overhanging integration tasks so it can use its scarce political capital to speak on the world stage with a single voice.

- **We need to shift to concrete problem-solving in groups**. There is too much focus on the "global" in global governance; action in groups builds confidence in the ability to work together. Coalitions of the willing can be suspicious because of concerns of illegitimacy and exclusiveness; the new model should be constituencies of the affected: joiners are as important as first movers. Sub-national actors (cities), the private sector and civil society must be deeply embedded in bodies that did not envisage their participation at their creation in the mid-20th century. Many big problems are solvable as a small group: a dozen countries are responsible for 80% of emissions; anti-microbial resistance is driven by six (if the EU is counted as one). Selected actors moving first matters, as well as remaining open to being joined. This is especially relevant for health preparedness, as pandemics can emerge from anywhere. But it does not always work: pandemic security intrinsically requires a global approach to surveillance, vaccine and treatment development and production; resilience of regional distribution cannot be assured because of entanglement of global value chains.
- **We need a "Manhattan project" for health security.** The pandemic has demonstrated the advantages of a model of centralised but globally available capabilities for scientific and pharmaceutical research, production and distribution. This model should be pursued. It could possibly be extended in the future to pandemic surveillance and response: biosensor technology and data could detect incipient pandemics and transmit warnings to authorities empowered to act quickly and preventively.

Concluding remarks by the organisers

The conference and discussions have altered the perspective in the Transformation of Global Governance project in a number of dimensions:

- **The discussion has helped broaden the original framework**. It took into account systemically important issues of commons, global divergences and geopolitics, but remained state-centric, focused on state rules of the road and collective action problems. Digitalisation in particular disempowers states and international organisations; risk must be radically rethought and integrated (financially); and it is demanding for nationally elected leaders to act in the short term to link domestic and global problems, against a backdrop of shifting political priorities and radical backlash.

- **The state of play is a perfect *long* storm**. The world cannot hope for a "Bretton Woods moment". The pandemic and the climate emergency may needle actors to a higher consciousness on what can and should be done, but there have been missed opportunities to draw lessons from. Responses to technological threats have been national or regional, and they are unsuitable to global challenges. The pandemic response has been a repeated collective failure of rationality: the case for acting was so obvious, the benefits of action were so obvious; the fragmented state of the international system is hardly sufficient to explain it. Pressure for climate action is also building; but the jury is far, far from out.
- **Lessons can be drawn for an action agenda**. Reasons for failure are relatively easier to understand in other fields than in health, such as trade or finance. Sequencing is important: orchestrating timelines, continuity, and congruity with domestic agendas. The building block approach speaks to the potential of dedicated clubs aiming for both compatibility with members and with encompassing institutions. Regarding clubs, the trade-offs of short-term effectiveness and inclusivity for longer-term effectiveness and legitimacy were amply discussed; but discussion provided a third trade-off axis of coherence, with the issue of adding and combining heterogenous institutions.
- **Global governance is now an existential issue for the EU**: it is less defined by internal integration as it is by external action now. It is more an issue of brain than of muscle; it is not a technical or material capability problem, but a political decision-making problem. In this context, one should underline the importance of working on these issues with a wide range of people and institutions while minding the political process.

Biographies

George Papaconstantinou is Professor of International Political economy at the School of Transnational Governance of the European University Institute and Director of the School's executive education programme. He is an economist by training, with a Ph.D. from the London School of Economics. He has served government at the highest level, as cabinet minister, member of the Greek parliament and MEP. As Greece's Finance Minister and subsequently Minister of Environment and Energy, he guided implementation of an ambitious and wide-ranging governance reform programme relating to budget and revenue processes, market liberalisation, as well as to publicly owned corporations and the divestment of state assets, as well as for the transition to clean energy and a green economy. In the earlier part of his career, he was a senior economist at the OECD, subsequently served in a policy advisory capacity for the Greek government, was a Board member of the largest telecoms company in Greece, taught at the Athens University of Economics and Business and consulted for the European Commission and international think-tanks. Since leaving public office, his work has focused on economic and financial policy-related analysis and governance issues. He has recently published *Whatever It Takes: The Battle for Post-Crisis Europe*.

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