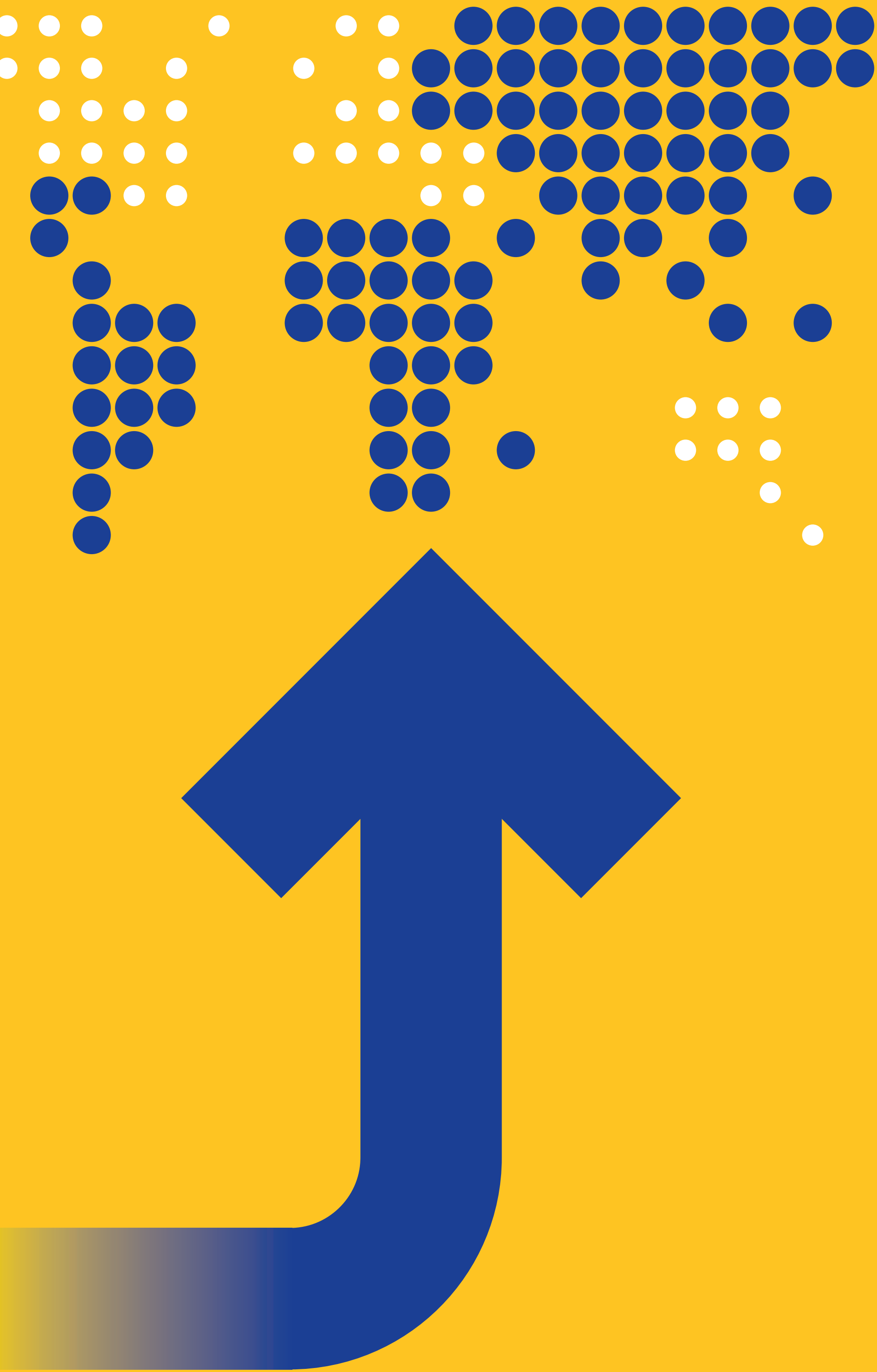

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EMERGING MARKETS FORUM

2017 GLOBAL MEETING

Current and Future Threats to Multilateralism: Causes and Possible Remedies

Johannes F. Linn

Background Paper

Emerging Markets Forum
A nonprofit initiative of the Centennial Group

Executive Summary

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The paper assesses potential threats to the multilateral system and institutions. It focuses on the multilateral financial institutions, the UN, global trade and the WTO, the Paris climate agreement and the Green Climate Fund, and the G20.

The principal conclusions from the paper's analysis are:

- Multilateralism and multilateral institutions face serious threats at a time when the need for effective multilateral discourse and action arguably is more important than ever.
- The threats include factors and trends at the geopolitical level (including the changing balance between old and rising powers, and the potential for a "new cold war"), at the national (esp. the rise of nationalism, populism, and antidemocratic tendencies), and at the institutional level (including fragmentation, problematic governance, and inefficiency).
- Some of these threats may be short-term and cyclical in nature. But many of the threats appear to be of a longer-term nature.
- The single biggest threat in the immediate future is a possible withdrawal of the US from its traditional leadership role in supporting multilateral approaches to global challenges.
- This confirms the core thesis of this paper: Since we cannot be sure the threats are short-term or cyclical, and since we cannot afford to be wrong in assuming they are, it is critical to preserve multilateralism and in particular the global multilateral institutions.

The paper proposes the following options for action:

- Multilateralists and multilateral institutions as a group need to make a stronger and more effective case at the popular base and to national leaders in defense of multilateralism and multilateral institutions.
- Multilateral institutions must raise their game.
- The G20, supported by its G20 Eminent Persons Group on Global Financial Governance, must actively focus on the threats to multilateralism and multilateral institutions.
- During the current phase of (possible) US withdrawal from global development leadership other countries have to play a constructive role in maintaining and further strengthening the multilateral system.
- Selected specific priorities for governments around the globe to help preserve effective multilateral institutions and actions in a rapidly changing environment include:
  - Stop the further fragmentation of the multilateral system and consolidate existing funding windows, wherever possible.
  - Fix the governance issues of the IMF and WB and agree on a substantial increase in the IMF quotas and in the World Bank Group's capitalization.
  - Focus reform efforts of the UN system on improving the efficiency of the major individual agencies and on enhanced collaboration at the country-level.
  - Systematically focus on how to generate more development impact at scale by enhancing the operations, partnerships, and financial leverage of the multilateral development institutions.
  - Resist tendencies for increased protectionism and revive the multilateral trade agenda, by liberalizing agriculture, facilitating trade in services, and tackling regulatory convergence.
  - Ensure that the voluntary pledges under the Paris Climate agreement are fully implemented and, if possible, exceeded.
  - Focus the G20 Summit exchanges on a few high-level strategic issues, including trade, climate change, and strengthening the multilateral institutions and processes.

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Current and Future Threats to Multilateralism: Causes and Possible Remedies *A Draft Paper for Discussion at the Global Emerging Markets Forum, October 2017*

Johannes F. Linn, *Distinguished Resident Fellow, Emerging Markets Forum*

Introduction

Multilateralism and the multilateral institutions face serious threats. This in turn threatens the continuing progress in solving critical global economic and social challenges: slowing global economic growth and recurring global financial crises; growing inequality and – despite significant improvements in living conditions worldwide in recent decades – persistent deprivation due to poverty, hunger, conflict and fragility, esp. in Africa; rising challenges to an open global trading regime; and the pervasive risks of pandemics, natural disasters, and climate change.[1]

If this statement sounds excessively gloomy, consider Mohamed El-Arian's opening paragraph for his op-ed in the Guardian on September 20, 2017: "Next month, when finance ministers and central bank governors from more than 180 countries gather in Washington, DC for the annual meetings of the International Monetary Fund and the World Bank, they will confront a global economic order under increasing strain. Having failed to deliver the inclusive economic prosperity of which it is capable, that order is subject to growing doubts – and mounting challenges. Barring a course correction, the risks that today's order will yield to a world economic non-order will only intensify." On the other side, David Bosco believes in the "durability of multilateralism" when he writes in the Journal of International Affairs that "we've been here before" and that "[President] Trump's challenge to the slow march of multilateralism may be even less consequential than de Gaulle's."[2]

This paper aims to assess the threats faced by multilateralism and multilateral institutions and to develop some ideas on how they might be addressed. Just to be clear, though, multilateralism is not just about the financing of investments. It is very importantly also about developing and maintaining rules-based and fair global economic and social relations among countries and peoples, about setting widely accepted norms and monitoring their adherence, about establishing networks to create, collect, and exchange knowledge and data, and about resolving potential conflicts among partners and competitors for global resources, markets, and influence.

There are two countervailing trends over the last seven decades:[3] After World War II (WWII) globalization and globalism took hold, reinforced after the fall of the Bamboo and Iron Curtains by the integration of China and the Former Soviet Block into the world economy. This was reflected in rapid global connectivity and economic integration, the development of a rules-based international order supported by the rise of the global and regional multilateral institutions, drastic declines in extreme poverty and increases in living standards across the world, and a growing recognition of continuing and new global challenges, and far-reaching agreement on the emerging global development and climate change agendas. The approval of the Agenda 2030, the Addis Agenda, and the Paris Agreement of COP21 in 2015 represented a high point in this trend towards a global agenda underpinned by multilateralist approaches.

However, recent years also have shown increasing stresses in the multilateral system, which appear to have intensified since about 2014. In the geoeconomic and geopolitical arena, the dramatic shift of the economic balance from the G7 countries towards the emerging market economies has meant that what used to be a bipolar world (US-USSR, 1950-1990) and briefly a unipolar world (US, in the 1990s) is now rapidly becoming a multipolar world (China, Europe, India, Russia, US, and perhaps others).[4]

1. For a very recent update on both progress and challenges for the future see the Bill & Melinda Gates Foundation report "Goalkeepers: The Stories behind the Data", released on September 13, 2017. (Bill & Melinda Gates 2017). The Economist magazine carried a cogent summary of this report on September 16, stressing the fact that while much progress has been made in recent decades, "progress on several fronts may be starting to falter." https://www.economist.com/news/international/21728905-report-gates-foundation-spells-out-biggest-risks-future-progress-great

2. https://jia.sipa.columbia.edu/we've-been-here-durability-multilateralism. Bosco also penned a piece in the Washington Post on 24 September 2017, in which he set out to debunk five myths on multilateralism, including "Myth No. 5: Trump is damaging multilateralism."

3. See, for example, James (2017), Council of Foreign Relations (2016), Kharas (2017a), Ikenberry and Lim (2017).

4. In 1960, G7 countries contributed 57 percent of world GDP (in PPP); by 2016 the developing economies contributed 56 percent (Kohli 2017).

While in many ways a welcome development, and indeed a sign of the spectacular success of multilateralism over the last 70 years, the convergence in economic and political power has also been a contributing factor to the revival of East-West tension, perhaps even a "new" or "second cold war."[5] Historians have observed the historical prevalence of the so-called "Thucydides Trap," where the "trap" refers to the supposedly inevitable tension between an established power and a rising power, eventually leading to war (as between Sparta and Athens in Ancient Greece). The potential for tensions and possibly conflict between today's established and rising powers, and especially between China and the US, is therefore seen by some astute observers as serious.[6]

In the national political spheres a combination of weakening national political consensus, growing distrust of elites and experts, and rising nationalism, populism, and authoritarian regimes threatens to reverse earlier trends towards democracy worldwide, as well as a weakening in the belief in a rules-based international order and in the support for multilateral approaches and solutions. In the institutional realm, the credibility of traditional global and regional multilateral institutions is eroding while new competing multilateral institutions have been set up, resulting in a highly fragmented, competitive, and potentially unstable institutional architecture, which could seriously weaken the multilateral institutional framework built in the post-WWII decades.

The UK referendum approving Brexit and the election of Donald Trump as President of the US in 2016 are widely seen as the key turning points in the traditional leadership and support of these two Atlantic powers for multilateral approaches. Whereas in the past, they supported a rules-based approach to global relations and the strengthening of global and regional institutions, they now appear to favor a more "transactional" approach involving bilateral deals and solutions and pursuing "our country first" objectives. In this regard they are not alone, as other countries in Europe and Asia are following similar tracks. Certainly, China, India, and Russia have increasingly resisted the traditional role of the US as a leader in global multilateral affairs and also pursue principally transactional approaches, even as they profess adherence to open trade and multilateral solutions, for example during the most recent BRICS summit.[7] Even Germany, which since WWII has generally been staunchly supportive of multilateral approaches, has in effect pursued an implicit "Germany First" policy in regard to running persistent current account surpluses and imposing its conservative fiscal stance on its EU partners, despite widespread international criticism.

Looking ahead, these trends raise four fundamental, interrelated questions:

1. Geopolitical: Will the coming decades see a continuation of the trend towards geoeconomic and geopolitical multipolarity and with it perhaps a revival of global conflict among big powers, similar to those during the first half of the 20th century?
2. Political: Will the current crisis of national democratic politics and institutions spread further, undermine national stability in many countries, and/or result in the rise or further strengthening of authoritarian regimes, bringing with it a greater quest for preserving national sovereignty and undermining the willingness of national governments to support global multilateral solutions and institutions?
3. Institutional: Will the multilateral institutions be severely weakened over time and unable to meet the growing global challenges?
4. Dynamics: Are these geopolitical, political, and institutional threats of a cyclical nature, and hence can they be largely ignored in the hope that they will eventually wane; or do they reflect a long-term trend that must be actively and forcefully addressed, before it causes lasting damage to the progress of addressing the key challenges faced by a globally interconnected world.

The core hypothesis to be explored in this paper is that we cannot be sure whether the current trends are cyclical or not, but that we better act as if the threats are long-term and serious in nature, for if we are wrong in the presumption that they are cyclical and that they therefore can safely be ignored, the damage to the world could be catastrophic.

This paper focuses specifically on the pressures on the global multilateral finance and development institutions emanating from geopolitical, political, and institutional forces. The next section considers in some detail the

5. Osnos et al. 2017
6. Allison 2017.
7. The BRICS 2017 Summit declaration stated: "Upholding development and multilateralism, we are working together for a more just, equitable, fair, democratic and representative international political and economic order." *http://indianexpress.com/article/india/brics-summit-2017-full-text-of-declaration-signed-at-xiamen-china-russia-brazil-south-africa-brazil-4828219/* For more on the Summit see Watt (2017). Also see Putin (2017) for a statement of Russia's President on the eve of the BRICS 2017 Summit. A summary of India's Prime Minister Modi's "10 Noble Commitments" is found at *http://www.business-standard.com/article/current-affairs/brics-summit-from-modi-s-10-mantras-to-anti-terrorism-things-to-know-117090500480_1.html*. Ikenberry and Lim (2017) and Prasad (2017) present good assessments of the complex pursuit of China's national interests in the global institutional domain.

international financial institutions (in particular, the IMF and the multilateral development banks). Subsequent sections review the United Nations, trade and the World Trade Organization, the Paris climate agreement and the Green Climate Fund, and the G20 in somewhat lesser detail.[8] A concluding section considers the implications for the way forward.

Threats to the International Financial Institutions

This section reviews how the four factors and questions identified in the introduction – geopolitical, political, institutional, and dynamics – apply to the key global and regional financial institutions (IFIs), i.e., the IMF, the World Bank, and the traditional Regional Development Banks.[9] Each of these organizations, of course, has its own pressing issues that cannot all be dealt with in detail here. And while the multilateral developments share many common traits and challenges, many of which are noted in this section, those of the IMF are in many ways sui generis.[10]

Created at the end of WWII at the Bretton Woods conference in 1944, the IMF's role was and still is today to safeguard the stability of the international monetary system and the development of trade, and to support the adjustment of countries encountering macroeconomic crisis. The World Bank's role was to support the financing of post-war reconstruction and of the development of what were then known as "under-developed" nations. Both institutions were to – and did – create access to finance for countries that suffered temporary or long-term financing deficits, particularly those in the developing world. From early on and until today, the governance of these two institutions has been dominated by their North American, European, and Japanese members/shareholders, as they contributed the greater share of the financial resources of these institutions.

Since Bretton Woods, the world and the IFIs have changed. With the rise of the emerging market economies the stark line between advanced and developed economies has become blurred, as many of the latter – and especially the Asian "tigers" – have come a long way in closing the gap with the former as regards living standards, financial resources, production and export capacity, technological know-how, and innovation. Moreover, with globalization the interdependency among all countries has grown exponentially, in terms of trade, private capital flows, transport, communications and exposure to "global public goods" (e.g., shared knowledge) and "global public bads" (epidemics, natural disasters, global warming, financial crises, etc.). At the same time, the function of the IFIs – their rank expanded over the decades by the addition of the regional development banks – also changed. While maintaining and adapting their role as public financiers for financial stability, macroeconomic adjustment, and socioeconomic development of individual developing countries, they now also serve as sources of policy advice, catalysts of private financial flows and investment, global and regional knowledge hubs and data managers, and advocates, financiers and guardians, of global (and regional) action to support global public goods and help prevent global public bads. However, the IFIs face multiple challenges and threats that will be explored in the remainder of this section.

Geo-economic/political factors

The opening up of China and the fall of the Soviet empire made it possible for the IFIs to significantly expand their membership and – esp. in the case of the IMF and World Bank – to become truly global membership institutions. Their support for the economic miracle in China and for the recovery of the countries in Central and Eastern Europe turned them into valued partners for these countries. While global economic, financial, social, and environmental challenges changed over the decades since their creation, there was a growing consensus in the international community, as represented by the Millennium Summit and the agreement on the Millennium Development Goals in 2000, by the Monterrey Summit on Financing for Development in 2002, and by the agreement on the Agenda 2030, the Addis Agenda on Financing for Development, and the Paris climate agenda in 2015. The IFIs were able to adapt to the changing needs of global financial stability and development challenges individually and as a group, as most recently reflected in their joint report from "Millions to Trillions" in support of the Addis Agenda.[11]

However, over the last few years rising geopolitical tensions have resurrected the East-West divide and have undermined the non-political status of the IFIs. The World Bank and the European Bank for Reconstruction and Development (EBRD) were most directly affected

8. This paper does not consider purely regional multilateral arrangements, such as the EU, ASEAN, etc.
9. The traditional regional development banks include the African Development Bank (AfDB), Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD) and the Inter-American Development Bank (EBRD). The International Fund for Agricultural Development (IFAD) is also generally recognized as a global IFI, even though it also is a specialized UN agency.
10. For a detailed assessment of the IMF's challenges and opportunities consistent with the high-level analysis in this section, see Camdessus and Singh (2017) and Boorman (2017). For more detail on the history and evolving role of the MDBs, see Center for Global Development (2016).
11. See James (2017); World Bank (2015).

when they had to stop lending to Russia in the wake of its annexation of Crimea in 2014. A similar, albeit short-lived, break in World Bank lending to China had taken place after the Chinese government's violent response to the Tiananmen Square protests in 1989. Such geopolitically driven actions by some of the IFIs reminded the emerging market countries that these institutions remain dominated by Western interests, and in particular by the US, at a time when emerging markets see a dramatic shift in the global economic balance away from the West and hence there is a growing interest among some of them, especially China, to challenge the perceived hegemony of the US, and of the West more generally, around the globe.[12]

Aside from these examples of Western political dominance in the IFIs, emerging market countries were frustrated by the drawn-out process and limited progress with renegotiating voting shares in the IMF and World Bank to reflect the shifting global economic balances;[13] by the continued practice of having nationals from Europe, Japan, and the US selected for leadership of key IFIs (IMF, World Bank, Asian Development Bank and EBRD); by the prolonged inability of the US to implement an agreed quota increase for the IMF, and the unwillingness of the Europeans and the US to support a major capital increase for the World Bank in the wake of the 2008/9 global financial crisis; and by the apparent skewing of IMF support to European countries in financial crisis – in contrast to its heavy-handed engagement in East Asia during the 1998 East Asia financial crisis – while key industrial member countries also seek a reduction of World Bank lending to Upper Middle Income countries.

It is therefore no surprise that emerging market countries have begun to seek alternative ways of meeting their development finance needs, including (a) reliance on increasing their own reserves as a way of self-insurance after the East Asia crisis; (b) the establishment of new regional financial arrangements and institutions, such as the Chiang Mai Initiative for balance of payments support in Asia; (c) the creation of the Asian Infrastructure Investment Bank led by China, the New Development Bank under the auspices of the BRICS countries, and the Eurasian Development Bank led by Russia; and (d) the strengthening of existing regional development finance institutions by their emerging market members (including the Islamic Development Bank, the Caja Andina de Fomento or CAF, now renamed the Development Bank of Latin America).[14]

National political factors

There are many long-standing tensions around development assistance that have been exacerbated in recent years by growing nationalistic/populist political pressures and debates about how to deal with immigration in advanced countries. These tension include debates about the appropriate balance between (a) supporting domestic needs versus international development, especially at a time when there has been much progress in reducing severe poverty in the developing world and middle income countries are increasingly seen as economic competitors of high income countries and responsible for job losses in traditional industries, and when large numbers of refugees from conflict-affected regions have to be absorbed; (b) bilateral versus multilateral assistance; (c) political/security focus versus development focus; and (d) core funding versus earmarking (linked to specific bilateral results agreements between individual donor and the multilateral agency).[15]

For each of these tensions, the stronger the nationalistic and populist pressures at home, the less likely is it that a government will support multilateral development funding mechanisms. Examples include recent cutbacks in pledges by selected European governments in their support for the soft-loan windows of selected traditional IFIs (in particular Denmark, Sweden, and Switzerland). And a particular challenge is now the possible reduction of US engagement in the IFIs. There remains much uncertainty about the Trump Administration's and the US Congress's positions on the budgetary allocations for USAID and for multilateral institutions, but indications are that there could be substantial cutbacks on both bilateral and multilateral accounts.[16] Given the large role that US engagement has

12. Prasad 2017; Ikenberry and Lim 2017.
13. Ahluwalia 2017.

14. Linn 2014; Ikenberry and Lim 2017. In these initiatives the emerging market economies follow the lead of the European Union, which over the decades set up its own regional financing structures, in effect competing with the traditional IFIs, including the European Investment Bank and the European Stability Mechanism.
15. Note the rising share of earmarked funding for multilaterals (Jenks and Kharas 2017). The UK has recently started pushing for performance agreements between DFID and its multilateral partners, which makes parts of DFID's core resource pledges on delivery against certain specified result benchmarks. This approach was confirmed in Prime Minister May's speech to the UN General Assembly on September 20, 2017 (https://www.gov.uk/government/speeches/theresa-mays-speech-to-the-un-general-assembly-2017). This approach may undermine the multilateral nature of traditional resource mobilization efforts of the IFIs.
16. The US reportedly announced in mid-2017 that it would reduce its pledges to the International Development Association (IDA – the soft-loan branch of the World Bank) and to the African Development Fund (ADF – the soft-loan branch of the African Development Bank) by 15 percent. And recently the World Bank announced that it would not seek a capital increase for IBRD in the immediate future, very probably due to the lack of outright support from the US.

traditionally played, its retreat from development assistance in general, and from multilateral assistance in particular, could lead to a downward ratcheting in the assistance by other countries especially for multilateral institutions, since their core funding models are based on the principle of equitable burden sharing among member countries.

Such a potential decline in funding for multilateral organizations by traditional donors could be made up in part by growing contributions from emerging market countries, who have in fact been increasing their development assistance in recent years, including for multilateral organizations. But such efforts are either blocked by resistance from traditional donors who fear dilution of their capital shares and votes and hence of their control over the IFIs (as in the case mentioned earlier for the IBRD capital increase after the 2008/9 financial crisis); or they are discouraged by an explicit push of traditional donors to reduce emerging market countries' access to IFI funding. Instead, these new donors understandably support those multilateral institutions in which they dominate the decision-making process, as noted above.

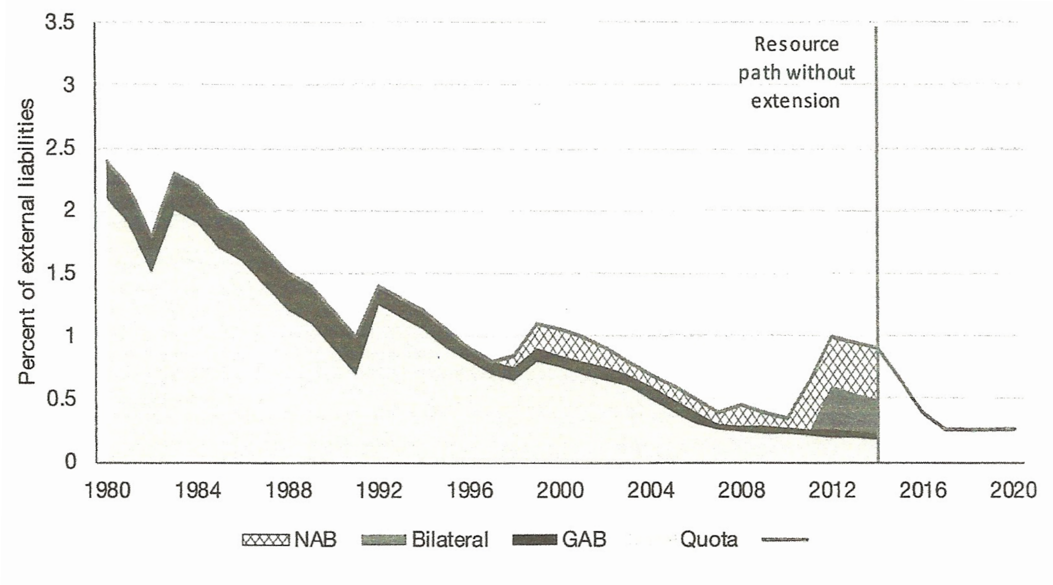
As a result, many of the traditional IFIs are now financially constrained. Despite the approval by the US Congress in 2015 of the quota increase agreed on in 2010, the IMF has seen a dramatic drop in its resources as a percentage of external liabilities (Figure 1). It needs a further quota increase to allow it to effectively manage global liquidity and serve as the lender of last resort when global financial crisis hits.[17] The IBRD, IFC, AfDB, and EBRD require capital increases, if they are to meet the needs of their member countries, especially for global infrastructure investments, for supporting the achievement of the Sustainable Development Goals (SDGs), and for helping to meet the challenges of global climate change.[18] The Asian Development Bank recently was able to increase its financing capacity without a capital increase, due to the financial innovation of combining the assets of its concessional window with those of its non-concessional window, and IDA was authorized to tap into capital markets based on its accumulated assets. These efforts to improve the financial leverage of the multilateral development windows are welcome, but should not mask the underlying problem that the IFIs overall are severely constrained in their finances relative to the tasks they face.

Institutional factors

The capital market based funding model of the multilateral development banks (MDBs) is a success story of leveraged development finance (in contrast to the bilateral and UN grant approach, and to the traditional revolving fund approach of the soft-loan windows of the MDBs, such as IDA). Estimates for the US show that one dollar of grant support by the US to the World Bank leverages a total of twenty-five dollars in funding by the Bank.[19] Indeed,

17. Boorman 2017; James 2017.
18. Boorman 2017.
19. See Morris and Gleave (2015) for these numbers and for an extensive

Figure 1: Declining resource position of the IMF



Notes: GAB - General Arrangements to Borrow; NAB - New Arrangements to Borrow
External liabilities is defined as the external liabilities of the International Investment Position as defined in the IMF's International Financial Statistics. They are on a residency basis and include foreign direct investment, 'other liabilities' (mostly banks) and portfolio liabilities.

Source: Boorman 2017.

perhaps the greatest demonstration of this extraordinary leveraging effect is that the original MDB model of the IBRD has been so widely copied over the decades, including the recent formation of AIIB and NDB. But there is undoubtedly a growing fragmentation of the international aid architecture, with the rise of new regional development banks and of new vertical funds (such as the Global Environmental Facility, the Global Fund for HIV/AIDS, TB and Malaria, GAVI, and the Green Climate Fund, to mention just a few) and with growing competition from other channels of development finance and assistance (NGOs, foundations, private investors, etc.). The dramatic and continuing expansion of multilateral development financing channels has increased the overall multilateral resource envelope and injected a healthy sense of competition among multilateral and bilateral channels of development assistance. But it also has increased the burden on receiving countries in managing this rapid rise of international development actors, created overlap and duplication in organizational structures,[20] and threatens the anchor role which original IFIs have played in the past, and could play in future in helping countries map out development strategies, mobilize resources, and coordinate their implementation at scale, esp. as regards achievement of the SDGs and of the climate mitigation and adaptation goals.[21]

As already noted, the inflexible governance structures of the IFIs (voice and vote, leadership selection, etc.) have undermined the legitimacy of these institutions in the eyes of the emerging market countries. At the same time, should the voice of overrepresented countries, especially of smaller European countries, be substantially reduced, this could well lead to an erosion of interest in and support for the IFIs in European capitals. So, one way or another, there are risks involved in changing the IFI governance structures as well as risks to not changing them.

Finally, there are recurring questions regarding the effectiveness of the multilateral institutions. Decades of critiques by northern NGOs and academics of the supposed social and environmental sins of aid in general and of the IFIs in particular, of the legacy of adjustment lending by the World Bank to Africa in the 1980s-90s, of the IFI response to the transition in former communist countries, and of the IMF's response to the East Asia financial crisis – to cite just a few of the more prominent challenges[22] – have negatively affected the IFIs' "brand" in the eyes of the publics and parliaments in donor and recipient countries alike. Partly in response to these criticisms, the institutions have been forced to adopt burdensome operational practices in regard to social and environmental safeguards, which have made them costly, long-winded, and unresponsive to client demand.[23] And even though assessments by member governments – 205 assessments of multilateral institutions were carried out by DAC member countries over the three-year period 2012-2014[24] — universally show that the IFIs perform very well in comparison with other multilateral and bilateral aid organizations,[25] they are continuously pressured by their OECD donors to add new responsibilities (human rights; climate mitigation and adaptation; gender, youth and handicapped; etc.); to further enhance their results focus; and to demonstrate their comparative advantage, their value for money and their transparency.[26] These pressures have undoubtedly a salutary effect on the quality of the IFIs' operational delivery, as measured by shareholder or donor performance benchmarks. But they also have the unintended side effects of undermining responsiveness, flexibility, and readiness to take risks of the institutions, and they have undermined the trust and ownership among recipient countries. On top of this, the recurrent clamor in donor capitals that IFIs are not performing well enough and need to be repeatedly reformed, also undermines the trust in these institutions among the donor publics.

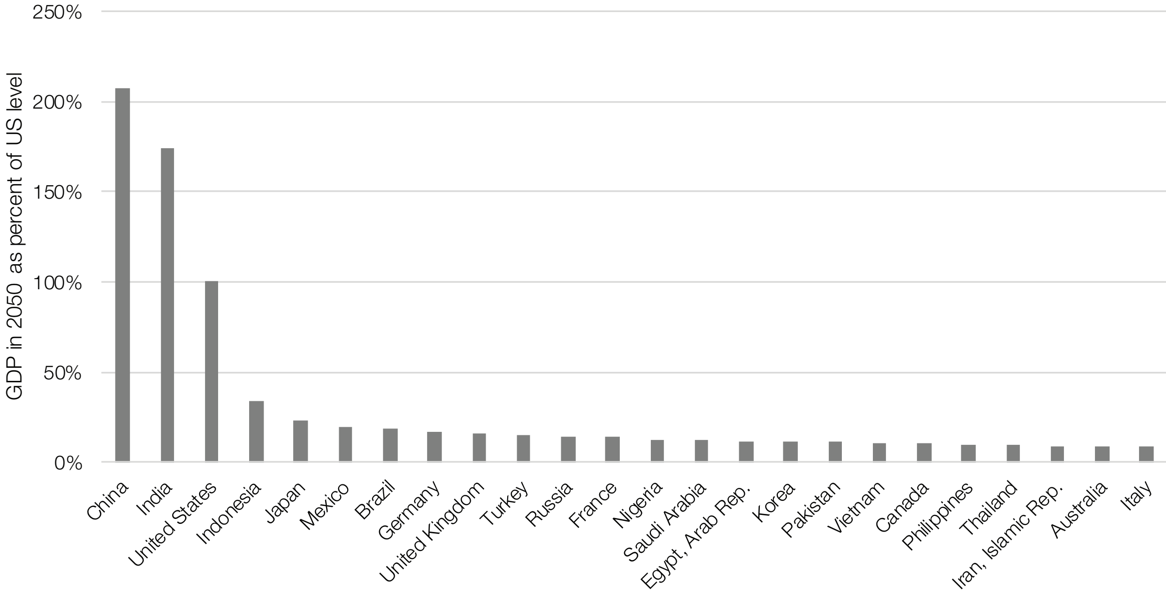
Dynamics of prevailing trends

How about the question of whether some of these factors are cyclical or long-term in nature? The geoeconomic factors, i.e., the continuing rebalancing of economic power towards the emerging market economies and towards Asia, will very likely continue (see Figure 2).[27] And the geopolitical trends – in particular the "new cold war" – could well also be long-term in nature, as the growing influence of the rising powers, and especially of China, will continue to clash with those of the status quo powers, Europe, Japan

explanation of the benefits of the WB for donor governments; the same would broadly apply to other MDBs.

20. Examples for this are the creation of the Global Agriculture and Food Security Program (GAFSP) set up in 2010, duplicating the mandate of the International Fund for Agricultural Development (IFAD) as well as the mandates of the MDBs in the agricultural sector; and the Green Climate Fund, also set up in 2010, duplicating significant aspects of the Global Environmental Fund (GEF), as well as the mandates of the MDBs (see also section on climate change below).
21. Linn 2015.
22. See, e.g., Stiglitz 2002; Easterly 2007.
23. Center for Global Development 2016.
24. OECD 2016; these assessments are on top of the extensive evaluations by the multilateral institutions own independent evaluation offices and inspection panels. There is little question that the IFIs are subject to much more intensive evaluation than most of their bilateral counterparts.
25. Ibid.
26. Center for Global Development 2016. Linn and Sood 2016 also note that as part of soft-loan fund replenishment processes donors involve themselves excessively in micro-managing the institutions, rather than focusing on broader strategic issues.
27. Kohli 2017.

Figure 2: China and India will be by far the largest economies in 2050



Source: Centennial Group International 2017.

and especially the US. National political trends – nationalism, populism and authoritarianism – around the globe are perhaps cyclical. Anti-EU sentiments in Continental Europe seem to be waning following the UK's Brexit decision, and the radical nature of the anti-globalism of the Trump administration may end up being less severe than feared and/or create a backlash that will eventually result in a return of the US to its long-standing support for globalization. But more likely than not, deep chasms among competing political visions and movements will continue to create a stalemate in the national political sphere in Europe and the US and the focus on recapturing or preserving national sovereignty will likely continue. As regards the institutional factors, these appear to reflect largely long-term trends in the development of the international development architecture and in the tensions and pressures under which IFIs have to function with respect to governance, operational policies, and performance expectations.

Challenges and opportunities

Overall, therefore, it is safe to assume that the IFIs and their governing bodies will have to learn to live with and adjust to the challenges of the potential long-term trends identified above in regard to geoeconomic/political, political, and institutional factors. Cumulatively, these developments risk sapping strength from the traditional IFIs as they are being starved of new quota contributions for the IMF and of new capital for the MDBs' hard-loan windows, and as their soft-loan windows may face declining replenishments; as they may confront reduced trust and engagement of their members; and as they could be seriously constrained in their ability to deliver financial services in response to potential client demand and huge global needs.[28]

Specific opportunities include the following:

- Governments should recommit to limit any further expansion of multilateral finance institutions, and to focus instead on clarifying and streamlining the mandates of the existing institutions, including those measures recommended by the recent report of the High Level Panel on Multilateral Development Banking.[29] The Eminent Persons Group on Global Financial Governance set up at the Hamburg G20 Summit in July 2017 is an excellent body to focus on a more effective division of labor among IFIs and other multilateral organizations and funds, and on how to limit continued proliferation of multilateral funding channels. It should also consider how to ensure more effective partnerships among IFIs, and with other national and international partners, especially with the

28. The recent report by the Bill & Melinda Gates Foundation (2017) makes clear that while there has been much progress in global living standards in recent decades, this progress is at risk looking ahead to 2030.
29. Center for Global Development (2017). The Busan High Level Forum on Aid Effectiveness already committed to tackle the fragmentation in multilateral aid channels. The Busan Declaration states: "We will improve the coherence of our policies on multilateral institutions, global funds and programmes. We will make effective use of existing multilateral channels, focusing on those that are performing well. We will work to reduce the proliferation of these channels and will, by the end of 2012, agree on principles and guidelines to guide our joint efforts." (p. 7) http://www.oecd.org/dac/effectiveness/49650173.pdf

private sector, at the country and global levels in the interest of effectively supporting scaling up of the development impact of external assistance in pursuit of the SDGs.

- In the case of the World Bank, a more explicit focus and more effective funding of global public goods as recommended by the CGD High Level Panel on MDBs should be explored.[30] Beyond this, shareholders should consider whether and how the World Bank can operate (in terms of advisory work and even financing) not only for the benefit of developing countries, but also for the advanced countries.[31] In the case of the IMF the recommendations of the Palais Royal Initiative should be fully considered.[32] For both institutions to be effectively engaged in addressing global opportunities and challenges, the continuing imbalances in their governance arrangement need to be urgently addressed, so as to enhance their credibility and trust among all members.
- The governing boards of the IFIs should explore lessening the financial constraints by improving the leverage of their existing equity, following the examples of Asian Development Bank with its merger of balance sheets for its soft-loan and hard-loan windows, and of IDA with its current move toward market borrowing. However, there are prudential limits to this increase in leverage, as IFIs must not put at risk their long-term financial sustainability and their AAA rating. Ultimately, if the global financial stability and development mandate of the traditional IFIs is maintained (as it undoubtedly should) and the needs and demand for their finance expands (as they undoubtedly will), only increased financial commitments by member governments can assure a sustained response. Most importantly in the immediate future, capital increases are essential for IBRD and IFC, and beyond this, capital increases for some of the regional development banks and a quota increase for the IMF.
- IFI managements should cooperate and jointly strategize in response to the more burdensome and problematic shareholder pressures, and as regards capital increase and replenishment processes, operational policies and evaluation requirements. They should also collaborate on seeking effective solutions to shared governance challenges.[33]
- All responsible actors engaged with the IFIs must be ready to demonstrate more effectively the benefits of the multilateral and collective finance models of the IFIs (IMF and MDBs) – managements vis-a-vis their Executive Board members, Board members vis-a-vis their capitals, and responsible ministries vis-a-vis their parliaments and publics. It is essential that the demonstrated success of the multilateral approach of the IFIs be as widely shared and understood as possible so as to minimize the risk of the golden geese getting starved for lack of appreciation of the golden eggs they produce.

The United Nations (UN)

The UN system has a vast array of responsibilities, spanning global security, conflict resolution and peacekeeping, refugee and disaster relief, and economic and social development, with some 34 departments, agencies, and funds involved in norm setting, dispute settlement, financing, research and data collection.[34] The discussion in this section focuses on the UN's development agenda and related agencies, but even for these only a high-level discussion is possible. For a full assessment, major individual agencies would have to be considered in some depth.

Among geopolitical factors, the traditional North-South divide that prevailed at the UN in previous decades between OECD countries and the G77 appears to have become less deep, but the revival of the East-West conflict and the potential for a "new Cold War" will likely hamper the effective functioning of the UN system in terms of decision making, funding, crisis response, and conflict resolution. At the same time, the UN's importance as a forum for addressing geopolitical tensions and global challenges

30. Center for Global Development (2016). However, one aspect of the High Level Panels recommendation needs to be treated with caution: that the World Bank Group should focus on global public goods, while the regional development banks deal with country-level investments. This dichotomy between global and national engagement is in fact meaningless, since all interventions – whether for global or national goals – need to be implemented through national-based programs and projects. Thus, eliminating the World Bank Group's engagement at the national level would in practice mean that it would not be able to engage in supporting global public goods through its financial operations and knowledge activities.
31. The World Bank is already active in selected high-income countries, including members of the EU. The European Investment Bank, whose financial model is based on the MDB blueprint, is very engaged in all EU countries. Considering the huge infrastructure investment needs and potential investment requirements of climate change mitigation and adaptation in high income countries, allowing the World Bank to engage more extensively in high income countries would greatly improve its impact as well as world-wide acceptance of the Bank as a global player in support of key global investment requirements.
32. Boorman and Icard (2011).

33. IFIs already cooperate in some of these areas, e.g., evaluation.
34. Jenks and Kharas 2016.

in a peaceful and productive way will rise as these tensions and the challenges – including climate change – rise.

Among the national political factors, nationalistic/populist trends will tend to undermine countries' support for the UN, and especially for its social and economic development efforts. A special problem is the possible collapse of US support and engagement in the UN. The US is a critical funder for selected agencies (especially in the humanitarian and peace keeping areas, but also in health and food security, and for the UN core budget (Figure 3)). The fact that the Trump Administration appears to be supportive of the Secretary General's reform agenda, is an encouraging signal, but the details of the approach of the US to the funding needs of the UN remain uncertain at the time of writing.[35]

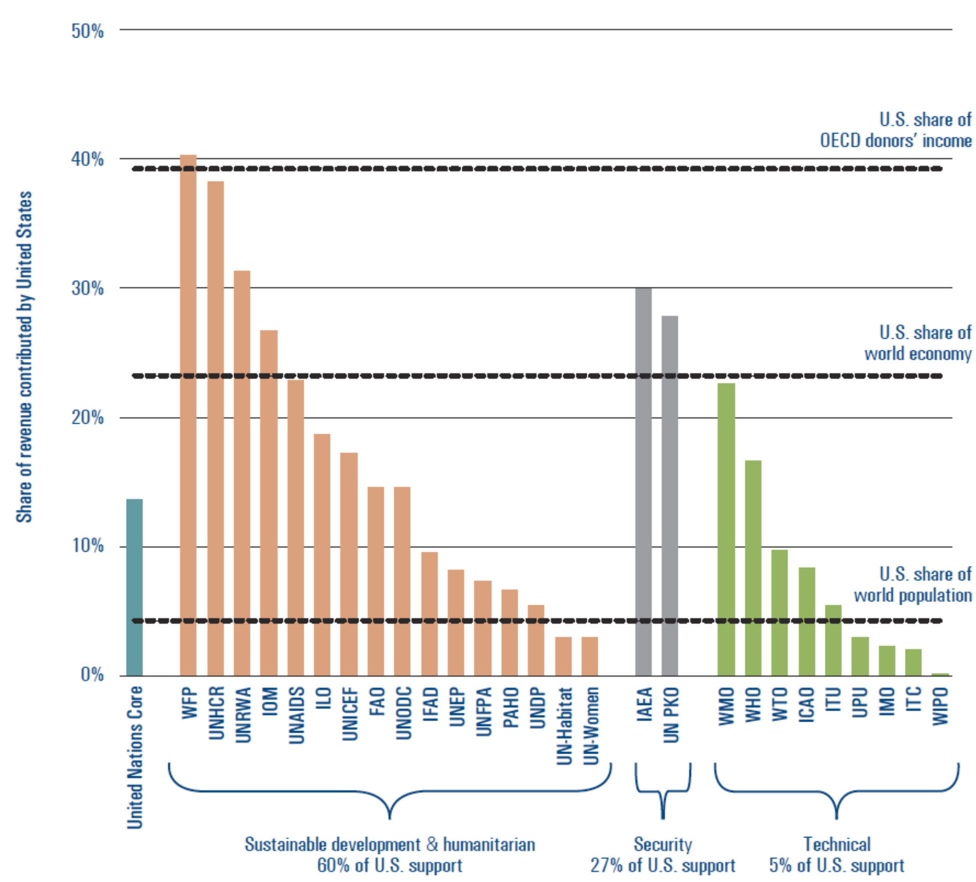
In the institutional realm, while for the UN there are fewer debates about the fairness of the governance structure than for the IFIs given the more effective representation of developing countries, there are longstanding questions about the effectiveness of the UN development agencies, due to their fragmentation both across and within agencies, their unleveraged financial model (grant based), their reliance on earmarked funding relative to core financing, and the uneven quality of staffing.[36] There also have been concerns voiced about the weakening ability of UN agencies to serve as effective norm-setting agencies.[37] Certainly, these institutional issues have been around for a long time, although they should not obscure the fact that individual UN agencies, including IFAD, UNDP, UNICEF, and WFP, have great strengths in their respective areas of engagement, and are developing innovative financial models (financial leverage, crowd financing, etc.).[38] Moreover, the UN led the process of the Agenda 2030, Addis Agenda, and the Paris Climate Agreement to a successful conclusion in 2015, which represented a major achievement for the international community.

As regards the dynamics of these trends, as for the IFIs, it appears that most are of a long-term nature, rather than short-term or cyclical. Hence, exploring how to address

35. President Trump lambasted "mammoth, multinational trade deals, unaccountable international tribunals, and powerful global bureaucracies" in his speech to the UN General Assembly on September 20, 2017. (https://www.vox.com/policy-and-politics/2017/9/19/16333290/trump-full-speech-transcript-un-general-assembly)

36. DFID (2016).
37. Jenks and Kharas (2016).
38. DFID (2016)

Figure 3: Share of US in UN Funding



Source: Kharas 2017a.

these challenges will be important for the future of the UN as a multilateral institution.

Among the challenges and opportunities for the UN system is foremost the need to ensure its continued ability to support the conflict resolution, peace keeping, and disaster response functions, to drive the global development and climate agendas, and to carry out its norm setting and information and data gathering functions. Of fundamental importance will be a more effective funding model for the UN. While ideally a global tax on international financial transactions ("Tobin tax") might be optimal, this is politically unrealistic at this time, esp. with the prevailing anti-tax and "America First" sentiments in the US. There are limited alternatives, esp. as regards raising a greater share of core resources, but moving beyond the pure grant model towards more financial leverage and innovative financing mechanisms, such as crowd funding and social or development impact bonds (as already practiced by some UN agencies), may provide some relief.[39]

Equally important will be efforts to demonstrate the effectiveness of the UN agencies. One direction would be to aim for more consolidation, coordination, and programmatic integration across UN agencies at the country, regional, and global levels. These objectives were pursued through the "One UN" reforms under the previous Secretary General (SG) with some, but apparently limited effect,[40] and they are now being pursued again by the current SG in a renewed UN reform initiative.[41] While such system-wide reforms are worthwhile in principle, they are in practice extremely difficult to carry through due to pervasive political and bureaucratic obstacles. Special effort therefore should be devoted to improving the functioning of individual agencies, based on the lessons learned from the more successful ones, and to work towards improved partnerships among agencies and with other key stakeholders in specific country, regional, and global programs in support of well-articulated scaling up pathways linked to particular SDGs.[42]

Global Trade and the World Trade Organization (WTO)

The idea that global trade is the engine of global economic growth and prosperity and that multilateral approaches to establishing liberal trade regimes has been a fundamental tenet of modern trade economics. And, indeed, the post-WWII experience of rapid global economic growth, even more rapid global trade growth, and the successful multilateral development of open multilateral trade regimes managed under the aegis of the World Trade Organization (WTO) bore out this view. Emerging market economies benefited especially from the progressive rounds of trade liberalization and their share in global trade grew rapidly, and is expected to continue growing.[43] However, the experience after the Great Recession of 2008/9 has begun to shake the confidence in the traditional approach to trade, as global recovery was slow and long-term growth prospects dimmed, especially for industrial countries; as trade growth turned out to be anemic (Figure 4);[44] and as those left behind in many industrial countries by the economic transformation brought about, in part, by globalization joined nationalist, populist movements espousing protectionist policies.

There are indications that the drive towards a liberal, multilateral global trade regime had begun to slow down before the Great Recession. A review of global trade negotiation "rounds" shows that they took longer and longer to complete, and that the current one – the "Doha Round" – has been the longest lasting and the most difficult, is still incomplete 16 years after it started, and indeed may well never be completed.[45] Instead, very partial and limited agreements were reached in Bali in 2013 and Nairobi in 2015 under the Doha Round negotiations, while bi- and plurilateral[46] free trade agreements (FTAs) have become the favored approach of many countries, causing one observer to lament the "fragmentation of the global economy" and another to note that "the increasing importance of new trade obstacles could lead to a fragmentation of global trade patterns".[47] Moreover, there has been an increasing

39. Note also the recent announcement by the International Committee of the Red Cross (ICRC) of the launch of its first humanitarian impact bond, raising CHF26 million for three new physical rehabilitation centers in Africa. (*https://www.icrc.org/en/document/worlds-first-humanitarian-impact-bond-launched-transform-financing-aid-conflict-hit*)

40. An independent evaluation of this effort concluded: "'Delivering as one has been a real-world testing ground for an ambitious agenda for a more coherent and effective United Nations system at the country level, the principles of which were announced in the 2005 World Summit Outcome. However, while its efforts at reform are mostly positively assessed, bolder measures may be required to put the United Nations on a more comprehensive track of reform, including rationalization of the number of United Nations entities; reform of mandates, governance structures and funding modalities; and a new definition of the range of development expertise expected from the United Nations system." (p. 28) *www.unevaluation.org/document/download/1557*

41. *http://sdg.iisd.org/news/governments-react-to-secretary-generals-proposals-for-reform/*

42. For a discussion of how international actions could support scaling pathways for the achievement of the SDGs, see Linn (2015).

43. Lamy (2017).

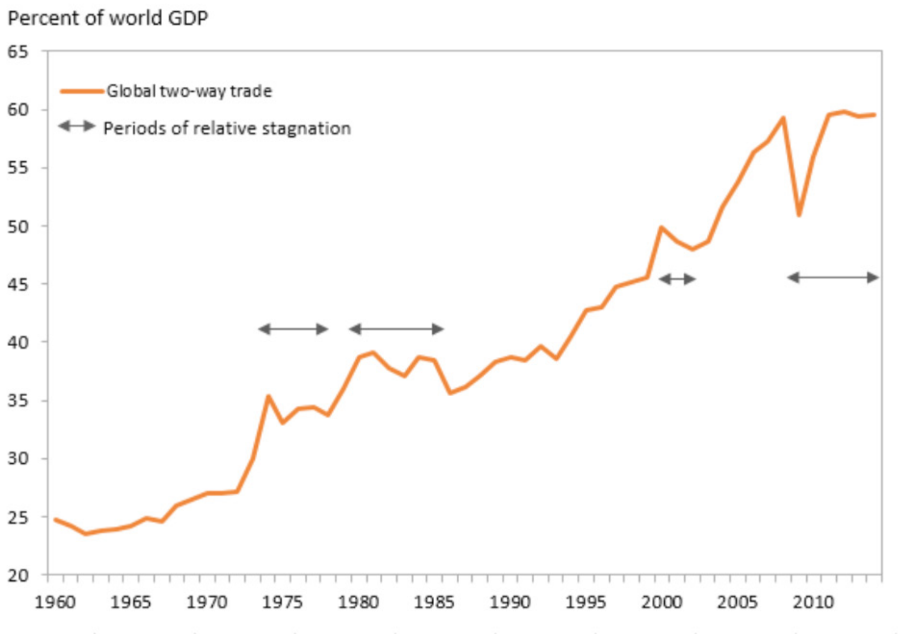
44. In 2015, global trade in real and nominal terms declined while global GDP rose, a highly unusual combination in the history of world trade (Kohli 2017).

45. Hufbauer and Jung (2016).

46. These have a reach of a limited number of partners, rather than a global reach of the multilateral rounds of trade negotiations under the aegis of the WTO.

47. Agarwal (fragmenting global economy); Lamy (2017).

Figure 4: Global Trade Trends, 1960-2014



Source: Hufbauer and Jung 2016.

incidence of "micro" protectionist measures (esp. local content requirements), a trend that intensified after 2008.[48] The WTO also recorded an increase in the stock of trade restrictive measures in recent years.[49]

The main international organization managing the multilateral trade relations process is the WTO, founded in 1995 as the successor the General Agreement on Tariffs and Trade (GATT) established after WWII.[50] With 164 member countries it is approaching near universal global coverage. It operates on the basis of five core principles: non-discrimination among members, free and open trade, transparency and predictability, fair competition, support of development and economic reform in member countries.[51] Like its predecessor, the GATT, the WTO manages the negotiations process under the trade "rounds," monitors trends in trade and trade restrictions, and most importantly manages a dispute settlement mechanism (DSM) under which member countries can seek redress from binding arbitration of their grievances against unfair trade actions of other members. The DSM has generally been successful in adjudicating trade disputes, with the US its most active user.[52]

While the US had been a key driver of the multilateral trade development process since WWII, it joined the trend towards bi- and plurilateral trade agreements as the Doha Round bogged down, and under the Obama presidency championed the development of "Mega FTAs," including the Trans-Pacific Partnership (TPP) and a Transatlantic Trade and Investment Partnership (TTIP). Under the current Trump Administration, the US position has turned dramatically and very explicitly against a multilateral approach (see Box 1), against Mega FTAs, and in favor of bilateral deals that will aim at obtaining favorable conditions for the US and at eliminating US trade deficits with principal trading partners.

As regards the factors that have undermined the multilateral approach to trade liberalization and more recently a trend towards protectionism, consider first the geopolitical factors. The economic rise of Asia in recent decades – first Japan, then South Korea, and most recently, and forcefully, China – repeatedly led to the perception of threats to the economies of the established powers in North America and Europe. In the past this has given rise to temporary efforts to limit import competition in the US and EU, but it did not threaten the overall progress towards an open, rules-based trading system. This began to change as the fronts between northern and southern trading partners hardened and the leverage of the industrial countries weakened along with the rising of emerging market economies in global GDP. This shift in bargaining power is reflected, inter alia, in the stalling of the Doha Round, as southern partners felt they had been unfairly treated in earlier rounds, and successfully resisted pressures by industrial countries

48. Hufbauer and Jung (2016).
49. WTO 2016.
50. The IMF, World Bank, and UN also have important roles in supporting global trade relations.
51. https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm
52. McBride 2016.

Box 1: A new US trade strategy against multilateralism

The US trade strategy document issued in March 2017 is very explicit in its critique of multilateralism and its intention to abandon it in favor of a bilateral approach:

- "For more than 20 years, the United States government has been committed to trade policies that emphasized multilateral and other agreements designed to promote incremental change in foreign trade practices, as well as deference to international dispute settlement mechanisms. The hope was that such a system could obtain better treatment for U.S. workers, farmers, ranchers, and businesses. Instead, we find that in too many instances, Americans have been put at an unfair disadvantage in global markets." (p. 7)
- "The overarching purpose of our trade policy – the guiding principle behind all of our actions in this key area – will be to expand trade in a way that is freer and fairer for all Americans. Every action we take with respect to trade will be designed to increase our economic growth, promote job creation in the United States, promote reciprocity with our trading partners, strengthen our manufacturing base and our ability to defend ourselves, and expand our agricultural and services industry exports. As a general matter, we believe that these goals can be best accomplished by focusing on bilateral negotiations rather than multilateral negotiations – and by renegotiating and revising trade agreements when our goals are not being met. Finally, we reject the notion that the United States should, for putative geopolitical advantage, turn a blind eye to unfair trade practices that disadvantage American workers, farmers, ranchers, and businesses in global markets." (p.1)

Source: https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/AnnualReport2017.pdf

to give up on their demands for agricultural trade liberalization by the industrial countries during the negotiations.

For the current US administration trade has become a main front in its efforts to deal with a rising China, although it has also taken on – surprisingly – Canada and Mexico, South Korea, and Europe (esp. Germany), on the grounds that persistent bilateral trade-surpluses of these countries vis-à-vis the US are not acceptable. In the G20, the US has found itself isolated, as G20 finance ministers during their March 2017 meeting urged the US not to pursue protectionist policies and as the US pursued it efforts to forestall repetition of statements in support of open global trade and multilateral trade arrangements in the communiqué of the Hamburg G20 summit. Looking ahead, it does not bode well that the US did in fact succeed in watering down that G20 communiqué to a degree that the group of business representatives B20 considered disappointing and alarming.[53] And even as emerging market leaders, including in the recent BRICS summit communiqué, have professed their support for an open multilateral trading system, geopolitical competition and the use of bilateral trade restrictions as a bargaining tool in geopolitical competition will likely represent a continuing threat to the established multilateral trading system.

National political factors of course play a critical role in shaping countries' approaches to international trade relations. As noted, the decline of traditional manufacturing industries in the industrial countries and the resulting pressures on the blue-collar workers have been associated, in the popular mind, with the rise in cheap imports from emerging market economies, especially from China, and been one of the factors contributing to the rise of nationalist, populist movements in Europe and the US. The lack of attention by traditional political parties and technocrats to the plight of declining "rust belts" added to the sense of abandonment and the attraction of voters in these regions to politicians promising protections of various kinds, including aggressive trade protection. In the 2016 presidential campaign it was not only Republican candidate Trump who argued against new Mega-FTAs and for more protection, but also the Democratic contenders Clinton and Sanders, showing how pervasive the aversion to the free trade message has become in the US. While the US is perhaps an extreme case, both in terms of the widespread nature of the anti-trade sentiment and the aversion of its current leadership to multilateral trade arrangements, the trends summarized above (rising protectionist measures, weakened commitment by the G20, etc.) show that the political mood in many advanced countries has swung against multilateralism in trade and towards more assertive pursuit of national trade advantages, which in any case always held more sway in the developing countries, even in the past.

Institutional factors also play a role in the trade area, as the WTO has not been immune to criticism.[54] The increasing number of participants in the WTO, combined with the consensus principle under which any country can veto a decision, have made it increasingly difficult to reach agreement in the global trade negotiations. Moreover, the

53. https://www.b20germany.org/fileadmin/user_upload/documents/B20/B20_G20_Leaders__Declaration_Evaluation.pdf

54. McBride 2016.

relatively easy steps in reducing trade obstacles have mostly been taken by now (esp. tariff reduction). As trade links have become increasingly complex involving global value chains, and as trade in services had grown as a more important element of global trade, negotiations under the WTO umbrella had to turn to more difficult and complex topics, including the harmonization of regulatory frameworks across countries. Moreover, since the IMF, World Bank, and some UN agencies (esp. its regional bodies) also have important supportive functions in the trade arena, the factors weakening their credibility and capacity, including the institutional factors previously highlighted, also represent potential threats for their supportive role in the trade area.[55]

How about the dynamics of trends affecting multilateralism in the trade area? Expert commentary on the trends, even before the election of Mr. Trump in the US, suggest that a long-term phenomenon is at work:

- "Given the resort to financial incentives, local content requirements, 'buy national' public purchasing provisions and the like, the increasingly fragmented world economy may represent a bastardized form of globalization riddled with massive resource misallocation, while the paucity of traditional trade barriers presents the veneer of 'open borders.'"[56]
- "Globalization and the international rules-based order that underpins it are under siege… Protectionism and a retreat from international cooperation is clearly not the answer, but policy makers minimize the underlying mistrust of globalization and multilateralism at their peril."[57]
- "The World Trade Organization's relevance as a forum for global trade talks faces growing doubts as countries increasingly turn to regional free trade agreements to advance their interests."[58]

So, even if the Trump Administration's rejection of a multilateral approach is of a short-term nature and does no lasting damage to the fabric of the multilateral trade system – two big ifs –, the geopolitical and national political threats to multilateralism in trade would appear to be of a long-term nature.[59] Add to this the likely continuing challenges for the WTO in terms of its governance, and also the continuing complexity of global trade relations, and the prospects for the multilateral trade regime look bleak.

What then are the challenges and opportunities for those who believe an open, multilateral trading system is essential for long-term global prosperity and development? Here are some ideas, limited as they may be:

- A key aspect, which is now getting more attention in the debates about trade and technological progress than in the past, is the need for recognition of the impact on those population groups negatively affected and for inclusive policy measures of mitigating these effects on the peoples lives.
- To the extent protective measures are pursued, it will be critical to explore all options of assuring that they are WTO-conform and are least damaging in terms of efficient resource allocation and lasting negative impacts on the broader trading system. Preserving the DSM as a trusted mechanism to pursue trade grievances will be critical.
- A focus on "regulatory convergence" is a high priority. Pascal Lamy, the former head of the WTO, recently noted that "the decisive 21st century challenge will be that of regulatory convergence; it is the collective responsibility of emerging and advanced economies to prevent it from generating a new fragmentation of global trade." And he called for the WTO to "be given the competences to organize and monitor the regulatory process."[60] With the current US Administration bent on removing domestic regulations, rather than harmonizing across borders, the chances for progress in this area in the short term appear scant.
- China needs to recognize that the large investments it will support in realizing its ambitious vision of the Belt-Road Initiative will only bear fruit if they are matched by efforts to reduce trade barriers between the many countries that are to be connected by these investments. Similarly, all governments, including and especially the United States, now exploring major transport infrastructure investment initiatives will need to realize that in a world of global supply chains for a majority of goods produced and consumed in their countries the returns to these investments will depend substantially on reducing the barriers impeding cross-border trade, or at least not creating new barriers that will disrupt established trading relations.

55. And it should be noted that the widespread popular resentment in many part of Europe against the EU bureaucracy in Brussels, may well also be a factor undermining the trust in the global multilateral institutions supporting open, rules-based international trade.
56. Agarwal and Evenett 2013.
57. Adeyemo 2017.
58. McBride 2016.
59. See Dione et al. 2017.
60. Lamy 2017, p. 112.

- The global multilateral institutions – the IMF, World Bank, and UN –, and their regional counterparts (esp. the MDBs, old and new; as well as regional bodies, such as the European Commission) need to work closely with the WTO and in support of the WTO in making the case for and in the implementation of effective multilateral trade approaches.

The Paris Climate Agreement and the Green Climate Fund (GCF)

Climate change and its projected disastrous impacts on the globe are a "global public bad" par excellence, and fighting them a clear case of a "global public good." This means that multilateral approaches that motivate, coordinate, and implement an effective fight against climate change are essential. Over the last two to three decades the scientific basis of recognition of climate change and of its link to human action, in particular CO2 emissions, strengthened and created the momentum for a remarkable political consensus around the globe that coordinated action was essential. The December 2015 climate agreement in Paris was the culmination of this process, supported as it was by 197 states (including the EU). It set ambitious indicative targets for controlling the rise in average global temperatures, registered voluntary commitments by individual countries to limit their CO2 emissions ("Intended Nationally Determined Contributions" or INDCs), set up a monitoring and peer review system, and confirmed the ambitious climate financing target for OECD country support to developing countries at the Cancun climate summit in 2010. One veteran observer of climate change negotiations referred to the agreement as "a major breakthrough in international climate diplomacy."[61]

One of the pillars of the evolving climate change response has been the Green Climate Fund (GCF), which was set up at the 2010 Cancun climate summit as part of a commitment by industrial countries to mobilize $100 billion in support of climate mitigation and adaptation in developing countries. The GCF had its first fund raising meeting in 2013, at which 43 countries pledged a total of $10.3 billion over an undetermined period. Its principal operating modality is to serve as a pass-through mechanism for climate investments supported by accredited entities, which can be multilateral agencies, governments, and private firms (Deutsche Bank was in the first batch of accreditations).[62] By now the GFC is up and running, with 54 accredited entities, 43 approved projects, and $10.3 million disbursed by September 2017.[63] But the GFC is not the only multilateral organization supporting climate change, as most other major multilateral organizations have developed climate action programs, designed to focus on and mainstream support for mitigation and/or adaptation in their project finance.[64] According to an estimate by the IMF, total external public funding towards the $100 million climate finance target amounted to $61.8 billion in 2014. And a joint report by the six largest multilateral development banks reported that they committed on average about $25 billion a year from 2011 to 2016.[65] Together with public and private co-financing (domestic and international), the total amount invested and catalyzed by these six banks was even more substantial, adding up to some $60 billion in 2016.[66] The MDBs thus contributed a significant share of the total.[67] Beyond the financing role, international financial institutions also have taken on essential roles in supporting analytical work on climate change policies and supporting appropriate policy reform, including development and implementation of carbon pricing approaches.[68]

Turning then to assess the threats faced by multilateral approaches and institutions in their support for mitigating climate change and its impacts, geopolitical factors would appear to represent a relatively limited risk to the multilateral effort. The Paris agreement was achieved in late 2015 despite the rising geopolitical tensions noted earlier, and indeed the agreement's particular design, relying as it does on voluntary statements of country "intentions" rather than compulsory country targets, was a key feature that made it possible to overcome the divide between industrial and developing countries that had plagued earlier climate negotiation efforts.[69] Of course, a dramatic worsening of East-West relations could seriously damage also any hope for further multilateral progress on climate change.

The national political factors will likely be critical for the longer-term future of the multilateral climate change agenda. The good news here is that in many countries

61. Falkner 2016.
62. This caused some negative reactions by civil society observers on the grounds that Deutsche Bank also supported carbon-intensive investments. https://us.boell.org/2015/07/09/green-climate-fund-accreditation-deutsche-bank-sparks-concern-about-integrity-and
63. http://www.greenclimate.fund/home
64. See for example the World Bank Group "Climate Action Plan 2016-2020" (https://openknowledge.worldbank.org/handle/10986/24451) and the IFAD "Climate Change Strategy" (https://www.ifad.org/documents/10180/4f102df6-2751-4a16-9443-bd132e1c519f)
65. "Joint Report on Multilateral Development Banks' Climate Finance 2016" (AfDB, AsDB, EBRD, EIB, IADBG, WBG) (www.ebrd.com/2016-joint-report-on-mdbs-climate-finance.pdf)
66. Climate finance data are notoriously unreliable, and hence it is difficult to assess how much was committed in total foreign financing from OECD countries in support of developing countries (Oxfam International 2016; Kharas 2017b).
67. International Monetary Fund 2016.
68. Pfeiffer and Hepburn 2017.
69. Falkner 2016.

domestic political support for engaging in a global fight against climate change is strong, not only in industrial countries, but increasingly also in developing countries, as the potential damage from climate change is getting more real, as technological advances offer new options at lower costs, and as business interests realize that fighting climate change offers significant commercial opportunities.[70] The recognition that controlling CO2 emissions and preparing for the impacts of climate change are in all countries' self-interest, has now taken hold in many countries, including the emerging markets economies. The main outlier and countervailing political force is the US since the advent of the Trump Administration. The announcement in June of the US withdrawal from the Paris agreement, to become effective in November 2020, and the US pledge to stop supporting the GCF sent shock waves through the international community. Although the US announcement was met with pledges by the Europeans, China, India, and others, including the non-US members of the G20 at the Hamburg summit in 2017, to continue pressing ahead with the Paris agreement, the absence of US leadership and funding (directly for the GFC, but possibly also for the climate efforts of other multilateral agencies), represents a significant threat to progress on the global climate agenda.

Turning then to institutional factors, so far 160 of the 197 parties have ratified the Paris climate agreement[71] and the process of monitoring progress with the Paris agreement is proceeding. In fact, the US remains engaged in this process at least through 2020, despite the US announcement of withdrawal.[72] And, as noted earlier, there has been great progress in mainstreaming the climate agenda into the operational and financing activities of the multilateral agencies. However, criticisms have also been leveled by climate advocates at what they regard as the limitations of the Paris agreement, that the governmental commitments lack sufficient scope to stop climate change, and that in any case with the lack of enforcement there is no guarantee that pledges will be implemented.[73] Moreover, the GCF has been criticized for a slow start, cumbersome procedures and a lack of transparency, too little direct access by development country governments, too many large-scale projects and insufficient funding of smaller, community-based initiatives, and a politicized governance structure.[74]

One troublesome aspect of the creation of the GCF has not apparently been given much attention, however – the fact that it continues a long trend of fragmentation in the multilateral finance architecture. In 1992 the Global Environmental Facility (GEF) was established as a pass-through funding mechanism for environmental programs of global significance. At the time, there were already questions why a new multilateral institution had to be created, rather than ensuring that the existing MDBs and the United Nations Environmental Program (UNEP) were adequately funded and effectively addressing global environmental issues. Since then, the GEF has grown into a significant funding vehicle for environmental action. According to its website, the GEF "has provided over $17 billion in grants and mobilized an additional $88 billion in financing for more than 4,000 projects in 170 countries. Today, the GEF is an international partnership of 183 countries, international institutions, civil society organizations and the private sector that addresses global environmental issues."[75] Moreover, the GEF has developed a significant engagement in the climate change agenda.[76] Why was it then appropriate and necessary to create a new institution, in essence duplicating the existing institutional structure and capacity of the GEF? As has so often been the case in situations where new institutions are created overlapping in mandate and function with existing ones, the answer is most likely that national political arguments overrode arguments of multilateral efficiency and effectiveness.

Considering then the question of the dynamics of the trends, it is likely that the growing evidence of negative impacts of climate change will continue to drive the growing political support for effective policy action, along with technological and commercial factors that will facilitate the transition to a low-carbon economy.[77] In the US 57 percent of surveyed voters disagreed with the decision to withdraw from the Paris agreement (and only 25 percent agreed), and there are reactions at state, local, and community levels and by business interests that give one some confidence that the current US policy may not be long-lived and with lasting negative impact. The institutional

70. See the op-ed by Michael R. Bloomberg in the Financial Times, "Stronger Global Relations Require Business Leadership," September 20, 2017.
71. http://unfccc.int/paris_agreement/items/9485.php
72. Meyer 2017.
73. Munsch 2017.
74. E.g., Deutsche Klima Finanzierung 2017 (http://www.deutscheklima-finanzierung.de/blog/2017/03/green-climate-fund-herausforderungen-fuer-2017-und-darueber-hinaus/); Climate Home 2017 (http://www.climatechangenews.com/2017/06/30/cash-begins-trickling-green-climate-fund/)
75. https://www.thegef.org/about-us
76. The GEF website also states: "The shift to a low-carbon economy will take creative thinking and innovative financing. Based on our quarter century of experience and wide network of partners, the GEF is well-placed to support the transformation. The GEF is an operating entity of the financial mechanism for the United Nations Framework Convention on Climate Change (UNFCCC). As such, our resources are a catalyst for large-scale investments in the low-carbon economy and building greater resilience. We invest in energy efficiency, renewable energy, sustainable transport and climate-smart agriculture to support mitigation." (https://www.thegef.org/topics/climate-change)
77. Pfeiffer and Hepburn 2017.

challenges, however, may persist, and indeed the multilateral institutional support structure that implements the climate change interventions may suffer if the existing multilateral institutions (esp. the MDBs, GEF, and UNEP) are substantially weakened.

Finally, among the challenges and opportunities, the greatest challenge will be for the international community to respond effectively to the US withdrawal from the Paris agreement and from the GCF. The initial response of the international community was encouraging in this regard, as noted above. But this has to be followed up with effective implementation of the stated intentions by the main carbon emitting countries, by progress with carbon pricing and the reduction and ultimate elimination of pervasive subsidies for energy use, and by effective mobilization of the promised financial resources to support climate mitigation and adaptation in developing countries. The multilateral institutions, with the encouragement and support from their membership, need to continue their active engagement and support for effective climate change interventions, including policy reforms, financing of investments, esp. in the area of climate smart infrastructure, energy and agriculture.[78] And the G20 plays a particularly important role, since it has climate change squarely on its agenda and includes in its ranks the most important emitters. Unfortunately, as noted critically by the B20, a group of business representatives accompanying the G20 summit process, the Hamburg G20 summit in July 2017 did not make significant progress on the carbon pricing front.[79]

The G20 Summit

The G20 Summit was first called together in November 2008 by US President George W. Bush in response to the global financial crisis, which had started earlier that year. As an annual meeting of key global leaders from North and South, East and West, it has since then become an integral feature of the global multilateral architecture. Indeed, it can be seen as the apex of all multilateral consultation, coordination, and cooperation efforts, although this is not necessarily the accepted view of those excluded from the G20 summit forum, and by those who would rather see the UN and its governing bodies serve as the apex of the global governance system.

From its initial, overall successful focus on coordinating an effective crisis response, which included a concerted fiscal stimulus effort and initiatives to strengthen global financial regulation, the G20 Summit has over the years taken on a bewildering range of topics: In its 2017 compliance report, the G20 Research Group of the University of Toronto noted 213 specific commitments in the Hangzhu Summit of 2016[80] and the Communiqué of the 2017 G20 summit in Hamburg covered 14 pages, not including 14 “agreed documents” on various action plans (including one on “countering marine litter”), statements of principle (including one on “countering corruption in customs”) and initiatives (including one on “#eSkills4Girls”). And it is accompanied by a plethora of parallel efforts designed to reach out to and bring in the perspectives of a broad range of stakeholders, including business (B20), labor (L20), youth (Y20), and think tanks (T20).[81]

There can be little question that geopolitical trends are crucial to the G20. Creation of the G20 summit (largely superseding the G8/G7 summit) was timely. It provided an opportunity for leaders in face-to-face meetings to deal not only with the financial crisis of 2008/9, but also with the subsequently growing geopolitical tensions, following the Russian annexation of Crimea and engagement in Eastern Ukraine, the continuing crises in the Middle East, the threat of North Korea, and the rising wave of refugees. But these tensions also limit the effectiveness of the G20 in focusing on substantive issues of global finance, economic growth, development and the environment. However, it is worth noting that the G20 Summit involves much more than the meeting of leaders. Besides the above-mentioned stakeholder forums, the G20 process involves intensive consultations year-round among concerned government officials at senior levels, including key ministers. It is this part of the process which is perhaps most suited to help bridge growing gaps in geo-political perspectives of different G20 member countries.[82]

Domestic political trends have a major impact on the G20 Summit agenda and outcomes. In recent years, domestic political stalemate in many countries (including Europe, the US, and Japan) has limited the ability of leaders to engage constructively at the G20 summits, while more recently the election of President Trump in the US has led to significant tensions in the 2017 summit process, especially around the topics of trade and climate

78. See Bhattacharya et al. https://www.brookings.edu/wp-content/uploads/2016/12/global_122316_delivering-on-sustainable-infrastructure.pdf for a strong case for appropriate policies and investments in climate smart infrastructure.

79. Evaluation of Hamburg Summit by the B20, 2017 https://www.b20germany.org/fileadmin/user_upload/documents/B20/B20_G20_Leaders_Declaration_Evaluation.pdf

80. http://www.g20.utoronto.ca/compliance/2016hangzhou-final/2016-g20-final-compliance.pdf

81. For more information on the origins and role of the G20 see Ahluwalia (2017).

82. The author is grateful to Amar Bhattacharya, Senior Fellow Brookings, for this observation.

change (see above). There is no doubt that the domestic political trends – towards more nationalist, populist, and anti-democratic positions, as against continued adherence to or move toward globalist, liberal, democratic principles – will be critical for the ability of the G20 to forge effective responses to global economic, social, and environmental challenges.

Institutional factors also matter. There are continuing questions about the legitimacy of the G20 due to its limited representativeness and effectiveness. Even though it encompasses about four-fifths of global GDP and two-thirds of the global population, it leaves out almost 90 percent of the world's countries.[83] Those left out tend to resent the way the G20 presumes to function as a steering group for the world and for the global multilateral institutions, in particular the IFIs. There are also questions to what extent the G20 is well understood by the publics at large. While the dramatic protests during the Hamburg Summit in July 2017 are not representative of the attitude of the majority of Germans or Europeans, they do reflect a serious disaffection with, or at least lack of understanding of, the G20 in the broader public. Finally, the increasingly diffuse agenda of the G20 creates problems. While the tracking of commitments by the G20 Research Group shows good progress overall in G20 members meeting their commitments made in the summits, by meeting on average 80 percent of the 19 specific commitments selected for monitoring, one cannot overcome a sense that the summits do not actually focus enough on the most serious economic, social, and environmental issues facing the world (including trade and climate change, as noted earlier).

Specifically, in the area of development, the G20 has taken a very broad-gauged approach through its G20 Development Working Group[84] and until recently did not focus on the core issues of the role and governance of the multilateral development institutions or on questions of the increasing fragmentation and lack of coherence in the development finance architecture. However, at the 2017 Hamburg Summit the G20 established a G20 Eminent Persons Group on Global Financial Governance, which is to focus on these issues, specifically as they relate to the IMF, the World Bank, and the Regional Development Banks.[85] At the same summit, the G20 also tasked the MDBs to jointly focus on infrastructure investment and connectivity, with a special focus on engaging with the private sector, and to report on progress in the 2018 Summit.[86]

Considering the dynamics of these trends, one must assume that the G20 will face a period of difficult meetings for the foreseeable future, with potentially profound differences in the agendas of the principal players and with increasingly diffuse agendas, which ultimately may mean that the important global issues are not effectively addressed. And despite proposals by experts to change the composition and governance of the G20,[87] there is little hope at present that any significant changes will happen in the near future.

Looking forward, among challenges and opportunities a key challenge for the G20 is to avoid turning the Summit into an ineffective formality, rather than a forum at which leaders seriously explore how best to address global pressures and problems (including global financial stability and trade; the global development architecture and finance; climate change; threats of epidemics; conflict; etc.). This means that individual leaders have to take charge of the agenda and drive the preparation process, so that it reflects their priorities and achieves the results they seek. This puts a considerable burden on the leaders to choose and to choose right. In this connection, the directions and approach of the new US Administration remain uncertain, as does the degree to which President Trump will want to engage in the context of the G20 Summits in serious exchanges with other leaders on topics where he is in an isolated position, such as on trade and climate change. To the extent leaders feel that the G20 forum is not meeting their needs, they will increasingly seek other opportunities for high-level engagement, such as other summit forums, such as the G7, the BRICS, or the Shanghai Cooperation

83. Assuming the EU is not counted as representing each and all its member countries.

84. See Fues: "The involvement of the G20 in international development cooperation suffers from lack of clarity regarding responsibilities and from insufficient coherence." https://www.die-gdi.de/uploads/media/German_Development_Institute_Fues_Saltzmann_07.12.2015.pdf

85. Arguably, this step comes very late. This author had advocated already in 2013 that: "What is missing is a serious preoccupation of the G20 with that issue on which it is uniquely well equipped to lead: reform of the global financial institutional architecture. What better place than to start with than the MDBs? The G20 should review the trends, strengths and weaknesses of MDBs in recent decades and endeavor to create new mandates, governance and financing structures that make them serve as effective pillars of the global institutional system in the 21st century. If done correctly, this would also mean no more need for new institutions, such as the BRICS development bank currently being created by Brazil, Russia, India, China and South Africa. It would be far better to fix the existing institutions than to create new ones that mostly add to the already overwhelming fragmentation of the global institutional system."

86. The business group B20 commented as follows: "Regarding infrastructure, the G20 Declaration corresponds to the relevant B20 recommendations on enhancing the role of Multilateral Development Banks (MDBs) to act as catalysts to crowd-in private investment in infrastructure. Specifically, we welcome the adoption of the "Hamburg Principles and Ambitions", designed to find a joint framework among MDBs to better quantify their ability to facilitate private investments in infrastructure and connectivity. This entails for example a target of a 25-35 percent increase in mobilization over the next three years. We also welcome the call for an integrated MDBs implementation report by the G20 Leaders' Summit in 2018 and annual reporting on crowding-in." https://www.b20germany.org/fileadmin/user_upload/documents/B20/B20_G20_Leaders__Declaration_Evaluation.pdf

87. Camdessus and Singh 2017; Boorman 2017.

Organization. The Hamburg Summit showed the potential strengths of the G20 process, but also its fragility as a long-term platform for effective interaction among leaders in the quest for effective solutions to large and growing global problems.

Conclusions and The Way Forward

The principal conclusions from the above analysis are as follows:

- Multilateralism and multilateral institutions face serious threats at a time when the need for effective multilateral discourse and action arguably is more important than ever.
- Some of these threats may be short-term and cyclical in nature (in particular, hopefully, the threat of US withdrawal). But many of the threats appear of a longer-term nature, whether geopolitical, political, or institutional.
- Perhaps the biggest threat in the immediate future is a possible withdrawal of the US from its traditional leadership role in supporting multilateral approaches to global challenges.
- This confirms the core thesis articulated in the introduction to this paper: Since we cannot be sure the threats are short-term or cyclical, and since we cannot afford to be wrong in assuming that they are, it is critical to do all we can to preserve multilateralism and in particular the global multilateral institutions.

If one accepts these conclusions, what can be done? Here are a few options worth exploring:

1. <u>Multilateralists need to make a stronger case at the popular base and to national leaders.</u>
   All concerned must do more to recognize and promote the benefits of multilateral action and the strengths of multilateral institutions, in the face of lack of information, misunderstanding, misleading critiques, and cynicism. A good starting point is this summary by Kharas (2017a):

   > *"[M]ultilateral institutions are uniquely equipped to respond to today's development challenges. They can coordinate among multiple development actors; conduct a coherent policy dialogue with government; build partnerships with non-state actors; blend aid and loans with private capital; play an honest broker role, especially in government-business dealings; ensure transparency, consultation, and the application of best-practice safeguards in projects; and provide accountable administrative structures on finance, data, and results-evaluation." (p.1)*

   This defense of multilateralism and global solidarity must be pursued with a strong united front by governments, business, civil society, and the managements and staffs of multilateral organizations. The multilateral agencies must work together as a group, not just individually, to demonstrate the value for money they represent. High-level champions, at the level of national leaders, business and civil society leaders, and other key distinguished personalities need to step up in a concerted effort to lead a multilateral campaign across the globe, not only on specific issues (such as global warming, HIV/AIDs, etc.), but on the need to preserve the multilateral spirit, approach, and system.
2. <u>Multilateral institutions must raise their game.</u>
   While multilateral institutions and their memberships and supporters should not be shy about promoting their strengths – and while the quest for perfection should not become the enemy of effective practical solutions, as it has at times risked doing so in the past --, they also need to continue finding ways to improve their focus and performance. This could include:
   - sharpen their mandates to focus on their core strengths and optimize their complementarities;
   - focus on ways to scale up the impact of innovative approaches; this requires more effective focus on long-term goals (such as the SDGs at country or sector level), identification of pathways to impact at scale, more effective partnerships, and a more systematic recognition of and response to the factors driving or impeding the scaling process;[88]
   - pursue all prudent options for leveraging existing financial assets, new funding models, and catalyzing domestic public and private engagement and finance;
   - recognize the essential role of middle income countries – including upper-middle income countries – as recipients of multilateral assistance, as financial contributors and as sources

88. See the reports on scaling up produced by the International Development Innovation Alliance (IDIA), a group of twelve major development funding agencies (multilateral, bilateral and foundations).

of essential development experience that can be shared with others.

3. The G20 must actively focus on the threats to multilateralism.

The G20 Eminent Persons Group on Global Financial Governance presents a unique opportunity to assess the challenges that the multilateral system faces and to offer proposals to the G20 leaders, and through them to the memberships of the multilateral institutions, on how to assure that the multilateral system is fit for purpose in meeting the global needs of the 21st century. The Group should draw on the many specific conclusion and recommendations of recent reviews of the relevant issues.[89] During the coming G20 Summits, the focus of leaders – and of particular champions among them – should be on how to protect and indeed strengthen the multilateral development system.

4. During the current phase of (possible) US withdrawal from global development leadership other countries have to play a constructive role in maintaining and further strengthening the multilateral system.

This is not the first time that the US has pulled back from its traditional leadership in the multilateral system. Similar, though perhaps less drastic, moves were pursued during previous Republican administrations (including the R. Reagan and the G.H.W. Bush presidencies). During those periods, the international community rallied to support the global institutions (esp. the World Bank and the UN). This experience can be drawn upon to argue for and support a similar joining of forces of the memberships of multilateral institutions now in response to what could be a serious threat of US withdrawal.

5. Specific priorities for governments around the globe to pursue through multilateral action:
   - Stop the further fragmentation of the multilateral system and consolidate existing funding windows, wherever possible.
   - Fix the governance issues of the IMF and WB and agree on a substantial increase in the IMF quotas and in the World Bank Group's capitalization.
   - The World Bank Group should pursue potential engagements in support of its advanced member countries.
   - Focus reform efforts of the UN system on improving the efficiency of the major individual agencies and on enhanced collaboration at the country-level through effective partnerships in the context of specific program interventions and by converting earmarked donor contributions into core contributions.
   - Systematically review the multilateral development institutions to explore where increased financial leverage may be used to generate more impact at scale for given resources.
   - Resist tendencies for increased protectionism and revive the multilateral trade agenda, by liberalizing agriculture, facilitating trade in services, and tackling regulatory convergence.
   - Ensure that the voluntary pledges under the Paris climate agreement are fully implemented and, if possible, exceeded and reinforce the commitment to raising and effectively delivering the global financial resources pledged for climate change mitigation and adaptation.
   - Focus the G20 Summit exchanges on a few high-level strategic issues, including trade, climate change, and strengthening the multilateral institutions and processes.

Exactly ten years ago, in October 2007, a year before the onset of the global financial crisis that created the Great Recession of 2008-10, Bradford and Linn noted that "whether it will take a major crisis to bring about fundamental changes in the global order and in global governance remains to be seen…We know from history and bitter experience that global crises cause devastation and suffering. The creation of a global governance system which reflects the new economic and demographic realities and responds effectively to new global challenges of the 21st century is urgently needed to help avoid crises and create a better future."[90] It would be tragic if today the world community, once again, failed to learn the right lessons from repeated global crises.

89. Including proposals in the following contributions: Center for Global Development 2016; Jenks and Kharas 2016; Kharas 2017b; and Reisen and Zattler 2016.

90. Bradford and Linn 2007, p. 6.

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