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Disruption in Global Economic Governance

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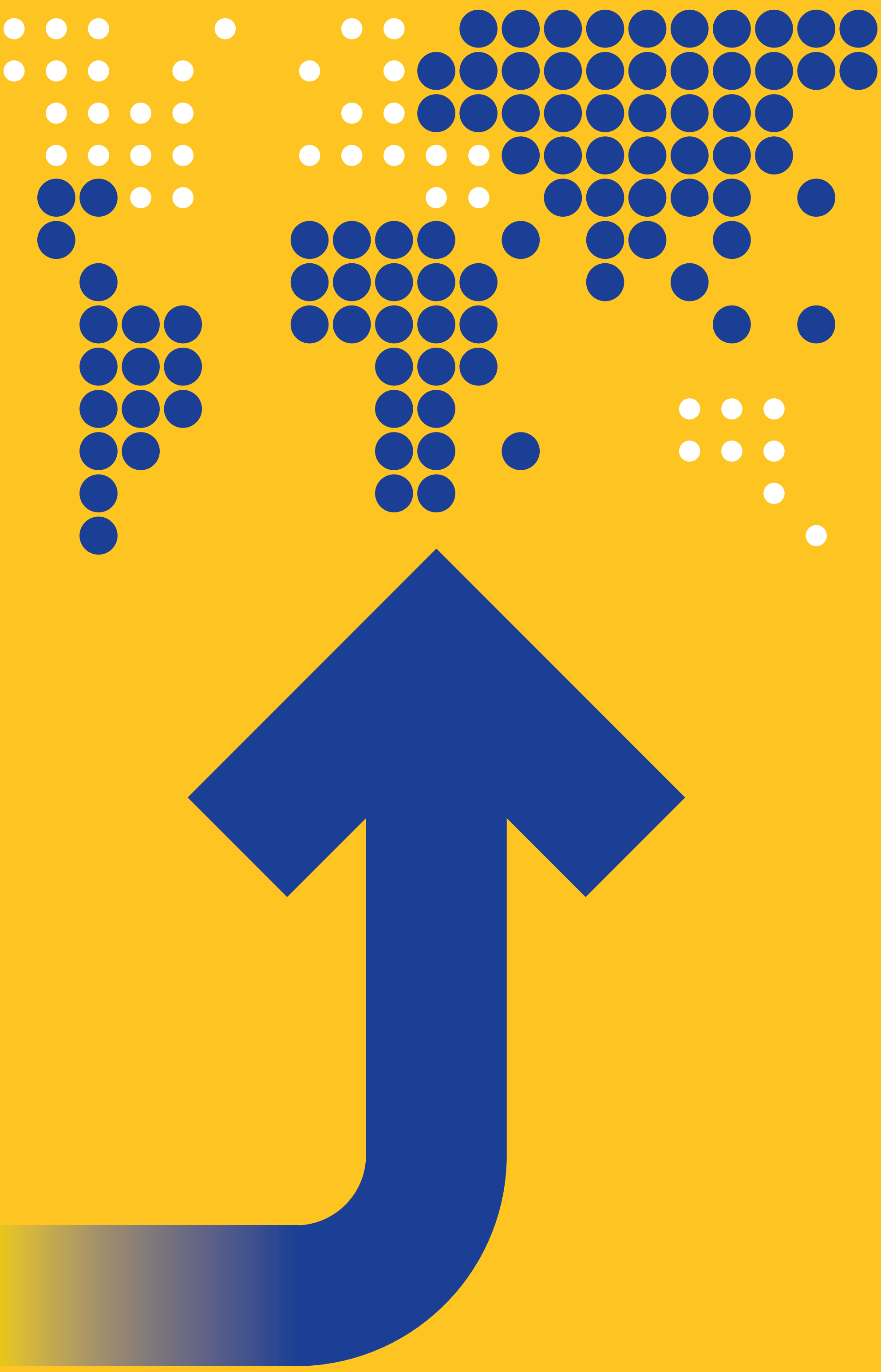
Background Paper



Emerging Markets Forum
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Disruption in Global Economic Governace

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Abstract

Recent decades have turned up significant weaknesses in the multilateral system of economic cooperation: Its long-term dominant movers, the Western countries, have not allowed the system to adequately adjust to the rise of emerging and developing countries. Globalization has contributed to gross inequalities in incomes within countries (while narrowing income gaps between countries by contributing to high growth in many developing and emerging countries), and the environmental damages caused by the global order (trade, investment and domestic production) have led to environmental degradation and climate change which threatens our way of life. Recent actions by the US president and nationalist tendencies in many parts of the world further threaten the necessary spirit of cooperation. Still, in this paper it is argued that a regime of global rules is well worth saving, if with both restructured content and institutional adjustments. Today, however, political developments do not favor a systematic re-ordering of global institutions. At best they will permit cooperative agreements on individual issues by "coalitions of the willing", based on their respective strategic interests. Plurilateralism instead of multilateralism will be the most likely organizing, but more chaotic principle in the foreseeable future. This requires recognition and respect for the diverse cultural traditions of countries, in order to generate the trust necessary for cooperation.

The Present Situation: Multilateralism Unravelling

There is now ample evidence that multilateralism, as we have known it, is under threat (see e.g. Linn 2018). The 75-year old "liberal rules-based economic order" (Rodrik 2018) has lost attractiveness around the world, not least because it is seen linked to the 2008 economic and financial crisis. The most recent activities by the US President, his swift cancellation of the Trans-Pacific Partnership (TTP), his withdrawal from the Paris climate accord, cancellation of the Transatlantic Trade and Investment Partnership (TTIP) with the EU, his disruption of recent G-7 and NATO summits, his withdrawal from the 5-party Iran agreement and his threat of secondary sanctions on other countries' businesses dealing with Teheran, his imposition of tariffs on increasing volumes of imports from many countries, his amply revealed contempt for international agreements and institutions and, more generally, of alliances and cooperation: all these are well known and reported extensively. According to a recent Gallup poll (2018), trust in US leadership across 134 countries has dropped from a median of 48% in 2016 to 30% in 2018, plummeting by 40 points (or more) in Canada, Portugal, Belgium, and Norway. Meanwhile, disapproval of US leadership has surged by 15 points, to a median score of 43%, compared with 36% for Russia, 30% for China, and 25% for Germany (Woods 2018). At present US leadership of the "West" seems to be suspended.

However, the unravelling of global governance agreements and cooperation has begun long before: the demise of the Doha Round of trade negotiations, effectively if not nominally dead since 2016 after having been negotiated since 2001, revealed the emerging global status claimed by emerging countries. The largely unsuccessful struggle of emerging and developing countries for an adequate IMF quota review, with a view to align their voting rights and access of financial assistance to their emerging economic power, with the staffing and influence in the Bretton Woods Institutions (International Monetary Fund and the World Bank), is a visible sign that the "West's"[1] domination of the post-World-War II economic global order is being challenged. There is ever more opposition to the inordinate role the five permanent members of the UN Security Council play.

While in the international financial institutions (IFI), the "West", i.e. the industrial countries, are fighting to maintain their dominance, things are starting to change, both inside

1. By "West" I mean both the geographic location of countries, and also the dominance of the economic and social model described by neo-classical economics, embodied to some extent in the mis-named "Washington Consensus"

and outside these institutions. Frustration with the fast pace of globalization ("hyperglobalization",Rodrik 2016), which has increased inequality within countries and damaged the environment, has eroded trust in governments. In Europe, this – and the fear of uncontrollable migration, and resistance to ever more competences moving to Brussels -- has led to the real threat of right-wing authoritarian, xenophobic, frequently nativist "my country first" parties to mainstream governments. Today, they are in the governments of Hungary, Poland, Austria, Belgium, Italy and the Czech Republic. In addition, there are strong anti-EU parliamentary representations in France, Finland, Sweden, Denmark, Germany, Slovakia and Slovenia. The rise of authoritarian leaders in Turkey, Russia, and China, but also in developing countries like for instance Nicaragua and the Philippines – all challenge the established "liberal" order with its emphasis on cooperation.

Still, there is strong support for maintaining global rules which have allowed hundreds of millions of people in developing countries to be moved out of abject poverty. This is the reason why emerging and developing countries especially espouse the benefits of globalization based on common rules. While there are signs of disintegration of the multilateral system, no constructive way forward is yet visible. Some positive signs of international cooperation can be seen here and there, like the conclusion of the Paris agreement, the agreement on the Sustainable Development Goals, the 2018 UN Global Compact for Migration, the trade agreement between 11 countries in Asia and the Pacific in place of the TPP, and the surprising agreement to increase the capital of the World Bank, but general progress with multilateral agreements is non-existent or only partial. They are increasingly replaced by bilateral and regional agreements. "My country first" today dominates and reverses the overall trend towards international cooperation since 1945, which culminated in the 1990s and into the 2000s, with the formation of the G20 in 2008.[2]

Economic dynamics have also changed the global picture: while in the late 1940's and 1950's the developed countries of the "West" commanded more than two thirds of global GDP, today they barely reach 50%. While post-war reconstruction in Europe and Japan secured the "West's" dominance during the 1950's and 1960's, the rise of the "Asian Tigers" (Japan, South Korea, Taiwan and China) starting in the 1960s and the remarkable success of China during the last three decades, but also fast GDP growth in Turkey, South Africa, Brazil, Argentina, India, Indonesia, Malaysia, Vietnam and others, has dominated more recent world GDP growth[3]. These emerging countries' success and the concomitant reduction in the number of extremely poor persons[4] has been a positive result of the existing multilateral order cum globalization. The open trade regime[5] enabled these countries' swift integration into the world economy, and helped to improve health and sanitary standards, longevity and educational levels. More recently, the extension of global supply chains by multinational companies around the world, which heavily depend on open trading systems, has also brought significant economic success to many emerging and developing countries. However, some observers criticize these developments as creating new dependencies for emerging countries.

Next to economics, geo-politics plays a role in the change of global governance. After the second World War, the USA initially dominated alone; during the Cold War we talked of a bi-lateral order: here the "West", there the Soviet Union and other Communist nations, both with their allies. After the fall of the Berlin Wall, the dismantling of the Soviet Union and the opening up of China, the "West" glowed with self-confidence. Francis Fukuyama declared the "end of history", as the open trading and market system had "won", while the alternative Real-Socialist system had imploded under its internal contradictions (Fukuyama 1992), not least its inability to adjust to the rise in global oil prices from 1973 onwards. Today, there is a dis-united West, not led any longer by the USA, there is China and Russia, as well as a host of other countries vying for regional influence. We have a multi-polar world with several significant actors, with an apparent struggle for global hegemony between the USA and China, and possibly Russia. The European Union as the largest economic area of the world, is absent from this struggle.

In last year's speech to this Forum, Johannes Linn (Linn 2017, analyzed very convincingly the threat to multilateralism, both its medium-term trend and its acute threats as a result of the US withdrawal from and attacks on multilateral institutions. Linn suggests five points to go forward: First, proponents of multilateralism need to make a stronger case for it, both to national leaders and to the citizenship. Second, multilateral institutions must raise their game

2. This does not disregard significant international political tensions, e.g. the Cold War, the Cuban crisis, the Yugoslav wars, and the more recent crises in the Middle East, Ukraine and the South China Sea.

3. Today three out of the four largest economies in the world (by PPP) are in Asia

4. Between 1990 and 2015 the number of persons in abject poverty has been reduced from 1.9 billion to 840 million persons, despite strong growth in the total population

5. The "Asian tigers" benefited from significant trade protection during the early phases of their surge.

towards more streamlined mandates, attention to innovative approaches, both for impact and financing, and pivot towards middle-income countries. Third, the G-20 must actively focus on threats to multilateralism by increasing the role of the recently established Eminent Persons Group on Global Financial Governance. Fourth, other countries (apart from the US) must play a more active and constructive role in strengthening the multilateral system. Lastly, national governments must play a more active role both in IFI and towards multilateralism.

While agreeing with Linn‘s points, I think they do not go far enough. I suggest raising another important point, which refers to his suggestions 1 and 5. It is important to change the "rules of the game" of international trade and investment, by recognizing that the increasing opposition to global developments in many, especially developed, countries stems from the fact that globalization – and technological progress[6] – has brought about heavy losses to individual countries and population groups in terms of jobs and income, and to the environment (see e.g. Stiglitz 2002, 20; Rodrik 2017, 2018). It is my contention that public support necessary for trust in the global system can only be regained if these deficiencies are recognized by leaders and effectively dealt with. For emerging and developing countries which have mainly benefited from globalization, different issues emerge. Some of them will be dealt with in the section "Template for a Sustainability-Oriented Direction for the Global Trade and Development" below.

In analyzing some of these disintegrative factors, I will distinguish between "substance", i.e., the model and disintegrative effects of the dominant economic paradigm (which is also supported by the multilateral institutions) and "institutional changes" where some of the differences in substance are borne out. In the end I will lay out some options for future global governance and note the difficulties in achieving a common direction.

The disintegration of the multilateral order falls into three distinct strands which reinforce each other:

- The longer-term rearguard action by the West to recognize the shift in economic dynamics in favor of emerging and developing countries in multilateral institutions (the "shifting weights" strand). So far emerging countries have not effectively come up with effective challenges to this failure. However, while maintaining their support for the "old" institutions, they have begun to create some of their own.
- The loss of support of globalization in Western developed countries‘ populations, due to the fact that the fruits of the existing economic order benefit overwhelmingly corporations and a very small group of individuals , and that social and environmental concerns are largely neglected. A similar perception had been prevalent in many emerging and developing countries, namely that the existing multilateral order mainly benefited the "West" (the "substance" strand). Stark examples were the Latin American debt crisis in the early 1980s, and the Asian crisis in the late 1990s.
- These tendencies are overlaid by the recent withdrawal of the USA from international agreements, the protectionist tariff impositions and the threat of a trade war (the "protectionist" strand).

Shifting Weights

Since the beginning of the present millennium, there have been attempts by emerging countries to gain more influence in existing Western-dominated multilateral institutions: repeated calls for changes in the IMF‘s quotas, which determine both voting power and access to financial means, have been met with great reluctance by the "top dogs", the USA and the European Union. So far, the most recent IMF quota review, yielded only inadequate changes: while the USA (clinging to its de-facto veto power) has around 83 bill SDR quota allocation, China with an economy as large as the US in purchasing power (PP) terms, and about 74% in current dollar terms[7] has 30 bill SDR; the European Union countries combined have 130 bill SDR. However, in the IMF as well as in the World Bank only individual countries can be members, so their combined weight hardly counts. Similarly, there are 9 European chairs (out of 24/25) on the boards of the Bretton Woods Institutions, while Africa (containing twice as many countries) has only 3 chairs. Both institutions have reneged on their previous commitments that their leadership positions will be selected in an open and transparent world-wide process, giving emerging countries nationals the chance to lead these institutions. However, as in all 74 years of its existence, the IMF Managing Director in 2018 still comes from Europe, the World Bank President from the USA. The next IMF quota review is scheduled to be completed by spring 2019. However, given the seemingly objective mathematical formula[8] to determine quota, which favors

6. There are conflicting views of what the respective contributions of globalization and technical progress are to this discontent.

7. See the table above, reproduced from Dervis (2018)

8. The current quota formula is a weighted average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent).

Table 1: GDP, population, and military expenditure (percent of world total)

	GDP, current prices		Population		Military Expenditure	
	1990	2017	1990	2017	1990	2017
Brazil	1.9	2.6	3	2.8	1	1.6
China	1.7	15	23.1	18.8	1.6	13.8
European Union	31.5	21.7	9.6	6.9	20.8	15.3
India	1.4	3.3	17.1	17.9	1.4	3.6
Japan	13.4	6.1	2.5	1.7	3.1	2.8
Russia	n/a	1.9	n/a	2	n/a	3.3
US	25.5	24.3	5.1	4.4	41.8	36.1

Source: IMF WEO April 2018, SIPRI Military Expenditure Database

developed countries, emerging and developing countries have little confidence that "this time will be different". If the West wants to maintain the existing institutions, it will have to accept that power relations within these institutions, and possibly also the direction of their finance and advice, will have to change (Wade, 2013).

As a result of the reluctance of the Western countries to accept commensurate representation of emerging and developing countries at the Bretton Woods institutions, during the past decade emerging countries have begun to create their own development institutions. The New Development Bank (BRICS Bank) was founded by Brazil, Russia, India, China and South Africa in 2014 with a capital base of eventually US$ 100 billion, in order to both finance development in their own countries, but also abroad. A Contingent Reserve Arrangement should fulfill a role similar to the IMF, making these countries less dependent on the IMF. One year later, China founded the Asian Infrastructure Investment Bank (AIIB) with a capital base of US$ 100 billion, in order to finance parts of its Silk Road (One Belt, One Road) project, but also other development projects across the globe. More than 80 countries have so far joined the AIIB as members. China holds around 20% shareholding in the BRICS Bank and around 30% in the AIIB, but contrary to expectations by some (including this author) the rules and modus operandi of these institutions do not go new ways, but mirror those of the Western-dominated IFI. Today, China's Export/Import Bank and the China Development Bank have a loan portfolio larger than that of the World Bank and the Regional Development Banks together. At the same time, all the countries involved did not quit the Bretton Woods Institutions, but maintained their membership. The new, "own" banks, however, contribute both to more fragmentation of the existing institutional landscape and to an additional option for the financing of emerging countries, with less "conditionality". However, both the BRICS Bank and AIIB have promised to implement social and environmental safeguards and standards of good governance, in addition to procurement rules.

Many countries today are attempting to increase their sphere of economic influence in a number of ways. China has initiated the Shanghai Cooperation Organization and more recently the Belt and Road Initiative, as well as the 16+1 grouping comprising Central and Eastern European States and China. Russia has been building the Eurasian Economic Union and has recently concluded a joint sharing agreement among 5 riparian countries of the Caspian Sea. Under Japan's leadership the 11 countries of the aborted TTP have quickly concluded a new agreement (without the USA); and the European Union has recently concluded trade agreements with Canada and Japan and plans to accept new members in the Balkans in the coming years.

Substance: Globalization Favors the Strong and Furthers Social Polarization

In "Western" countries' populations, we observe an increasing antagonism towards globalization and the Free Trade Dogma. The frequently violent demonstrations against the G-7, G-20 and Bretton Woods institutions (IMF, World Bank) meetings, the Occupy Movement of a few years back, the citizens' resistance against trade agreements (TTIP, CETA), the early opposition of US labor unions against NAFTA, and most recently President Trump's persistent popularity among large parts of the US electorate vis-a-vis his anti-trade posturing, but also nativist, "getting-back-control" movements in many countries, call into doubt the earlier free-trade-vision, namely that everybody gains from trade. There is evidence that in the OECD countries the share of labor in national income has declined significantly, by around 10 percentage points. Since the 1980s, we observe that in many Western countries real wages have stagnated, even fallen over decades, or risen slightly only very recently, while GDP has grown significantly, and business profits even more so. The gains from trade have not reached many groups of the working populations. They are concentrated in high-earning individuals and in the profits of (multinational) businesses (Stiglitz 2002; Milanovic 2016; Piketty 2015; Zucman 2015). While workers in countries (many emerging and developing countries) which receive parts of the West's supply chains gain, low-skilled workers in the home countries have lost out.

Together with the fact that globalization has diminished nation states' regulatory power, many segments of populations have increasingly lost faith that "their" elected officials can or will act on their behalf and "protect" them from what they perceive as the onslaught of globalization. It is telling that in the most recent Eurobarometer surveys, in nearly all EU countries the populations' confidence in their own politicians is lower than that in EU institutions (whose favorable readings have also fallen). This feeling is wide-spread and partly explains the rise of populist parties and politicians who generally discredit the existing "system" and promise simple solutions, in the face of ever more complex conditions.

Dissatisfaction with globalization in general and perceived loss of nation states' "sovereignty" in regulating their own economies has also led to criticism of the existing multilateral system in developed countries. This comes in addition to the assessment of emerging and developing countries that the existing multilateral institutions, on which they rely for their growth and development, are dominated by the West and disregard their own interests. US withdrawal from this general order increases the necessity of the other actors to restructure the substance and the institutions of global economic governance, in a way that predictability is guaranteed on the basis of a minimum of jointly agreed rules.

Which Way Forward? Interests and/or Values?

A rules-based global order is worth preserving. Only joint global rules can protect small and weak countries from falling prey to the untrammeled exercise of power by the large actors[9]. A rules-based order is also essential to provide safety for businesses necessary for investment, to deal with disruptions and shocks and to provide public goods to the world. Global rules also provide the opportunity to create a more "level playing field" for international actors. The ongoing trend towards nationalism (and protectionism), however, has changed the international mood, at least in the developed world. Today, for many politicians and citizens a global order has become less desirable, as many polls show.

As the economic predominance of the Western countries is being reduced and emerging and developing countries' share in the global economy is increasing, US withdrawal might offer a chance to reorder global economic governance. Not only do shifting economic patterns call for a change, but also – at least in the West – recognition that the existing global order has lost support by its populations, calls for deep re-thinking of the substance of global rules for trade and investment (Ikenberry 2018). A new global order will also have to reflect different cultural perceptions, in addition to shifting economic weights. It will no longer be the developed world which will set global rules.

There are increasing calls to pay much more attention to the unequal distribution of incomes and benefits to workers and to look at the environmental costs of doing business (see e.g. Stiglitz 2002, Rodrik 2016).

The Sustainable Development Goals agreed universally at the United Nations in 2015 show the way. It may well be that these perceptions of being left out, of losing out as a result of import competition, outsourcing and loss of jobs, have driven citizens into the arms of (mainly right-wing) nationalistic, sometimes protectionist populists who promise easy solutions, especially a way back into a more nation-controlled past (Verwej 2018). Further globalization will only find citizen support, if it is based on "fair" trade and investment arrangements.

It is the task of global economic governance institutions to provide public goods, and provide certainty about global relations, transparency, equal opportunity. All of these require cross-border coordination (e.g. Kaul 2016). Multilateralism in the past has guaranteed that to some (increasingly insufficient) extent (for an earlier criticism, see e.g. Bayer 2008). As globalization has reduced the regulatory power of nation states, some of these functions should have been replicated at a regional or global stage (Bayer 2017). The unravelling of the "old" global order damages especially the interests of small and weak countries and population groups, while the powerful and large countries usually are better able to successfully pursue their own objectives (but within institutions and outside them). Thus, it is especially important for smaller emerging and developing countries that rules-based institutions exist which give them (some) voice to pursue their own interests.

Ideas were voiced in the past to base future global governance on the G-20 (Bradford/Linn 2007; Bayer 2008) instead of the then powerful G-7 grouping. While the G-20 grouping clearly represents progress with respect

9. As a recent example, see the controversial positions of the US and China vis-a-vis a possible IMF assistance loan to Pakistan.

to representation, it still leaves out 90% of the world's countries. In theory, this could be addressed by rotating membership, clearer and transparent membership criteria. However, there is wide consensus that after a strong start in 2008 the G-20 grouping has not fulfilled its promise, partly as a result of overloading their agenda, their lack of a permanent secretariat, but also by the fact that each rotating presidency feels the need to create their own agenda, leading to reduced continuity (Carin 2018; for an opposing view, see Chambert 2018)[10].

It might be possible that US withdrawal makes new compromises easier. However, so far European countries have not shown willingness to give up their privileges in the Bretton Woods Institutions. China's new assertiveness and geo-political activism, pronounced most recently by President Xi in his speech on foreign relations (Rudd 2018), might open new windows. At the most recent EU-China summit in Beijing (in July 2018), the partners agreed to preserve the rules-based multilateral trading system and work together towards modernizing its rules (EC 2018). A test of how willing China will be in reality to share rules-making power with other actors is still outstanding. Furthermore, announced plans to reform trading rules, e.g. in the WTO, do not go far enough. They are confined to the theft of intellectual property (EC 2018). But even, affording more attention to China does not solve the basic problem of how to set rules for global society.

This raises the basic question of whether attempts at future cooperation should and can be based on "shared values", as defined by the "Western" liberal order (mainly democracy, free markets, human rights, rule of law). Russia's "expulsion" from the G-8 in the aftermath of the invasion and integration of Ukraine puts it outside this realm of the West's shared values. China has never really been a part of this order, since it has always insisted on going its own way, even after joining WTO in 2001[11]. Even within the "West", increasingly the established value system is being challenged (see e.g. the recent controversy between Hungary, Poland and the EU about the formers' adherence to the obligation to adhere to the rule of law). However, if such "shared values" are the precondition for being included in deliberations towards global rules, the potential circle of like-minded countries might be very small. Woods (2018b) recommends that a new global cooperation agreement should not attempt to be based on shared values, but on mutual acceptance of strategic interests. China's strategy to pursue "Made in China 2025"[12] is explicitly clear, the US President's "America First" also shows direction, whereas Europe has not been able to come up with a coherent strategy about the future global economic order. Europe has continued to pursue bilateral trade agreements, like the 2018 ones with Canada and Japan (among others), but so far has not initiated talks on a joint global governance strategy.

Most recently, as seen by the China-EU Summit, China seems to express interest in a "shared value" approach with Europe to uphold the multilateral order. Whether this goes beyond China's pursuit of its own interests, needs to be seen. China's recent advances towards Russia, as well as those of Russia towards Japan show that the vacuum left by the US withdrawal from global governance is being filled by various constellations. Other emerging countries, however, have not made known attempts to participate in setting new global rules.

Template for a Sustainability-Oriented Direction for the Global Trade and Development

"Protection ultimately leads to bloated, inefficient producers supplying consumers with outdated, unattractive products" (WTO website). This statement, based on the economic theory of absolute and comparative advantage, while correct, at the same time points to the crux of the problem. Predominantly "efficiency" considerations are applied to promote free trade. No mention is made of "equity" considerations[13], or the effects of trading on the environment[14]. WTO points to the statistical correlation between trade and growth and infers from this also causality: trade, especially "open" trade (low or no tariffs, little or no non-tariff barriers), is deemed to lead to more GDP growth, and thus jobs and income. This causality has been contested, even though it is obvious that many developing countries have improved their growth performance when integrating into the world economy by reducing trade barriers. A different story may be the integration into global capital flows (Berglöf, 3, quoting Stiglitz 2017). But

10. While the EU also maintains a rotating Presidency, its discontinuity is mitigated by a strong agenda-setting European Commission and also by the fact that an elected President of the Council has a 5-year mandate.

11. Just as the "West" has done previously, China has also bent WTO rules, in order to fulfill its ambitious economic plans, especially with respect to state-owned enterprises, subsidies and underpricing exports (Rodrik 2018).

12. This is China's industrial strategy aiming to elevate ten important sectors to prominence and reach a high degree of self-sufficiency in these markets, from pharmaceuticals to artificial intelligence.

13. Rodrik (2018) maintains that GATT rules were much more flexible, affording participants leeway with respect to national traditions and divergence. Only WTO rules, effective from 1995, have been single-mindedly efficiency-oriented.

14. The share of trade in global emissions has recently been estimated between 25% and 30% (Weber 2017 quoted in WIFO (2018))

beyond this success, falling wage shares[15] and stagnating wages in many OECD countries during the past decades have eroded populations' confidence in the benefits of ever-more trade.

Two questions need to be answered: First, how much trade is "enough" for the world? Is it true that ever more trade will not only lead to efficiency gains (mainly appropriated by businesses), but also make most, if not all, workers better off? Second, should global economic governance rules (in the hands of the UN, the Bretton Woods Institutions, the WTO and development banks) be expanded to include equity and environment considerations into their framework?

In most countries, these questions are not discussed openly. Policy makers in the OECD countries, and especially in the EU, are intent on increasing each country's export share in GDP, promoting outsourcing of production and services units from their home base, further "globalizing" their economies, as well as importing short and longer-term capital, ignoring the costs this may impose on displaced workers, their incomes and the environment. It is a well-known fact that the environmental costs of trade, mainly caused by transport, are "externalized", thus not fully included in the cost calculations of businesses.

As of now, the rules framework for trade and investment, the equity, social and labor market effects, and the environmental problems are segmented. At a global level, the WTO deals with tariffs, standards and non-tariff barriers, the International Labor Organization (ILO) with unfair labor practices, and separate rules (much weaker) govern environmental concerns. In most cases, the economic efficiency argument trumps social and/or environmental concerns, leading to ever more trade. Equity considerations are left out completely, frequently "outsourced" to social protection systems, mostly inadequately weak in many emerging and developing countries.

To overcome this fragmentation, an argument can be made to include social[16] and environmental concerns into the trading rules, in order to give the latter two equal importance to the economic efficiency argument. This would not only concern the WTO, but also IMF, World Bank and Regional Development Banks. WTO director Azevedo recently pointed to the need to reform WTO rules, in the face of the recent threat that tariff impositions reverse 70 years of progress in lowering trade impediments (Azevedo 2018). He refers to his many talks with countries, parliaments, businesses, think tanks and the media, significantly leaving out institutions representing labor interests. But Azevedo's campaign does not go far enough. It stays within the traditional WTO framework, relegating negative equity and environmental effects of trade to the role of "collateral damage".

In order to move towards a new global governance regime which has a chance of being supported by the citizens of both developed and developing countries, demanding agenda-setting for global and regional economic governance institutions is required. I propose the following points as especially important[17]. Many of the points listed are in congruence with the Sustainable Development Goals, agreed by the UN members unanimously in 2015. Recognizing that some of these issues have a more realistic chance to be implemented than do others, I list them in the order of ease of implementation: those with the most realistic chance first, the more "utopian" ones later:

1. WTO rules for trade, but also the business models of IFIs (Bretton Woods Institutions and the Multilateral Development Banks) need to be expanded to include social and environmental concerns with equal importance to economic "efficiency" concerns
2. Global institutions need to incorporate much more strongly the voice and the interests of "civil" society (consumers, workers, businesses) in their decision-making processes. To this end, fora and institutional solutions need to be created where regular dialogues with civil society organization are incorporated.
3. In recognition of the fact that emerging and developing countries, but also small developed countries are very vulnerable vis-a-vis rapid financial capital in- and especially outflows, global institutions should be more careful to recommend to these countries to liberalize their capital markets prematurely. Certain capital controls, as well as special incentives towards equity and direct investment flows, must be accepted as part of the policy prescriptions for these countries, on a case by case basis.
4. Trading and investment rules must take into account the effects of such flows on the environment. Environmental and climate considerations

15. In the OECD countries between the 1980 and 2016 the wage share (employee compensation as a percentage of net national income) fell on average more than 5 percentage points, e.g. in Germany from 65.8% to 60.4%, in Sweden from 59.8% to 55.1%, in Austria from 62.2% to 58.7%, in the UK from 64.0% to 57.8%, in the US from 67.0% to 62.2"%, in Mexico from 44.8% to 32.5%, while in Korea it rose from 43.7% to 55.2% (Source: OECD Statistics, own calculations).

16. I include equity concerns into the „social" category, even though they may have far reaching effects on political systems, on social cohesion on the stability of societies.

17. This is not an exhaustive list.

must gain the same importance as economic and social concerns.

5. Renewed WTO rules should create an advice and arbitration function for direct investment in developing countries, in order to guarantee "equal" sharing of the benefits of such investments: today the desperate hunt of labor-creating investments by developing countries often leads to very unequal benefits accrual, where the large multination corporation exerts strong leverage to gain preferential treatment for its operations, its profits, its tax regime.
6. Infant-industry arguments must become acceptable again, in order for the poorer developing countries to be able to establish their own industrial base. Sliding protection levels, based on regular auditing of competitive conditions can assure that abuse of such protection is minimized.
7. The global fight against tax evasion, especially by multinational corporations, needs to be intensified. Present attempts, e.g., at the OECD, G-20 or EU levels, are positive but inadequate. Globalization has increased the ability of corporations to shift profits into low-tax jurisdictions, depriving especially less developed countries of their due tax revenues, sorely needed to provide local public goods. Development Banks have been complicit in these endeavors, by not refusing to co-finance projects and funds registered in so-called tax havens.
8. The move towards "regulatory alignment" in trading rules and trade agreements should be re-evaluated. A number of so-called "non-tariff barriers" in all countries are part and parcel of national/ regional traditions and cultural identity: to remove these, in the interest of efficiency, frequently leads to wholesale rejection of trade and cross-border investment. Careful balancing between efficiency and identity considerations is warranted. Part of this consideration also concerns the privatization of utilities in the wider sense (from network industries to health and care industries, to water supply and waste-water, to public transport, etc.). Lessons from botched privatizations (British water and rail industries, e.g.) should lead to a re-assessment of the gains from privatization.
9. The human rights approach implicit in many multilateral organizations statutes, needs to be enlarged to encompass not only humanitarian citizens' rights, but also labor rights, i.e., prohibition of child and convict labor, rights to a decent job, working conditions and salaries, including social protection. The frequent call to and prescription of "more flexible labor markets" must promote collective labor rights, recognizing that the power balance between managers or entrepreneurs and an individual worker is lopsided and requires the help of labor organizations to provide a (more) level playing field.
10. In the Bretton Woods Institutions and the Regional Development Banks, voting rights and access to finance ("quotas" or voting rights) need to be adjusted, in order to give emerging and developing countries adequate representations, commensurate with their economic weight. Reforms might include the formulae to determine quotas at the IMF. Genuine elections for the leaderships should replace the present monopoly of G-7 countries. These institutions' financing needs should be honored, with the provision that they adjust their direction to sustainability criteria.
11. Outsourcing, whether within or outside of value chains, which is frequently driven by large wage differentials between home and host countries, hurts workers in home countries and turns them against globalization. From the profits of outsourcing companies, two types of funds should be created: One, to "compensate" home country workers by offering them training and job opportunities in other areas ("active labor market policies"), and two to help build up systems of social protection in host countries or supplement workers' wages, with a view to lessen the welfare differences between home and host country workers.

Power Relations

It would be naive to assume that rational arguments, or a change of mind, can convince the powers-that-be to switch to a more widely accepted multilateral global regime. The existing system, which is unravelling, has been upheld by strong interests, backed by power relations. Beneficiaries have been the recipients of the profits of multinational enterprises and financial institutions, the tax havens and the top executives of these institutions who managed to discard the centuries-old labor theory of value with respect to their own remunerations, rather claiming that they are adequately compensated for the "value" they created for society. That this is an argument which holds little truth can be seen by the fact that these same "value appropriators" (Mazzucato 2018) were not held accountable for the severest financial and economic crisis which they created by greed, inordinate risk-taking and shifting these risks onto their societies/taxpayers. Many politicians, both in developed, emerging and developing countries, have adopted these groups' and persons' views, and have run their economies and "their" global institutions in their interest. This has brought us to today's predicament. It will be up to concerned citizens and citizens' groups, backed by experts, to put pressure on politicians to initiate a fairer and more equitable future. Governments alone are too beholden to those who have profited from the old ways.

Conclusion: The Vexed Question of Global Governance Institutions

The existing global economic governance system is eroding. A future system will be less "systematic", and more fragmented, more "multi-polar", no longer predominantly run by the developed West. The present situation offers opportunities to overhaul the existing paradigms and institutions. While "values" like democracy, openness and the rule of law need to be guideposts also for the future, a new pragmatism, based on the mutual acceptance of longer-term strategic interests by the major players, also taking account of the interests of minor players, may be predominant. In reality, these values have always been only rough guideposts: absolute adherence to them was always only asked by the "others", by the small and weak. Large countries have ignored them at their will. A more over-arching, more widely accepted, minimalist, "common value" to work with might be a basis on which to develop new global rules. Such a minimal consensus would be the jointly recognized need that joint global rules benefit everybody.

In the present world of the dominance of two countries, the United States and China, surrounded by a number of "aspirants" (depending on whether they overcome their internal divisions, like the EU, or on more time to grow out of its nationalist stance, like India, or on the problematic position of Russia) a renewed multilateral governance concept needs the unequivocal support of at least two major powers (Dervis 2018), in my reading one "Western" and another one. Theoretically, such pairs could be formed by the US and China, the US and the EU, China and the EU. However, such a "duopoly" leading global governance would be inherently unstable, as economic theory shows. It would – as the Cold War showed – invariably create a competitive rather than cooperative situation. Rather, what is needed is a recognition of the cultural multipolarity of the world, acceptance of others' points of view, as the basis for forming new partnerships, as the experiences of the Paris Agreement on climate and of the Agenda 2030 and the Sustainable Development Goals under the aegis of the United Nations, show. They only came about because there was consensus of the importance of the problem, coupled with a minimal amount of trust in the "others". These positive agreements, however, should not distract from the importance of the need to also change the governance structure of the UN itself, in order to take account of the "new" multipolarity of the world.

Thus, while a consistent new "system" of global governance seems out of reach, it should still be possible to forge coalitions among countries on specific issues ("coalitions of the willing"), where joint strategic interests are involved, like the Paris Climate Accord, or the recent UN agreement on migration. Also, less encompassing objectives are possible. It will remain a task for civil society, for the citizens themselves, to maintain pressure on their national governments to implement these important agreements and agree new ones.

Much work needs to be done to reform the economic direction of a renewed global order, in order to make it (more) acceptable to large parts of the world population, both among and within countries. This will require to abandon the pre-eminence of economic efficiency considerations in institutions' statutes and giving equal weight to social and environmental considerations.

In the present situation of multi-polar and nationalistic tendencies, where no single, over-arching institutional arrangement seems possible, it is important to hold on and strengthen the existing global institutions (mainly IMF and World Bank, but also the Regional Development Banks), by changing them into true multilateral institutions by giving adequate voice to emerging and developing, small and weak countries. While these institutions have lost financing market shares to the private sector (Kharas 2018), their adherence to social, environmental and good governance concerns makes them valuable contributors. However, they also need change to accommodate more of the existing diversity in the world (Rodrik 2018).

Interests will dominate shared values. This will lead to a more diversified, pluri-lateral landscape of economic and development governance institutions, requiring strategic changes, and possibly giving up power, by those who dominated the "old" order.

In addition, cooperative agreements below the level of nation states (or the EU), look more hopeful: several states in the US have agreed to maintain their adherence to the Paris and SDG agreements; networks of large and small cities across borders have emerged to work towards common goals (Acuto 2016), as have cross-border coalitions of businesses. The lack of cross-border labor cooperation may be understandable, but it weakens labor's voice vis-a-vis outsourcing business. Also civil society organizations have organized on a global scale, e.g. the 14th World Social Forum in Bahia, Brazil in March 2018. While such sub-sovereign entities will not be able to set common binding standards for the globe, they can work successfully on individual issues benefiting their citizens in a more fragmented, less solidaristic world.

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