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PAPER

A MULTILEVEL MULTILATERALISM FOR A GREAT POWER RIVALRY SYSTEM

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Introduction

The interesting paper of Giovanni Tria and Federico Arcelli on ‘Towards a renewed Bretton Woods agreement’ addresses many relevant issues and presents us with two quite distinct points. On the one hand, their paper asserts that the international economic system and the global economy face today the risk of increasing fragmentation and conflicts among major areas and countries, up to a possible trade and currency war. And on the other hand, their paper suggests that a new Bretton Woods style agreement is needed at global level to address these risks and to establish a new Global economic governance.

I agree on the diagnosis of the essay on what is happening at global economic level and on the present risk of international fragmentation, whereas I have a different view on what to do and the therapy suggested by the paper. So, I will discuss each of these point in turn.

The international disorder

It is true that we live in a world where in practice there is no global leadership and there is severe disagreement among major countries and areas about many issues, such as monetary and fiscal policy, exchange rates, international trade, the international monetary system, global security and so on.

As well known, the multilateral order associated with globalisation, and the Bretton Woods international financial institutions within this order, have been in trouble for years.

The so-called ‘golden age’ of the global economy and trade is bound to end. This was the period of what John Williamson called the Washington Consensus, which favoured economic liberalisation (Williamson, 1990). After reaching its peak up to the 2008-2009 financial crisis, the global economy and trade entered a phase of relative decline over the next decade (Irwin, 2020). In this period, called ‘slowbalization’, world trade to GDP has fallen, as well as global value chain (GVC) trade (The Economist, 2019). Furthermore, the backlash against globalization has been the defining political trend of the past decade. The benefits that globalisation clearly produced (low prices and high efficiency) have been asymmetrically distributed towards the more advantaged in developed economies (Stiglitz, 2018).

The multilateral order associated with globalisation, and the international institutions within this order, have also been in trouble for years (James, 2009). The rules, norms and institutions that have governed international trade and the world economy for many decades are no longer fit for purpose due to structural reasons (Hoekman, 2020). The centre of gravity of the world economy has been shifting from the US and Europe to Asia Pacific. From a bipolar world, we have moved towards a tripolar economy with the additional pole of East Asia. In the early 2000s, China accounted for 4 per cent of world GDP, but today it accounts for four times as much, 16 per cent. Nevertheless, while the world economy and its power structure have evolved significantly over the past decade, multilateral international institutions have not. At the IMF, the US even today has over 16 per cent of the voting power while China has only 6 per cent;

and the G7 group of advanced economies, accounting for 30 per cent of world output, have over 40 per cent of the voting power. Consequently, these International Financial Institutions lost their capacity to provide representation and governance at the global level.

In addition, at the core of this increasingly disorder at international level there is the conflict between US and China. What started as a trade war now threatens to escalate into a permanent state of mutual animosity. The US blames China for the current tensions. For their part, the Chinese suspect that the US's real goal is to prevent them from rising any further or projecting power and influence abroad. Regardless of which side has the stronger argument, the escalation of economic, trade, technological, and geopolitical tensions could generate a full-scale cold war and thus trigger a new stage of de-globalization, or at least a division of the global economy into two incompatible economic blocs.

The Covid-19 pandemic and international responses - which include government decisions to restrict international sales of sanitary goods and a reassertion of national dimension - could intensify this crisis of the globalization and multilateral order as we knew it. The Covid crisis is an unprecedented crisis, that highlighted both the interdependence and the global public goods of today's world and the many obstacles to international cooperation to achieve them.

On the one hand one could say that the world economy has become more interdependent than ever before. Not only in terms of cross-border trade-investment flows and global production networks, but for other factors as well such as cross-border flows of technology, ideas, data, tourists, workers, students. On the other hand, the domains of health, finance, climate, technology, and trade - where the world's societies are deeply interconnected - are increasingly areas of geopolitical competition between powers with very different political and economic models and values and this create many problems for multilateralism and international cooperation. International institutions such IMF and World Bank and World Trade Organization (WTO) that were set up to facilitate common goals - as already outlined - have become obstructed by the clash of this competing interests and values (Hoekman and Mavroidis, 2020). As to the post-COVID-19 international scenario, one could say that global economic governance and international cooperation were never so needed, and they were never so difficult.

What can be done to avoid this gloomy scenario to occur?

In the global economic system that is taking shape in the post Covid-19 world, the international relations will come to be increasingly shaped by great power rivalry, starting with the United States and China technology and trade war. The risk is of an irreversible decline of the multilateral order, with geopolitical and strategic factors coming to play a greater role in economic relations between countries than rules and international institutions. A world disorder apparently succeeding a world order.

In this regard, now that the world is moving into a new phase of the fight against the virus and the exit from the pandemic crisis, two scenarios about international economic order can be outlined.

One scenario that is quite widely supported is based on the idea of the consolidation of a tri-polar world economy (comprising the USA, Europe, and China and the Asia Pacific), but without any effective leadership of a single country and a growing vacuum in global governance (Bremmer, 2012). The United States under Trump did not show any leadership in the pandemic crisis whereas China is not yet ready to provide it and it too is reluctant to do so (Dollar et al.,2020).

The international stage, in this scenario, will continue to be dominated, as in the recent past, by the bitter rivalry between the United States and China, and the conflict will continue even under the Biden Presidency. It will be increasingly focussed on the technological challenge, with a renewed American attempt to bring about a ‘decoupling’ from the Chinese economy and firms. Although, that will be difficult to achieve given the high degree of interdependence that currently bind the United States and China.

In the post-Covid world, global supply chains, one of the main pillars of the golden era of globalisation, will undergo extensive reconfiguration (World Bank, 2020). There will be a partial restructuring of supply chains toward regions and countries of origin, based on greater diversification, dictated by the need of many countries to reduce their heavy dependence on third countries, especially China, as has been suddenly revealed by the pandemic crisis (UNCTAD, 2020). The process may be costly and exposed to the risk of going too far, encouraging markedly protectionist strategies in the name of the national security of the individual countries concerned. The worst consequences include beggar-my-neighbor policies, slowing recovery, further restrictions on trade and market access and the near abandonment of international co-operation. The extent of the global disorder this will lead to is not possible to foresee.

What we know, however, is that a global system of this kind, dominated merely by balance of power relations between countries, will be exposed to a sort of a systemic endemic instability (Baldwin and Evenett, 2020). The concrete risk is an international systemic vacuum with no provider of public goods that would prevent another, perhaps even worse, global trade and/or financial crisis. Furthermore, no effective solution to the global problems of the coming years: from climate change to financial stability, to the spread of digital technology and the global safeguarding of health (Obstfeld and Posen, 2020).

Their solution requires - as well known - cooperation between countries and the development of collective action at international level (Obstfeld, 2020). To promote it, however, it will not be sufficient to call for a re-launching of Bretton Woods-style multilateralism and the global economy it supported. Such an international order can no longer be rebuilt as it was based on a bipolar world economy - hinged on the United States and Europe - which simply does not exist anymore. Moreover, even much before the

pandemic crisis there had already been discussion of how to address the economic and social problems generated by globalisation, in terms of profound inequality and environmental damages (Kahler, 2016). Rather than invoking an irreversible past order, the post-Covid world should provide the opportunity for developing new solutions to the problems of 'global governance'. The nub of the matter is how to ensure the indisputable benefits of openness and interdependence between countries while making this compatible with the sovereignty and the sphere of intervention of individual countries (Papaconstantinou and Pisani-Ferry, 2019). To provide effective public goods in the areas of health, climate change, cybersecurity and others, the multipolar world requires today more pragmatism and flexibility of alliances, a sort of mix of promoting more traditional international agreements and reforming international institutions on the one hand and also plurilateral clubs, groupings of countries based on common principles and bilateral relations, on the other hand so that they can make open global economy more modular, sustainable and less vulnerable to external shocks (Guerrieri, 2020). What is important is to show the citizens of a country the advantages of openness and international cooperation by redesigning multilateral policies for this purpose and by setting out the new frontiers of the global economy. One needs a sort of multilevel multilateralism.

Technology could not help

In addition, I don't see why as the Tria and Arcelli's paper suggests, technology today and crypto currencies can play a key role in overtaking the difficulties and the network externalities that hinder the transition to a new international monetary system and a global currency like that proposed by Keynes. In particular, I don't share the view that private and central bank-backed digital currencies - the crypto currencies - could provide the opportunity and the device by which finally we can dislodge the US dollar from its dominance in global trade and finance since decades.

In fact, advances in payment technologies do not address fundamental issues of what it takes to be a global reserve currency, in terms of liquidity, stability, convertibility. These conditions are behind the role of dollar as the dominant international currency and today, we like it or not and I do not like it, only the dollar and the United States are able to satisfy them. These factors have created large network effects: the more people use the dollar, the more useful it becomes to everyone else. And I agree that this has been reinforced as emerging markets, which rely extensively on the dollar, increase their share of global economic activity. The improvements in payment technology have lowered the cost of digital payments, but there is little evidence or no evidence they have done much to create the opportunities for new global currency.

In addition, there is the argument in the paper that technological advances could also become the ingredients for a “synthetic hegemonic currency” - a digital basket of reserve currencies - also by quoting Bank of England governor Mark Carney of the Keynes bancor idea.

Despite one could hope for this in the future, it is difficult to see how technology can favor and accelerate the creation of a “synthetic hegemonic currency”, a digital basket of reserve currencies. First, trade and financial contracts today continue to be denominated to a very great degree in a single currency, rather than a basket of currencies. And a second major difficulty for such a public synthetic alternative to work, is that central banks of major countries would have to co-ordinate to ensure its stability and reduce risks to such a high degree that it is hard to believe that it is possible today. An incredible high level of cooperation would be needed politically as well among major countries.

What can be foreseen in the medium is certainly the possibility of a multipolar system with multiple reserve currencies. The world would also benefit from a more balanced system in which the euro and the renminbi have a bigger role. But that will happen in quite a distant future. Actually, Chinese efforts to internationalize the renminbi have met only limited success despite a policy push and liquidity support. In addition, the impact of the euro, which has been the leading contender to replace the dollar over the past 20 years, on the dollar’s dominance has been modest at best, owing to many factors.

It is going to take years and structural changes at country (China and Eurozone) and international level to replace the dollar as the international currency, and again technology cannot solve this problem alone and replace the needed changes.

To sum up

One should be clear that there isn’t any chance to go back to the very big packages and grandiose international economic orders of the past, like Bretton Woods. To provide effective public goods in the areas of health, climate change, cybersecurity and others, the multipolar world requires today more pragmatism and flexibility of alliances, a sort of multilevel multilateralism so to make open global economy more modular, sustainable and less vulnerable to external shocks. This kind of flexible and hybrid cooperation is also suited to the involvement of non-state entities and civil society groups. In this regards, recent US initiatives concerning new IMF special drawing rights, corporate taxation, and climate change highlight both America’s renewed support for global cooperation and first signs that multilateralism complemented by bilateral effort could work even in a great power rivalry - Us and China - era (Dervis and Strauss, 2021).

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