

New Global Economic Order

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Chapter 2

The Global Economic Order: A Brief History

Kevin O'Rourke (NYU Abu Dhabi)

Historical Episodes of Global Economic Order

- ✧ This chapter surveys various mutations undergone by the global economic order since the early modern period, concluding with some brief reflections on what the past might have to teach us about our current situation.
- ✧ The modern global economic order has passed four distinct historical eras:
 - 1) Mercantilist (17-18c): Trade was zero-sum
 - 2) Imperialism (circa late 19c): Gradual emergence of liberal international order
 - 3) Interwar period (first half of 20c): The world splintered into trade blocs
 - 4) Post-war world (1946-...): Birth of new multilateral institutions that imposed legal obligations on member states on trade

Lessons Learned from the Past

- ✱ Rules reflecting the conventional wisdom of the day can prevail as binding as international legal obligations. However, it can switch quickly, and when rules become too constraining to follow, they tend to eventually be abandoned (e.g. adoption and ditching of gold standard)
- ✱ **Discretion wins out over rules:** Whenever open trade has become too costly politically, governments have eventually intervened in the market, whether during 19th century, the 1930s, or liberal early 21st century.
- ✱ Building blocks of international order have always been motivated by geopolitical considerations (e.g. formation of trade agreements, MFN principle, US allowed Britain to join GATT, etc.).

Chapter 3

Global Governance

Dani Rodrik (Harvard University)
Joseph Stiglitz (Columbia University)



The Case for Minimalist Agenda in Global Governance

- ✱ There remains a strong case for the nation state even in an age of globalization. However, we see limited true global cooperation taking place, as policies are determined by domestic politics based on 'national interest'.
- ✱ Equally, global agreements and institutions reflect the imbalances of global power among the major countries, where outcomes mostly reflect the interests of the large and powerful countries.
- ✱ Several reasons to rethink global governance as it is now (e.g. good vs bad outcomes, end of neoliberal order, self-interest of nations, externalities).
- ✱ We have put forward a minimalist vision of global governance.

Principles of Minimal Global Governance Architecture

- 1) Global rules should allow countries to do as they please so long as they do not engage in explicitly beggar-thy-neighbor (BTN) policies or impose significant costs on poorer countries.
- 2) Any international agreement has to reflect differences in circumstances across countries.
- 3) Global agreements should be consistent not only with global efficiency, but also with global fairness.
 - ▶ Fairness entails differences in treatment and contribution between developed and developing countries in areas such as climate change, technology transfers, and trade agreements.
- 4) Economic arrangements also have broad social and political consequences that must be considered.

Minimalist Agenda in Key Policy Arenas

- ✳ Setting a minimalist agendas can be beneficial in light of current deadlocks in some policy arenas, both with obvious value to global cooperation such as climate change and public health and other areas such as multinational taxation, investment agreements, trade policy, and debt.
 - 1) **Climate change** and the global agreement on Special Drawing Rights (SDR) and compulsory licenses for technologies related to climate change.
 - 2) **Public health and trade**: There needs to be, at minimum, automatic IP waivers in the presence of any pandemic declared by the WTO.
 - 3) **Multinational taxation**: Focus on setting a minimum tax rate, the most egregious forms of base erosion, curtailing tax havens, reforming the double tax regime, and preserving rights to taxation may lead to a better global tax regime than OECD's more ambitious agenda.

Chapter 4

Roles of Bilateral, Regional, and Plurilateral Economic Cooperation

Shujiro Urata (Waseda University)

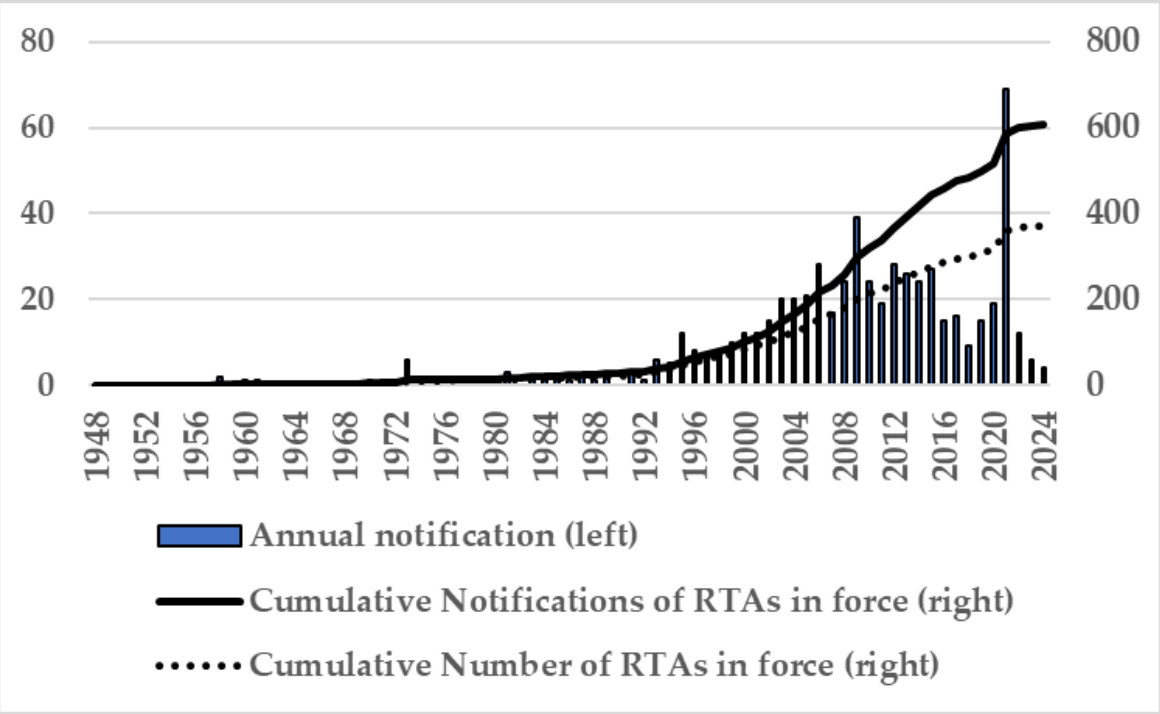


Recent Developments In Response to Dysfunctional WTO

- ✳ Escalating geopolitical and trade tensions in the world involving two major powers, the US and China, since 2010s has resulted in reducing trade and investment by fragmenting the world economy.
- ✳ A lot of uncertainties surrounding global trade and investment due to malfunctioning global trade system under WTO, especially rule-making and dispute settlement functions.
 - ✳ Among Doha Development Items list in 2001, only negotiations for trade facilitation and fisheries subsidies were concluded by 2023.
 - ✳ WTO's Appellate Body stopped functioning since 2019, blocked by the US.
- ✳ To deal with this situation, a group of WTO members have established new types of trade agreements:
 - 1) Enlarged regional trade agreements (RTAs) with comprehensive policy coverage
 - 2) Plurilateral agreements, exemplified by Joint Statement Initiatives (JSIs)
 - 3) An alternative dispute settlement mechanism: Multi-Party Interim Appeal Arbitration Arrangement

RTAs Have Been Growing in Quantity and Scope

Figure 1. Evolution of RTAs in the World



Source: WTO, <https://rtais.wto.org/UI/charts.aspx#>

Table 1. Changes in Policy Coverage of RTAs (%)

	Number of Policy Areas			
	<10	10~20	20<	Total
1958-2000	66.3	26.5	7.1	100
2001-2010	27.4	65.9	6.7	100
2011-2021	16.7	50.0	33.3	100

Source: World Bank, Deep Trade Agreements Database
<https://datatopics.worldbank.org/dta/dashboard.html>

RTAs and Plurilateral Agreements are on the Rise

- ✳ Faced with little progress on multilateral trade negotiations, countries interested in promoting trade opted for RTAs with like-minded countries.
- ✳ Many RTAs are found “deep” (sometimes WTO+) in terms of policy coverage and became deeper over time
- ✳ Since 2017, like-minded groups of WTO members issued joint statements initiatives (JSIs), advancing discussions or negotiations on stalemated topics under Doha Round.

Chapter 5

A New World Order of Multipolarity and Multilateralism

Danny Quah (NUS)



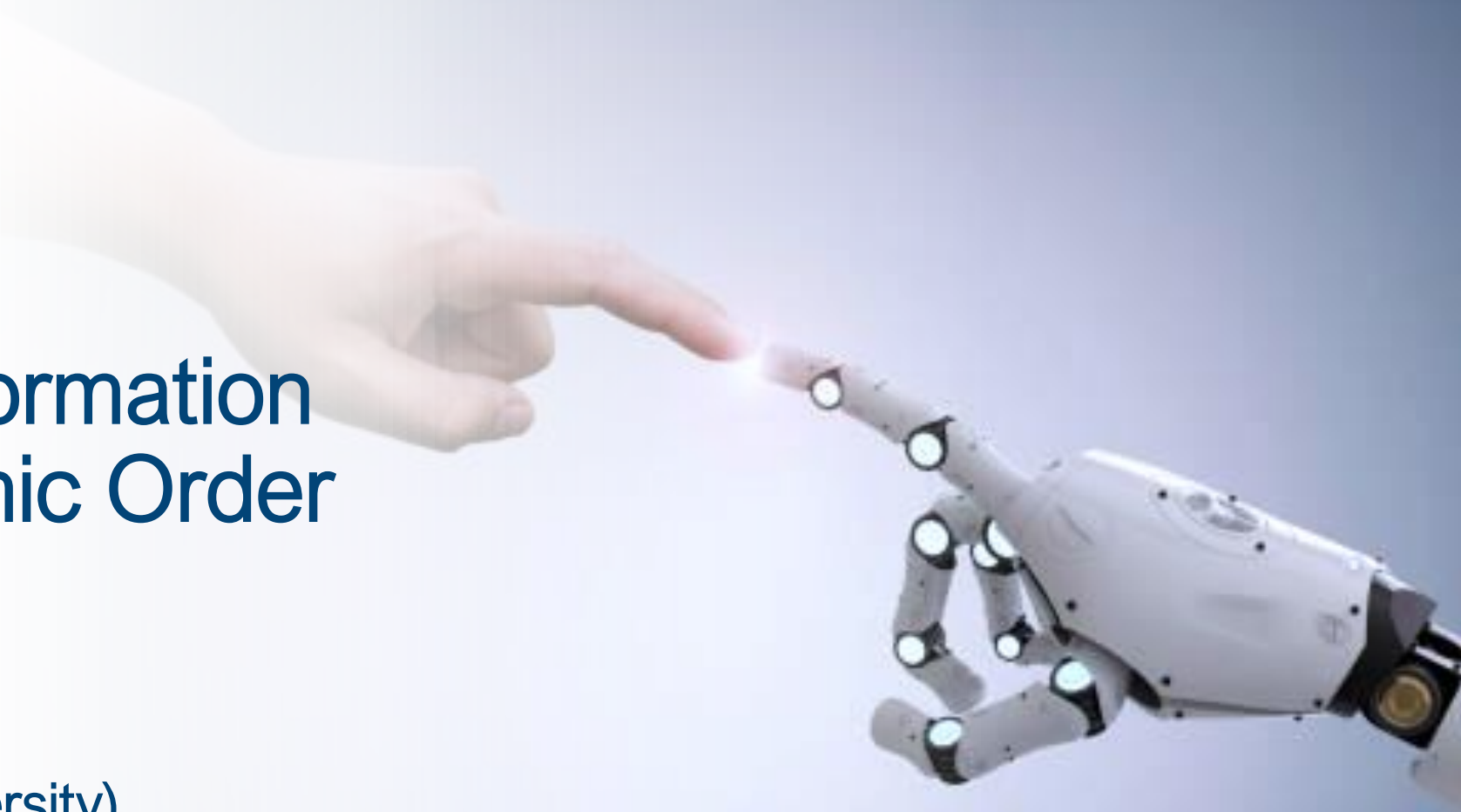
Multipolarity, Multilateralism and Economics

- ✿ This chapter evaluates the hypothesis that trade interconnectedness can help reduce global economic fragmentation due to geopolitical rivalry.
- ✿ It concludes that trade can potentially provide both a centripetal and centrifugal force; economic interconnectedness thus cannot be relied on to be an automatic stabilizer for the global economy.
- ✿ Main argument: Over the last 50 years, economics (especially trade) initially worked alongside geopolitics to help coalesce advanced and developing nations. However, the multipolarity and multilateralism that have emerged since the beginning of the millennium have altered those dynamics: both economic and geopolitical forces now tend to worsen global fragmentation.
- ✿ While these historical comovements help explain the shifting world order, they are only correlations that leave open for subsequent research whether economics and geopolitics are jointly co-determined or whether one of these variables takes causal priority over the other.

Chapter 6 Economic Transformation and New Economic Order

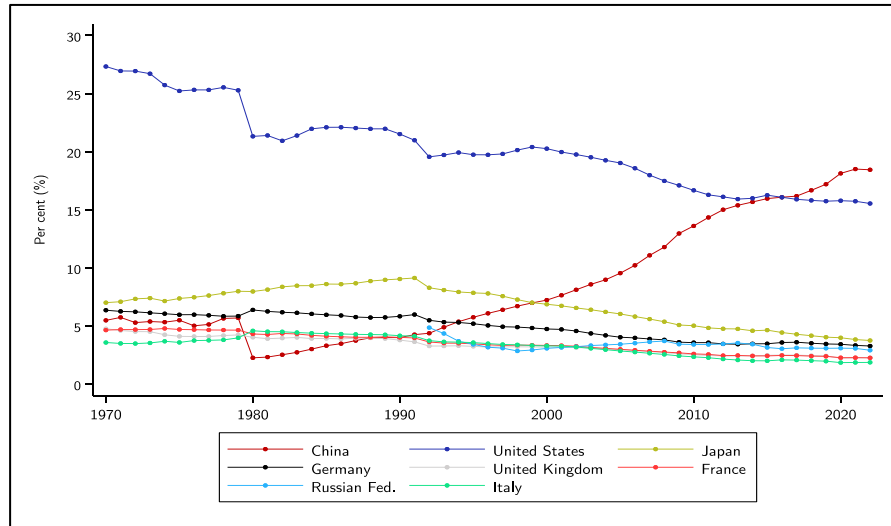
Lili Yan Ing (ERIA and IEA)

Justin Yifu Lin (Peking University)

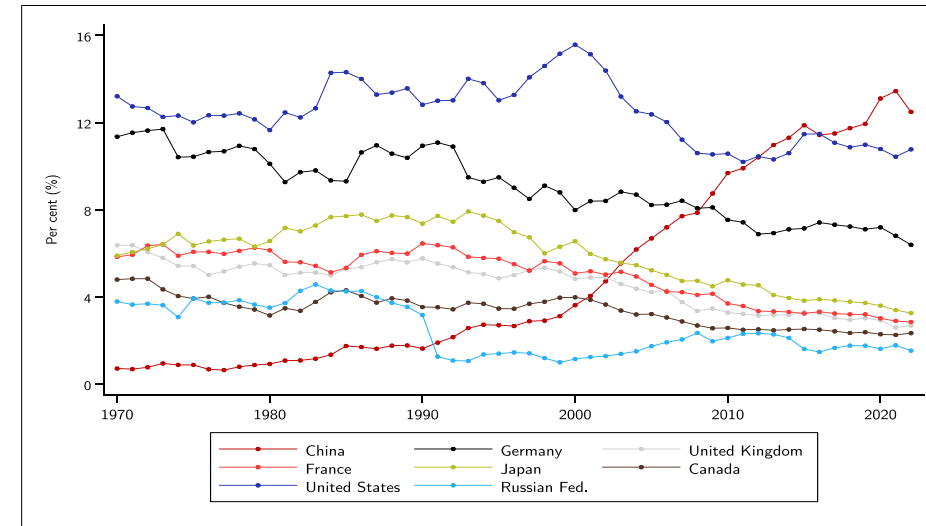


Economic shifts and catch-up by developing economies since 1970

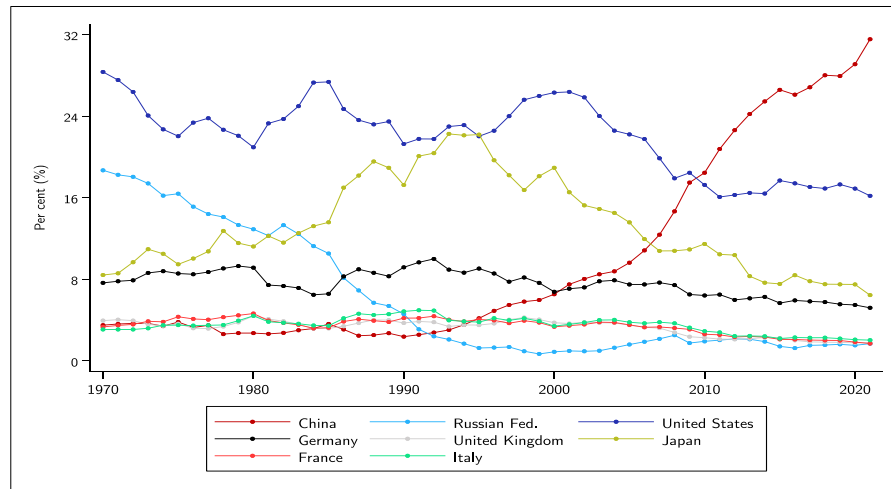
GDP PPP



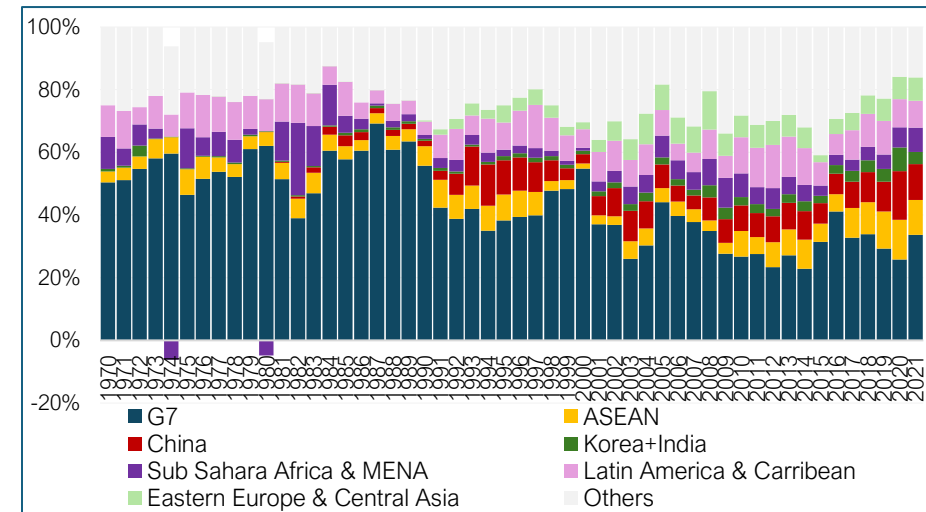
Trade in Goods



Manufacturing Value Added



FDI Inflow



Dynamics at Play in Structural Transformation

- 1) Endowment structure, comparative advantage (CA), production, and trade structure
- 2) The role of market and state in structural transformation
- 3) Dynamic transformation, structural stagnation, and premature deindustrialization

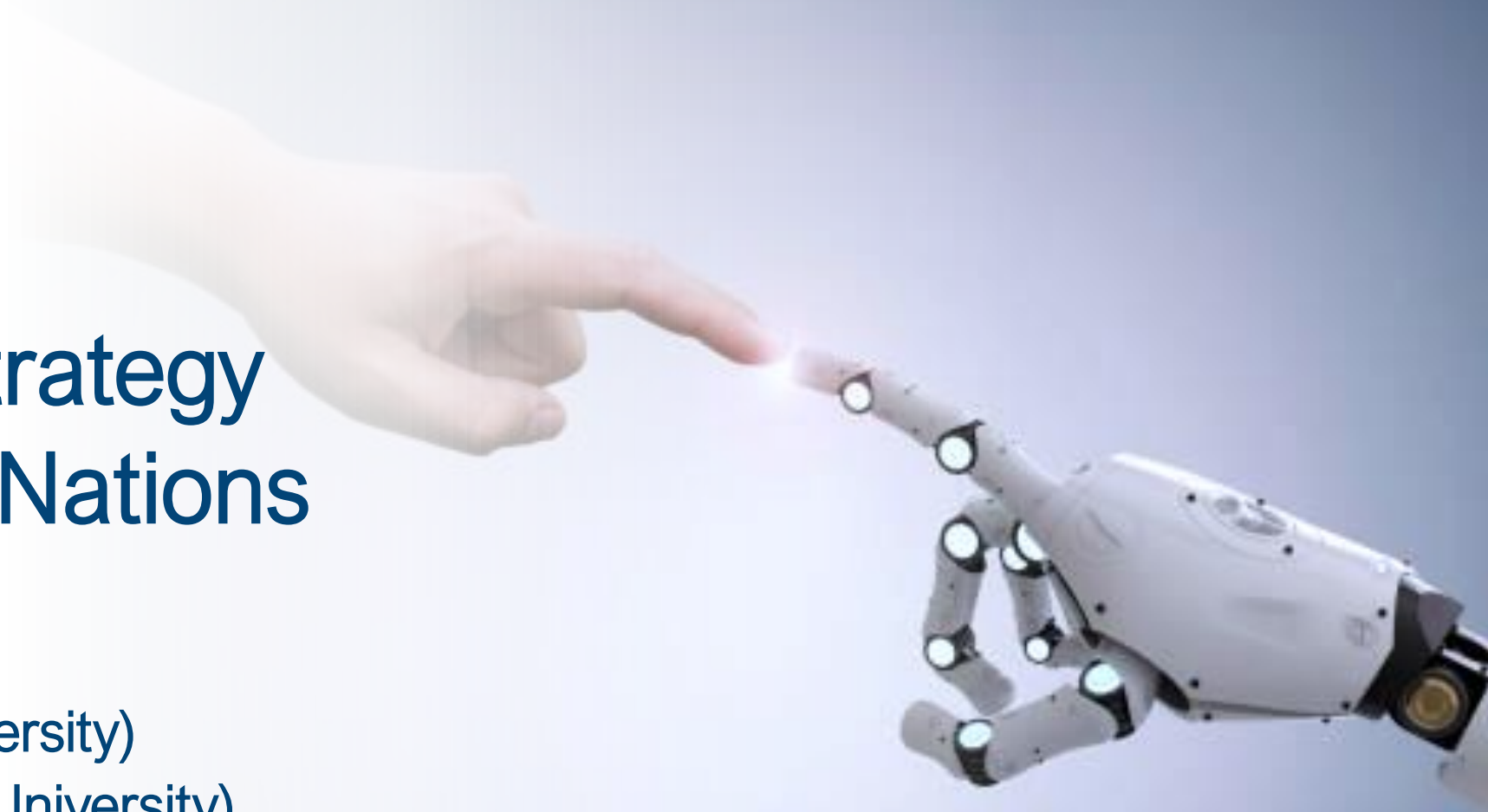
Policy Recommendations

- 1) Optimize comparative advantage and effective infrastructure
- 2) Transition strategy
- 3) Optimize the use of digital transformation

Chapter 7

New Growth Strategy for Developing Nations

Dani Rodrik (Harvard University)
Joseph Stiglitz (Columbia University)



We are at a Turning Point of Development Strategy

- ✱ Successful growth strategy in the past that was often based on export-oriented industrialization in the manufacturing sector (e.g. East Asia) may no longer be adequate for today's low-income countries.
- ✱ Three reasons for limited efficacy of manufacturing export-based development strategy in modern times:
 - New technologies: Manufacturing become less labor-absorbing and may cause premature deindustrialization
 - Reconfiguration of globalization: Backlash against hyperglobalization → less hospitable for growth via trade.
 - Climate challenge: Reduced global demand for material goods with high carbon footprint relative to services.
- ✱ We need a new development strategy that emphasizes two critical areas: (1) the green transition, and (2) labor-absorbing services sector.

Emphasis 1: Green Transition

- ✳ Several key investment priorities related to green transitions in developing nations:
 - 1) Transformation of the energy system to renewable sources
 - 2) Public investments in agriculture, forests, soils, and oceans to ensure ecosystem resources are well-protected.
 - 3) Redesign cities with modern transportation systems and efficient housing
 - 4) Investment in food and water systems, resilience of infrastructure and urban areas, and disaster risk management.
- ✳ Feasibility of these actions depends heavily on the availability of external financial support
 - Bridging investment gap requires a new growth-oriented

Emphasis 2: Labor-Absorbing Services Sector

- ✳ Due mostly to recent tech development, it is difficult to rely on manufacturing or agriculture to absorb employment in low-income and developing nations. Services sector becomes crucial to take on this task.
- ✳ How can productivity and demand be increased in non-tradable, often informal services activities in self-proprietorships and micro/small firms, where jobs are largely being created in developing economies?
 - 1) Encourage lower-skill job creation by the larger firms that operate in non-tradable services
 - 2) Provide public inputs and access to productivity-enhancing investments for smaller enterprises
 - 3) Invest in technologies that complement rather than replace low-skill workers in services sectors (e.g., digital, softwares)
- ✳ Steering the requisite structural changes will require a new model of industrial policies focused on both green transition and labor-absorbing services.

Chapter 8

The Need for Multi-Polar AI Governance

Daron Acemoglu (MIT)



Concerning Current Trajectory of AI Development

- ✳ Opportunities and potentials from AI are endless. On the one hand, labor-augmenting and productivity-enhancing, but on the other hand, can also be a tool to accelerate automation and worsen inequality.
- ✳ Business models of AI tech companies today are very similar to those that led to prioritizing automation in the past.
- ✳ Current AI direction is shaped (i) by the priorities of the tech industry, which do not coincide with pathways that would lead to beneficial outcomes for workers and democracy, and to a lesser extent, (ii) by the regulatory oversight coming from the United States and China, which is either weak or inadequate.
- ✳ There is an urgent need to redirect AI research and development in a more socially beneficial direction within a multipolar framework.

Workers and Citizens Need to be at the Table

- ✳️ Serious current under-representation of the voices of (i) workers in developed nations and (ii) citizens of developing nations, two of the most greatly affected groups by AI development and adoption.
- ✳️ Having workers' voice in AI deployment is crucial to provide context about what types of information would be most useful to workers and the kinds of training that workers need to engage with AI tech capabilities.
- ✳️ AI also profoundly impacts the livelihoods of developing nations' citizens via changes it brings on trade and industrialization patterns and the associated global division of labor they dictate.

Multipolar AI Governance at Work

- ✳ Attempts to change the current equilibrium in the field of AI are likely to be synergistic with other changes
- ✳ It would be useful to develop a number of common perspectives, that can make the voices of both workers and developing nations more effective. Centering the discussion on whether we are going to have a pro-worker and pro-citizen (pro-democracy) direction of AI or an anti-worker, anti-democracy trajectory is a useful starting point.
- ✳ Any success by workers from industrialized nations in pushing tech companies to develop more tools that can be useful to human workers, and any brakes on excessive automation, would also directly and indirectly help the developing world.

Chapter 9

The Green Industrial Revolution: Consequences and Policies

Alessio Terzi (Cambridge, Sciences Po)



Consequences of Green Transition

- ✧ This chapter identifies parallels between the green transition and past industrial revolutions, highlighting that such transitions have always involved significant upheavals in economic and social structures.
- ✧ Despite promising prospects of green technologies to foster economic growth and job creation in the long-term, potential short-term disruptions and growing inequalities will pose significant challenges, and inevitably unleash some political economy forces.
- ✧ What are some potential short-term consequences of green transition to expect beyond the long-term benefits on growth?
 - ▶ Large structural transformation and significant skill, retraining and job relocation
 - ▶ Sharp shift in comparative advantages and clusters of key technologies.
 - ▶ More frequent extreme weather events, leading to economic losses in some areas more than others
- ✧ Some political economy dynamics potentially at play during green transition: (i) activist governments, (ii) trade fragmentation, (iii) limited voluntary technological, and (iv) financial transfers between countries.

Policy Recommendations on Green Transition

- 1) Avoid trying to obstruct structural transformation
- 2) Aim to be a pioneer in green technology
- 3) Mitigate inequalities within and across countries
- 4) Safeguard an open society and scientific collaborations
- 5) Build international alliances bridging rich and poor countries

Chapter 10 International Financial and Tax Reform

Jose Antonio Ocampo (Columbia University)

MDBs Development Financing Must be Boosted

- ✿ There is a need to significantly increase development financing by the multilateral development banks (MDBs), including to support the contribution of developing countries to the provision of global public goods on pandemic prevention and climate change.
 - This would require (i) concessional credits: to finance the contribution by middle-income countries and the private sector, and therefore (ii) funds to support those concessional elements and the capitalization of the MDBs.
 - MDBs should strengthen as a service network and collaborate with national development banks.
- ✿ Also, key issues under international monetary reform, which has not been central in global debates:
 - Need to develop more precautionary or contingency instruments
 - Continue to support capital account regulations
 - Streamlining conditionality of IMF credit
 - Facilitate a more active use of IMF's Special Drawing Rights (SDRs) and pursue ambitious reforms regarding their allocation

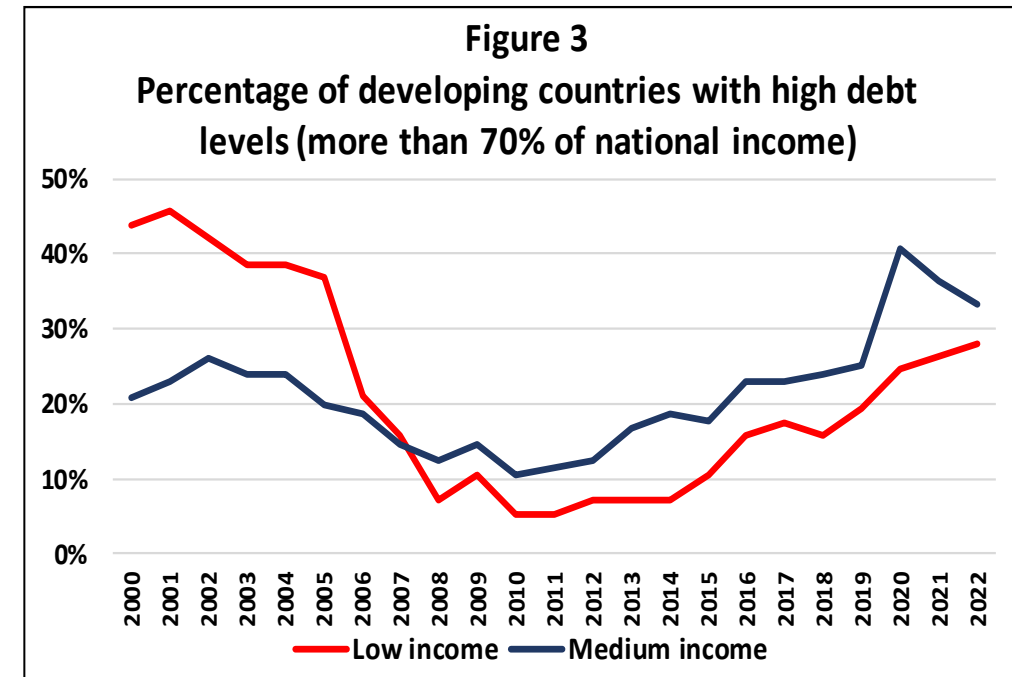
Debt Restructuring and Global Taxation Reform

* Sovereign debt restructuring

- Need to develop both (i) a permanent institutional mechanism to negotiate sovereign debt restructuring, and (ii) an ad hoc instrument to manage the debt crises that several countries are currently facing.

* International tax cooperation

- Greatest marginal benefits of current tax reforms are expected to go to high-income countries (headquarters of MNCs) and not developing world. Thus, need to support the ongoing negotiations of a UN Tax Convention with a much broader agenda.



Source: International Monetary Fund, World Economic Outlook Database, April 2023

Critical Institutional Issues

Four critical institutional issues that international financial and tax system must address:

- 1) Continue to enhance the voice and participation of developing countries in Bretton Woods institutions
- 2) Creating a representative committee in the UN as the main mechanism of international economic cooperation;
- 3) Develop global institutions in sovereign debt and tax cooperation
- 4) The need to have strong regional institutions in all areas, including in the international monetary system and tax cooperation, reproducing the system that is already in place in the MDBs.

Chapter 11

Global Resource Mobilization: Health and Economic Recovery

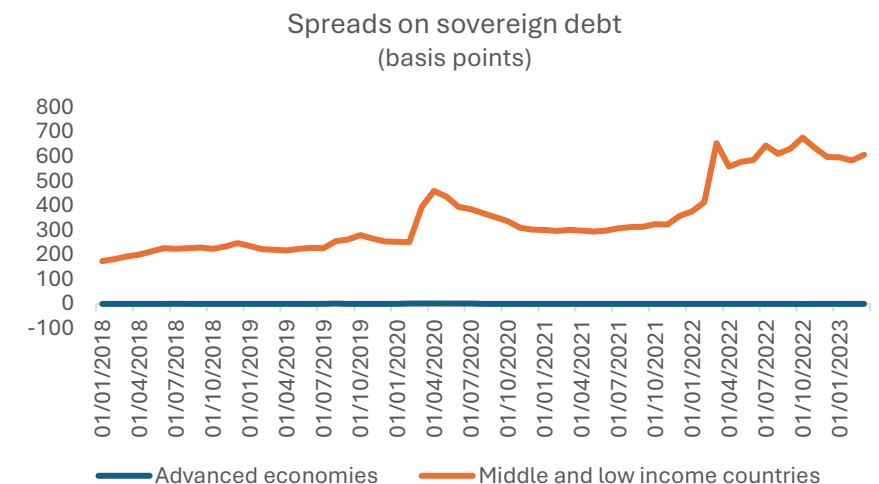
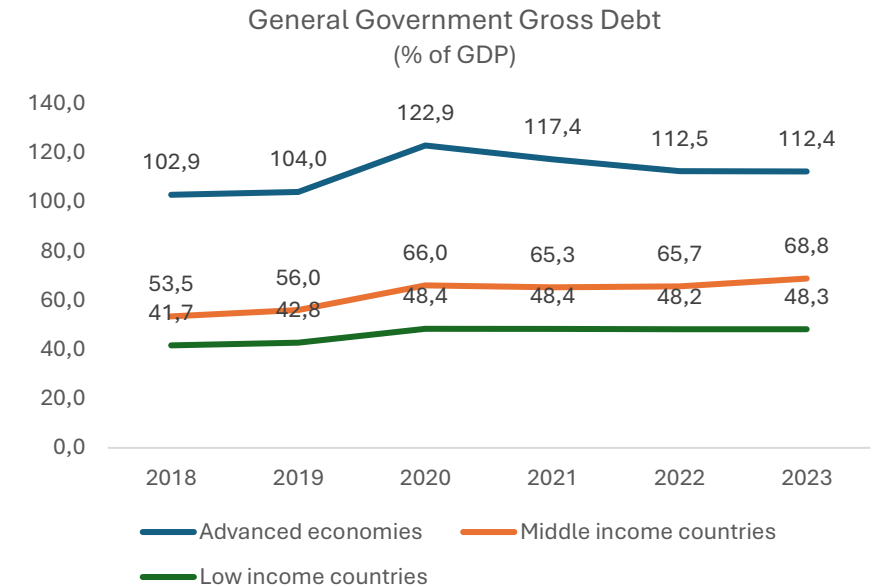
Jayati Ghosh (UMass Amherst)

Health is a global concern, but still handled largely at national levels

- ✱ Health has always been a global concern. The cross-border implications of ill-health and their spread are more widely recognized since the Covid-19 pandemic.
- ✱ In the 21st century, challenges arising from health issues, especially in poorer regions, will become more complicated:
- ✱ Despite growing evidence that emerging health concerns are much more likely to be cross-border in scope and spread, health policies remain deeply national in spirit and in implementation.

International economic architecture constrains adequate health spending

- ✳ The current international economic architecture is an active constraint on required health spending, especially against low and lower-middle income countries (LMICs).
- ✳ The inequality and injustice embedded in global financial markets
- ✳ Unsurprisingly, important international institutions that could coordinate efforts are significantly underfunded (e.g. The Pandemic Fund having mobilized less than \$2bn of the initial assessed \$10.6bn).



What can be done to improve the situations?

- ✱ Since Covid-19 pandemic, there have been several important proposals for financing reform and for multilateral initiatives to address some of these concerns, with various level of success: WHO Council on Economics of Health for All, UN's High Level Advisory Board on Effective Multilateralism, Pandemic Fund, etc.
- ✱ Several policy recommendations that match the level of ambition needed to change the situation:
 - 1) International financial institutions must change the way they operate: beginning with a regular but more flexible, generous and directed issuance of SDRs by the IMF, to be distributed not by quota but according to need.
 - 2) Debt distress has to be overcome through urgent and transparent efforts to reduce the repayment burdens without further pressure on embattled populations.
 - 3) Intellectual property regimes need to be reformed to enable greater access to essential knowledge.
 - 4) Fiscal space has to be enhanced through more appropriate rules on international taxation.
 - 5) The quality of finance also has to changed, from a siloed and short-term approach in both public and private finance, to a more comprehensive, and inclusive and cooperative approach, for both national governments and international institutions.

Chapter 12

Resource Mobilization: Private Sector and Market Based Mechanism

Vera Songwe (LSF)

Global Macro Condition Limits Resources Available for LLMICs

- ✳ Excluding China, emerging markets and developing economies (EMDEs) need \$5.3 trillion yearly between 2023-2030 to meet the SDGs, and \$1 trillion in external financing for climate alone.
- ✳ Challenging macroeconomic environment compounds the situation, putting donors are in fiscally difficult position
- ✳ Massive contraction in resources available for LLMICs to fight against climate crisis and other needs
- ✳ The first pre-requisite for EMDEs and LMICs increases in ability to access private capital is improving their macro balances and that of AE. This involves macro management, credit and risk ratings, financial ratios, debt and deficit levels, reserves, business climate, governance and security.

Collaboration Between Private, MDBs and Public Sector is Needed

- ✧ Given the prior challenges, the role of private sector has become central to resource mobilization in LLMICs. Traditional public finance alone will not meet these challenges.
- ✧ Concerted collaboration between the private sector, multilateral development banks (MDBs), and sovereigns is crucial to mobilize more (especially private) resources to LLMICs.
- ✧ Private capital is most efficient and secure when accompanied by public sector credit enhancements.
- ✧ IDA development fund/grant is highly concessional. It is the largest single source of development finance for world's poorest countries, and thus needs a permanent and persistent global advocate.

Thank You