
INTERNATIONAL ORGANISATIONS RESEARCH JOURNAL



HIGHER SCHOOL OF ECONOMICS
NATIONAL RESEARCH UNIVERSITY

Vol. 16 No 2 (2021)

E D U C A T I O N • S C I E N C E • N E W E C O N O M Y

Q u a r t e r l y J o u r n a l

Moscow 2021

ВЕСТНИК МЕЖДУНАРОДНЫХ ОРГАНИЗАЦИЙ



ВЫСШАЯ ШКОЛА ЭКОНОМИКИ
НАЦИОНАЛЬНЫЙ ИССЛЕДОВАТЕЛЬСКИЙ УНИВЕРСИТЕТ

Т. 16 № 2 (2021)

ОБРАЗОВАНИЕ • НАУКА • НОВАЯ ЭКОНОМИКА

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Москва 2021

INTERNATIONAL ORGANISATIONS RESEARCH JOURNAL

EDUCATION • SCIENCE • NEW ECONOMY

Quarterly Journal

ISSN 1996-7845 (Print)
ISSN 2542-2081 (Online)

International Organisations Research Journal (IORJ) is published by the National Research University Higher School of Economics since January 2006. It is published quarterly since 2009. Generally, each issue is dedicated to one theme. The Journal is on the list of reviewed scholarly journals approved by the Higher Attestation Commission of the Ministry of Education and Science of Russia for publishing key research findings of PhD and doctoral dissertations. The journal's main themes are: global governance and international affairs, world economy, international cooperation in education, science and innovation.

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Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications (ROSKOMNADZOR)

Reg. No. PI № FS 77 – 66563 (21.07.2016)

Publisher

National Research University Higher School of Economics

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ОБРАЗОВАНИЕ • НАУКА • НОВАЯ ЭКОНОМИКА

Научный периодический журнал

ISSN 1996-7845 (Print)
ISSN 2542-2081 (Online)

Периодичность выхода — 4 раза в год

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Издание зарегистрировано Федеральной службой по надзору в сфере связи, информационных технологий и массовых коммуникаций, регистрационный номер ПИ № ФС 77 — 66563 от 21.07.2016

Учредитель

Национальный исследовательский университет
«Высшая школа экономики»

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G20 in the Second Decade of the 21st Century. Steering the World Towards Inclusive Growth and Sustainable Development¹

S. Lukash

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Abstract

The COVID pandemic and global lockdown of 2020 strongly hit the system of global governance. The subsequent large-scale economic crisis highlighted the accumulated problems in public health and global economy, accelerated inequality growth, undermined progress towards the Sustainable Development Goals, and questioned the prevailing globalization paradigm. The system of international institutions in general and the G20 as the main cooperation forum of the world's leading economies are often criticized for their inability to effectively address crises. However, as shown in this article, the G20 managed to quickly implement a coordinated set of large-scale measures to overcome the pandemic and its consequences and became a coordinator of anti-crisis actions. The author concludes that the unique characteristics of the G20 will allow it to remain the flagship of international efforts to ensure strong, sustainable, balanced and inclusive growth of the world economy, and suggests a number of priorities for the G20 agenda.

Key words: G20; inclusive growth; sustainable development; COVID-19 pandemic; digitalization; debt relief; anti-crisis measures

For citation: Lukash S. (2021). G20 in the Second Decade of the 21st Century. Steering the World Towards Inclusive Growth and Sustainable Development. *International Organisations Research Journal*, vol. 16, no 2, pp. 7–14 (in English). DOI: 10.17323/1996-7845-2021-02-01

The COVID pandemic and global lockdown of 2020 strongly hit the system of global governance, already weakened by the growing unilateralism, increased confrontation between actors, withdrawal of key members from multilateral agreements, and stalling international institutions reform. The subsequent large-scale economic crisis has not only highlighted the accumulated problems in public health and economic challenges, but also accelerated inequality growth, undermined progress towards the Sustainable Development Goals, and questioned the prevailing globalization paradigm.

The system of international institutions in general and the G20 as the main cooperation forum of the world's leading economies are often criticized for their inability to effectively address crises (forgetting that it was the G20 coordinated efforts that helped to stop the proliferation of the 2008-2009 global financial and economic crisis). It should be noted that coordination of actions in the beginning of 2020 was insufficient due to the general crisis of multilateralism, high degree of uncertainty about the development of the pandemic, and large costs of possible mistakes. Nevertheless, the G20 managed to quickly implement a powerful and coordinated

¹ The editorial board received the article in April 2021.

set of measures to overcome the COVID-19 pandemic and its consequences and become an engine and coordinator of actions by multilateral institutions to deploy a package of anti-crisis measures aimed at adapting and strengthening health systems, supporting the economy, employment and social protection, and providing assistance to the most vulnerable countries and population groups.

The extraordinary G20 summit's commitments to support WHO's efforts and strengthen its capacity to coordinate the response to the pandemic, to close the financing gap in the WHO Strategic Preparedness and Response Plan, and to provide immediate resource support to the WHO's COVID-19 Solidarity Response Fund, helped to strengthen the response potential. G20 members have committed more than \$21 billion to finance the development of vaccines, diagnostics and therapeutics [G20, 2020a], supported the Access to COVID-19 Tools Accelerator and approved funding for the WHO Strategic Plan [WHO, 2020]. The G20 agreed and implemented measures that facilitated resource mobilization for vaccine development. A critical decision for consolidating efforts was the recognition of immunization as a global public good.

The 2020 G20 summit's decisions on stimulating the global economy through targeted fiscal policy, economic measures and safeguards mechanisms, and the implementation of the G20 COVID-19 Action Plan have helped mitigate the social, economic and financial impact of the pandemic. Cumulatively, these stimuli have exceeded \$11 trillion [G20, 2020a]. Support and targeted financing of businesses, SMEs, households and citizens, including through flexible forms of working and the provision of public services in electronic form, and implementation of a comprehensive package of measures to ensure economic and financial stability [G20, 2020a] contributed to a significant economic recovery in Q3 2020 (8.1%) [OECD, 2020a] after an unprecedented drop in Q2 2020 (-6.9%) [OECD, 2020b]. Social protection measures have secured livelihoods for 645 million people [ILO, 2020].

To help the most vulnerable countries, the G20 supported the IMF's crisis response package and welcomed the mobilization of its \$1 trillion lending capacity, called on the WB and MDBs to immediately provide \$200 billion of financing for projects to support health systems, and to replenish the Poverty Reduction and Growth Trust (PRGT) and the Catastrophe Containment and Relief Trust (CCRT) [G20, 2020b]. Endorsed by leaders in March and extended by six months in November, the Debt Service Suspension Initiative for low-income countries (DSSI) provides temporary relief to 73 states, affecting debt service payments totaling approximately \$477 billion (as of 2018) [Eurodad, 2020]. The scope of assistance is clearly far from the funding needs estimated by UNCTAD at about \$2.5 trillion [UNCTAD, 2020], DSSI savings as a percentage of total debt service due in 2020 are only 1.66%,² and the road to recovery will definitely not only be long [Georgieva, 2020] but also difficult. Nevertheless, the decisions made in 2020 laid the foundation for recovery, preserved the principle of multilateralism in the global governance system and confirmed the G20's role as a key anti-crisis institution and a leading forum for economic cooperation between countries.

The G20 cooperation program for 2021 covers the entire range of issues on the global economic agenda: macroeconomics and finance, healthcare, sustainable development, sustainable climate and energy transition, environment, digital economy and digital government, labor and employment, education and science, trade and investment, agriculture, anti-corruption, tourism and culture. With the expansion of its agenda, the G20 consistently transforms from a "closed" financial and economic club into an open forum for cooperation on economic and social development issues.

² This is due to a number of factors. The initiative does not include 68 countries, does not extend to multilateral financial institutions, and is not mandatory for private lenders. See: The G20 Debt Service Suspension Initiative. Draining out the Titanic with a bucket? Available at: <https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/768/attachments/original/1610355046/DSSI-briefing-final.pdf?1610355046>

The health and well-being of people and the planet along with maximizing the potential of digitalization – the stated priorities of Italy’s G20 Presidency – will be central to the G20 agenda in the new decade. In this case, there will be hope that this decade will not become lost [UNCTAD, 2020] for implementing the Sustainable Development Goals (SDGs), ensuring inclusive economic growth and the well-being of citizens. Obviously, helping vulnerable countries, addressing the systemic risk of unsustainable debt growth, facilitating progress towards the SDGs, preserving nature and climate, and ensuring equal opportunities for all in the digital economy will remain high priority issues not only in 2021, but also in subsequent years in the agenda of Indonesia’s, India’s and Brazil’s G20 Presidencies,

The first priority, which can produce the most significant expected outcome in 2021, is to secure resources to help health and social protection systems of developing countries without exacerbating their debt problems. Building on the decisions made in 2020, the G20 should develop additional proposals to ease the debt burden and ensure debt sustainability of the least developed countries, in collaboration with the Paris Club and other international institutions. Extending the debt service suspension for the least developed countries, with a possible write-off of accrued payments, will free up resources to combat the pandemic and its economic consequences. The key condition to ensure that these resources are not used to pay debts to lenders not participating in the DSSI should be the development of a mechanism for suspending the service of debt to private creditors. This is a very difficult task. One of the experts’ proposals is the protection from a lender-initiated litigation at the request of a sovereign borrower based on Section 2 (b) of Article VIII of the IMF’s Articles of Agreement in case of a decision by the IMF Executive Board on a broad and authoritative interpretation of the provisions on the terms of exchange contracts and their extension to debt contracts [Munevar, Pustovit, 2020]. Another proposal is that “multilateral institutions such as the World Bank or other multilateral development banks create a central credit facility allowing countries requesting temporary relief to deposit their stayed interest payments to official and private creditors for use for emergency funding to fight the pandemic. Principal amortisations occurring during that period would also be deferred, so that all debt servicing would be postponed” [Bolton et al., 2020].

Additional resources to support developing countries’ efforts to combat the consequences of the pandemic without aggravating their debt problems will be provided through a new IMF general allocation of Special Drawing Rights (SDRs) in an amount equivalent to USD 650 billion. The G20 supported the long-awaited allocation conditioning it on enhanced transparency and accountability in the SDRs use and reporting, preserving their reserve asset characteristics and establishment of a mechanism for countries to voluntarily channel a share of their allocated SDRs to help vulnerable countries finance more resilient, inclusive and sustainable economic recoveries and health-related expenditures, for example through the creation of a new trust fund or scaling up the Poverty Reduction and Growth Trust. The funds could also be used for writing off debts for countries in greatest need.

Digitalization is an inexhaustible resource for supporting vulnerable countries, reducing inequality and facilitating global economic growth in general. The development of the digital economy permeates the entire agenda of the G20, which has set itself the task of maximizing the potential of digital technologies for facilitating economic recovery and improving the quality of people’s life. The G20 countries have pledged to strive to provide Internet access for the entire population of the planet. The digitalization of labor, education, healthcare, public services, finance and trade opens up broad prospects for ensuring equal opportunities and developing the potential of every person. The G20 pays close attention to the digitalization of production processes, creation of “smart cities”, development of artificial intelligence and distributed ledger technology (“blockchain”), which can significantly improve the quality and efficiency of business processes.

The effective use of the digital economy's potential should accelerate progress towards the SDGs implementation. In this regard, a possible practical solution the G20 could consider is to align plans to achieve the SDGs with the objectives in the digital area such as bridging the digital divide in Internet access [ITU, 2019], creating digital public goods,³ protecting data⁴ and critical infrastructure [UN, 2020], and improving coordination and collaboration regarding artificial intelligence.⁵ For example, "Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all" could be linked to the goal of significantly increasing the number of households with (a) access to the Internet for educational purposes; and (b) computers for educational purposes. "Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation" could be supplemented with an indicator of the share of FDI in high quality digital infrastructure.

Speaking about the sustainable development concept, one cannot ignore another key priority for the G20 and the entire global community – climate and environmental protection. The G20 has outlined an ambitious work plan to identify effective solutions for green development, including transition to a circular economy, moving towards carbon neutrality and preserving our planet's biodiversity. The implementation of these ambitions clearly requires a balanced approach considering different levels of countries' economic development, and the achievement of some SDGs should not slow down progress in other areas. In this context, the G20 platform using consensus-driven approach to decision-making and involving countries with a wide diversity of views provides an opportunity to agree on breakthrough decisions to determine the principles of a new, green world economy, while ensuring a balance of interests of all parties.

It is probably this unique feature of the G20 – finding consensus in addressing pressing global challenges, effectively overcoming differences, and responding to major challenges in a coordinated manner – that will allow it to retain leadership in international efforts to ensure strong, sustainable, balanced and inclusive growth of the global economy.

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³ Such goods can be defined as open-source software, open data, artificial intelligence models, standards and content that comply with privacy regulations and other applicable international and national laws, standards and best practices, and that do not cause harm.

⁴ The potential costs of data privacy violations worldwide are estimated to exceed USD5 trillion by 2024. See: Business Losses to Cybercrime Data Breaches to Exceed \$5 Trillion by 2024. Available at: <https://www.securitymagazine.com/articles/90806-business-losses-to-cybercrime-data-breaches-to-exceed-5-trillion-by-2024>

⁵ There are currently more than 160 sets of ethical principles and principles of management in the field of artificial intelligence around the world, adopted by specific organizations and countries or agreed at the international level. However, there is no common platform for bringing these separate initiatives together.

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G20 Contributions to Global Economic Governance in the Post-COVID-19 Digital World¹

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Abstract

The article investigates the future role of the G20 in a post-pandemic digital world. The transformation of the world order and global governance is interconnected with three main trends: fragmentation, digitalization and socialization. The author underlines that these trends pose challenges for states both at the national and global levels. To effectively solve the accumulated problems, the joint work of international institutions and non-state actors is required.

Key words: G20; Global Economic Governance; digitalization; fragmentation; socialization

For citation: Fried J. (2021). G20 Contributions to Global Economic Governance in the Post-COVID-19 Digital World. *International Organisations Research Journal*, vol. 16, no 2, pp. 15–19 (in English). DOI: 10.17323/1996-7845-2021-02-02

How can the G20 best contributions to global economic governance in the post-COVID-19 digital world? An answer requires consideration of three major trends characterizing today's world: fragmentation, digitalization and socialization.

Fragmentation

We are witnessing the fragmentation of what has been, certainly in the post-war period, the increasing globalization of trade and related transactions, capital and investment movements, migration and the movement of people, and the dissemination of knowledge. This fragmentation is taking place in at least four ways.

First, China's more explicit recent choice of a state-led economy, rather than a market-led economy, is resulting in competition and tensions between these models.

Second, the pressures on supply chains resulting from the COVID-19 crisis have led to a shift from "just in time" to "just in case" approaches to production and distribution. This in turn has resulted in a growing trend to re-shore, or "near shore," production.

Third, in some sectors, especially those with cutting edge technology, the risk of decoupling should not be discounted.

Fourth, even before these recent developments, our collective failure to ensure that global rules governing the economy keep pace with the way business is done led many countries and regions to move further, and faster, with like-minded partners, particularly in the same neigh-

¹ The editorial board received the article in February 2021.

bourhood. While some value chains are global, many are regional. There are now over 400 functioning free trade agreements. The advent of mega-deals from the Canada-United States-Mexico Agreement to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the deepening of continental integration of the European Union, and the conclusion of an Africa-wide free trade agreement are often at the expense of outside competitors. Such frameworks can fray at the edges, as Brexit amply demonstrates.

Digitalization

The acceleration of the pace of digitalization carries profound implications in many dimensions.

If in Western societies we have the right to be left alone, then privacy and the individual's control over his or her information is increasingly at issue. Threats to cyber security from state and non-state actors alike are growing. When these pressures are combined with the desire to promote innovation, increasingly the result is a proliferation of standards that do not match across borders or regions, or across industries, as rules governing content differ from rules governing the conduits of communication.

Socialization

Socialization refers to the reality that people matter more than ever.

For most of this century, the gap between growth in income for wage earners and executives has grown. Divisions of race, ethnicity and gender are not, in the view of many, being adequately addressed either. The rise and spread of populism and protest is an unsurprising response. More broadly, the consequences of our collective failure to address issues of the global commons, from the oceans to climate change and the use or overuse of agricultural lands, also reflects the increasingly social dimension of the challenge, and have now mainstreamed environmental, social and governance considerations. Sustainability belongs to everyone.

G20 Contributions

These forces of fragmentation, digitalization and socialization encompass challenges that are myriad and intersecting.

In this context government, and governments, seek to respond to them, both at home and in international fora. What is to be done? While it is clear that every government carries responsibility to respond at home, these challenges also require action internationally. Many look to the G20, the self-declared "premier forum for international economic cooperation," for leadership.

But many criticize the G20 for being less effective or robust in responding to today's challenges compared to action taken at the time of the global financial crisis from 2008 to 2010. This is partly true. But in part G20 actions in 2020 and 2021 reflect the nature of the challenges we face. Given the human dimension of the current crisis, the fact that our publics are so engaged and concerned, and the fact that so much is driven by domestic concerns, governments – democratic or otherwise – must be responsive to their own people. Thus, much of the action and reaction ends up being domestic in nature.

In the first weeks and months after global recognition of the COVID-19 pandemic, it was understandable and excusable that a government would say first it must protect its own citizens, so as to make sure there is enough personal protective equipment, for example, at home. We have witnessed a number of measures taken to put citizens first.

Balance that with what the G20 said early on and repeated: we recognize collectively that the imperatives of public health may require emergency measures, but they should be transparent and proportionate to immediate needs. Moreover, we still saw collective agreement, including the United States and China, and also Europe, saying we will be restrained and will aim for a cooperative environment.

Similarly, on the financial side, everybody, everywhere, has had to scrounge to find sufficient stimulus to keep people employed, to keep small businesses going and to meet immediate health needs. The G20 readily agreed on a debt moratorium through the Debt Service Suspension Initiative – temporary relief for the least developed. It was extended in October 2020.

So, notwithstanding different views about the vitality or effectiveness of the World Trade Organization or the World Health Organization, there has been some modicum of international cooperation. At worst I would give the G20 a mixed grade, rather than a failing one in responding to current crises.

The G20's Future Role

The G20 is not a governing directorate for global governance, as seen in the heterogeneity of global governance. The G20 has never been an institution of jurisdiction. It was never given a charter or mandate or constitution or formal decision-making role. It is a caucus unique among many others, because its members are not necessarily likeminded. Yet they represent 85% of the world's gross domestic product, 70% of global population and 85% of the world's greenhouse gas emissions. Members participate at a table comprising 19 countries plus the European Union. This is not an unrepresentative group to conduct a candid exchange of views.

Being elevated to the leaders' level means any issue is on the table. This allows an exchange of best practices and fiscal perspectives, to ensure some coherence. Can the G20 decide for the world? No. Can it take its views to the necessary formal decision-making and implementing institutions? Yes. Does it allow countries to take lessons learned home? Yes. That is a benefit of bringing leaders together regularly.

Yet topics such as the advent of the digital world go beyond governments. Discussions on them should be multi-stakeholder in nature. Rule making, decision making and policy making require the input and participation of actors beyond governments to be effective. The Financial Stability Board, cited as a model for a digital equivalent, brings together not only treasuries and central banks and securities regulators but also representatives from banking, insurance and accounting communities. Regulating domain names involves stakeholder voices through ICANN. The debate over content versus conduit more generally engages not just governments but also the major corporations of Facebook, Apple, Amazon, Netflix and Google, and ultimately the consumers and users as well. Thus, a "digital stability board," as some have suggested, is an interesting concept.

So many discussions on global issues require participation and input of stakeholder communities beyond government. This is not unprecedented. Past rule making, such as the creation of the Landmines Convention, had the active participation of civil society groups, to take one example beyond the economic realm. Although this is not a new idea, it is more important than ever to think about ways to tackle issues by having governments better engage with stakeholders. We traditionally have done a less good a job on trade, where governments typically hear from those who speak loudest and often have the most protectionist views. But here, too, the trend is toward more inclusive dialogue, as we grapple with the challenge of marrying trade with environmental, labour and other concerns. Underlying more meaningful multi-stakeholder dialogue, the public policy community, through research and evidence-based analysis and forward thinking, is an important contributor. Publications such as this volume play a key thought leadership role in shaping global governance for Post-COVID-19 digital world.

From Silos to Synergies: G20 Governance of the SDGs, Climate Change & Digitalization¹

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Abstract

How well and why have Group of 20 (G20) summits advanced Agenda 2030's sustainable development goals (SDGs) in a synergistic way, with climate change and digitization at the core? An answer to this urgent, indeed existential, question comes from a systematic analysis of G20 summit governance of the SDGs, climate change and digitization to assess the ambition and appropriateness of advances within each pillar and the synergistic links among them. This analysis examines G20 governance of the SDGs, sustainable development, climate change and digitization across the major dimensions of performance and evaluates how performance has changed and become synergistic with the advent of the SDGs in 2015 and the shock of the COVID-19 crisis in 2020. The latter has shown the need to prevent global ecological crises and spurred the digitization of the economy, society and health. Yet, G20 summit governance has largely remained in separate silos, doing little to use the digital revolution to address climate change or reach the SDGs. This highlights the need for G20 leaders to forge links at their future summits by mainstreaming the SDGs and mobilizing the digital revolution and climate action for future health and well-being.

Key words: G20; SDGs; climate change; digitization; synergies

For citation: Kirton J., Warren B. (2021). From Silos to Synergies: G20 Governance of the SDGs, Climate Change & Digitalization. *International Organisations Research Journal*, vol. 16, no 2, pp. 20–54 (in English). DOI:10.17323/1996-7845-2021-02-03

Introduction

The Challenge

In September 2015, world leaders gathered at the United Nations to launch the historic 2030 Agenda and its 17 Sustainable Development Goals (SDGs). When they returned in September 2019 to review their progress, just as the second trimester to achieve them approached, they found advances on some. These were led by SDG 1 on “No Poverty” and SDG 9 on “Industry, Innovation and Infrastructure”, and by countries in East and South Asia and by low-

¹ The editorial board received the article in February 2021.

and middle-income ones [Steiner, 2020] (see Appendix A). But they also found slow progress or even reversals on SDG 2 on “Zero Hunger” and SDG 15 on “Life on Land.”

To spur more progress, when Saudi Arabia on December 1, 2019 announced its priorities for its year as G20 host in 2020, it included the SDGs. Moreover, it gave the environment and climate change an important place. It also included the critical instrument of digitization, a subject that had been gaining strength in G20 summitry in recent years [Kirton, Warren, 2018].

Then came COVID-19 as 2020 began. It destroyed 30 years of development in 30 weeks. COVID-19 lockdowns’ brought small, short-term benefits for the environmental SDGs 12 to 15. But these were overwhelmed by its harm to the SDGs on poverty, hunger, health, education, gender equality, decent work, economic growth and reduced inequalities. In all, COVID-19 put the prospects of achieving the SDGs by their 2030 due date much further behind. By the time the Riyadh G20 Summit took place on November 20-21, 2020, COVID-19 had crushed “SDG-17,” rather than the reverse. COVID-19 also made health, and its immediate economic and social impacts, the Riyadh G20 leaders’ overwhelming priority, as it had been at the G20’s first ever emergency summit they had mounted virtually on March 26, 2020. Here COVID-19 completely crowded out action on climate change, despite the integral links between the two. Moreover, only a small 30% of G20 countries’ economic stimulus packages, endorsed and enhanced at the summit, went towards a green, clean recovery [Climate Transparency, 2020].

Can the most powerful leaders of the world’s most systemically significant countries at their G20 summits put SDG progress back on track, while coping with the continuing crises of COVID-19, climate change and economic contraction? To do so they must mobilize the critical instrument of digitization. Digitization was largely absent from the SDGs in 2015. But COVID-19 suddenly made it central to life, work, policy, governance and summitry around the world. G20 leaders must also use the full power of digitization to help control the current existential crisis of climate change which, in its many dimensions, the 2015 SDGs had made central to their integrated whole. This requires taking into account digitization’s own expanding emissions footprint and the inequitable digital divide.

Debate

How well and why have G20 summits advanced the SDGs in a synergistic way with climate change and digitization and how can they do better in the years ahead? These key questions have inspired a debate among four major schools of thought.

The first school saw continuing failure. Homi Kharas et al. [2018, p. 31] highlighted “substantial shortcoming in G20 member countries’ approach to agenda setting, implementation, and monitoring” of the 2030 Agenda at the national and international level, and the resulting need from the world’s largest economies for a collective G20 report and action plan on the 2030 Agenda’s implementation, including on the environmental SDGs.

Andrea Ordonez et al. [2018, p. 39] emphasized G20 members’ compliance with their commitments to the very broad SDGs. They argued that to implement the high level commitments made at the G20’s 2016 and 2017 summits, the G20 “must go beyond the sectorial choices of particular SDG policies and focus on... keeping coherence between the social, economic and environmental dimensions of development.” They should do this by having the G20 Development Working Group coordinate with other work streams.

Elisabeth Bollrich and Jochgen Steinhilber [2020] argued that the digital transformation and environmental change force a reassessment of the economy-society relationship and that this requires synergies of a broader scope than global governance institutions currently provide. They endorsed the recommendation of the Think 20 (T20) Task Force on the 2030 Agenda that financing the SDGs and financial regulation go together. But they advocated a reliance on

public rather than the private finance that G20 summits have emphasized since the start. Nora Lustig [2018] emphasized that this shift should protect the poor.

The second school saw decline, from an initial surge to a subsequent drop. Stefan Bauer, A. Berber and G. Iacobuta [2020] argued that the G20, representing 80% of the global economy and its greenhouse gas emissions, strongly advanced the SDGs and climate change control at their summits in 2015 and 2016, in the wake of the UN summit agreements on these subjects in September and December respectively. But G20 performance then declined, due to the arrival of skeptical new leaders in the United States and Brazil, rising populist and nationalist parties in G20 members, and the low commitment of the G20 host in 2018. To revive performance, they recommended focusing on synergistic actions that benefit both the SDGs and climate change, partnering with non-state and substate actors, overcoming the siloed work of G20 working groups, and having T20 task forces work on synergistic rather than specialized recommendations. John Kirton and Brittaney Warren [2021] agreed.

Thomas Fues [2017] focusing on Germany's 2017 Hamburg Summit, argued that "Building on China's preceding G20 presidency, Berlin will also emphasize the key relevance of the Sustainable Development Goals to a universal policy framework and will call for special efforts on Africa. However, it remains to be seen if Germany can achieve anything of relevance...", due to the arrival of Donald Trump as U.S. president and Germany's surging right wing populist party and restricted fiscal space, despite a determined Angela Merkel as host.

The third school saw a rise in G20 summits' synergistic SDG performance and potential. John Kirton [2020a, 18] argued that G20 summits had been slow to meet the fully globalized challenges of health, climate change and digitization. But, spurred by COVID-19, the G20 did better in preparing the 2020 Riyadh Summit and could do more by, inter alia, "holding a second annual summit at the UN each September focused on the sustainable development goals."

Achim Steiner [2020], while acknowledging the great setback caused by COVID-19 in 2020, argued that the G20 could and would be the "catalytic actor" to put the SDGs synergistically back on track, due to its enormous predominant capability of 80% of global gross domestic product (GDP), the supportive UN summitry in September 2020, and the compelling need to confront the unprecedented shocking setbacks brought by the COVID-19 crisis since 2020 began.

The fourth school saw sustained success on the core 17 SDGs as a whole. Sonja Dobson [2020] argued that G20 summits had performed highly in producing development communiqué conclusions, leaders' commitments and solid compliance. Leaders could improve compliance by making stronger commitments, by "specifically invoking the 2030 Agenda and its SDGs" in them and by linking them to climate change.

Puzzles

These schools leave several puzzles for those seeking to understand and improve the synergies of global governance in the SDGs and G20. First, they downplay the digitization that was largely absent from the SDGs in 2015 but that came to dominate life in 2020 and beyond. Second, they often pass over the foundational fact that the SDGs were deliberately designed as an integrated whole, with the fate of each depending on that of the others and on the direct contribution of all developed, emerging and developing countries, with an emphasis on the latter. Third, they fail to emphasize the unique value of the G20 summit due to its leaders' ability to govern with their highest level authority all subjects together at the same time, with actions that can maximize the co-benefits for all. Fourth, few focus on the critical governance dimension of the G20 members' compliance with their leaders' summit commitments, the causes and corrections of this compliance and, based on this relationship, how leaders can use synergies

among the most closely related subjects to secure more of the compliance and commitments they seek and need. In short, synergies, not silos are the solution to the scholarly and policy puzzles of how the G20 has and can secure the SDGs by governing climate change control and digitization as an integrated whole.

This study seeks to help solve these puzzles by offering the first systematic analysis of how the G20 summits have and can govern the SDGs, climate change and digitization synergistically, to the benefit of all.

Thesis

This study argues that the G20's governance of its SDGs, climate and digitization silos have had few synergies, but that G20 leaders can forge many more to improve compliance with their commitments on them, to the benefit of all. G20 leaders' SDG communiqué conclusions, commitments and members' compliance started only at Antalya in November 2015, peaked at high levels at Hamburg in 2017 and plunged to nothing at their Saudi Arabian hosted emergency summit on March 26, 2020, and almost nothing at the regular summit in Riyadh on November 20-21, 2020. Their performance on climate change started much sooner, at Washington in 2008, rose rather steadily to peak at a significant level at Hamburg, but then ratcheted down to disappear on March 26 and diminish on November 21-22, 2020. Their performance on digitization started in a tiny intermittent way from 2008 to 2014, surged to significant levels at Hangzhou in 2016 and Hamburg in 2017, then dropped to virtually disappear on March 26 and November 21-22, 2020.

Throughout their very similar trajectories, their synergies were always few and fragile, with no links made among all three subjects at the same time. This was true even since 2015, when the SDGs and G20 governance of them arrived to join the G20's earlier action on climate change. This lack of trilateral synergies continued since 2016, when surging G20 action on digitization offered many more opportunities for leaders to forge links among the three. But even then G20 commitments never made a synergistic link among all three. And even the silos surged together only in 2017 and 2019, to plunge to low levels in 2020 when they were crowded out by climate change.

However as such synergies contained within leaders' commitments do improve members' compliance with them, G20 leaders can and should move from silos to synergies at future summits to the benefit of all. They should also, as a foundation, wisely use the other proven instruments they control to improve compliance with their commitments on all three pillars. The priorities of Italy as G20 host in 2020 present a promising agenda for this to start. Further propellers come from a new U.S. president committed to climate change action and the pull of the long delayed UN climate summit on November 1-22, immediately after the Rome G20 Summit ends.

Organization

To develop this argument, this study first outlines the close connections among sustainable development, climate change and digitization in the material and global governance world and the unique responsibility and capacity of G20 summits to reap the synergistic co-benefits among them. Second, it examines G20 summit conclusions and commitments on the SDGs, members' compliance with them, the links to climate and digitization these commitments contain, and how such synergies affect compliance. Third, it does so for climate change, and its links to the SDGs and digitization. Fourth, it does so for digitization and its links to the SDGs and climate change. Fifth, it examines how the most recent G20 summits, in 2020, governed

these three pillars and their synergies. Sixth, it concludes by considering how such synergies have and could improve compliance, in the context of the other causes and the leaders' accountability measures at work.

Sustainable Development, Climate Change and Digitization Synergies

Sustainable development, climate change and digitization are intimately connected in the material world, but have not been in the global governance edifice centered in the UN since 1945.

In the material world, climate change, its chronic effects such as rising heat and seas, and its extreme weather events such as rains, floods, tsunamis, hurricanes, wildfires and drought harm and kill those in developing countries more than those in the developed world that largely caused the problem. Moreover, development cannot be sustainable without a swift, strong reversal of the accelerating rise in greenhouse gas concentrations and temperatures and the biodiversity loss intensified by this climate change. Digitization is integrally connected to both sustainable development and climate change. Even as digitization becomes central to development in its economic, social and now health dimensions, almost half the world's people, due to poverty, remain unconnected to the internet, especially in a reliable, affordable, safe and secure way. Digitization is increasingly connected to climate change, due to its exploding demands for electricity still generated largely by fossil fuels, and its help in monitoring the earth's complex climate system and the forests that serve as carbon sinks and helping plant the trees that are lost to wildfires, heat and drought.

Yet in the political world of global governance, sustainable development, climate change and digitization remain largely unconnected. In September 2015, a UN summit did launch its Agenda 2030 with 17 Sustainable Development Goals, with SDG 13 dedicated to climate change control and several surrounding ones on land, ocean, water and energy in direct support. But coming well before the digital revolution, now spurred by the COVID-19 lockdowns since 2020, it had no SDG on digitization itself. Moreover, since 2015 UN summits focused on single subjects have not brought digitization into the mix, nor spurred the needed new generation of global digital governance itself. Since 2016, only the annual G20 summits, with their comprehensive mandate, have increasingly governed sustainable development, climate change and digitization at the same time. It is thus important to examine in detail how they have done so, and how much they have forged the synergistic, co-beneficial links among all three.

To do so this study traces G20 summit performance on each of these three pillars using methods examining global governance as a whole. The first uses as its material the outcomes documents that G20 leaders release at their summits, and a quantitative content analysis of them and interpretive textual analysis of their content. The second is a systematic analysis of the compliance of each G20 member with each of their priority development, climate and digitization commitments, during the summit that makes them until the next summit comes. Compliance of each member on each commitment is scored a -1 or 0% for no compliance or action antithetical to the commitment, 0 or 50% for partial compliance, and +1.00 or 100% for full compliance [Kirton, Larionova, 2018]. Compliance consists of member government's implementing actions, as distinct from the outcomes or results they achieve in the real world. Yet without leaders' collective commitments and subsequent compliance, such rapid real world results will not come. Moreover, on repeated G20 commitments critical to the SDGs and climate change, such as that to phase out fossil fuels subsidies, there are many, highly credible estimates from the world's leading multilateral organizations, about the broad array of beneficial results such government actions would have [IISD, 2019].

The third method is elite specialized interviews with G20 leaders, their personal representatives and other G20 officials, drawing from an inventory that has reached over 200 interviews thus far [Kirtton, 2013; Kirtton, Kokotsis, 2015]. G20 governors and a broader set of G20 stakeholders are also offered an opportunity to review the compliance assessments conducted every year.

G20 Governance of the SDGs

Conclusions, Commitments and Compliance

G20 summits recognized the 2030 Agenda and its SDGs after they were first launched at the UN summit in September 2015 (see Appendix B, C, D). Two months later, at Antalya the G20 summit followed the UN by starting to give substantial and rising attention to the SDGs. The G20 peaked with 4,138 words (or 12% of its communiqué) at the Hamburg Summit on July 7-8, 2017. Attention then plunged at Buenos Aires in 2018 but revived to take 819 words (and 12% of the total) at the Osaka Summit on June 28-29, 2019. Then it vanished at the leaders' emergency virtual summit on March 26, 2020. Here COVID-19 completely crowded out the SDGs and climate change. It reduced digitization to three words in a general commitment to "leverage digital technologies" to "respond to potential infectious disease outbreaks." Throughout this cadence, there was limited attention to climate change and less to digitization, and even less to both, in the context of, or in combination with, the SDGs. The cadence of their co-existence and combination largely matched that of the G20 summit's attention to the SDGs as a whole, up to and from the Hamburg high.

Antalya 2015

At Antalya, Turkey on November 15-16, 2015, G20 leaders dedicated 452 words in four paragraphs to the SDGs. There was one link to climate change and none digitization. The closest came in a sentence that did not refer to the SDGs, but followed one that did. It endorsed food systems that "environmentally" supported quality and diverse diets.

These 452 words contained three commitments with an explicit reference to the SDGs within the commitment text and one more in the surrounding paragraph that did. These four SDG commitments contained only one referring to climate change and none to digitization.

The one SDG commitment assessed for compliance, that on remittances, averaged compliance of only 50%. This was lower than the 64% compliance with the three assessed commitments on development as a whole. G20 members were slow to adjust to the new SDG world.

Hangzhou 2016

At Hangzhou, China on September 4-5, 2016, G20 leaders gave 527 words in four paragraphs to the SDGs. One of these paragraphs referenced climate change and one to the digital economy.

G20 leaders produced six commitments explicitly referencing the SDGs and four more referring to "sustainable development" more broadly. Among these six SDG-specific commitments, one was linked to climate change, in the form of the Paris Agreement. It stated: "We are determined to foster an innovative, invigorated, interconnected and inclusive world economy to usher in a new era of global growth and sustainable development, taking into account the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda and the Paris Agree-

ment.” One of the broader sustainable development commitments pledged: “we reiterate our commitment to sustainable development and strong and effective support and actions to address climate change.” None of the six SDG-specific or broader sustainable development commitments referred to digitization.

The one SDG commitment assessed for compliance, that on implementation in a siloed form, averaged compliance of 93%.

Hamburg 2017

At Hamburg, Germany on July 7-8, 2017, the G20's SDGs performance soared, to dominate the summit in the number of commitments it made. Leaders devoted 4,138 words, or 12% of the total to the SDGs, an almost tenfold increase from the previous years. They made 203 commitments on the SDGs, or 38% of the 529 commitment they made overall, and far more than any other single subject took. The one assessed SDG commitment averaged compliance of 88%.

Within these SDG communiqué conclusions, the synergies with climate change and with digitization increased to seven explicit references to digitization. Within the SDG commitments, the synergies with climate change and digitization increased too. A full 40 directly referenced the SDGs or specific SDGs.

Of these 40, four (10%) included a reference to climate change, always to the UN Framework Convention on Climate Change (UNFCCC) and the Paris Agreement. There was no recognition that the SDGs and climate change were or could be linked, apart from their co-existence as goals of parallel UN agreements. This suggested that in these four linked SDG-climate change commitments, the G20 was supporting UN agreements in general, rather than the substance of climate change control.

Another seven (18%) of the 40 commitments referenced the natural environment more broadly. They did so usually through references to SDG's 12, 14 and 15. It is striking that in this repeated reliance on the SDG's environmental sequence, G20 governors always skipped SDG 13 on climate change.

Four (or 10%) of the SDG commitments referred to digitization. They had an economic emphasis, dealing with the agriculture sector, digital connectivity, digital trade and the digital economy (with an emphasis on women and girls).

None of the 40 SDG commitments contained a reference to both climate change and digitization. Moreover, the four direct SDG commitments that referenced climate change had no synergies with other subjects. Nor did the four SDG-digitization ones, beyond the subjects noted above.

The three SDG commitments assessed for compliance averaged 88%. None were linked to climate change or to digitization. But among the broader set of “sustainable development” commitments, one promised to “strengthen digital and financial literacy and capability.” It secured compliance of 88%, higher than the 79% average of the three assessed development commitments as a whole. This showed that such synergistic commitments could secure high compliance and higher compliance than the siloed ones.

Buenos Aires 2018

At the Buenos Aires Summit on November 30-December 1, 2018, attention to the SDGs dramatically dropped to 240 words, in a single paragraph, taking only 3% of the leaders' communiqués.

This short SDG paragraph was fully dedicated to encouraging the implementation of the health-related SDGs, including on anti-microbial resistance and Universal Health Coverage (UHC). It made no link to climate change or digitization.

The G20 made one commitment on the SDGs and another on sustainable development more broadly. The latter linked to climate change, by stating: “we will continue to tackle climate change, while promoting sustainable development and economic growth.”

Osaka 2019

At the Osaka Summit on June 28-29, 2019, attention to the SDGs bounced back a bit to 819 words in seven paragraphs. It joined Hamburg in taking a peak of 12% of the communiqués.

This G20 made no explicit link between the SDGs and climate change. However, it did link the SDGs to the environment and disaster risk resilience. In two of the seven paragraphs, G20 leaders referenced the environment. This included one general reference to “support developing countries in their efforts to advance progress towards the timely implementation of the SDGs in such areas as...environment” and a recognition that the circular economy and waste management “contributes to the SDGs.” Lastly, in one paragraph on the SDGs the G20 recognized the importance of disaster risk reduction and financing. However, the explicit link to SDGs in this paragraph came in the preceding sentence where the G20 endorsed the Guiding Principles for the Development of Science, Technology and Innovation for SDGs Roadmap, which did not itself refer to climate change or natural disasters in its guiding principles [G20 Development Working Group, n. d.]. This shows that the G20 somewhat closed the siloes between the SDGs and environmental pollution.

Two SDG paragraphs centred on digitization. They addressed trustworthy digitization; the effective use of data for economic, development and societal well-being; artificial intelligence (AI) and the Internet of Things (IoT); bridging the digital divide; digitization of micro, small- and medium-sized businesses; and smart cities (which are highly relevant for meeting climate goals). On AI the G20 stated: “The responsible development and use of Artificial Intelligence (AI) can be a driving force to help advance the SDGs and to realize a sustainable and inclusive society.” Under the technologically advanced Japanese host, promoting its own plans to move towards “Society 5.0,” the G20’s SDG-digital deliberations expanded and became more specific.

Commitments on the SDGs rose to 16. One was linked to climate change, again to “sustainable development” rather than the “SDGs” themselves. It came under a section dedicated to tackling climate change, and saw the leaders commit “to foster inclusive finance for sustainable development, including public and private financing mobilization and alignment between them.”

Compliance with two of the assessed commitments averaged a high 90%. One of these was a direct SDG commitment, stating the G20 supported developing countries to implement “the SDGs in such areas as... energy.” It therefore had strong implications for climate change as the traditional energy sector is the leading source of greenhouse gas emissions globally. This commitment secured average compliance of 88%. The second sustainable development commitment was to invest in human capital for sustainable development, with 93%.

Causes and Corrections

There are several causes of this compliance with SDG commitments. Among them are inexpensive accountability measures that are under the G20 leaders’ direct control and that can help or hinder, or correct, compliance. They include the number of words and commitments

dedicated to the same subject at the same summit, holding pre-summit ministerial meetings, and referring to a core international organization within the commitments.

Among the larger group of assessed development commitments, there is a negative correlation between the number of development commitments and compliance with them [Hallink, 2019; Dobson, 2020]. This suggests that more is not always better and that the G20 can have high compliance by focusing on a few key development subjects. Holding a pre-summit development ministers' meeting leads to better compliance, as well as a reference to the core institutions responsible for delivering the SDGs of the World Bank and the UN [Hallink, 2019]. Compliance is also 16% higher with development commitment with highly binding verbs (such as we "shall" or "will") [Dobson, 2020].

Synergies as Cause of Compliance

Another cause of compliance are synergies made with other subjects directly in the commitment itself. The G20's compliance with all six assessed sustainable development commitments was a high 82%. This was higher than the 66% compliance secured from all 52 development commitments over time. Moreover, the three assessed development commitments that referred specifically to the SDGs achieved compliance of 77%, compared to only 67% for those that did not [Dobson, 2020]. Compliance with development commitments was 10% higher when they were linked to other subjects, "led by financial regulation, macroeconomic policy, trade, infrastructure and climate change" [Dobson, 2020, p. 112]. Compliance with development commitments was 10% higher when they referred to digitization. This suggests that linking the G20's development commitments to the SDG's 17 global goals, and to climate change and digitization may add impetus to the G20's motivation to comply with them.

G20 Governance of Climate Change

Conclusions, Commitments and Compliance

The G20, whose members account for about 80% of greenhouse gas emissions and a strong majority of the world's carbon sinks, has governed climate change since the G20 summit's start in 2008-09 [Warren 2020a; b; Kirton, Warren, 2020]. Since then, while the G20 has increasingly governed climate change, it has done so only to a small degree; it has not kept up with the science and urgency of the climate crisis the science shows and that many increasingly feel.

Before 2015 there were no G20 synergies between climate change and the digital economy or the SDGs, as the Agenda 2030 on Sustainable Development and its SDGs did not appear until 2015. Between 2009 and 2015, sustainable development more broadly was referred to in the leaders' climate deliberations primarily in the context of green growth. The 2017 Hamburg Summit made the first climate-SDG link.

At its first summit in Washington in November 2008, climate change was crowded out by the great financial crisis. G20 leaders gave only 64 words, or 2% of its communiqués, to climate change and made no climate commitments [Kirton, Kokotsis, 2015].

At their second summit in London in April 2009 leaders began making politically binding climate commitments. Their 64 words on climate change contained three commitments, including one on a green recovery. However, this commitment secured only 45% compliance.

At the Pittsburgh Summit in September 2009 climate change rose to take to take 911 words, or 10% of the communiqués, and three commitments. The one assessed had 93% compliance, the highest until 2019. It was with a broad commitment to support the 2009 UNFCCC climate negotiations on mitigation, adaptation, technology and financing. To be sure, the breadth of

action that could count towards compliance with this commitment might not capture the influence of the BRIC group of emerging economies of Brazil, Russia, India and China that many criticized for undermining the UN's Copenhagen climate negotiations later that year. At the same time, the accuracy of this high compliance, partly coming in the half year after the Copenhagen Agreement, is verified by, and may reflect, the inclusion of these emerging economies in an international climate agreement, even if not a legally binding one, for the first time [Lefton, Light, Weiss, 2009].

The Toronto Summit in June 2010 gave climate change 838 words for 7% of the communiqués and produced three commitments, with 71% compliance. The one on a green recovery had 70%. The one reaffirming support for climate negotiations at Copenhagen dropped to 47%. The third, to include the principle of common but differentiated responsibilities, had 95%.

At Seoul in November 2010, climate change surged to 2,018 words and 13% of the communiqués, amidst a stronger focus on sustainable development in general. But Seoul's eight climate change commitments averaged compliance of only 53%. The three on the Copenhagen Accord averaged 67%. The one linked to green and environmentally sustainable growth, while ensuring employment and energy access for the poor had only 25%.

The Cannes Summit in November 2011 gave climate change 1,167 words for 8% of its communiqués and eight commitments. Their average compliance rose to 69%. Two referenced "sustainable development." They made clear, explicit links to climate change and secured high compliance. The one to "promote sustainable development and green growth and to continue our efforts to face the challenge of climate change" secured 98% compliance. The one to "promote low-carbon development strategies in order to optimize the potential for green growth and ensure sustainable development" secured 83%. These were broad commitments and a wide range of actions may have been available to the G20 members to secure such high compliance. This conjecture is supported by the compliance evidence on the third, more precise, assessed commitment to operationalize the Green Climate Fund. It secured just 28%.

At Los Cabos in June 2012, climate similarly took 1,160 words for 9% of the communiqués and eight commitments with 80% compliance. A reiterated commitment "to promote sustainable development and green growth and to continue efforts to face the challenge of climate change" secured a perfect 100%. The very general one "to fight climate change" had 85%. The specific one on the launch of the Green Growth Knowledge Platform had 53%.

The St. Petersburg Summit in September 2013 produced 1,697 words for 6% of its communiqués on climate change. Its commitments rose to 11 but compliance plunged to 42%, with the three assessed all under 50%. The one to implement the outcomes of the Durban climate meetings had only 38%. The one on the Green Climate Fund had 40%. And the one to support complementary initiatives to the Montreal Protocol had 48%.

At the Brisbane Summit in November 2014, climate change was crowded out by the diversionary health shock of the Ebola crisis. Climate change dropped to 323 words for 4% of the communiqués. The number of commitments dropped to seven. Yet compliance with them bounced back to 76%. Still the weakest were the two climate financing commitments to the Green Climate Fund, scoring 55% and 63%. The one that economically linked the UNFCCC with supporting business certainty and investment had 90%. One linking the UNFCCC to economic growth and one linking the UNFCCC to supporting sustainable development each had 85%.

Antalya in November 2015 saw a comeback in climate deliberations, with 1,129 words taking 8% of the communiqués. Yet they contained only three commitments. All focused on the UNFCCC's COP21 a few weeks later that produced the Paris Agreement. One commitment

reiterated the 2014 link of the UNFCCC to sustainable development but not the SDGs. Compliance with it was again 85%.

The Hangzhou Summit in September produced 1,754 words on climate change, for 110% of communiqués. But they contained only two commitments. The one referencing sustainable development had 73%, while the procedural one to align the G20's domestic procedures to join the Paris Agreement averaged 93%. Hangzhou's climate commitments made only one reference to sustainable development broadly. Nor did they link them to the digital economy, despite innovation being a central theme of the summit.

The Hamburg Summit in July 2017 had the highest number of words on climate change in G20 history, of 5,255. It had the second highest proportion of words at 15%, surpassed only by the Osaka Summit in 2019. Hamburg also had the highest number of climate commitments at 22. It made the first direct link to the SDGs in them, but none to digitization. Compliance averaged 71%. Once again, the lowest compliance came from the climate finance commitment with 43%. This was followed by a specific one to support several adaptation networks and alliances at 55%. The one on climate mitigation, with a focus on innovation scored 80%. The broad one on promoting adaptation generally scored 83%. The highest compliance came on market barriers to private green investment, with 95%.

Buenos Aires in November 2018 saw a steep drop to 532 words for 6% of the communiqué and three commitments. One referred to sustainable development, but not the SDGs. None referenced digitization. The two assessed climate commitments averaged 78%, an improvement from the previous year. The one to implement the Paris Agreement had 87%, but it excluded the U.S. which had announced its withdrawal from the Agreement. The other adaptation commitment, to support climate vulnerable countries such as small island states, had only 70%.

The Osaka Summit in July 2019 surged to produce 2,034 words on climate change. This was the highest portion in the G20's history, at 24% of the leaders' communiqués. It had 13 commitments, second only to Hamburg's 22. However, three were not fully collective commitments. The one on the Paris Agreement's "irreversibility" excluded the U.S. Two others included only the U.S, including a reiterated U.S. commitment to withdraw from the Paris Agreement. By October 10, 2020, compliance with three of these 13 commitments averaged 76%. One referenced sustainable development, although not the SDGs. It stated: "we strive to foster inclusive finance for sustainable development, including public and private financing mobilization and alignment between them." Unlike past climate financing commitments, which had focused on multilateral UN-led climate finance mechanisms and targets such as the Green Climate Fund, this private sector focused commitment had high compliance of 93%. The second assessed commitment, on "innovation...for low emissions and resilient development" secured 85%. The third commitment, promising to communicate, update or improve nationally determined contributions to the Paris Agreement, had only 50%.

None of the 13 climate commitments explicitly referenced digitization. But implicated in the digital era was one exploring clean technologies and approaches for smart cities. It secured compliance of 70%. The OECD defines smart cities as "initiatives or approaches that effectively leverage digitalisation to boost citizen well-being and deliver more efficient, sustainable and inclusive urban services and environments as part of a collaborative, multi-stakeholder process" [OECD, 2020].

Causes and Corrections

Given the G20's low compliance with its climate change commitments, particularly in the context of the growing urgency to reverse global emissions growth, it is vital that the G20 improve its compliance. As with its SDG commitments, similar accountability measures stand out to help achieve this.

This includes producing fewer words and commitments on climate change [Warren, 2020]. This does not mean the G20 should pay less attention to climate change. Rather, it suggests the G20 should focus on a few big ticket items, such as shifting subsidies from fossil fuels to renewables and the SDGs. Complying with the one commitment to phase out inefficient fossil fuel subsidies is estimated to reduce global emissions by 37 gigatons [IISD, 2017]. Fossil fuel subsidies undermine many SDGs, while phasing them out frees up money to advance them [IISD, 2019].

Such climate commitments should include short-term timelines or benchmarks to ensure the realization of longer-term climate targets [Warren, 2020a]. Climate commitments with six-month deadlines have higher compliance than those with multiyear ones. The four commitments with a timetable of six months or less averaged 85% compliance. The one commitment with a multiyear timetable averaged only 43%.

Moreover, these four high-complying commitments came before key high-level UN climate summits. Commitments explicitly referencing the UNFCCC averaged 85%, while those that did not averaged only 65%. Specifically, climate commitments that came before UNFCCC summits had higher compliance than those that came after. This suggests that surrounding summit support in the lead-up to the periodic UNFCCC summits is a causal factor too.

The G20 should also institutionalize pre-summit environment and climate change ministerial meetings. Within the similar G7, such meetings correlate with higher compliance with its summit climate commitments. In the G20, the first meeting of environment ministers (held jointly with energy ministers) came at the 2019 Osaka Summit. This may have contributed to the solid 76% compliance with the two assessed climate commitments.

Synergies as a Cause of Compliance

The G20's highest compliance of 87% came on those climate commitments that referenced sustainable development [Warren, 2020b]. Those referencing the G20's core focus of economic growth came second with 74%. Those referencing forests had 65%, the ozone layer 48% and clean energy 46%. Climate commitments that mobilized money had 60%. However, the sustainable development-climate change link, depending on how sustainable development is conceived, can erode and reverse progress on climate mitigation and adaptation. To guard against this, the G20 could be more specific, and link climate change specifically with SDG 13 on climate action.

G20 Governance of Digitization

Conclusions, Commitments and Compliance

On digitization, G20 governance of the digital economy began only in 2013 (Appendix F). However, siloed governance has been strong.

At Washington in 2008, G20 leaders did refer to ecommerce platforms. But the term "digital economy" did not appear until the St. Petersburg Summit in 2013. The first digital economy commitment came only at the Hangzhou Summit in 2016, where innovation was the summit theme [Williams, 2019].

Overall, from 2008 to 2015, the G20 dedicated a total of 1,907 words to digitization, for a portion of the communiqués that never exceeded 3%.

The 2016 Hangzhou Summit started the G20's serious digitization governance, producing 3,042 words taking 19% of the communiqués. None of its 48 digital economy commitments were linked to climate change or the SDGs, despite digitization's clear ecological impacts. The

four digitization commitments assessed for compliance were all on ensuring internet access to the digital economy. Each targeted a different aspect or actor to achieve this overarching goal, such as supporting small- and medium-sized enterprises. Compliance averaged only 57%.

The 2017 Hamburg Summit produced 5,029 words, for 4% of its communiqués, and 27 commitments on digitization. One commitment referenced sustainable development, and two the SDGs. None referenced climate change. The one commitment assessed for compliance, which averaged 95%, did not reference sustainable development or the SDGs, but sought to develop the digital economy and ensure competition, investment and innovation.

The 2018 Buenos Aires Summit gave digitization 1,420 words for 17% of the communiqués, and 11 commitments. None linked to the SDGs or climate change. The two assessed for compliance averaged 74%. The one on free flow of data with trust had 55%, and the one on improving digital infrastructure had 93%.

The 2019 Osaka Summit gave digitization 1,265 words, for 19% of the communiqués, and now linked digitization to the SDGs. But its six commitments on digitization made no explicit links to the SDGs or climate change. Compliance averaged 67%. The commitment on data free flow with trust rose to 85%. The related one on digital taxation had 65%. That on terrorism with a digital component had only 50%.

Causes and Corrections

The low-cost accountability measures the G20 can employ to improve its digital compliance include making more commitments on the subject at the same summit, holding a pre-summit digital ministerial meeting and referencing the core international organization of the OECD in its digital commitments [Williams, 2019].

Synergies as a Cause of Compliance

There were no explicit links to “climate change” or the “SDGs” in the G20’s digital commitments. But an implicit but important link did appear when the G20 at Osaka made two references to smart cities, an area of work inextricably linked to both climate change and digitization. One of these references appeared in the section on climate change and one appeared in the section on digitization. The latter section also explicitly referenced the SDGs, directly linking the SDGs and artificial intelligence (AI). The smart cities commitment averaged 70% compliance.

The Riyadh Retreat, November 2020

At its most recent summit, at Riyadh on November 21-22, 2020, the G20 retreated from the limited attention to the three subjects and their synergies. It did very little to govern the SDGs, climate change or digitization, and made no links among them. It was crowded out by COVID-19, another crisis that G20 leaders did not yet link to sustainable development, climate change or digitization. Each of the three subjects had few commitments, with not even a single bilateral link.

The Riyadh Summit’s 107 commitments were led by health and crime-corruption, with 14 each, followed in turn by trade with 10, macroeconomic policy with nine, and gender with eight. Then came development with seven. Far behind were climate change and the digital economy with only three each.

Only one of the seven development commitments referred to the SDGs (See Appendix G). It was a low binding one, with no synergies. It read: “We remain resolved to play a leading

role in contributing to the timely implementation of the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda.”

None of the three, all low binding, climate change commitments linked to development or digitization. The only one with links chose the economy and energy instead. It read: “In advance of the United Nations Framework Convention on Climate Change (UNFCCC) COP26 in Glasgow... we reiterate our support for tackling pressing environmental challenges, such as climate change... as we promote economic growth, energy security and access for all, and environmental protection.”

Yet the leaders did acknowledge in their communiqué conclusions “the importance of fostering synergies between adaptation and mitigation, including through nature-based solutions and ecosystem-based approaches.”

Conclusion

The SDGs were explicitly designed to be synergistic, with each of the 17 directly supporting all the rest. The government leaders that launched them at the UN and supported them at the G20 are uniquely responsible, at home and abroad, for devising and delivering synergistic solutions that benefit all of them. G20 leaders also have an exceptional capacity, given their combined power, their strong performance on the SDGs, and their substantial performance on climate change and digitization at their Hamburg peak in 2017, and the emerging evidence that such synergistic commitments improve members’ subsequent compliance with them.

In considering how they can strengthen these synergies to secure better compliance with co-benefits for all, they should start by crafting their commitments with the specific synergies that seem to work best. On development and thus sustainable development, they are those that “link development to the subjects at the classic and evolving core of G20 governance,” which are economic ones [Dobson, 2020]. In 2017, the SDG-digital commitment had compliance of 88%. Moreover, “the highest compliance of 87% came on climate commitments linked to sustainable development” [Warren, 2020a].

The compliance enhancing impact of such synergies is confirmed and refined by compliance with the relevant Osaka Summit commitments up to October 10, 2019. On development, the three commitments that referenced the SDGs or sustainable development averaged compliance of 91%, or well above the Osaka Summit’s all subject average of 78%. The first, linked to energy (a subject closely connected to climate change), averaged 88%. The second, linked to investment in human capital, averaged 93%. The third, linked to climate change financing, averaged 93%. A fourth, linking “resilient development” to climate change, averaged 78%.

On digitization, the three referencing this term averaged compliance of only 67%. However the first, linking it to the economy, had 85%. The second, linking it to taxation, had 65%. The third, linking it to terrorism, had only 50%. This suggests the value of the link to the G20’s traditional core subjects of the economy [Dobson, 2020].

In all, compliance tends to be higher since 2016 with commitments on sustainable development and the SDGs, climate change or digitization when they make synergistic links to one of the other subjects (or the energy companion of climate change), or more generally to economic subjects at the G20’s traditional core. Yet this pattern is most pronounced at Hamburg in 2017 and Osaka in 2019, suggesting that other causes, concentrated in the host, were at work.

Together, the results from Osaka, the G20’s most recent regular summit for which complete compliance data exist, suggest that sustainable development is the primary pillar on which high complying synergies should be built. They further suggest that climate change is the first

synergistic link to make. They finally suggest that the G20 should start to forge a fully trilateral SDG-climate-digitization link that could create high compliance to benefit all.

Such synergies are especially important in the resource constrained, COVID-19 world that suddenly started in 2020. Yet at the G20's March 26, 2020, emergency summit COVID-19 obliterated the attention to the SDGs, climate change and the environment, that Saudi Arabia first announced it would prioritize on December 1, 2019 its priorities for its Riyadh Summit on November 21-22, 2020. Riyadh did not make any of the synergistic links.

To restore the strength of the three silos, with a focus on the results that compliance brings, there are several other low-cost accountability measures that G20 leaders have used before and that have increased compliance here. On development and the SDGs, these are commitments that "use highly binding verbs that signal their collective political will, link development to the subjects at the classic and evolving core of G20 governance, and refer to their past summits" [Dobson, 2020]. On climate change, they are making fewer but more ambitious climate conclusions and commitments, mounting meetings of environment and climate change ministers, and commitments with strong politically binding language that references the UN Framework Convention on Climate Change and that stipulate timelines of six months or less [Warren, 2020]. On digitization, they are making more conclusions and commitments on digitization, "outlining clear expectations in less binding language" and by keeping up "with the rapid pace of digital innovation by reviewing current trends and innovations in digitization, to identify areas requiring regulation and policy change" [Williams, 2020].

On this foundation, at their future summits, G20 leaders should restore the SDG's centrality and synergy, and integrate digitization, to help achieve the SDGs and cope with climate change and COVID-19 too. They can start by taking three steps.

First, they should mandate a focus on the SDGs and climate change at their subsequent summits. As an integral part, to overcome the COVID-19 crowd out, their focus on COVID-19 should embrace all the targets and indicators of SDG 3 on health and explicitly link them to SDG 13 on climate change and its environmental companions. They should specify and stress how climate change contributes to COVID-19 cases and deaths, how protecting forests can help cure COVID-19 by potentially providing the raw material for vaccines, while respecting land rights, and how other nature-based solutions benefit both health and climate change control. Second, they should fully integrate digitization into them, both at the G20 and the UN. Third, they should hold a second annual G20 summit, at the opening of United Nations General Assembly in September in New York, to advance the SDGs and to fully integrate climate change and digitization into them.

The priorities that Italy as G20 host in 2021 announced at the start of its year provide a welcoming agenda for this (See Appendix H). Its 30 priorities include one specifically on the SDGs, two on climate change and three on digitization, with many others supportive of these silos and the synergies among all. Further propellers come from the replacement of a climate denying Donald Trump by a climate committed Joe Biden as U.S. president, the latter's hosting of a global Earth Day climate summit on April 22, 2021 and the pull of the long delayed UN climate summit on November 1-22, immediately after the Rome G20 Summit ends.

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Appendix A: SDG Progress, Pre- and Post-COVID-19

Progress Pre COVID-19

Greatest Progress since 2015

By SDG:

SDG 1 No Poverty

SDG 9 Industry, Innovation and Infrastructure

By Country Group:

East and South Asia

Low- and middle-income countries

Slow Progress of Reversals Pre COVID-19

SDG 02 Zero Hunger

SDG 15 Life on Land

Progress Post COVID-19 (Short Term)

SDG 12 Responsible Consumption and Production

SDG 13 Climate Action

SDG 14 Life Below Water

SDG 15 Life on Land

Reversed Progress Post COVID-19

SDG 1 No Poverty

SDG 2 Zero Hunger

SDG 3 Good Health and Wellbeing

SDG 4 Quality Education

SDG 5 Gender Equality

SDG 8 Decent Work and Economic Growth

SDG 10 Reduced Inequalities

Source: Data from the SDG Index score and a private communication from UNDP, October 3, 2020.

Appendix B: G20 Summit Communique Conclusions on the SDGs

Year	# Words	% Total Words	# Paragraphs	% Total Paragraphs	# Documents	% Total Documents	# Dedicated Documents
2008 Washington	0	0	0	0	0	0	0
2009 London	0	0	0	0	0	0	0
2009 Pittsburgh	0	0	0	0	0	0	0
2010 Toronto	0	0	0	0	0	0	0
2010 Seoul	0	0	0	0	0	0	0
2011 Cannes	0	0	0	0	0	0	0
2012 Los Cabos	0	0	0	0	0	0	0
2013 St. Petersburg	0	0	0	0	0	0	0
2014 Brisbane	0	0	0	0	0	0	0
2015 Antalya	452	3.2	4	1.1	3	50	0
2016 Hangzhou	527	3.2	4	0.6	2	50	0
2017 Hamburg	4138	12	63	3.7	7	70	1
2018 Buenos Aires	240	2.8	1	0.5	1	50	0
2019 Osaka	819	12.3	7	7.2	1	50	0
2020 March 26 Summit	0	0	0	0	0	0	0
Total	6176	33.5	79	13.1	14	270	1
Average	441	2	6	1	1	19	0

Notes.

Compiled by Duja Muhanna (2008–2020), G20 Research Group, September 27, 2020.

Data are drawn from all official English-language documents released by the G20 leaders as a group. Charts are excluded.

“# of Words” is the number of SDG-related subjects for the year specified, excluding document titles and references. Words are calculated by paragraph because the paragraph is the unit of analysis.

“% of Total Words” refers to the total number of words in all documents for the year specified.

“# of Paragraphs” is the number of paragraphs containing references to “sustainable development goals” (SDGs) for the year specified. Each point is recorded as a separate paragraph.

“% of Total Paragraphs” refers to the total number of paragraphs in all documents for the year specified. “# of Documents” is the number of documents that contain SDG subjects and excludes dedicated documents.

“% of Total Documents” refers to the total number of documents for the year specified.

“# of Dedicated Documents” is the number of documents for the year that contain an SDG related subject in the title.

Appendix C: G20 Sustainable Development Goal Commitments: 2015–2019

Core subject	Total	2015 Antalya	2016 Hangzhou	2017 Hamburg	2018 Buenos Aires	2019 Osaka
Development	60	3	7	35	1	14
Climate change	14	1	1	10	1	1
Food and agriculture	17		2	15		
International cooperation	2			2		
Energy	10			10		
Migration and refugees	7			7		
Macroeconomic policy	12			12		
Financial regulation	13			13		
ICT	13			13		
Trade	17			17		
Gender	6			6		
Labour and employment	14			13		1
Crime and corruption	22			22		
Health	8			8		
Environment	3			3		
Infrastructure	6			6		
Social policy	2			2		
Microeconomic policy	1			1		
IFI reform	6			6		
Digital economy	2			2		
Total	235	4	10	203	2	16

Notes.

Compiled by Brittany Warren, October 2, 2020.

Inclusion terms: SDGs/Sustainable Development Goals, 2030 Agenda, sustainable development Commitments included in this list that explicitly exclude these terms were included because they fell under a sub-heading or section dedicated exclusively to the SDGs/2030 Agenda.

Development commitments that did not explicitly include the inclusion terms are not in this list. Excluded from the list below [ADD?] Addis Ababa Action Agenda, financing for development, African Union's Agenda 2063.

Appendix D: G20 Compliance with Development and SDG Commitments

Summit	Number of development commitments	Compliance	Number assessed	Number of SDG commitments	Compliance	Number assessed
2008 Washington	4	+0.80 (90%)	1	—	—	—
2009 London	15	+0.15 (58%)	2	—	—	—
2009 Pittsburgh	9	+0.10 (55%)	3	—	—	—
2010 Toronto	8	+0.35 (68%)	3	—	—	—
2010 Seoul	22	+0.27 (64%)	20	—	—	—
2011 Cannes	17	+0.33 (67%)	2	—	—	—
2012 Los Cabos	10	+0.78 (89%)	3	—	—	—
2013 St. Petersburg	50	+0.04 (52%)	4	—	—	—
2014 Brisbane	20	+0.28 (64%)	3	—	—	—
2015 Antalya	34	+0.28 (64%)	3	4	0 (50%)	1
2016 Hangzhou	20	+0.85 (93%)	1	10	+0.85 (93%)	1
2017 Hamburg	75	+0.34 (67%)	4	203	+0.85 (93%)	2
2018 Buenos Aires	4	+0.45 (73%)	1	2	n/a	0
2019 Osaka*	24	+0.65 (83%)	2	16	+0.80 (90%)	2
Total	312	+0.32 (66%)	52	235	+0.63 (82%)	6

Notes.

Compiled by Brittany Warren, October 6, 2020.

No development commitments were made at the 2020 Extraordinary Virtual Leaders' Summit.

Number of SDG commitments: 60 of these commitments are core development commitments. The remaining fall under other core subjects, such as climate change and food and agriculture. These were included as they referenced either SDG, 2030 Agenda or sustainable development explicitly, or they appeared in a document dedicated to the SDGs (i.e. the document "2030 Agenda" from the 2017 Hamburg Summit).

*2019 Osaka score is un-confirmed interim compliance score (as of 201006)

n/a = not available

List of assessed sustainable development commitments:

2015-67: Our G20 National Remittance Plans developed this year include concrete actions towards our commitment to reduce the global average cost of transferring remittances to five percent with a view to align with the SDGs and Addis Ababa Action Agenda (development).

2016-112: By endorsing the G20 Action Plan on the 2030 Agenda for Sustainable Development which also includes high-level principles, we reaffirm our commitment to achieve the ambition of the 2030 Agenda. (Issue-Area: Development) +0.85.

2017-81: We commit to further align our actions with the 2030 Agenda for Sustainable Development, domestically and internationally, including in support of developing countries and the provision of public goods. (development) +0.75.

2017-197: Strengthen digital and financial literacy and capability. (development) +0.75.

2019-91: [We support developing countries in their efforts to advance progress towards the timely implementation of the SDGs in such areas as]...energy...[using all means of implementation, such as the mobilization of private sector resources and capacity building assistance.] (development) +0.75 preliminary final.

2019-97: We reaffirm our commitment to invest in human capital...[as emphasized in the G20 Initiative on Human Capital Investment for Sustainable Development.] (development) +0.85 preliminary final.

Appendix E: G20 Performance on Climate Change

Summit	Domestic political management		Deliberation		Direction setting					Decision making	Delivery		Development of global governance			
	Compliments		Words		Financial stability	Globalization for all	Priority placement	Democracy	Human rights		Commitments		Inside		Outside	
	#	%	#	%						Score	% assessed	Minis-terial	Official level	# refer-ences	# bodies	
2008 Washington	0	0%	64	1.7	0	0	0	0	1	0	—	—	0	0	0	0
2009 London	0	0%	64	1.0	0	0	1	0	0	3	−0.10 (45%)	33% (1)	0	0	1	1
2009 Pittsburgh	1	5%	911	9.7	0	0	4	0	0	3	+0.86 (93%)	33% (1)	4	0	10	5
2010 Toronto	1	5%	838	7.4	0	0	0	1	0	3	+0.42 (71%)	100% (3)	0	0	3	3
2010 Seoul	2	10%	2,018	12.7	0	0	2	1	0	8	+0.05 (53%)	50% (4)	5	3	20	11
2011 Cannes	2	10%	1167	8.2	0	0	0	1	0	8	+0.38 (69%)	37% (3)	2	0	11	7
2012 Los Cabos	0	0%	1,160	9.1	0	0	0	1	0	6	+0.59 (80%)	50% (3)	1	5	6	5
2013 St. Petersburg	1	5%	1,697	5.9	0	0	1	0	0	11	−0.17 (42%)	27% (3)	0	3	10	7
2014 Brisbane	0	0%	323	3.5	0	0	0	0	0	7	+0.51 (76%)	71% (5)	0	0	4	2
2015 Antalya	0	0	1,129	8	0	0	0	0	0	3	+0.70 (85%)	85% (1)	1	1	5	3
2016 Hangzhou*	0	0	1,754	11	0	1	0	1	0	2	+0.58 (79%)	100% (2)	1	3	5	4
2017 Hamburg	0	0	5,255	15	0	0	1	1		22	+0.42 (71%)	23% (5)	0	11	26	9
2018 Buenos Aires	0	0	532	6	0	0	0	0	0	3	+0.57 (79%)	79% (2)	0	0	3	3

Summit	Domestic political management		Deliberation		Direction setting				Decision making	Delivery		Development of global governance					
	Compliments		Words		Financial stability	Globalization for all	Priority placement	Democracy	Human rights	# commitments	Commitments		Inside		Outside		
	#	%	#	%							Score	% as-sessed	Minis-terial	Official level	# refer-ences	# bodies	
2019 Osaka	0	0		2034	31	1	1	0	0	0	13	+0.78 (89%)	15% (2)	1	1	10	9
Total	7	n/a		18,946	n/a	1	2	9	5	2	92	n/a	31	15	27	114	69
Average	0.78	4%		1,353	9.3	0.1	0.1	0.88	0.4	0.1	6.6	+0.47 (74%)	69%	1.1	1.9	8.1	4.9

Notes.

Domestic Political Management includes all explicit references by name to the full members of the Summit that specifically express the gratitude within the context of climate change of the institution to that member. The % of members complimented indicates how many of the 20 full members received compliments within the official documents, depending on how many full members there were that year.

Deliberation to number of times climate change is referenced in the G20 leaders' documents for the year in question. The unit is the paragraph. % refers to the percentage of the overall number of words in each document that relate to the climate change.

Direction Setting, as Priority Placement refers to the number of times climate change is referenced in the chapeau or chair's summary for the year in question. The unit of analysis is the sentence. The number in parenthesis refers to environment references. Democracy refers to the number of times there was a reference to democracy in relation to climate change. Human rights refers to the number of times there was a reference to human rights in relation to climate change. The unit of analysis is the paragraph.

Decision Making refers to the number of climate change commitments. Delivery refers the overall compliance score for climate change commitments measured for that year. % Assessed represents percentage of commitments measured. The numbers in parenthesis refer to energy commitments.

Development of Global Governance. Official Level refers to the number of references to institutions inside the G20 made in relation to climate change. Ministerial refers to ministerial groups. Official Level refers to official level groups. Outside refers to the number of external multilateral organizations related to climate change. The unit of analysis is the sentence.

*2016 Hanzhou Communiqué reference to climate change-GGA: "We are determined to foster an innovative, invigorated, interconnected and **inclusive** world economy to usher in a new era of global growth and sustainable development, taking into account the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda and the **Paris Agreement**."

Appendix F: G20 Performance on Digitalization

Year	DPM		DEL			DIR				DEC		DEL		DGG	
	Att	CC	Words		Doc	FS	GFA	DEM	HR	# of CMT	% Overall	Compl- iance	# Measured	IN	OUT
			#	%											
2008W	100	0	88	2	0	1	0	1	0	0	0	n/a	n/a	0	0
2009L	100	0	0	0	0	0	0	0	0	0	0	n/a	n/a	0	0
2009P	100	0	289	3.1	0	7	0	2	0	0	0	n/a	n/a	1	1
2010T	100	0	229	2.1	0	2	0	1	0	0	0	n/a	n/a	0	0
2010S	100	0	0	0	0	0	0	0	0	0	0	n/a	n/a	0	0
2011C	95	0	372	2.6	0	4	0	0	0	1	0.4	—	—	0	7
2012LC	95	0	169	1.3	0	2	0	0	0	0	0	n/a	n/a	1	1
2013SP	95	0	760	2.6	0	0	2	0	0	0	0	n/a	n/a	7	6
2014B	90	0	0	0	0	0	0	0	0	0	0	n/a	n/a	0	0
2015A	90	0	299	2.2	0	2	1	0	2	1	0	n/a	n/a	0	1
2016Hz	95	0	3042	18.8	0	12	35	11	1	29	13.7	+0.14	4	27	32
2017Hg	95	0	5029	14.8	0	18	77	8	1	25	4.7	+0.90	1	37	31
2018BA	90	0	1420	16.7	0	4	7	0		11	5.3	+0.70	1	3	8
2019O	95	1*	1,265	19	1	0	2	n/a	n/a	6	4	+0.10	2	56	54
Total	1340	0	12962	—	1	52	124	23	4	73	—	—	8	132	141
Average	95.7	0.0	925.9	6.1	0.1	3.7	8.9	1.8	0.3	5.2	2.0	+0.46	—	9.4	10.1

Notes.

DPM: Domestic Political Management – measured by the number of leaders in attendance (Att.) and communiqué compliments (CC), the number of times a country or leader was positively mentioned.

DEL: Deliberation – measured by the number of words on the subject (#), the percent (%) of words and the number of dedicated documents to the issue (Doc.).

DIR: Direction setting – measured by the number of references to the G20 financial stability principle (FS) and globalization for all (GFA), and the G8 democratic principles (Dem) and the number of references to human rights (HR).

DEC: Decisions – measured by the number of commitments (CMT) and the percentage of overall commitments (% overall).

DVY: Delivery – measured by compliance with priority commitments (Cmp) and the number of compliance reports (# measured).

DGG: Development of Global Governance – measured by the number of governance mechanisms developed within the G20 (IN) and the number of governance mechanisms developed outside of the G20 (OUT).

Overall: Overall grade.

n/a = not applicable; — = no commitment assessed.

One related digitization commitment was assessed in 2015 on the digital divide with compliance at +0.10. Added to the four commitments assessed from 2016, compliance is 0 or 50%.

**Compliment to Japan: “We share the notion of a human-centered future society, which is being promoted by Japan as Society 5.0”.

n/a: not available.

*DGG: counts leaders’ declaration only (need to add other documents).

Average compliance score includes core digital commitments only, excludes related digital commitments.

Appendix G: Riyadh Commitments on Development, Climate & Digitalization

Development (7)

2020-15: We are committed to implementing the Debt Service Suspension Initiative (DSSI) including its extension through June 2021, allowing DSSI-eligible countries to suspend official bilateral debt service payments.

2020-16: We will continue to closely coordinate its ongoing implementation to provide maximum support to DSSI-eligible countries.

2020-17: we endorse the “Common Framework for Debt Treatments beyond the DSSI.”

2020-65: [We endorse the]... the Financing for Sustainable Development Framework.

2020-66: We remain resolved to play a leading role in contributing to the timely implementation of the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda.

2020-67: We are determined to support African countries in overcoming the crisis, including by exploring more sustainable financing options for growth in Africa.

2020-68: We reiterate our continued support for the G20 Initiative on Supporting the Industrialization in Africa and LDCs, G20 Africa Partnership and the Compact with Africa, and other relevant initiatives.

Digital Economy (3)

2020-49: We support fostering an open, fair, and non-discriminatory environment, and protecting and empowering consumers, while addressing the challenges related to privacy, data protection, intellectual property rights, and security.

2020-50: We will continue to promote multi-stakeholder discussions to advance innovation and a human-centered approach to Artificial Intelligence (AI), taking note of the Examples of National Policies to Advance the G20 AI Principles.

2020-72: We also endorse the G20 High-level Policy Guidelines on Digital Financial Inclusion for Youth, Women, and SMEs prepared by the Global Partnership for Financial Inclusion (GPII).

Climate Change (3)

2020-101: We endorse the Circular Carbon Economy (CCE) Platform, with its 4Rs framework (Reduce, Reuse, Recycle and Remove), recognizing the key importance and ambition of reducing emissions, taking into account system efficiency and national circumstances.

2020-102: In advance of the United Nations Framework Convention on Climate Change (UNFCCC) COP26 in Glasgow... we reiterate our support for tackling pressing environmental challenges, such as climate change... as we promote economic growth, energy security and access for all, and environmental protection.

2020-104: Signatories to the Paris Agreement who confirmed at Osaka their determination to implement it, once again, reaffirm their commitment to its full implementation, reflecting common but differentiated responsibilities and respective capabilities, in the light of different national circumstances.

Appendix H: G20 Rome Summit Host Priorities 2021

A. People (6)

1. Eradicate poverty per SDG 1
2. Tackle inequality
3. Protect most vulnerable: young, precarious workers, SMEs
4. Promote women's empowerment
5. Ensure universal access to education
6. Redistribute opportunities, reduce disparities among regions

B. Planet (11)

7. Climate change
8. Land degradation
9. Biodiversity loss
10. Achieve SGS of Agenda 2030
11. Transition to renewable energy
12. Transition to a green recovery
13. Focus on modern smart cities
14. New tools for sustainable urbanization
15. New tools for energy efficiency
16. New tools for improved, modern mobility
17. Pave way to COP 26

C. Prosperity (13)

18. Re-ignite growth
19. Renewed prosperity
20. Make digitalization an opportunity for all
21. Reduce the digital divide
22. Promote infrastructure to guarantee universal internet access
23. Achieve adequate, widespread digital literacy
24. Exploit full potential of the technological revolution
25. Make health services effective
25. Facilitate data sharing for global pandemic preparedness and response
26. Enhance flexible working modules
27. Redistribute unpaid care work between genders
28. Promote work-life balance for men and women
29. Improve efficiency of energy distribution networks and grids
30. Enhance reach of educational activities

Identified by John Kirton

Source: Italy's G20 host's summit webpage.

G20 and Global Risk Analysis¹

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Abstract

This article studies the work carried out by the Group of 20 (G20) between the global crises of 2008–09 and 2020. Active G20 efforts to ensure financial stability and control imbalances helped to mitigate vulnerabilities to crises of the 2008–09 type. Other key achievements included the transition of several G20 members to market-determined exchange rates and the Standard for Automatic Exchange of Financial Account Information as a part of the effort to combat base erosion and profit shifting. However, the G20 proved unprepared for the 2020 crisis, even though G20 leaders had noted the risks linked to infectious diseases in 2015. During the period between the crises, the G20 failed to establish an effective system for analyzing global risks. Indeed, its analysis was mainly adaptive as opposed to forward-looking; no mechanism was formed for controlling policies to manage risks. G20 members' involvement in the analysis was inadequate, reflecting the consistent pattern of lower incentives for cooperation in the context of comparatively benign global economic conjunctures. Currently, however, the importance of managing global systemic risks is obvious and is reflected in the G20 Action Plan for supporting the global economy through the COVID-19 pandemic.

This article presents recommendations for the key elements of this risk management (systematic identification of most probable/destructive vulnerabilities; development of strategies to minimize critical risks and mitigate their possible consequences; monitoring for early warning signs of the most critical vulnerabilities; organizing prompt consultations and adopting swift measures in response to the materialization of globally important risks), including mechanisms for members' self-accountability and collaboration with international organizations. Management of systemic risks should start with resolving the challenges related to the COVID-19 pandemic: improving public health response systems; promoting structural economic transformations while ensuring prompt return to full employment; and striking the right balance between economic stimulus and macroeconomic stability.

Key words: G20; global governance; international organizations; global risks; economic policies coordination; anti-crisis measures

For citation: Gurvich E., Prilepskiy I. (2021). G20 and Global Risk Analysis. *International Organisations Research Journal*, vol. 16, no 2, pp. 55–69 (in English). DOI: 10.17323/1996-7845-2021-02-04

Introduction

The crisis caused by the COVID-19 pandemic has much in common with the 'Great Recession' of 2008-09. First, since the end of the Second World War, only those two crises resulted in fall in the global output; second, in both cases, crises engulfed almost all the countries; third,

¹ The editorial board received the article in February 2021.

both crises emerged suddenly, thus necessitating the adoption of mitigating measures offhand. For instance, in April 2008 the IMF predicted global growth in 2009 at 3.8%, while actually global output contracted by 0.1%. During the ‘coronacrisis,’ the gap between expectations and reality was even wider. Indeed, in October 2019, the IMF anticipated global growth of 3.4% for 2020; the estimate for that year made in January 2021 amounted to –3.5%. In turn, the 2021 conjuncture is in many ways similar to 2010. Both then and now, rapid global recovery took place, spurred to a major extent by implementation of prompt coordinated efforts by key G20 economies.

Recall that the current stage in the evolution of G20 work commenced precisely during the ‘Great Recession,’ when the growing role of emerging economies made their participation in addressing the acute challenges to the global economy an objective necessity. Thus, the efforts of the G20, as a more representative forum compared to the G7, received a major boost and a higher political prominence. The ‘coronacrisis’ may therefore be considered as a milestone marking the end to the first round of G20 work and the start of the second round in similar circumstances. Note, however, that the preliminary results of that first round get very mixed assessments in the literature. Some experts regard G20 work to be quite successful [Larionova et al., 2019; Dupuis, Nahoum, 2017], while others contend that this work turns less and less prominent and effective as the time passes [Triggs, 2018; Bery, Biondi, Brekelmans, 2019]. The aim of the current study is to assess the effectiveness of G20 work in controlling global economic risks and to develop corresponding recommendations. This element of the G20 agenda is highly relevant. Indeed, in the aftermath of crises (both the ‘Great Recession’ and the ‘coronacrisis’), G20 priorities, on top of supporting the economy and returning to the sustainable medium-term growth path, inevitably include mitigating vulnerabilities to tail risks that were the primary causes of crises. In 2021, this means the focus on ‘Health as a Global Common’ in response to pandemic risks; in 2010, this meant the focus on the reforms of the global financial system in response to its fundamental vulnerabilities pre-2007 [G20, 2010b; 2021].

First, we consider G20 response to the risks resulting in the ‘Great Recession,’ as well as the place of risk analysis on the G20 agenda between the crises. Second, we study the advantages and drawbacks of the current G20 system for risk analysis in more detail and develop recommendations for modifying it. Finally, we juxtapose vulnerabilities which are most relevant as of 2021 with the current G20 priorities.

G20 Work in the Aftermath of the ‘Great Recession’

There is a broad consensus on the positive impact of G20 efforts at the initial stage – during the ‘Great Recession’ and immediately afterwards. During that phase, newly expanded G20 work was aimed at minimizing the consequences of crisis shocks (i.e. the risks that materialized) and preventing the same shocks from repeating in the future. Since direct and indirect causes of the 2008–09 crisis included primarily the build-up of risks within the financial system and the expansion of global current account imbalances, it is not surprising that precisely these problems took a central place on the G20 leaders’ agenda in 2009 and first post-crisis years. Indeed, analysis of key G20 Summit documents (leaders’ statements and declarations, action plans) demonstrates that up to and including 2011, these areas accounted for more than 50% of ‘risks’ and ‘challenges’ mentioned therein. During that period, the G20 managed to approve large-scale measures for providing liquidity to key economies, implementing substantial fiscal stimulus packages, strengthening international coordination of anti-crisis policies. As an example, IMF resources were considerably expanded, enabling the Fund to provide additional credits to the tune of \$250 billion, thus considerably mitigating the emerging liquidity deficits.

Another key G20 work area was a comprehensive endeavour to enhance financial stability in order to prevent future crises similar to the 'Great Recession.' Thanks to concerted efforts of the G20, FSB, BCBS, new macroprudential regulatory standards aimed at ensuring global financial stability were adopted by most key economies.

In the end, the joint efforts of G20 economies resulted in important progress in ensuring financial stability and controlling imbalances. As concerns the policies, successes included promotion of global financial reforms with a particular focus on macroprudential measures; establishment of the FSB as an important institution operating on a permanent basis; adoption of indicators for mitigating global imbalances by G20 leaders. As concerns the results, the global financial system successfully overcame the shocks in 2013 and 2018 linked to tighter US monetary policies, as well as the extremely strong liquidity shock in March 2020 due to the rapid proliferation of COVID-19 pandemic. Global current account imbalances, in turn, have remained 1.5-2 times lower than their pre-crisis values since 2009 [IMF, 2020].

On the whole, it may be stated that the G20 has largely succeeded in preventing the recurrence of the 'Great Recession,' having eliminated the preconditions of such crises. Besides the initial 'crisis-related momentum,' this required the constant adaptation to evolving financial stability risks; analysis of G20 Summit documents reveals that up to 2019, such risks accounted for more than 1/3 of all 'risks' and 'challenges' mentioned therein. This is likely both due to foreseeable 'migration' of risks from banks to non-bank financial organizations (as the regulation of the former grew more stringent) and due to technological progress (which e.g. led to establishment of markets for crypto-assets). On the other hand, it is clear that, while huge and important G20 efforts succeeded in resolving the problems of 'the previous crisis,' they failed to prevent the new and even more destructive crisis of a different nature.

Soon after the 'Great Recession' was over, the 'basis' of long-term work areas on the G20 agenda started to expand through the new items suggested by Presidencies of the time. Some of these new items stayed on the G20 agenda afterwards, while others were soon superseded by new topics. On the whole, the G20 agenda was continuously expanding, both in term of the range of topics and the nature of problems being discussed. At first, this process was defined by the challenges emerging in due course in the aftermath of the crisis, such as accelerating recovery, reducing excessive fiscal deficits and public debt resulting from the ambitious stimulus measures etc. At this stage, for instance, the G20 adopted the Framework agreement for strong, sustainable and balanced growth aimed at creating the most favourable conditions for economic recovery in all G20 members; promoted agreements on international trade facilitation; endorsed measures for spurring investment in infrastructure. Concerning the latter, for example, the G20 launched the Global Infrastructure Initiative and adopted the Roadmap to Infrastructure as an Asset Class. As the years passed, the G20 agenda diversified further and further and came to include, among others, energy efficiency and promoting renewables; supporting digitalization; employment challenges and the fight against poverty; climate; food security; migration etc. On the whole, the G20 has gradually turned from countering global risks to supporting global economy and development.

One of the lines of criticism of G20 work [Triggs, 2018] is that many commitments adopted by the G20 after the crisis were implemented only to a limited extent (e.g. as concerns fiscal consolidation programs). Similarly, [Bery, Biondi, Brekelmans, 2019] note that once the acute phase of the crisis was over, the willingness of G20 economies (especially advanced ones) for cooperation fell dramatically, and they turned to implementing fiscal and monetary policies based mainly on their narrow interests. On the other hand, [Larionova et al., 2019] regard G20 efforts as active and fruitful. They stress that during the first decade of these efforts, G20 members have adopted 2330 commitments and achieved substantial progress in their implementation. Likewise, [Dupuis, Nahoum, 2017] provide evidence of active and productive G20 work.

We feel that both viewpoints are partially valid. On the one hand, after the ‘Great Recession’ the G20 has prepared and implemented a number of major initiatives. The following achievements deserve particular credit. First, more and more G20 members have turned to market-based exchange rates and rejected devaluation as a tool for increasing external competitiveness. Second, the G20 endorsed automatic exchange of tax information in the context of efforts to combat base erosion and profit shifting.

On the other hand, the number of concrete actions and results achieved by the G20 has indeed declined gradually. In our view, this is a natural consequence of agenda-setting mechanisms employed by the G20. During the first post-crisis years, actions focused heavily on resolving acute problems common for all countries, i.e. mitigating the crisis impacts; achieving fast recovery; returning to sustainable levels of fiscal deficits and public debt; developing measures to prevent the emergence of new financial imbalances. Solving these problems required a high degree of cooperation; however, G20 members had a clear understanding of serious consequences if they had failed to agree on a common work program. Thus, the context of a severe crisis impelled the G20 to achieve consensus on most agenda items, which, in turn, ensured the success of coordinated actions that followed.

The agenda-setting mechanism utilized in the aftermath of the crisis has important benefits. First, it ensured the wide range of agenda items; second, it allowed the Presidencies to initiate joint discussions of problems considered by them as priorities. However, on the other hand, such a decentralized mechanism resulted in proliferation of agenda topics regarding which G20 members had widely varying assessments as concerns their importance at global and national levels, as well as potential solutions. As a result, the opportunities for adopting, and particularly implementing, common action plans were narrowed. For instance, the importance of the problem of job creation notwithstanding, the progress of each country in this area is almost completely dependent on its own efforts only. Conversely, the problem of reducing greenhouse gas emissions requires close coordination, but G20 members differ widely as regards the preparedness to limit such emissions if introducing limits has negative impact on output dynamics. The overarching conclusion is that the G20 agenda-setting mechanism succeeded in widening the range of topics considered, but the price for that was a lower effectiveness of G20 actions. This reflects the standard pattern: while acute global problems inevitably result in ‘aggregating forces’ forcing the countries to cooperate in addressing global challenges, in the aftermath of the crises, ‘centrifugal forces’ grow and individual interests come to dominate common ones.

G20 Analysis of Global Risks

It seems that the key piece of evidence for the need of substantial reforms in G20 work is not the overall reduction in its effectiveness, but, rather, the failure to timely identify the spread of virulent infectious diseases as one of the main threats to the global economy. Hence, the G20 made no serious contribution to preventing the materialization of the strongest global risk of all the years of its existence, that is, the COVID-19 pandemic (note, however, that this refers likewise to most other international organizations, including the WHO). It should be stressed that the G20 did consider the problems related to spread of dangerous infectious diseases, starting in 2015, but they remained relegated to the fringes of actual G20 work. For instance, during the Ebola epidemic in West Africa, in Antalya G20 leaders agreed that “...attention should be given to global health risks, such as ... infectious disease threats and weak health systems...these can significantly impact growth and stability” [G20, 2015]. However, necessary measures were not taken, resulting, for instance, in PPE shortages and overload of health systems during the COVID-19 pandemic.

Weakness of measures to address the threats of infectious diseases is in marked contrast to clear signals regarding the serious risks related to such diseases. In particular, the report on [Global Health Security Index, 2019] stressed forcefully the extremely low capacity of most countries to prevent, detect and address critical risks to public health. None of the 195 countries considered demonstrated full preparedness to epidemics/ pandemics, while only around 10% of countries were assessed as ready to promptly deploy the necessary medical measures in case extreme threats to public health emerged.

In our view, the fact that the G20 overlooked the pandemic threats reflected the overarching weakness of its system for global risk analysis, which was repeatedly subject to justifiable criticism. Improving this system was one of the key recommendations made by the G20 Eminent Persons Group on Global Financial Governance [EPG, 2018] in response to the assignment made by G20 finance ministers and central bank governors [G20, 2017b]. Focusing on financial risks, the experts developed the following proposals:

- integrate the surveillance efforts of the IMF, FSB and BIS in a coherent global risk map to minimize surveillance gaps;
- incorporate non-official and contrarian views systematically;
- build on the existing IMF-FSB Early Warning Exercise (which is aimed at analyzing the consequences of tail risks' materialization and making the recommendations to mitigate them) to ensure policy follow-up from the global risk map.

Further study of documents endorsed by G20 leaders and G20 finance track² reveals problems of risk analysis due to 1) its 'adaptive' rather than 'forward-looking' nature; 2) dependence on input from international organizations, especially the IMF. Indeed, as the Table 1 demonstrates, many risks were only discussed by the G20 after they had already materialized, even if this materialization was readily foreseeable (e.g. stronger negative effects of high public debt load in the euro area due to the feedback loops between government bond yields and banking system balances). The same refers to the problem of protectionism, given that G20 members had systematically violated the standstill agreement of the 2008 Washington Summit against new restrictions on global trade and investment [G20, 2008] well before the Trump administration came to power in the US [OECD, WTO, UNCTAD, 2016].

Dependence on the IMF analysis is highlighted by the fact that in describing most risks, G20 documents tracked closely the Fund's G20 Surveillance Notes (see Table 1). On the whole, comparison of G20 documents to reports prepared for summits and ministerial meetings demonstrates that, while the FSB is the main forum for assessing global financial stability risks for the G20, the IMF plays the similar role as far as risks to macroeconomic stability and growth are concerned. Regarding certain elements of the macroeconomic agenda (such as risks of slower productivity growth, impacts of ageing societies, protectionism, negative impact of inequality on growth), the OECD, WB, WTO, ILO also make significant contributions.

At the same time, it should be stressed that in many instances when the G20 did focus on key 'forward-looking' risks, this was due to corresponding agenda items being selected as priorities by the Presidencies themselves. Examples include discussions of inequality and social discontent during the Russian Presidency in 2013; of employment risks related to digitalization during the Argentine Presidency in 2018; of macroeconomic impacts of ageing during the Japanese Presidency in 2019.

² Discussions of macroeconomic and financial agenda by G20 finance ministers and central bank governors prepared by their deputies with input from G20 working groups (Framework Group, Investment and Infrastructure Group, International Financial Architecture Group).

Table 1. Global economic risks noted in the final documents of G20 Summits and Finance Ministers'/ Central Bank Governors' meetings

Risk	Years of consideration	Risk	Years of consideration	Risk	Years of consideration
Risks for macroeconomic stability					
High public debt	2010, 2011, 2012, 2013* , 2015	'Sudden stop' and volatility of capital flows	2010, 2011, 2013, 2015, 2016, 2017, 2018, 2019, 2020	High commodity prices	2011, 2012*
Public debt – bank balances feedback loop	2011, 2012, 2013	Overheating of emerging markets	2011, 2013	Economic uncertainty	2012, 2013, 2020
Financial market volatility	2014, 2016, 2018	Too low inflation and its impact on public debt	2015, 2016	Low oil prices	2016
Brexit without free trade agreement	2016	Insufficient policy buffers	2018		
Risks for short-term growth					
Low demand	2009, 2013, 2015*	Premature withdrawal of stimulus measures	2009, 2020	Excessive fiscal consolidation in the US	2012
Medium- and long-term risks for growth and employment					
Protectionism	2012, 2013, 2016, 2018, 2019*, 2020*	Low potential growth, hysteresis effects	2012*, 2015*, 2016*, 2018*, 2020*	Inequality and social discontent	2013*, 2015*, 2016, 2018*, 2020*
Job losses due to digitalization	2018*, 2020*	Impacts of ageing societies	2019*		
Risks due to non-economic causes					
Geopolitical risks	2012, 2014, 2015, 2016, 2018, 2019, 2020	Infectious diseases	2015, 2016, 2020	Natural disasters	2019*, 2020
Climate change	2020*				

Note. For risks which were earlier identified in the IMF Surveillance Notes, years of consideration are highlighted in bold; for those selected by Presidencies as priorities – by an '*' symbol.

Source: authors' analysis.

Overall, the analysis of prior G20 work points at the need to re-focus its activities on controlling global systemic risks as a key common goal. Such control entails:

- 1) Systematic identification of most probable/ potentially most destructive threats;
- 2) Agreeing on action plans for minimizing these critical risks and mitigating their impacts in case they materialize;
- 3) Monitoring the early warning signs of most critical threats;
- 4) Organizing prompt meetings and adopting prompt measures in case globally important risks materialize in a significant way.

Adopting global risk control as a priority would mean re-orienting G20 work from passive reaction to materialization of threats to 'forward-looking' policies based on early identification of problems that may emerge in the future. This would increase the odds of preventing new global shocks, thus resulting in significant advantages for the G20 and the world at large. It suffices to mention that, by spring 2021, the number of confirmed COVID-19 cases has exceeded 125 million, while global output losses in 2020 caused by the pandemic are assessed at more than \$4.6 trillion.

How exactly could the process of global risk identification look like? It would probably require an increase in members' input in line with the 'member-owned, member-led' principle applied earlier during the monitoring of implementation of G20 growth strategies [G20, 2017a]. For instance, the process could be structured as follows:

- 1) Identifying the range of key risks through the input of G20 members, international organizations (including not only the IMF, FSB, BIS, OECD, WB, WTO, ILO, but also e.g. the WHO, UNCTAD) and external experts. Importantly, the definition of risks should be sufficiently wide (e.g. not only addressing the risks linked to COVID-19 pandemic, but also controlling global threats linked to the whole spectrum of dangerous infectious diseases). The initial list of risks for consideration should also be as wide as possible. For example, it could include irregular threats that cannot be predicted to any reasonable degree of precision (so-called 'grey swans'), such as global disruption of energy infrastructure and telecommunications due to anomalous solar flares³.

- 2) Filling out questionnaires to obtain members' assessment of a) the risk horizon; b) the probability of risk materialization; c) possible impacts; d) measures taken to prevent materialization/ measures that countries are ready to take if the risk materializes.

- 3) Scenario analysis of risks' materialization and country responses by the IMF, FSB, BIS based on data from 2), with an emphasis on comparing the dynamics of key macroeconomic variables (such as GDP, public debt, employment) with the scenarios of implementing international organizations' own recommendations; discussion of results at the meetings of G20 finance ministers and central bank governors.

- 4) Developing the programs for mitigating threats and their impacts based on the results of scenario analysis; adopting commitments for implementation of such programs.

- 5) Developing the indicator systems for monitoring threats where appropriate.

- 6) Sharing country data on (self-assessed) progress in implementing risk-mitigating measures and possible modifications of response strategies based on results of scenario analysis (e.g. due to possible spillover effects). This point is crucial, since, as demonstrated in [Larionova, Rakhmangulov, Shelepov, 2016], the presence of self-accountability mechanisms results in a significant increase in effectiveness of G20 efforts.

Setting these targets will help to focus G20 efforts on resolving not only current, but also future challenges. Another advantage of such an approach is that it combines existing G20 assignments (e.g. as regards scenario analysis; [G20, 2020]) with the EPG recommendations, as well as with the short-lived experience of working with country-led risk assessments. Indeed, in 2018, during the Argentine Presidency, G20 Framework Working Group gathered and analyzed such assessments; however, the focus on only three (already materializing) risks identified by the IMF (retreat from cross-border integration, tighter global financial conditions, structurally weak growth), along with the absence of scenario analysis follow-up and the lack of high-level discussions, resulted in the failure of those efforts.

³ See: https://www.dbresearch.com/servlet/reweb2.ReWEB?rwsite=RPS_EN-PROD&rwobj=ReDisplay.Start.class&document=PROD0000000000509478

Global Risks in 2021 and G20 Actions

A good example of assessing systemic risks is provided in annual reports by the World Economic Forum (WEF). In the latest issue published in January [2021], risks are subdivided into three categories: 'clear and present dangers' (short-term risks with a horizon of 0-2 years); 'knock-on effects' (medium-term threats, 3-5 years); 'existential threats' (long-term, 5-10 years). When analyzing the risk matrix according to likelihood and impact of risks, two top risks emerge as being both highly probable and destructive: spread of infectious diseases (existing and/ or new ones) and the failure of efforts to combat climate change. Both are also assessed by key risks by the G20 finance track [G20, 2021]. Obviously, in the short-term, the first threat deserves most attention; in our view, several recommendations from The Global Health Security Index report remain highly relevant in this respect, for instance,

1) Establishing new financing mechanisms to strengthen preparedness to dangerous infectious diseases at global and national levels;

2) Agreeing on the standards for prompt data reporting and data sharing for cases of serious contagious diseases;

3) Developing requirements for national programs aimed at combating the spread of dangerous infectious diseases;

4) Developing the protocols to regularly assess robustness of national systems for epidemiological security and to publish the results of such assessments.

These tasks could be complemented by efforts in adjacent areas, e.g. assessing the possibility and need for establishing a dedicated international centre responsible for monitoring the cross-border spread of serious contagious diseases, or analyzing the approaches to helping the least developed countries combat the COVID-19 pandemic.

Another important area for G20 deliberations is related to economic impacts of the pandemic. The agenda for 2021 includes discussing the challenge of promoting strong recovery, but it should be noted that this problem is a multidimensional one.

Output fall in 2020 was of completely different nature as compared to prior crises; therefore, recovery demands different policies as well. As noted by several authors [Barrero, Bloom, Davis, 2020], the current crisis is accompanied by structural shifts in production which will have long-term consequences. While, in the past, output fall and recovery were not associated with major structural shifts, at the current juncture it is obvious that many sectors will not return to pre-crisis levels of activity in the foreseeable future. Those include, above all, tourism, hospitality, catering, transport. Therefore, the task of supporting a partial reallocation of resources to other sectors comes to the forefront. Update of the G20 Action Plan for supporting the global economy through the COVID-19 pandemic contains a corresponding commitment [G20, 2021].

Furthermore, during the current crisis, labour-intensive sectors dominated by the SMEs with limited financial buffers were the most affected ones. As a result, unemployment rose dramatically. It should be noted that countries vary widely as concerns their labour markets' capacity to adapt to shocks; as an example, the whole decade after the 'Great Recession,' in 2019, the unemployment rate in Greece still stood at 17%. Thus, restoring full employment should be one of the priorities of anti-crisis policies in the coming years. Detailed studies of labour markets of those countries (including Russia) where unemployment reacts only weakly to negative shocks and rapidly returns to its natural level in the context of G20 commitment for analyzing best policy practices of labour market reforms [G20, 2021] would be valuable in this regard.

Another major point relates to fiscal policies. Many countries intend to continue with 2020 practice of generous fiscal stimulus, so as to support strong recovery. Note, nevertheless,

that the need for fiscal consolidation was one of the major acute problems in the aftermath of the ‘Great Recession.’ Back then, the G20 agreed upon the gradual return to the safe levels of fiscal deficits and public debt at the Toronto and St Petersburg Summits [G20, 2010a; 2013]. However, the current levels of fiscal stimulus far exceed those during the ‘Great Recession.’ Indeed, in 2009, average G20 general government deficit amounted to 7.6% of GDP, while public debt grew by 6.8 percentage points, from 66.0 to 72.8% of GDP [IMF, 2012]. In 2020, by contrast, according to the preliminary IMF estimates, average G20 fiscal deficit stood at 13.0% of GDP, while the public debt grew by 15.5 percentage points (from 91.3 to 106.8% of GDP); in particular, for G20 advanced economies, the increase in public debt amounted to almost 20 percentage points [IMF, 2021]. This entails the following challenges deserving G20 deliberations: 1) What is the right balance between supporting economies in the crisis aftermath and ensuring long-term macroeconomic stability? 2) What should the new targets for G20 fiscal variables look like once the output has recovered? 3) What should the timeframe for achieving those post-crisis targets be? All these are the challenges lacking easy responses and requiring coordinated actions. It may be recalled that some countries, such as Greece or Spain, faced extremely hard times in the 2010s after their fiscal deficits and public debts increased markedly. At the current juncture, the values of fiscal deficit and public debt are significantly higher for many countries; hence, the resulting problems may be even more enduring and difficult to solve. However, in contrast to 2010, so far the G20 as a whole has not adopted commitments on medium-term strategies for public debt reduction, although several countries (Russia, UK) did announce necessary consolidation measures.

Apart from fiscal risks, other vulnerabilities that so far have not been adequately reflected in the G20 agenda include the threat of financial market disruption and a surge in capital flow volatility related to investors’ concerns about the spike in inflation due to a marked shift to more accommodative monetary policies in virtually all G20 members in 2020 and to deployment of a new fiscal stimulus package in the US in 2021 in the context of an already speedy economic recovery. Moving away from the finance track agenda, heightened vulnerability of global economy to cyberattacks owing to a permanent shift to remote work after the COVID-19 pandemic should be highlighted.

G20 efforts after the ‘Great Recession’ contributed to a marked decline in global vulnerability to similar crises. However, the ‘coronacrisis’ has revealed insufficient effectiveness of G20’s risk analysis system. As demonstrated in this paper, this is due to such features as its ‘adaptive’ rather than ‘forward-looking’ nature; focus on the IMF/FSB recommendations rather than country views on risks; lack of systematic control of measures adopted in response to already identified risks. Taking into account these factors, along with the EPG recommendations, a framework for modifying G20 risk analysis is presented, emphasizing closer collaboration between G20 members and international organizations, as well as self-accountability mechanisms. So far, however, the study of the G20 2021 agenda reveals persistent focus on ‘adaptive’ risk response and comparatively little attention to ‘forward-looking’ fiscal and inflationary risks. The proposed extensions to the current G20 agenda and modifications of the framework for its future work could be expected to facilitate recovery of the global economy from the current crisis, mitigate the crisis consequences and enhance preparedness for future crises (fully preventing them whenever possible).

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COVID-19 and the Trials and Tribulations of Global Health Governance¹

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Abstract

The COVID-19 pandemic has brought to the fore significant shortcomings in global health governance. Faced with the rapid international spread of the virus, international actors unsuccessfully attempted a coordinated international response to tackle the COVID-19 outbreak and its far-reaching repercussions. The present article aims to shed light on certain flaws in the existing global health governance architecture that have thwarted both formal – the World Health Organization and the United Nations – and informal international actors – the Group of Seven and the Group of Twenty – in steering the international community through the current global health crisis. It first examines the actions taken by these actors during the COVID-19 pandemic and assesses why they fell short in steering a coordinated international response. Having identified individual states as the real culprits for the inadequate performance, the article discerns the underlying causes of individual states' hindering of global health multilateralism. Subsequently, it underscores why global health multilateralism remains necessary in a post-COVID-19 world and which international actors should play an active role therein. To conclude, suggestions are given on how the global health governance architecture should be strengthened in a post-COVID-19 world.

Key words: global health governance; global health actors; multilateralism; policy; COVID-19; World Health Organization; United Nations; Gx system

For citation: Ruelens M., Wouters J. (2021). COVID-19 and the Trials and Tribulations of Global Health Governance. *International Organisations Research Journal*, vol. 16, no 2, pp. 70–98 (in English). DOI: 10.17323/1996-7845-2021-02-05

Introduction

COVID-19 has spread around the world with such speed and vehemence that it has left governments and multilateral organizations scrambling to formulate a timely response. Initially, a coordinated international response was absent. Tedros Ghebreyesus, the director-general (DG) of the World Health Organization (WHO or Organization), raised deep concerns on 11 March 2020 about the “alarming levels of inaction” in response to the outbreak, resulting in the announcement by the WHO that COVID-19 constituted a pandemic in the hope to awaken much needed international action [WHO, 2020a].

¹ The editorial board received the article in April 2021.

COVID-19 has rapidly become a global phenomenon with severe repercussions. A flip side of globalization, increasing interdependence means that eradicating the virus in one or more individual states will not constitute a solution if other states remain unable to contain their COVID-19 cases. An integrated universal approach needs to be taken so that both developed and developing countries have the necessary tools to fight the pandemic at home. A coordinated international response should not only aim to address health-related issues but should also tackle the socio-economic consequences of COVID-19. To accomplish this, there is a clear need for leadership in global health governance. Only a small number of actors have the potential to take on an international leadership role when a global pandemic is raging. Regretfully, as this article will demonstrate, these actors fell short in effectively fulfilling a leadership role at the outset of the pandemic in early 2020.

The present article sheds light on certain flaws in the existing global health architecture that have thwarted – and continue to thwart – international actors in providing the necessary guidance and direction for a coordinated international response to the COVID-19 pandemic. We ask ourselves the following questions: why has global health multilateralism failed to provide an adequate, coordinated and timely response to COVID-19? What does this failure tell us about the flaws of today's global health governance architecture? And, what can be done to strengthen this architecture?

To answer these questions, this article will make a distinction between formal and informal international actors in global health governance, and it will mainly assess the activity on the part of specific international actors that are sufficiently powerful to direct broad multilateral cooperation in a health crisis. Our analysis first considers formal actors, with specific attention to the efforts of the WHO and the United Nations (UN) to steer a coordinated COVID-19 response and their shortcomings in trying to do so. Thereafter, we focus on the efforts – and shortcomings – of the Group of Seven (G7) and the Group of Twenty (G20) to develop a coordinated international response. Our analysis is limited to activities and conduct in 2020, the first year with COVID-19. Having identified the flaws of these four actors in directing and guiding multilateral cooperation as COVID-19 began to circulate internationally, we identify the underlying causes thereof. Last, we underscore why global health multilateralism remains necessary in a post-COVID-19 world and which international actors should play an active role therein. We provide a number of suggestions on how to strengthen global health multilateralism and international health actors so as to provide for a more robust global health governance architecture.

Formal International Actors in Global Health Governance and COVID-19

Formal International Actors in Global Health Governance

Two prominent formal international organizations take up a key position in global health governance due to their unique role and past experience providing overall guidance and direction during international health crises: the WHO and the UN. Their broad mandates and global membership allow them to set priority areas and induce other international actors to implement or support health initiatives.

The WHO was established with the idea of being the single international organization within the UN framework to cover public health [Renganathan, 2013, p. 175]. Of special interest in the fight against pandemics is the WHO's central responsibility for the global regime on the international spread of disease [Burci, 2020a; IHR, 2005]. In line with this responsibility, the WHO has overseen the development of the International Health Regulations (IHR) with

its aim “to prevent, protect against, control and provide a public health response to the international spread of disease” [Burci, 2020a; IHR, 2005, foreword; Renganathan, 2013, p. 182].²

Other bodies within the UN have also played a guiding role in health governance. Notably, UN member states have placed health issues on the agendas of both the UN General Assembly (UNGA) and the UN Security Council (UNSC) [Blouin, Pearcey, Percival, 2013, p. 199].³ Before 2020, member states used the UNGA to mobilize eight high-level fora on specific global health issues;⁴ the UNSC, for its part, elevated health crises to the realm of international peace and security on four separate occasions⁵ [Ibid., pp. 202–4; Harman, 2020; Security Council Report, 2020; UN, 2020r].

Shortcomings of the WHO and the UN in Steering a Global COVID-19 Response

WHO

Looking back, one cannot fail to notice serious shortcomings in the WHO’s initial response to the COVID-19 outbreak and, arguably, even later on. Two such shortcomings, as early as January 2020, were its slowness in declaring a public health emergency of international concern (PHEIC) and its attitude toward China’s lack of transparency and information sharing. First, it took the WHO’s DG approximately one month after the Organization’s first alert about the novel virus to declare a PHEIC, notwithstanding evidence of human-to-human transmission, the spread of the virus to other continents, and reporting on deaths [WHO, n. d., a]. In light of the available factual and scientific information, it should be asked why the DG did not declare a PHEIC sooner.⁶ Second, the WHO also fell short in the way it responded to (the lack of) information sharing by China on the novel virus. In spite of, *inter alia*, reports from inside the country questioning whether the government was fully transparent about all deaths and the government’s repeated refusal of assistance from outside experts, the WHO did not reprimand

² Article 21(a) and 22 of the WHO’s constitution confers upon the World Health Assembly the authority to adopt regulations “designed to prevent the international spread of disease” [WHO, 1948].

³ Other parts of the UN family, such as the Joint United Nations Programme on HIV/AIDS and the United Nations Population Fund, promote and protect global health as well [UN, 2020a]. The World Bank also has financing instruments to provide funds to the poorest countries in case of outbreaks, for example, the sale of pandemic bonds to support the Pandemic Emergency Financing Facility. Plans for a second sale in 2020 were called off after the pay-out of the first bonds due to COVID-19 raised criticism [Hodgson, 2020].

⁴ One Special Session on the Problem of HIV/AIDS in All Its Aspects (June 2001) [UN, 2020b] and seven High-Level Meetings focusing on HIV/AIDS (June 2006), Non-Communicable Diseases (September 2011, July 2014 and September 2018), Antimicrobial Resistance (September 2016), Tuberculosis (September 2018) and Universal Health Coverage (September 2019) [Blouin, Pearcey, Percival, 2013, p. 202; UN, 2020c; 2020d; 2020e; 2020f].

⁵ See UNSC Resolution 1308 (2000) [UN, 2020m], which encouraged voluntary HIV/AIDS testing and counselling for peacekeeping troops; UNSC Resolution 1983 (2011) [UN, 2020n], which encouraged the incorporation of HIV prevention, treatment, care and support in the implementation of mandated tasks of peacekeeping operations; UNSC Resolution 2177 (2014) [UN, 2020o], which determined explicitly that it was the unprecedented extent of the Ebola outbreak in Africa that constituted a threat to international peace and security; and UNSC Resolution 2439 (2018) [UN, 2020p], which condemned attacks by armed groups in the Democratic Republic of the Congo and their role in exacerbating the Ebola virus outbreak and urged all parties to the armed conflict to ensure full, safe, immediate and unhindered access for humanitarian personnel and medical personnel to patients and others in need [Harman, 2020; Security Council Report, 2020].

⁶ Arguably, DG Ghebreyesus’ slow declaration of a PHEIC can be partially explained by his inclination to await the expert opinion of the Emergency Committee to shield himself from any future accountability. Burci noted in this respect that “[t]he DG until now has always “rubber-stamped” the EC’s conclusions, thus seeking political cover” [2020a].

China or strong-arm it into being more forthcoming [Joseph, Thielking, 2020; The Associated Press, 2020]. Strikingly, the DG chose instead to laud China for its fast outbreak response and transparency in those initial days [WHO, 2020b].

Nonetheless, the perceived flaws in the WHO's response to the COVID-19 outbreak are not solely attributable to its current leadership. The shortcomings also stem from limitations inherent in its governance structure and in the IHR. Without aiming to be exhaustive, we provide a number of illustrations to substantiate this point. The Organization's effectiveness has, for one, continuously been affected by its strong dependence on voluntary contributions by members [Gostin, 2020], which keeps it from criticizing large donor countries, like China, out of fear of funding cuts. Many of the WHO's perceived shortcomings can also, arguably, be traced back to limitations that stem from flaws in the IHR's design or from challenges in their implementation. On the one hand, these limitations can be traced back to member states' refusal (or lack of foresight) to transfer more authority to the Organization. To illustrate, the January 2004 draft text of the IHR (2004 Draft IHR) provided the WHO with more powers to use non-governmental sources of information in its global surveillance. As observed by Fidler, the 2004 Draft IHR stated that the WHO "may validate these reports" through verification procedures included in the IHR [2005]. Due to sovereignty concerns, this provision was ultimately revised in the adopted IHR whereby, before acting on such reports, the WHO is now first required to attempt to obtain verification of such reports from relevant members [Ibid.]. The same 2004 Draft IHR entrusted powers upon the WHO to conduct in-country studies to assess whether appropriate measures were introduced to control a PHEIC [Ibid.]. Again, due to sovereignty concerns, this provision was revised and the IHR now fails to extend such investigatory powers upon the WHO without prior consent by a member. The Organization, thus, hinges profoundly on individual states' willingness to share information and grant it access to perform its functions in full, as also demonstrated during the current pandemic [Taylor, Habibi, 2020]. China repeatedly refused access for international experts to visit Wuhan for fact-finding purposes in January 2020, and it also obstructed independent investigations later on [The Associated Press, 2020].⁷ Overall, the WHO was – and remains – overly dependent on China's goodwill to obtain all relevant information regarding COVID-19, thereby curbing swift and effective early action.⁸ The shortcomings in the Organization's COVID-19 response are also the consequence of members' inadequate compliance with the obligations they have committed to under the IHR. There are, for instance, large gaps in the implementation of capacity building measures by individual states, which they have committed to under the IHR, leaving national healthcare structures vulnerable [Bartolini, 2021].

Without trivializing individual states' concerns, the limitations in their transfer of authority and their falling short of meeting their commitments undercut the WHO from performing its functions to the fullest extent possible. Moreover, individual states circumvented WHO guidance and advice early on through their harsh criticism and self-serving conduct, which further undermined the WHO's credibility to lead a COVID-19 response. Nonetheless, the Organization should be strongly commended for what it did accomplish during the pandemic, *inter alia*, by providing guidance and advice, supplying resources and workforces on the ground, and accelerating the development of diagnostics, vaccines and therapeutics.

⁷ In January 2021, another WHO team failed to visit China because their visas did not get approved [Sheperd, 2021].

⁸ While the WHO's praise of China's outbreak response and transparency, especially in January 2020, gave rise to severe criticism that it was overly deferential to China, arguably, the WHO extended such praise because of its strong dependency on China to share information. Interestingly, later interviews and the WHO's internal documents indicate that the WHO was also frustrated with China's lack of transparency but used praise as a tactic to coax out more information [The Associated Press, 2020].

UN

The UNGA and UNSC also responded to COVID-19. To date, the UNGA has adopted eight resolutions in relation to the pandemic. However, their timing and content indicate that the UNGA did not immediately succeed in directing a coordinated international response in early 2020. The first four resolutions (two in April and two in September) mainly emphasized the overall need for global solidarity and international cooperation to respond to the pandemic [UN, 2020h; 2020i; 2020j; 2020k]. A careful examination sheds doubt on their ability to guide much-needed global coordination and cooperation. The first two resolutions, adopted in April 2020, merely contain affirmations of good faith principles and a recognition that global solidarity is needed in the response [Syam, 2020, pp. 6–7; UN, 2020h; 2020i]. They failed to recommend specific measures to respond to the pandemic and failed to clarify and delineate the roles which the WHO and UN should play [Syam, 2020, p. 6–7]. The two resolutions adopted in September 2020 remain inadequate to steer coordinated international actions [UN, 2020j; 2020k]. The UNGA Omnibus Resolution adopted in September 2020 confirmed the WHO's "constitutional mandate... to act, inter alia, as the directing and coordinating authority on international health work" [Syam, 2020, p. 5; UN, 2020j, p. 3]. The other resolution adopted on the same day listed a number of priorities for which coordinated action needs to be taken [Syam, 2020, p. 6; UN, 2020k, pp. 2–3]. Nevertheless, it lacked specificity on how these priorities should be dealt with or which international actors should focus on them [Syam, 2020, p. 6]. In December 2020, three additional resolutions were adopted addressing challenges faced during the pandemic by two specific groups, namely seafarers and women and girls [UN, 2020s; 2020t; 2020u]. The eighth resolution in relation to COVID-19, also adopted in December 2020, highlighted the importance of affordable healthcare for all and underscored the importance of monitoring the impact of COVID-19 [UN, 2020v]. The UNGA adopted another resolution that month, which declared the period 2021–30 as the UN Decade of Healthy Ageing [UN, 2020w]. The UNGA also held a High-Level Special Session in Response to the COVID-19 Pandemic on 3–4 December 2020 that served to galvanize collective and multilateral action [Lederer, 2020; UN, 2020q].⁹

The UNSC adopted a resolution in respect of COVID-19 on 1 July 2020. Resolution 2532 (2020) demanded a general and immediate ceasefire in all situations on the UNSC's agenda and called upon all parties to armed conflicts to engage immediately in a 90-day humanitarian pause [Security Council Report, 2020; UN, 2020l, Preamble]. It recognized that "the unprecedented extent of the COVID-19 pandemic is likely to endanger the maintenance of international peace and security" [UN, 2020l]. While the UNSC should be commended for elevating the COVID-19 pandemic to the realm of international peace and security, its leadership role during the COVID-19 pandemic is open to criticism given the protracted delay in adopting the resolution and its rather cautionary wording. As the primary guardian of international peace and security, the UNSC should have reacted well before seven months into a global health crisis. The UNSC failed to pass a resolution sooner due to the open hostility between two of its permanent members, the United States (U.S.) and China [Pobjie, 2020]. There was prolonged disagreement on how to refer to the virus and whether to refer to the WHO at all [Ibid.]. Notably, the U.S. vetoed an earlier draft in May 2020 because it was against any reference to the WHO [Borger, 2020]. Even a formulation that sought a compromise between the U.S.' and China's position by referring to "*specialized health agencies*" instead of the WHO was not acceptable to the U.S. [Ibid.]. In light of the significant delay in adopting Resolution 2532 (2020), it could at least have been expected that it would include strong wording recognizing COVID-19 as an

⁹A summary of the special session was circulated on 9 March 2021 [UN, 2021b].

actual threat to international peace and security. However, compared to the wording used six years earlier in Resolution 2177 (2014) [UN, 2020v], where the UNSC determined “that the unprecedented extent of the Ebola outbreak in Africa constitutes a threat to international peace and security,” the formulation in Resolution 2532 that the COVID-19 pandemic was “likely to endanger the maintenance of international peace and security” was rather inapt.

Interim Conclusion

The actions taken and measures adopted by the WHO, the UNGA and the UNSC fell short in generating a timely or adequate coordinated international response during the initial months of the COVID-19 pandemic. Clearly, solely blaming the WHO or other UN bodies for their limited guidance in the first months of the pandemic would not be fair. Their decision-making abilities were held hostage to a large extent by member states. R. Basrur and F. Kliem accurately observed that, at best, both institutions merely fulfilled a supporting role in the initial efforts to curb the outbreak [2020].

Informal International Actors in Global Health Governance and COVID-19

Informal International Actors in Global Health Governance

Over the past decades, global health governance has become increasingly characterized by the involvement of a plethora of informal actors [Kelley, 2011, p. 435; Szlezák et al., 2010, p. 1; Youde, 2018, p. 75]. While the latter typically do not have the ability to take on the leadership role that is required to guide the global health system when facing a pandemic, two informal actors arguably do have the international acclaim and power necessary to fulfil such a role: the G7 and the G20.¹⁰ Their informal nature, bringing together a club of powerful states, allows them to focus on agenda setting, policy coordination, consensus building and the allotment of tasks and priorities to other international actors [Woods, 2011, p. 37, Wouters, Geraets, 2013]. While not outright global health actors per se, the G7 and G20 have previously made commitments regarding global health [Cooper, 2013; Lucas, 2019]. In recent years, both have continuously emphasized strengthening the response to public health emergencies as one of their health-related priorities [Lucas, 2019]. However, pandemic prevention, control and response are not central to their purview.

Shortcomings of the Gx System in Steering a Global COVID-19 Response

G7

In light of the unfolding global health crisis, G7 leaders held a call on 16 March 2020, although their annual summit was only scheduled for June 2020 [Wintour, 2020]. Later that day, they issued a joint statement on COVID-19 expressing their full support for “the WHO in its global mandate to lead on disease outbreaks and emergencies with health consequences” and calling on the G20 to support and amplify the G7’s efforts to restore and expand economic

¹⁰ One could consider the Global Health Security Agenda (GHSa), with its key objective the improvement of the global implementation of the IHR and thereby the enhancement of country capacities to prevent, detect, control and respond to infectious diseases, as another informal group that could have taken on a leadership position during the pandemic. Nonetheless, this did not occur as even before the COVID-19 pandemic international action by the GHSa seemed to have waned due to funding cuts.

growth [G7, 2020a]. G7 leaders also committed to “doing whatever is necessary” to guarantee a strong, coordinated international response [G7, 2020a; Wintour, 2020]. In retrospect, though, these were empty promises.

The joint statement of 16 March 2020 is the only common declaration on COVID-19 that G7 leaders were able to agree on in 2020. Afterward, internal disagreement prevented the G7 from forming a united front in the fight against the pandemic. At a virtual meeting one week later, G7 foreign ministers were unable to reach agreement on how to refer to the coronavirus in a joint statement, resulting in the issuance of several separate statements [Marquardt, Hansler, 2020].¹¹ A meeting on 16 April 2020 again failed to produce a joint statement, although several members did issue separate statements in which they voiced the need for a coordinated international response [10 Downing Street, 2020; Bundesregierung, 2020; European Council, 2020]. Interestingly, the statement published by the U.S. noted that much of the conversation during the April meeting revolved around the lack of transparency and mismanagement of the WHO [Wingrove, Donahue, 2020]. In stark contrast thereto, German chancellor Merkel’s spokesperson stated that she had expressed her full support for the WHO during the same meeting [Ibid.]. Further action by the G7 could have been expected to take place during its annual summit in June 2020 but the in-person meeting was called off by President Donald Trump, its host, due to the pandemic [Shalal, Mason, 2020]. He later unsuccessfully tried to revive the idea for an in-person meeting and even extended an invitation to Russia, which has not been a part of the G7/G8 since 2014 [Ibid.].¹² No further initiative was taken before the United Kingdom took over the G7 presidency in 2021 [Ibid.].

G20

Several initiatives have been taken by the G20 to develop a coordinated response to the COVID-19 pandemic and its intertwined health, social and economic impacts. At first glance, the G20 should be commended for its efforts. For instance, it approved the Debt Service Suspension Initiative (DSSI) on 15 April 2020 [G20, 2020b; Reuters, 2020], which aims to help the world’s poorest countries cope with the economic impact of the health crisis [Ibid.].¹³ Moreover, in its statement on COVID-19, agreed on 26 March 2020 during the extraordinary leaders’ summit, G20 leaders called upon “the WHO, IMF, WBG, and multilateral and regional development banks... to further step up coordination of their actions, including with the private sector, to support emerging and developing countries facing the health, economic, and social shocks of COVID-19,” which encouraged coordinated initiatives by international actors [G20, 2020a]. For one, the Asian Infrastructure Investment Bank responded to this call shortly afterward by launching a crisis recovery facility that offers financing to public and private sector entities adversely impacted by the pandemic [AIIB, 2020].¹⁴ Another example is the Access to COVID-19 Tools (ACT) Accelerator, launched by the WHO, the European Commission, France and The Bill & Melinda Gates Foundation on 24 April 2020 [WHO, 2020c]. The ACT

¹¹ The U.S. State Department had pressed to refer to the coronavirus as the “Wuhan virus” but this was met with strong pushback from other foreign ministers [Marquardt, Hansler, 2020].

¹² The plans to hold a June summit were eventually postponed indefinitely after Merkel declined to attend the physical meeting given the raging pandemic, and frosty reactions were given toward the inclusion of Russia by Germany and others [Karnitschnig et al., 2020; Shalal, Mason, 2020].

¹³ The debt suspension has been extended until at least 30 June 2021 [Reuters, 2020].

¹⁴ While perhaps not following directly from the G20’s call, other multilateral development banks and regional groupings also established funds or extended financing in response to the COVID-19 pandemic in March and April 2020, for example, the World Bank’s Health Emergency Preparedness and Response Multi-Donor Fund, grants by the Asian Development Bank, the ASEAN Response Fund, and the African Union COVID-19 Response Fund.

Accelerator is a global partnership with the aim of accelerating the development, production and equitable access to COVID-19 tests, treatments and vaccines [WHO, n. d., b].

Nevertheless, upon closer inspection, the G20 did not fulfil its leadership role to the extent that could have been hoped for. While the DSSI is a commendable initiative, its implementation by individual states has shown cracks in their generosity. Thus, the G7 finance ministers, in a joint statement of 25 September 2020, “strongly regret[ed] the decision by some countries to classify large state-owned, government-controlled financial institutions as commercial lenders and not as official bilateral creditors... thus significantly reducing the magnitude of the initiative and the benefits of the DSSI for developing countries” [G7, 2020b]. While no explicit reference was made to China, G7 officials confirmed that this communication was directed toward China, which had failed to include particular state-owned banks and government-controlled entities as creditors in the DSSI [Shalal, Kajimoto, Thomas, 2020]. In addition, the UN secretary-general urged the G20 on 20 November 2020 to expand the scope of the DSSI to all developing and middle-income countries in need [UN, 2020g]. G20 finance ministers did agree to the Common Framework for Debt Treatments beyond the DSSI on 13 November 2020, which attempts to deal with the aforementioned problem, but other concerns remain, such as absence of mandatory participation by private creditors [G20, 2020c].

The aims of the ACT Accelerator partnership are laudatory. However, while its initial launch was influenced by the G20’s call for the international community to step up international coordinated responses [WHO, 2020c], G20 members failed to fully endorse this initiative in the swift and expeditious manner required by the circumstances. Prior to the G20 Riyadh summit on 21–22 November 2020, G20 members were fully aware that a large funding gap existed in the ACT Accelerator. Various prominent international leaders called on G20 members to commit to plugging the funding gap during their annual summit [Nebehay, 2020; WHO, 2020d]. The leaders’ declaration agreed at the G20 Riyadh summit states that “[w]e will spare no effort to ensure... affordable and equitable access [to COVID-19 diagnostics, therapeutics and vaccines] for all people... In this regard, we fully support all collaborative efforts, especially the Access to COVID-19 Tools Accelerator (ACT-A) initiative and its COVAX facility... We commit to addressing the remaining global financing needs” [G20, 2020d]. These statements regretfully did not contain concrete financial commitments (for example, to funding amounts or deadlines) [Nebehay, 2020; WHO, 2020d]. In addition, while this excerpt indicates the full support of G20 members for the COVAX facility and the vaccines pillar of the ACT Accelerator, one could sense a hint of hypocrisy originating from the U.S. and Russia, both G20 members who, unlike over 180 other countries, had not yet signed up to the COVAX facility at the time of this G20 declaration.¹⁵

When scrutinizing the G20’s leadership role, one must also consider initiatives that were *not* taken. For one, the G20 has repeatedly been asked to support a new allocation of special drawing rights or a reallocation of unused special drawing rights at the International Monetary Fund (IMF) [Nye, 2020]. While the G20 discussed this, it failed to reach consensus in 2020 due to the U.S. blocking such action [Ibid.]. In addition, the G20 could have been a driving force for high-income countries to assist in distributing medical equipment where it was most needed in the early days of the COVID-19 outbreak. However, in stark contrast thereto, individual G20 members, such as France and Germany, initially imposed export controls on medical equipment, thereby undermining any collective approach on this matter [Guarascio, Blenkinsop, 2020].

¹⁵ One of President Joseph Biden’s first acts in office in January 2021 was signing up the U.S. to COVAX. Russia has not signed up to date.

Interim Conclusion

Both the G7 and G20 have convened since the initial COVID-19 outbreak, confirming an awareness on their part that providing guidance on a response to the global health crisis fell, at least partially, within their responsibility. However, like the WHO and UN bodies, the G7 and the G20 encountered significant hindrance by individual states when trying to guide and direct an early, coordinated international response in 2020.

Individual States' Interests and How to Strengthen the Global Health Governance Architecture

In the preceding sections, we queried whether prominent formal and informal international actors were able to direct and guide a coordinated international response to the COVID-19 pandemic in 2020. By critically reviewing a number of actions taken and instruments adopted by these actors, we concluded that none were able to adequately fulfil a leadership role in the initial months of the COVID-19 pandemic. Each suffered significant interference by member states in trying to shape and guide coordinated multilateral cooperation.

Underlying Causes for the Lack of a Timely Coordinated International COVID-19 Response

Zooming in on these states, one wonders what the underlying causes were for their thwarting of collective international action by choosing protectionism over multilateralism.

III-Preparedness of the Global Community

Arguably, before the COVID-19 outbreak, states (especially in the West) harboured a feeling of unsubstantiated safeness, considering themselves well-prepared against an outbreak of a contagious disease.¹⁶ In their defence, the WHO was a long-established international organization they helped create to prevent, prepare for and respond to disease outbreaks. In the wake of previous epidemics, the WHO had learned from experience and revised or implemented new instruments to guarantee a public health response in case of emergencies. Two important examples are the revision of the IHR in 2005 and the WHO Health Emergencies Programme (WHE) which was established in 2016, streamlining the WHO's emergency response efforts. Nonetheless, in 2020, the world found that these (and other) instruments did not generate a sufficiently prepared and response-ready environment capable of addressing a wide-scale pandemic.

While the IHR entrusts strong powers to the WHO and its DG in the wake of an international health crisis, its provisions allow significant leeway for individual states, which they have taken full advantage of during the COVID-19 pandemic. We discussed before several IHR provisions that show the limits to how much authority states wished to entrust to the Organization.¹⁷ Moreover, even for those provisions in the IHR that instil obligations upon members, the implementation proved to be lacking. An example is members' responsibility to implement minimum core capacity building measures in their national healthcare systems. The WHE is another strong instrument to help individual states respond to health emergencies when the situation is most dire. It has equipped the WHO with strong operational capacities in the field, the implementation of which started in 2016 and continued during the COVID-19 pandemic. It

¹⁶ Remarkably, the Global Preparedness Monitoring Board (GPMB) already reported in 2019 that "[t]he world is not prepared for a fast-moving, virulent respiratory pathogen pandemic" [GPMB, 2019].

¹⁷ See supra Section 2.

is, however, not yet fully delivering on its ambition due to, among other things, vacant positions in its workforce and underfunding [WHA, 2020].

Overall, states were short-sighted in believing themselves prepared to swiftly respond to a global pandemic. WHO members expected the WHO to prevent, control and swiftly respond to the COVID-19 outbreak given that they had tasked it with this role through the creation of the Organization. While its membership did provide the WHO with elaborate powers in its constitution and in the IHR, the limitations to these powers and the ability of states to circumvent them prevented a satisfactory performance of its role as leading global health actor.

Nonetheless, individual states were also taken by surprise by the scale and speed of the current pandemic. States had taken certain steps to prepare for international disease outbreaks but, arguably, a global and prolonged pandemic like COVID-19 was not envisioned. This could also help to explain why, for example, the IHR has not been fully capable of responding to the pandemic. Its provisions had been negotiated with the aim of preventing, preparing for and responding to an international health emergency of a much smaller scale than COVID-19 [Burci, 2020b]. In light of the overall surprise and ill-preparedness to face a wide-scale pandemic, individual states took on a crisis management role in the early months of 2020, whereby their primary focus was to put out the fire and only thereafter to consider more long-term coordinated solutions.

Rise in Populism, Nationalism and Authoritarianism

Another factor is the overall political climate currently confronting the world. Recent years have witnessed a rise in populism, nationalism and authoritarianism in a considerable number of states. Throughout 2020, various states that have historically played an important role in international decision-making had leaders who promoted such politics and did not disguise their political dissatisfaction with multilateralism.

The U.S. has arguably been the most polarizing force on the international level. While (former) President Trump chose to ignore the seriousness of the threat during the initial stages of the COVID-19 outbreak, he quickly changed his narrative by politicizing the pandemic once he faced an onslaught of COVID-19 cases throughout the United States. He also resorted to unilateralist measures by, inter alia, imposing travel restrictions and trying to obtain exclusive access to a coronavirus vaccine [Hernández-Morales, 2020]. A similar stroke of populism and pushback against the liberal order characterized the actions of Brazil's president Jair Bolsonaro, who denied the seriousness of the pandemic and brushed aside recommended protective measures such as social distancing [Rachman, 2020]. On their part, President Putin in Russia and President Erdogan in Turkey used the COVID-19 pandemic to tighten their grip on power in their respective countries through the use of propaganda and repressive measures [Walsh, 2020]. Surprisingly, even states that are traditionally among the strongest supporters of the liberal international order resorted to nationalist and protectionist measures at the outset of the pandemic. Examples were the export controls on medical equipment by European countries, notably France and Germany, and the refusal to voluntarily provide such equipment to Italy when it was in dire need thereof [Guarascio, Blenkinsop, 2020; Herszenhorn, Paun, Deutsch, 2020].

Leadership Vacuum

The retreat inward by states during the COVID-19 outbreak, even by some of the most fervent supporters of multilateralism, can also partially be explained by a leadership vacuum on the international level. The U.S. was the long-standing hegemon among international actors,

which took it upon itself to guide the international community on global strategies to overcome former crises. During the Trump administration (2017–21), the world witnessed an accelerated retreat inward by the U.S. and its prioritization of its own interests at the expense of the liberal international order. Faced with the COVID-19 pandemic, the U.S. continued down this path and failed to take on the leadership role it previously fulfilled in global crises. Unfortunately, there was no other state with the leadership capabilities to brand the COVID-19 response as the highest priority for the international community.

Moving Forward: How to Build a More Robust Global Health Governance Architecture?

Revisiting Global Health Multilateralism

The inclination of states to go for domestic approaches and the international leadership vacuum, combined with the overall ill-preparedness of the international community for a widespread pandemic, should not necessarily signify a rejection of multilateral cooperation in global health matters. In our view, multilateralism aimed at addressing global health issues will persist beyond the current pandemic.

While, as demonstrated above, action both by prominent formal international organizations and informal international bodies fell short at the time of the initial outbreak of the coronavirus, it should be stressed that once the COVID-19 crisis was well underway, formal and informal actors realized the need for, and started to endorse, multilateral cooperation aimed at addressing specific repercussions of the pandemic – be it economic, health-related or otherwise. Specific examples are the creation of emergency funds or debt suspension initiatives by the WHO and the G20 and health guidance and advice on the WHO's website. Moreover, the global health architecture consists of a far more diverse set of formal and informal international health actors. While these other actors did not have the capability to steer an overall coordinated response, they did choose to join forces and cooperate in the wake of the pandemic. Examples are the promotion of vaccine development and equal access by the COVAX facility, the various emergency funds offered by international financial institutions and the funding of innovative research through the BRICS (Brazil, Russia, India, China and South Africa) Science, Technology and Innovation Framework's call for multilateral research projects [BRICS STI, 2020].

It is promising that, particularly in 2021, states seem to gravitate again toward multilateralism in response to the pandemic. Zooming in on the formal and informal actors examined in this article, we have already seen that the UNGA adopted two important health-related resolutions at the end of 2020.¹⁸ In 2021, the UNSC unanimously adopted Resolution 2565 (2021) that called for strengthened international cooperation to facilitate equitable and affordable access to COVID-19 vaccines in armed conflict and post-conflict situations, and during complex humanitarian emergencies [UN, 2021a]. It also recognized the role of extensive immunization against COVID-19 as a global public good for health. G7 leaders were able to agree again on a joint statement on 19 February 2021 in which they recommitted to multilateralism through cooperation with the G20 and reiterated their support for the leading and coordinating role of the WHO [G7, 2021]. G20 finance ministers finally indicated their support for a new allocation of IMF special drawing rights on 26 February 2021 [G20, 2021]. They also designated granting equitable access to safe vaccines for all countries as a top priority and established a G20 High Level Independent Panel to promote preparedness against future pandemics [Ibid.]. States and regional groupings committed to additional funding for the COVAX facility. The U.S. under the

¹⁸ See supra Section 2.

Biden administration has recommitted to multilateralism as well, as demonstrated by it signing up to the COVAX facility and the retraction of the country's withdrawal from the WHO.

While these examples show improvement of multilateral efforts on the part of states, interference can regrettably still be observed, as shown by the harm caused by vaccine nationalism.

Strengthening Formal and Informal International Health Actors

Notwithstanding recent improvements in multilateral efforts, the review of the initial COVID-19 responses in 2020 by the WHO, the UNGA, the UNSC and the Gx system shows that there is an urgent need to strengthen the global health governance architecture. Such strengthening is required to ensure that multilateralism constitutes the primary working mode of states when faced with a global pandemic in the future.

To compel rapid collective action by states when faced with a future disease outbreak, global health governance needs to have actors and instruments in place that have the power and authority to galvanize states into multilateral and coordinated action over self-interested and protectionist measures. How can the international community attain this? It needs to improve the level of worldwide preparedness. Recognizing that complete preparation will never be attainable, global efforts still need to be scaled up to generate an international environment with actors well-prepared in case of a contagious disease outbreak that can only be contained collectively. There is not just one instrument or body that can help to achieve this. It will take effort on the part of many. We list below a number of efforts and reforms that could play a part herein.

First, there is an obvious need to ramp up available funding for health initiatives. In terms of prevention and preparation, on the national level, especially poorer countries need financial assistance to install minimum core health capacities. On the international level, the WHO would benefit from increased funding by its member states in order to operate efficiently and decide more easily and independently its own course of action.

Second, a key course of action to better position the world in the face of a future pandemic is strengthening the WHO on numerous fronts. This can be achieved by, inter alia, revising the IHR and further operationalizing the WHE. Steps are already underway in this regard by ongoing review committees. Specifically, for the IHR, the limitations faced by the WHO during the COVID-19 pandemic should serve as a point of departure for considering how these could be revised. For example, states should allow the Organization to communicate with the public about non-governmental sources of information without first requiring it to verify such information with the states concerned. Another clear point for improvement is the system of alert under the IHR. Given that limited heeding was given to the PHEIC declaration in contrast to the use of the word pandemic, discussions are currently ongoing to amend this system of alert into a multilayered one. Whatever the outcome may be of these discussions, it would serve the WHO well to clearly communicate to individual states that any type of alert by the Organization in the future merits attention and rapid mobilization of resources.

Third, the international community should create additional actors and instruments to further strengthen overall preparedness. Several suggestions in this respect have already been floated; below, we highlight four that warrant strong consideration. First, the international community should actively work to negotiate and conclude a new international treaty for pandemic preparedness and response, an idea first raised by European Council president Charles Michel in November 2020. Such a treaty would aim to “foster an all-of-government and all-of-society approach, strengthening national, regional and global capacities and resilience to future pandemics [WHO, 2021]. A second normative instrument well worth considering is the adoption of a framework convention on global health in order to (start to) address the full spectrum of actions that affect health. Third, global preparedness could also be strongly enhanced by means

of new actors that reinforce the WHO, such as an intergovernmental panel on health threats and a global health board. The former suggestion draws inspiration from the Intergovernmental Panel on Climate Change (IPCC) and a previous call to establish an intergovernmental panel on antimicrobial resistance [Monti Commission, 2021; Woolhouse, Farrar, 2014]. The panel could marshal data to assess risks generated by human activities and formulate proposals to reduce such risks [Ibid.]. The suggestion of a global health board clearly draws inspiration from the Financial Stability Board (FSB) set up in 2009 and calls on the G20 to create a forum that identifies vulnerabilities and threats to global health [McGahan, 2020; Monti Commission, 2021]. The board's mandate could authorize it to set global standards, assess emerging threats and review country-level implementation of standards [McGahan, 2020].

Throughout history, we have seen the international community come together after times of crisis with the aim of preventing or preparing for future hardship. To illustrate, after World War II, the international community founded the UN for the purpose of maintaining international peace and security and after the SARS outbreak, the IHR negotiating process regained traction and resulted in the adoption of the revised IHR to better prevent, prepare for and respond to the international spread of infectious diseases. Similarly, world leaders need to realize that now is the time to act to strengthen the global health architecture given that political momentum exists today. In the words of the Global Preparedness Monitoring Board, in 2019: "For too long, we have allowed a cycle of panic and neglect when it comes to pandemics: we ramp up efforts when there is a serious threat, then quickly forget about them when the threat subsides. It is well past time to act" [2019, p. 6].

Conclusion

States initially reacted to the COVID-19 outbreak by favouring unilateral and protectionist measures. Such a reaction was amplified by the fact that the international community was, in general, ill-prepared for a pandemic of such scale. States' actions took place in the absence of international leadership uniting countries and spurring global cooperation toward a common goal. This self-interested behaviour undermined multilateral cooperation, especially in the initial days of the COVID-19 pandemic: the WHO, the UNGA, the UNSC, the G7 and the G20 were significantly thwarted in their ability to guide a coordinated international response to the COVID-19 outbreak.

To prevent states from undermining coordinated multilateral action when confronted with a future disease outbreak, the global health governance architecture urgently requires strengthening. This article has offered some suggestions for reform of international health actors and instruments. The overall aim of such reforms is to galvanize states, but also other international actors, into multilateral action immediately when faced with future health crises. The occurrence of future pandemics is not a question of if, but when. Therefore, it is of the utmost importance that the global health system and the international community be better prepared than at the time of the COVID-19 pandemic and draw the necessary lessons from it.

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Tax Sovereignty and Investor Protection: Why the Proposed Global Minimum Tax Is not the Final Frontier for Corporate Tax Arbitrage¹

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Abstract

Over the past decade, international tax governance has evolved with bewildering speed in response to the challenges of digitalization and widespread corporate tax avoidance. Since the launch of the Group of 20 (G20)-Organisation for Economic Co-operation and Development (OECD) base erosion and profit shifting (BEPS) initiative in 2012, 135 countries and 14 international organizations have joined the BEPS Inclusive Framework, committing to implement new global standards on corporate tax, which has already been lauded as a revolution in the architecture of international tax law and policy. Even further expanding the scope of the OECD's work on international taxation in a landmark announcement in March 2021, the U.S. administration further proposed imposing a global minimum corporate tax at a rate of 21% to be implemented through an international agreement by mid-2021. If the new OECD initiative is agreed, will the plan to implement a minimum corporate tax be fully implemented by G20 members, and if so, will it do enough to address the tax challenges of digitalization embodied in corporate tax arbitrage? Although the evidence suggests legislative and public policy compliance is likely to be high among G20 members, this article argues the minimum tax initiative is unlikely to go far enough to address deficiencies in global tax dispute resolution, which are extremely germane to the success of the proposed minimum tax. As explained in this article, U.S. leaders and global policymakers must enhance the mutual agreement procedure (MAP), a cornerstone of tax dispute resolution, given a growing body of tax litigation in investment law that threatens the implementation of BEPS 2.0. To do so, global policymakers must also reconcile the conflict of norms between tax sovereignty and investor protection contained in the investor-state dispute settlement (ISDS) regime. Only by addressing the conflict between the principles of tax sovereignty and investor protection can they prevent a tidal wave of investor disputes that will challenge the implementation of the minimum tax through national tax laws.

Key words: global minimum tax; tax challenges of digitalization; Group of 20 (G20); Organisation for Economic Co-operation and Development (OECD); international taxation; global governance; international political economy

For citation: Motala M. (2021). Tax Sovereignty and Investor Protection: Why the Proposed Global Minimum Tax Is not the Final Frontier for Corporate Tax Arbitrage. *International Organisations Research Journal*, vol. 16, no. 2, pp. 99–131 (in English). DOI: 10.17323/1996-7845-2021-02-06

Introduction

The ongoing digitalization of the global economy since the Great Recession in 2008 has had profound implications for markets, global policy and our everyday lives. New multisided markets for information, goods and services, and capital have emerged, challenged and transformed

¹ The editorial board received the article in May 2021.

traditional business models with bewildering speed. Built by technology giants such as Alphabet Inc., Amazon Inc. and Facebook, platforms have gradually redistributed market share away from their traditional rivals in newspaper advertising, urban short-distance transport, and brick-and-mortar retail, casting a spotlight on broader commercial trends and international financial flows. Following the emergence of the global COVID-19 pandemic in December 2019, the combination of global lockdowns and the resulting suppression of demand has accelerated the digitalization of the economy, producing uneven gains and losses for participants in their respective sectors.

The digitalization of the economy has had equally profound implications for global financial flows and in particular the corporate tax practices of digital multinationals. In April 2020, Amazon Inc. reported revenues of \$88.9 billion in the second quarter of 2020 despite lockdown restrictions [Lee, 2020]. Indeed, in 2020, American consumers spent \$861.12 billion on e-online retail, a 44.0% increase over the same period in 2019 [Ali, 2021]. That jump in sales corresponded with a growth in the market share of e-commerce, which increased from 15.8% of total retail sales in 2019 to 21.3% in 2020 [Ibid.]. Yet the biggest digital multinationals pay relatively little tax. Experts estimate an average of 40% of multinational corporate profits are offshored to tax havens [Tørsløv, Wier, Zucman, 2018], which totals over \$7.5 trillion dollars of corporate money [Kerzner, Chodikoff, 2016, p. 1]. In its conservative 2015 assessment, the Organisation for Economic Co-operation and Development (OECD) estimated that corporate tax base erosion takes at least \$240 billion a year from the global tax base, while tax scholars and experts contend it could be \$500 billion per year or more [OECD, 2015].

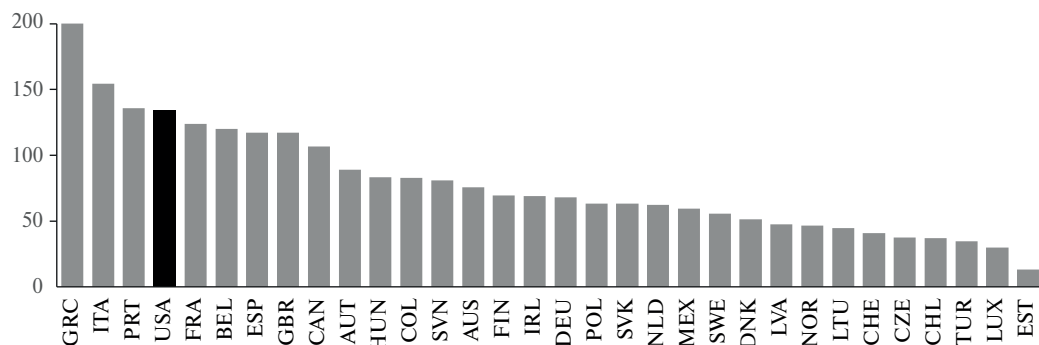


Fig. 1. Debt as Percentage of Gross Domestic Product (GDP) in the OECD Club (2019), %

Source: [Organisation of Economic Co-Operation and Development, 2021. Data on file with author and available upon request].

Widespread corporate tax base erosion and a new tax-and-spend economic orthodoxy portend a fiscal reckoning in the world's advanced economies. Debt-to-gross domestic product (GDP) ratios have skyrocketed since the first quarter of 2020, with the advanced economies adding \$17 trillion to their government liabilities since the coronavirus crisis began, increasing public debt from an average of 109% of GDP to 137% in 2020 [Giles, Harding, 2020]. Advanced economies such as the United Kingdom (UK) are already planning to raise corporate taxation to help find 30 billion pounds to fill a fiscal gap, suggesting similar policies among G20 members [Reuters, 2020]. As depicted above (Fig. 1), Greece, Italy, Portugal, the United States (indicated in light grey) and France had among the top five debt-to-GDP ratios in the OECD in 2019. The foregoing circumstances underscore the need for a more robust global effort to generate additional tax revenues to finance existing debt and new spending.

The tax policy challenges raised by the new digital economy are far reaching, transcend disciplinary fault lines and occur at all levels of governance. Fortunately, the global governance of corporate taxation from 2008 to 2021 is seen as a successful example of international cooperation, although its institutional evolution has not unfolded smoothly or in a linear fashion. The Group of 20 (G20), which is an informal forum for the world's most powerful countries accounting for approximately 85% of global GDP, addressed the OECD's analytical work on international taxation at its first summit in Washington in November 2008. In May 2009, President Barack Obama announced that the United States would seek to eliminate corporate tax loopholes, which reflected, a position which reflected the United States' mounting loss of overall tax and corporate tax receipts as a percentage of GDP compared to the OECD club.

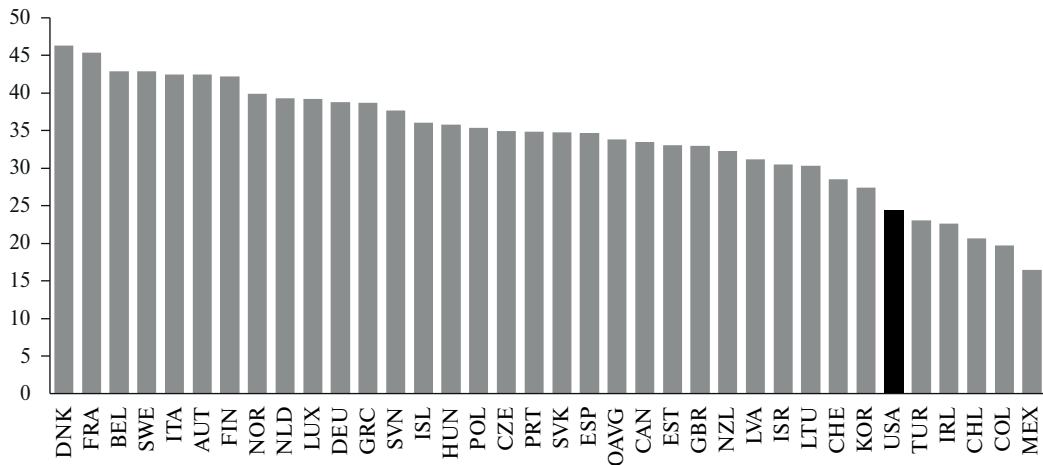


Fig. 2. Overall Tax Receipts as a Percentage of Gross Domestic Product (2019), %

Source: [Organisation of Economic Co-Operation and Development, 2021. Data on file with author and available upon request].

In December 2012, G20 finance ministers formally tasked the OECD with addressing global tax base erosion and profit shifting (BEPS). Their decision came none too soon. Four months later, over 100 journalists in 60 countries affiliated with the International Consortium of Investigative Journalists (ICIJ) reviewed 2.5 million confidential records about the offshore assets of 170 people and leaked information about more than 130,000 offshore accounts. In June 2013, the OECD delivered its 15-point action plan to the United States government and the G20. It was subsequently endorsed by G20 leaders, who committed to a new Automatic Exchange of Information Standard (AEOI) to address the risks from secretive tax havens. After the G20's Antalya summit, the final BEPS package was agreed, and the focus of global cooperation turned to implementation in national legislative and policy frameworks.

By March 2021, the Inclusive Framework on BEPS boasted a membership of 135 countries and 14 observer organizations such as the International Monetary Fund (IMF), the World Bank (WB), and the United Nations (UN). Member countries must commit to the comprehensive BEPS package, consisting of its 15 action items, and consistently implement new norms, standards and procedures. Participation by all members occurs on an equal footing. To implement Action 15 of the BEPS Framework on dispute resolution, an ad hoc group of countries and observers was formed on 27 May 2015, to draft a multilateral agreement for tax and the Multilateral Instrument (MLI), which has now been signed by 85 countries. It is viewed as the most radical transformation of the international legal framework in over a century.

The presidency of Donald J. Trump cause an abrupt turn from multilateralism to unilateralism in U.S. foreign tax policy from 2016 to 2020. The U.S. Tax Cuts and Jobs Act (TCJA), signed into law by President Donald J. Trump on 22 December 2017, enacted a 10.5% minimum global tax on intangible income to discourage profit shifting by transnational corporations (TNCs). This U.S. action was emulated by India, Italy, Spain and the UK. The European Commission (EC) released proposals for taxing TNCs based on the separate concepts of a “digital permanent establishment” or a digital services tax (DST). The Trump administration later rejected a proposed minimum tax standard, which had been agreed in principle by 129 countries in January 2019, insisting on a “safe harbour” mechanism that would allow American technology companies to refrain from paying a minimum corporate tax for their subsidiaries abroad.

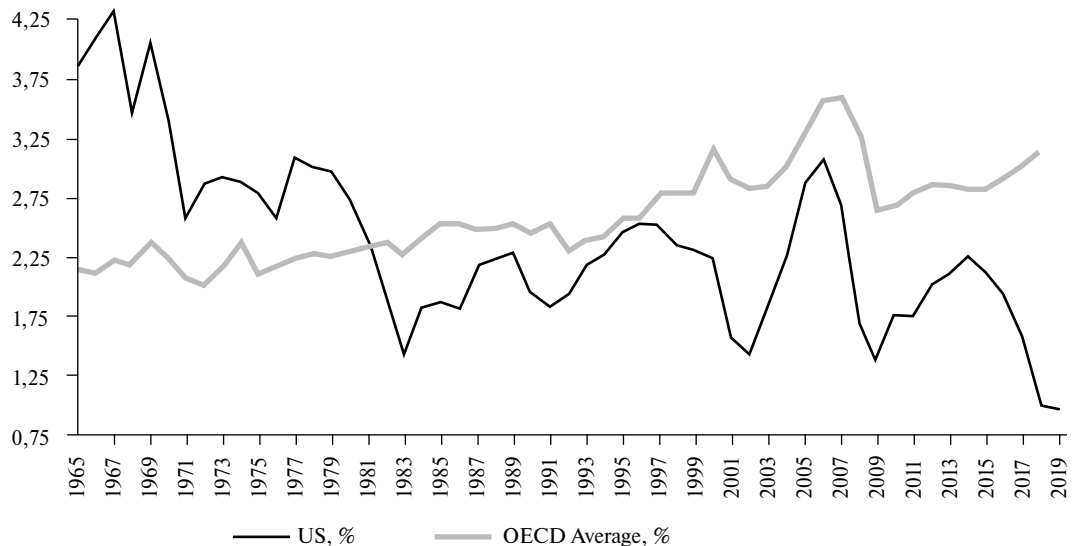


Fig. 3. United States and OECD Average Corporate Tax Receipts as a Percentage of GDP (1965–2019)

Source: Organisation of Economic Co-Operation and Development, 2021. Data on file with author and available upon request.

The inauguration of President Joe Biden brought another tax policy pivot and a renewed focus on addressing America’s diminishing share of the global corporate tax pie, as shown below (Fig. 3). On 31 March 2021, President Biden announced his American Jobs Plan, a landmark \$2 trillion infrastructure proposal to generate jobs, economic growth and competitiveness. Citing a 2019 independent study that found that 91 of the Fortune 500 companies exploited loopholes to avoid paying their fair share of corporate tax, the President proposed a corporate tax increase to 28% and a 21% minimum tax on U.S. firms operating abroad, on a country-by-country basis, to fund his ambitious plan. He also invited 135 countries to take a similar approach and tax corporations in the jurisdiction where the underlying economic activity took place, rather than where the profit was shifted to. The G20 endorsed the proposed minimum digital tax and promised to pursue an international agreement by the summer of 2021. If fully implemented, this would redistribute tax receipts away from tax havens to the countries where business actually takes place. Therefore, this article investigates the following question: assuming this landmark agreement on a global minimum tax is agreed in mid-2021, will G20 members fully implement it, and if so, will their implementation go far enough to address the tax challenges of digitalization embodied in corporate tax arbitrage?

Thesis

To answer this question, this article analyzes the prospects for the implementation of a global minimum tax rate among G20 members based on their past compliance with G20 summit tax-related commitments and its causes, as well as on international relations theory and a thought experiment that involves normative and doctrinal legal analysis from law and economics to address tax enforcement and jurisprudence.

This article argues that G20 compliance with a prospective global minimum corporate tax rate of 21% will be high, based on their past performance and the distribution of relative capabilities in the international system, but that it will not go far enough. Recent reforms to the global tax dispute resolution mechanisms of the MLI failed to address the substantive deficiencies in the current mutual agreement procedure (MAP), which is the cornerstone of state-to-state tax dispute resolution. In particular, the MAP remains deficient given the lack of binding arbitration, the lack of formal taxpayer standing in the legal process, the bureaucratic inefficiency of the intergovernmental procedure itself, evidence of backlogged cases, and, most critically, the ability for multinational corporations to challenge the implementation of BEPS and a digital tax given loopholes in the related regime of international investment law. Therefore, to advance a new paradigm of tax governance, policymakers should consider more than adding mandatory arbitration to the current MAP. There is in fact a growing number of tax cases in which private corporations challenge the tax laws of sovereign states, indicating a conflict of norms between the international tax and investment regimes that has practical implications for the implementation of a global minimum tax and other BEPS objectives. Put simply, U.S. leaders and global policymakers must address the conflict of norms between tax sovereignty and investor protection and the interaction of tax law with the investor-state dispute settlement (ISDS) regime if BEPS 2.0 is to work.

G20 Performance on International Tax Governance

To critically assess the prospects for the implementation of a minimum tax, this article first examines past performance in the G20 club. From 2008–18, G20 leaders dedicated 13,146 words to international tax in their summit outcome documents, which represents approximately 7% of the total. Between the 2008 Washington summit and the 2015 Antalya summit, the number of words per summit ranged from 1% to 5%. Then it rose at Hangzhou in 2016 to 19%, followed by 14% at Hamburg in 2017 and 17% at Buenos Aires in 2018. At Osaka in 2019, it dropped to the level of previous years, 3%. The chart below (Fig. 4) depicts these trends in conclusions as well as in commitments and compliance.

These conclusions contained 131 collective, politically binding, future-oriented tax commitments, or approximately 5% of the total on all subjects. The tax commitments averaged approximately eight at each summit since 2008. They ranged from a low of one (or 1% of the total) in Toronto in June 2010 to a high of 25 (9%) at St Petersburg in 2013. G20 members' compliance with these summit tax commitments, based on the 31 assessed, averaged 79%, which is substantially higher than the all-subject average of 71% as shown below (Fig. 5). Their tax compliance was highest from the Toronto summit in 2010 at 98%, where leaders committed to designing and implementing a structure for resolving financial crises without burdening taxpayers. Coming next were Hamburg in 2017, with 97%, and Antalya in 2015, with 92%. The lowest compliance was from the 2009 London summit, at which leaders pledged to take countermeasures against non-cooperative tax jurisdictions, with 53%. Also low was Cannes in 2011, with 54%. In the middle was St Petersburg in 2013, with 71%.

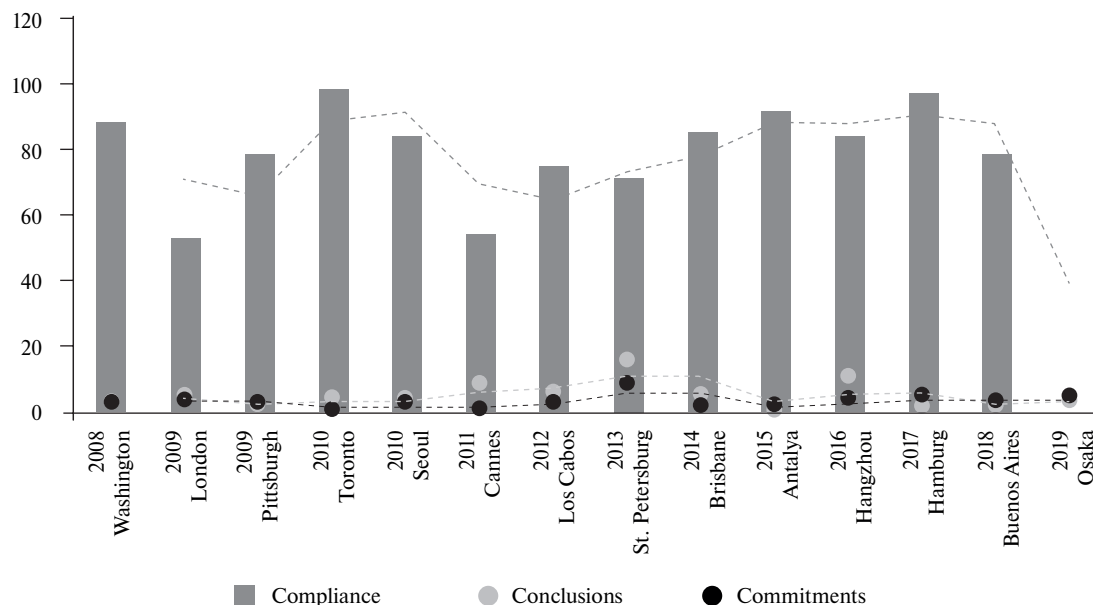


Fig. 4. G20 Compliance, Conclusions and Commitments on Tax (2008–18)

Source: [G20 Research Group, 2021. Data on file with author and available upon request].

Adopting a country-by-country focus further clarifies performance within the G20 club. As shown below (Fig. 6), the top five performers as of 2020 were the United Kingdom (91%), the European Union (89%), Germany (88%), Japan (88%) and Australia (86%). Straddling the middle range of ten were France (86%), Canada (81%), South Africa (79%), Argentina (76%), India (76%), Italy (76%), China (74%), Korea (74%), Mexico (74%) and Russia (74%). The five poorest performers in the G20 club were the United States (74%), Brazil (72%), Indonesia (62%), Turkey (60%) and Saudi Arabia (59%).

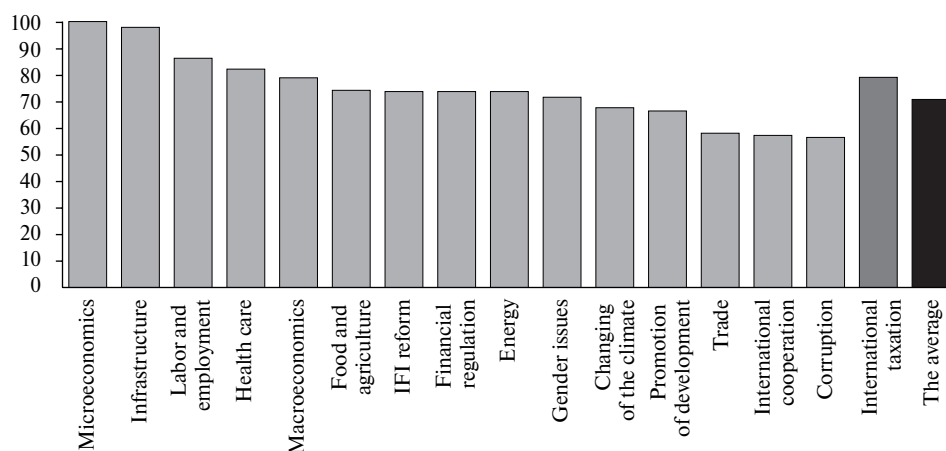


Fig. 5. G20 Performance by Issue Area (2020)

Source: [G20 Research Group, 2021. Data on hand with author and available upon request].

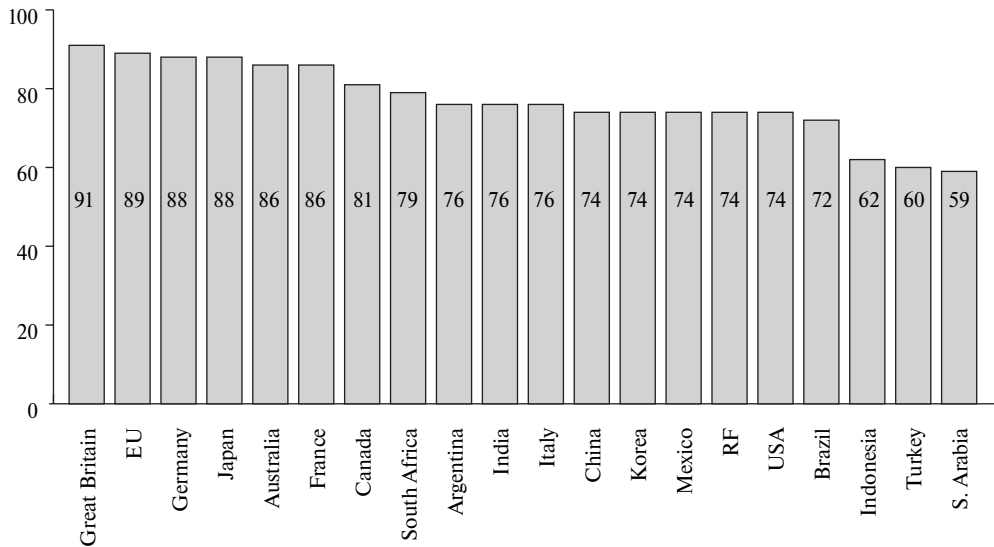


Fig. 6. G20 Member Performance on International Taxation (2020)

Source: [G20 Research Group, 2021. Data on hand with author and available upon request].

Causes of G20 Compliance

Among the many possible causes of this compliance, the most policy-relevant ones are the low-cost and often-used accountability measures under the leaders' direct control. They begin with the summit-specific causes of compliance, which includes an analysis of the relative weight of international taxation compared to other issue areas and compliance outcomes. Here, there was a negative relationship between the proportion of summit conclusions dedicated to tax and positive compliance at -0.44 that is significant at 1.35%. There is also a modest negative relationship between the proportion of commitments dedicated to tax and positive compliance at -0.15 , although at 6.17% it is not considered significant. One reason may be the limited number – only 14 – of summits under consideration. Nonetheless, the “fewer for focus” is the message about how many tax conclusions and commitments summits should make to increase compliance.

The second set of accountability measures are the “catalysts” that leaders embedded in the text of the commitments, presumably to increase compliance with them (see Appendix A). There are 21 catalysts overall considered in the G20 Research Group methodology; however, only 17 catalysts were present in at least one of the commitments and considered in regression analyses. Multiple regression analyses were used to estimate the independent impact of each of these 17 key catalysts on compliance with the 31 commitments assessed. Two catalysts did so in a significant way. First, a highly binding verb that forcefully expressed the leaders' desire, such as taking action against non-cooperative jurisdictions, lowered compliance by 15%. Second, reference to an international organization other than the core one of the OECD reduced compliance by 35%, suggesting that the OECD is an institutional cause of compliance with commitments in the G20 club.

Thus, G20 members comply with their summit tax commitments at a high average level of 79%. They register higher compliance with commitments from summits that produce fewer conclusions and commitments on tax and with commitments that have low binding verbs and

that do not refer to international organizations other than the OECD, including those responsible for trade and tax. This suggests that this push from the top by G20 leaders is productive, but not sufficiently strong to produce the needed very high levels to implement action at the national level, as governments mobilize their executive, legislative and judicial branches to do the detailed work of enforcement. It also suggests that leaders' efforts to link their tax commitments to other international organizations, including those at the core of the international investment and trade regime, have not yet overcome the contradictions the latter may contain with the new BEPS-based international tax regime to make the latter fully work.

A Dynamic Model of International Tax Governance

To identify the prospects for, and pathway toward, a more effective new international tax regime in the digital age, a richer, more dynamic model is required. Building on the work of P. Dietsch and T. Rixen [2016, p. 333], a previous contribution to this journal proposed a General Model of the Global Fiscal Governance Process (hereinafter the General Model) that conceives of tax governance in stages *ex ante* and *ex post* [Motala, 2019, p. 62]. As shown below (Fig. 7), the model depicts fiscal policy and tax governance as a temporal process including several phases: diplomacy and agenda-setting, negotiation and standard setting, implementation, monitoring, and enforcement. The first two stages, *diplomacy and agenda-setting* and *negotiation and standard setting*, from t_0 to t_1 , occur *ex ante*. The last three stages, *implementation*, *monitoring*, and *enforcement*, occur in the period from t_1 to t_2 and are considered to be *ex post*. The parsimonious model does not capture global policy feedback loops, such as the impact of enforcement on corporate special interests and ultimately on diplomacy and agenda-setting due to political lobbying, which may add to our causal understanding.

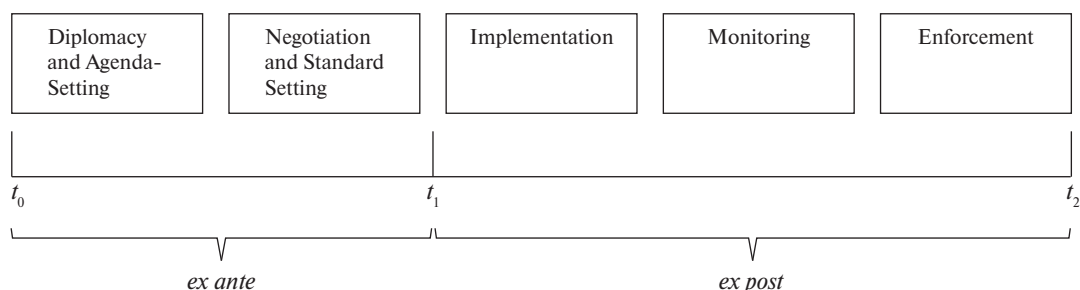


Fig. 7. General Model of Global Fiscal Governance Process

Source: Motala [2019] based on P. Dietsch and T. Rixen [2016].

Given historically high G20 compliance with tax commitments *ex post* at 79% overall, what drives diplomacy, agenda-setting, negotiation, and standard setting *ex ante*? Realist theory and the Model of System Hub Governance proposed by J. Kirton offer the best analytical guides to explain why international tax reform first emerged from 2008 to 2015, faltered under Donald Trump and then accelerated under President Biden with the pivot in the American approach to the global digital minimum tax [Kirton, 2013, pp. 27–54, 2021; Motala 2019].

Realism offers the concept of hegemonic stability to describe the leadership of a predominant power acting as necessary to maintain its privileged position in international relations by creating favourable institutional arrangements [Kirton, 2013, p. 28; Simmons, 2001]. Given the

United States' dual role as a net loser in the global tax competition under the traditional regime, as illustrated by its declining share of global corporate tax receipts (Fig. 3), and as a declining economic hegemon, structural realism suggests that it had faced powerful incentives after the global financial crisis in 2008 to spearhead the international cooperation that culminated in BEPS 1.0. Poor progress in addressing the tax challenges of digitalization, specifically, then induced the United States Congress under the Trump administration to take unilateral action to impose minimum taxes for U.S. multinationals and threaten retaliation against non-cooperative jurisdictions and allies in Europe. This American pivot to unilateralism from 2016–20 shows that the Trump administration used a new calculus of its self-interest to reorient its foreign tax policy, as the American share of relative capabilities, although in secular decline, permitted it to act unilaterally on the global stage with little consequence for its national interests, especially as Trump benefited from newly strong U.S. economic growth.

The Biden administration then adopted a hybrid approach, combining the invitation to pursue a multilateral agreement on a minimum rate of corporate taxation with explicit threats for non-cooperation. This was due in part to the change in the partisan affiliation of national leadership from the Republican Party to the Democratic Party that forced a pivot back to the agenda of President Barack Obama, for whom Joe Biden had served as vice-president from 2009. It was also driven by a self-interested desire to increase U.S. corporate tax revenues as a proportion of GDP to keep up with America's international competitors in an increasingly digital age, now fuelled by the arrival of the COVID-19 pandemic and the ensuing lockdowns in early 2020. The economic impact of corporate tax base arbitrage stood out in President Biden's statements on his international tax agenda, in Treasury Secretary Janet Yellen's remarks to her diplomatic counterparts, and finally in statements made by U.S. Treasury Department official Kimberly Clausing to U.S. Congress in early 2021.

Thus, in all three phases of the institutional development of the international tax regime under G20 and OECD auspices since 2008, the United States acted as system-leading power concerned with redistributing untaxed profits from foreign tax havens to its Treasury to finance the restoration of its relative international position. In the first and third phases under the presidencies of Barack Obama (2009–17) and Joseph Biden (2021–present), facing the reality of America's diminishing share of global tax receipts and the prospect of relative decline, the U.S. emphasized a multilateral approach to reform the architecture of global tax and redistribute financial flows to its Treasury. As shown below (Fig. 8), in 2016 over half of U.S. multinational products were booked in Ireland, Bermuda (and the Caribbean), Switzerland, the Netherlands and Singapore, underscoring a rational case for policy action. However, in the second phase during the administration of President Donald J. Trump, in the context of a relative economic rise, the U.S. emphasized unilateralism with no multilateral constraints on the business activities of its leading technology giants. Therefore, at its core, shifts in American economic capabilities spanning these three phases, combined with China's economic acceleration despite the COVID-19 pandemic, motivated its actions on the international stage, serving as a driver of international tax cooperation and institutional evolution.

Yet, while realism provides the systemic structural context that “shapes and shoves” the behaviour of its state units, it is incomplete. As Kirton [2013] explained, “the causal links connecting relative capabilities to international institutional creation, operation, outcomes, and impact are seldom straightforward” [p. 28]. Structural realism is most salient during the initial diplomacy and agenda-setting and the negotiation and standard setting phases in the General Model above. Moreover, as Kirton pointed out, these theories “cannot cope well with their vulnerabilities as well as capabilities, with the interconnections among them, with the importance of horizontality as well as verticality in the international system, with the equal importance of those formerly relegated in a fast-moving globalized age” [pp. 29–30]. And, as a theory

designed to explain balance of power behaviour, it does not capture the distinctive features of diplomacy and negotiation in the central forum of the G20, as a unique plurilateral summit institution (PSI) [p. 29].

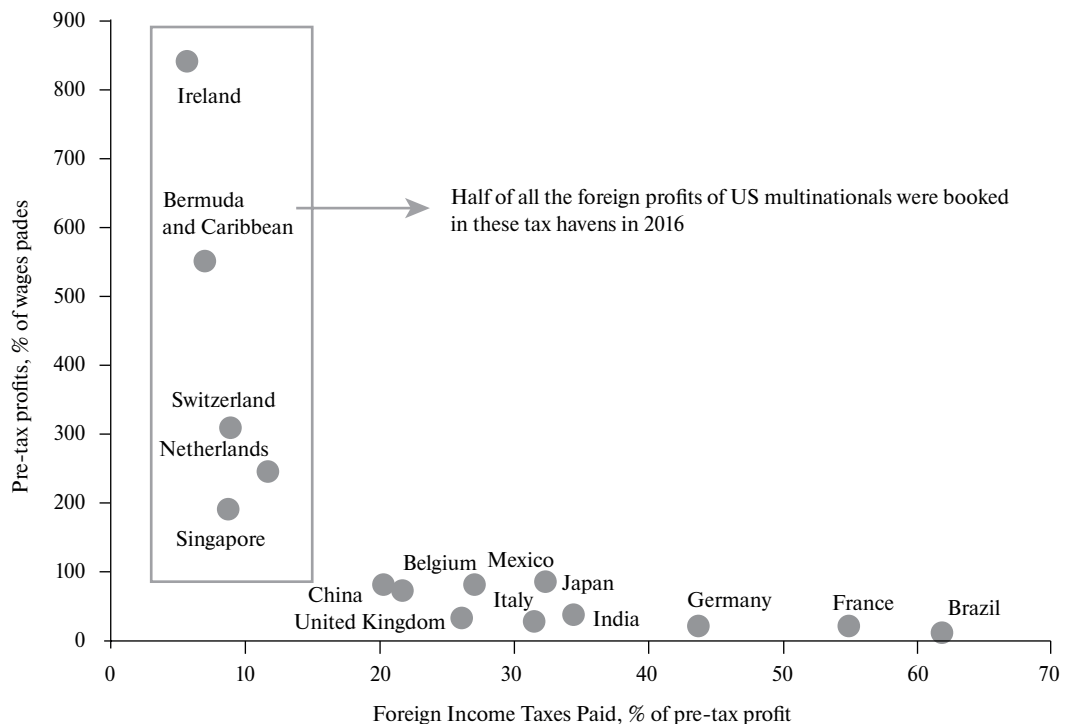


Fig. 8. Where Majority-Owned Affiliates of U.S. Multinationals Booked Their Profits (2016)

Source: This chart is used and reproduced with the permission of Professor Gabriel Zucman.

Note. Data sourced from <https://gabriel-zucman.eu/exorbitant/>

The Enhanced Model of Systemic Hub Governance

The Enhanced Model of Systemic Hub Governance [Kirton, 2013, 2021] (hereinafter the Kirton Model) supplements structural realism with three core concepts. First, it conceives of the contemporary international order as a *complex adaptive system* in “a world with no stable equilibrium, few constants... [and] linear causal relationships, path-dependent processes, multiple feedback loops, sudden and step-level jumps to new states, and a changing structure as a result” [Kirton, 2013, p. 33]. Complex adaptive systems are vulnerable to frequent shocks that stimulate an awareness of our “shared vulnerabilities... [that] triggers a common and collective loss-aversion instinct,” creating a new demand for global governance in response [Ibid.].

Second, the G20 is a *club*, which typically emerges in response to global collective action problems; clubs are “are voluntary and exclusive, with non-members excluded from the benefits of membership,” and to which “the benefits of belonging must outweigh the costs” [Kirton, 2013, p. 33]. The formation of the G20 represents a realist attempt to outsource the costs of U.S. hegemony to its economic allies [p. 34]. Clubs like the G20 are especially responsive to the shocks emerging from the complex global system as they meet annually at the leader and

ministerial levels and “realize that if they do not all ‘hang together’ they will each hang alone” [pp. 34–5].

Third, the model construes of international affairs as *networked*, as the “world is no longer composed of formal hierarchies, but of spider web-like networks that confer benefits on the basis of connectivity rather than inclusion” [Kirton, 2013, p. 35]. Thus, in contrast with the structural realist ontology of international affairs that considers only national units, at one level, and international structure, at the other, the Kirton Model better accounts for the interconnectedness and interdependence of contemporary politics.

The Kirton Model evaluates performance along six key dimensions. The first is *domestic political management*, using the prestige that comes with participation in the club to improve popular standing and legitimacy by going abroad to promote their foreign policies [Kirton, 2013, p. 36, 2021, p. 7]. The second is *deliberation* that occurs privately and internally within the G20 [Kirton, 2013, p. 37]. The third is ideational *direction setting* by affirming “shared principles and norms, with principles defined from classic regime theory as statements of fact, causation, and rectitude and norms defined as more specific statements of prescription (‘thou shall’), prohibitions (‘thou shall not’), or permission (‘thou may’)” [Ibid.]. The fourth is *decision-making*, which refers to “the provision of credible, clear, collective commitments with sufficient precision, obligation, and delegation to serve as a reference point, a source of moral suasion, or a deterrent threat for outside actors who respond to G20 commitments in the intended way, even in the absence of further implementing action by G20 governments” [p. 38]. These four dimensions cover the General Model’s first two, ex ante stages – diplomacy agenda-setting and negotiation standard setting. The final two dimensions cover the three, ex post stages – implementation, monitoring, and evaluation. The fifth dimension is *delivery*, which involves member governments’ compliance with their leaders’ and ministers’ commitments [p. 39]. The sixth is the *institutional development of global governance*, involving “the creation, continuation, and evolution of the G20 as an international institution and ... of those to which it relates” [Ibid.].

The Kirton Model identifies six causes of high performance on these dimensions. The first is shocks that activate leaders’ awareness about their shared vulnerability and thus prompt collective action [Kirton, 2013, p. 42]. Over the past decade, such shocks created by investigative journalism on tax avoidance and academic studies have played catalytic roles at key stages of BEPS 1.0 and BEPS 2.0. The second cause is multilateral organization failure, as the inflexible, inadequate or absent formal legal organizations from the Bretton Woods-UN galaxy created since 1944 respond poorly to these shocks, inducing PSIs such as the G20 to try to fill the resulting global governance gap [p. 43]. Shocks from the traditional international tax regime, based on over 3,500 double tax treaties (DTAs), had no dedicated multilateral organization to respond, leaving the plurilateral, analytical, consensus-oriented OECD and the new G20 leaders’ summit to fill the gap. The third, core realist, cause is the globally pre-dominant, internally equalizing capabilities of G20 members, which back the globally effective governance they provide, induce them to work collectively, require all or most to agree, and allow almost any member to lead. G20 members possess approximately 85% of global GDP, so they thus have sufficient collective resources to undertake effective tax reform and to allow not just the U.S. but also other powerful members, such as France and the UK, to take or threaten unilateral action to secure more relative tax gains or spur multilateral regime reform [p. 44].

The fourth cause is converging domestic characteristics, which make it easier for members to agree on an agenda, principles, a focal point and a common win set for commitments, in ways that require less adjustment of national policies and less domestic change to comply with and implement the commitments they collectively make. All G20 members were subject to the increasing digitalization of their economies and consequent diminution of their tax revenues,

especially after the COVID-19 lockdowns hit and simultaneously increased the need for new tax revenues to contain soaring fiscal deficits. From 2008 to 2021, the OECD members of the G20 had differing levels of corporate tax, especially after Trump took the already low U.S. level even lower. This increasing divergence from the OECD-G20 norm reduced the G20's performance and led to U.S. unilateralism. Convergence also facilitates the legibility of each member to the others and thus the sharing of information and the recognition and adoption of best practices among them. G20 performance on BEPS 1.0 and the Inclusive Framework could be attributed to the convergence of domestic characteristics within the G20 and emulation and mutual adjustment by OECD and non-OECD members in the Inclusive Framework, facilitated by the OECD [Kirton, 2013, p. 45].

The fifth cause is members' domestic political cohesion, which allows them to adjust to forge G20 agreements knowing that they will be supported and implemented at home. Its components are the leaders' summit experience, professional expertise and personal commitment to a cause, their control of their executive and legislative branches, regulatory agencies and sub-national governments, their public support, and the timing of their next election [Kirton, 2013, p. 46]. Donald Trump's departure from the move to meet the December 2020 deadline came when he encountered difficulties in his presidential re-election campaign.

The sixth cause is the position of the G20 as the leaders' cherished club at the hub of an extensive and expanding network of global summit governance. Of particular importance is the position of the host as the core of the hub, the move of the G20 from an instrumentally to an interpersonally cherished club, and its spokes into other summit institutions of global relevance and reach. Also relevant is the array of guest leaders who attend a summit and the PSIs to which they belong. A key measure is the extent to which the PSIs in the G20 network govern on the specific subject, in this case international tax, that the G20 summit governs. Whether they do so before or after the G20 summit gives an initial estimate of the flow of influence from or to the G20, as a measure of whether the G20 summit leads or follows the other PSIs. In the case of tax, the membership of a G20 summit participant in the ministerial-level OECD is expected to increase the latter's compliance with its G20 tax commitments, given the G20's close partnership with the OECD in international tax reform.

Addressing the Enforcement Gap

The systemic hub model of governance, or the Kirton Model, is extremely useful to the extent that it provides an explanation for the first four stages of tax governance; however, it fails to address the outcomes of G20-OECD-guided global tax reform, namely the enforcement dimension, as the final stage and ultimate concern of the current reform effort [Motala, 2019, p. 68]. Legal enforcement occurs domestically, when the administration and enforcement of tax law and regulation for resident persons and legal entities is done by treasuries or their bureaucratic equivalent. When a taxpayer takes issue with a tax assessment, the finding can be challenged in a court of law. In contrast, and specific to transnational corporations with foreign subsidiaries, taxpayers seeking to challenge a corporate tax assessment on the grounds that it constitutes double taxation of the same underlying economic activity (meaning that another country has already taxed the profits) have recourse to a process at the international level involving national tax administrations in the executive branch. Here, the taxpayer initiates an intergovernmental MAP, in which two state bureaucracies negotiate a resolution. Tax-related issues can also be pursued by private companies against states at the international level in the ISDS arbitration regime. Here, an investor claims that an investment protected by a treaty has been expropriated on the grounds of changes to national tax laws, or that they have been treated

unfairly and inequitably. Thus, the main concern of the next section is the state of affairs of global tax dispute resolution through the MAP and ISDS.

Global Tax Dispute Resolution and the Mutual Agreement Procedure

Structural weaknesses in the international tax regime flow from its archaic nature, being nearly a century old, and the fact that it fosters global tax competition among states, inducing countries to competitively underbid each other in a “race to the bottom” to attract a higher absolute number of tax receipts. To assess whether a global minimum tax will be implemented, and *whether it will be effective*, requires addressing the enforcement gap in the analysis. Assuming the reformed regime is agreed in its envisaged substantive form, legal reasoning and economic insights guide a conjecture about its legal outcomes. This conjecture starts with the current state of enforcement under the BEPS Inclusive Framework by examining the relevant legal instruments, statistics on global tax disputes, and prospective conflicts of norms between global tax and cognate areas of international economic law. This analysis demonstrates that, despite attempts to reform enforcement through the MLI, the current state of tax dispute resolution under ISDS poses a threat to the implementation of the digital minimum tax and the BEPS 2.0 agenda more broadly.

International tax consists of a complex, networked architecture of DTAs that address the risk of double or multiple taxation. Double taxation occurs when two states each apply a tax to one economic activity, therefore taxing the corporate taxpayer twice, creating inefficiencies and economic distortions. The rules in tax treaties are intended to address how countries distribute the global tax base at the highest level of generality. Yet these rules are subject to abuse, resulting in corporate tax arbitrage. Domestic tax statutes impose tax liabilities on all persons with socio-economic ties to a country, as well as non-residents who earn an active income, such as income from employment, or passive income, such as capital gains, in relation to economic activities within the jurisdiction. DTAs grant relief to taxpayers for tax liabilities owed under domestic tax law when there is more than one competing sovereign claim to levy taxation on an economic activity [Ismer, Piotrowski, 2016, p. 350].

As shown below (Fig. 8), the legal structure of DTAs is unique. DTAs are bilateral international agreements signed by two state parties and ratified into domestic law in each country. When a dispute is raised by the taxpaying corporation, it is brought to the national tax administration in the respective country, which then engages in intergovernmental MAPs with counterparts in the other jurisdiction through an intergovernmental diplomatic process. Under DTAs following the OECD Model agreement, national tax administrations apply internal law to national taxpayers. With respect to international tax matters, corporations are indirect beneficiaries of the DTA, meaning they cannot make a tax appeal through normal legal channels, such as a court, and have no formal legal standing in the MAP process.

Contrary to its objective to limit double taxation, the complex DTA network also provides opportunities for sophisticated corporate tax planning to reduce the overall global tax burden of a given transnational corporation, defined as conducting business in two or more countries via foreign subsidiaries. This practice involves the manipulation of transfer pricing, intra-group loans, and treaty shopping. Transfer pricing rules govern transactions between related entities in a TNC group and exist to ensure that transactions occur at a fair market value as between nominally arm's length entities, given that many companies exploit these transactions to shift profits to lower tax jurisdictions. Intra-group loans refer to loan arrangements between related entities that allow the group to deduct interest from a related-party loan from profits in a certain jurisdiction to shift the profit to a lower tax jurisdiction. Treaty shopping refers to corporations

using favourable tax treaty provisions in DTAs to reduce their liabilities. Transnational corporations are uniquely capable of these kinds of tax practices because, unlike domestic corporate entities, they engage in economic activities that transcend national borders.

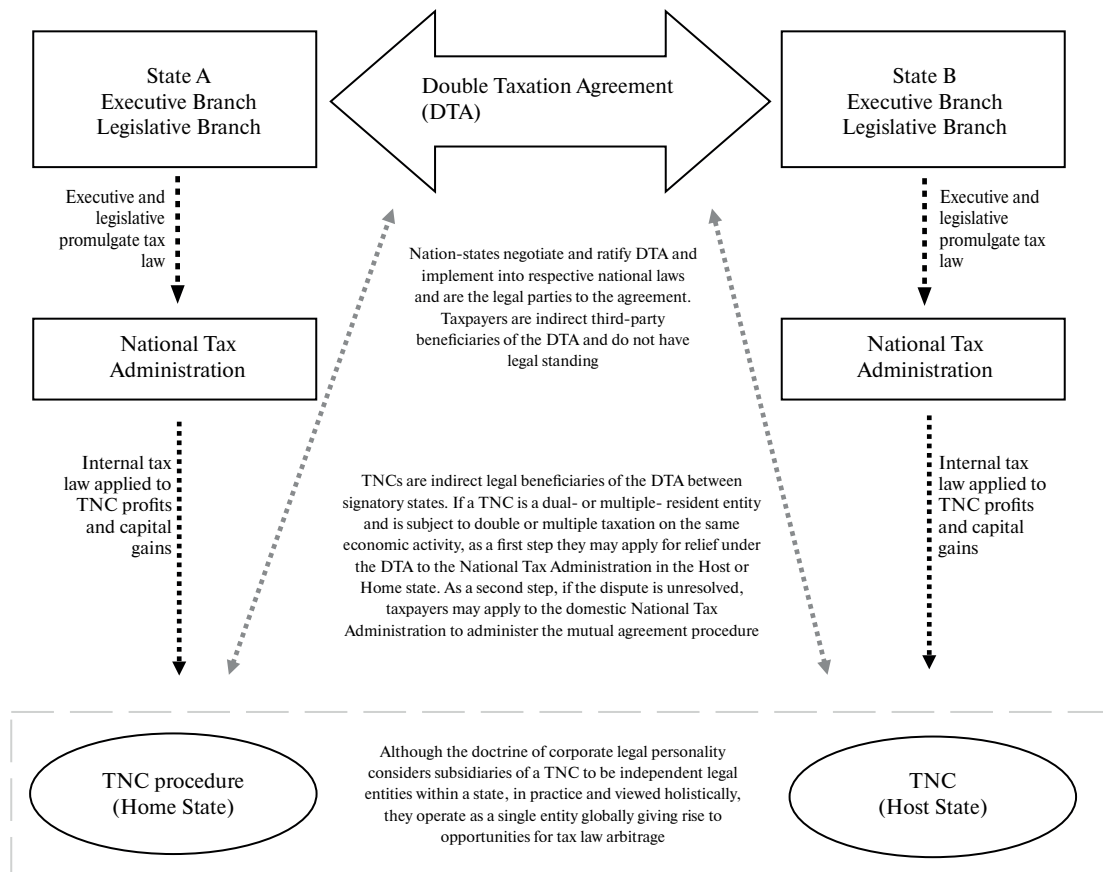


Fig. 9. The Legal Structure of DTAs

Source: Diagram expands on basic framework articulated in Castillo-Murciego and Lopez-Laborda [2019, p. 17].

Given the historic lack of political will to pursue a multilateral tax convention, the practical difficulties of reconciling different national tax systems, and the economic disincentives posed by global tax competition, the entry into force of the MLI pursuant to Action 15 of the BEPS agenda on 1 July 2018 was seen as “a breakthrough” by certain scholars of international taxation [Bacia, Toporowski, 2018, p. 387]. The historic agreement came from negotiations among over 100 jurisdictions, which ended in November 2016, and the MLI currently covers 94 jurisdictions representing 95% of global GDP. However, scholars note that the MLI “is not a fully-fledged multilateral tax convention covering all the areas that are usually covered in bilateral tax treaties” [Avi-Yonah, Xu, 2018, p. 158]. Rather, the convention is a “consensual treaty override designed to apply the Base Erosion and Profit Shifting (BEPS) (Inclusive Framework) simultaneously to all the tax treaties where the countries involved agree” [ibid.]. The MLI is an “umbrella agreement that legally modifies the relevant provisions of bilateral agreements on the avoidance of double taxation ... at the level of legal construction under international tax

law” [Ibid.]. It is an instrument that will “transpose results from the OECD/G20 Base Erosion and Profit Shifting Project (BEPS) into more than 2,000 tax treaties worldwide” [p. 155]. Coverage of the 3,800 bilateral investment treaties (BITs) is therefore not comprehensive, but is substantial.

In addition to preventing double taxation and double non-taxation, tax treaties exist to facilitate trade and investment by providing investors with *legal certainty*, that is, “the idea that the law must be sufficiently clear to provide those subject to legal norms with the means to regulate their own conduct and to protect against the arbitrary exercise of public power” [Verburg, 2019, p. 426]. DTAs and other investment treaties are thus intended to assure capital exporters that the same economic activity will be taxed fairly. For international investment, treaties provide taxpayers certainty that overlapping sovereign claims will be subject to certain procedural norms. Tax treaties thus standardize definitions and the jurisdiction of contracting states, promote the exchange of information that assists with enforcement, limit or prevent taxpayers from exploiting loopholes through “treaty shopping,” and materially impact the rate of taxation of TNCs [Blonigen, Davies, 2000, p. 6].

The MLI’s dispute settlement regime contained in the MAP does not go far enough to address substantive deficiencies in the legal regime. Article 16, which is Part V of the multilateral convention on Improving Dispute Resolution describes the MAP. The provision enables taxpayers “to present grievances under the [Covered Tax Agreements [CTA]] ... and express intent for the tax jurisdictions to resolve issues under the CTA in agreement with each other,” and it envisages intergovernmental negotiations rather than a judicial procedure per se [Morley, 2019, p. 239].

There are three types of MAP cases under the MLI, being the *interpretive*, *legislative* and *specific* varieties [Ismer, Piotrowski, 2016, p. 352]. The *specific MAP case* is the most relevant to the discussion because it permits “taxpayers to request intergovernmental dispute resolution by way of a negotiation between competent authorities of the contracting states,” providing them with a “remedy additional to and independent from any domestic treaties” [Ibid.]. It is concerned with specific disputes brought by a taxpayer who “considers that he is or will be taxed in a manner contrary to the treaty” and is the only kind of case that can be subject to arbitration [Ibid.]. Rather than a judicial proceeding, the MAP originates in the norms of diplomatic protection since the contracting parties are states themselves and the procedures allow “states to reach a common understanding on their contractual obligations under international law and thus serve a coordination function” [p. 353].

To an extent, the MAP is nothing new as a method of intergovernmental coordination, as it has been a feature of tax dispute resolution since it was first proposed under the auspices of the League of Nations and was codified by the OECD in 1968. In addition to the MLI, the MAP procedure is codified in Article 25 of the OECD Model Tax Convention on Income and Capital, which serves as the template for approximately 75% of DTAs in existence [Markham, 2019, p. 5]. According to OECD statistics as depicted below (Fig. 10), at the end of 2018, there were approximately 9,564 MAP cases pending. The majority of these cases involve disputes over TNC transfer pricing, which “refers to the pricing of intercompany transactions based on the arm’s length principle, i.e., what independent enterprises dealing in the open markets would have been charged for comparable transactions,” with corresponding “income adjustments [that] may be made by revenue authorities to bring them into line with this amount” [p. 6]. According to the European Commission, in 2017 there were approximately 900 double taxation disputes in the European Union overall, with an estimated value of 10.5 billion euros [EC, 2017].

Although the MAP has been a feature of international tax dispute resolution between contracting states, the regime is rightfully subject to criticism. For one, H. Mooij pointed out

that an increasing number of cases are unresolved [2019, p. 203]. J. Duffy and T. Bailey noted that the taxpayer is in an “invidious position in the current international tax environment” due to a “tax dispute resolution framework which has failed to provide the efficiency and certainty required by international business” [2017]. They added that the MAP framework is not “fit for purpose” and is undermined by three factors: a lack of compulsion on parties to engage in the process; the “absence of an obligation on the parties to resolve the dispute”; and finally “the lack of a time limit on negotiations” between contracting states [Ibid.]. The empirical evidence also suggests that the MAP procedure faces an incredible backlog of pending cases that are unevenly distributed geographically. As shown in OECD 2018 data, the United States alone had 1,007 pending cases in 2018, while India had 841 and Canada had 147. By contrast, in the same year Saudi Arabia had only three, Argentina had 13 and Australia had 31. According to the OECD, in 2019 the average wait time for cases involving transfer pricing was 30.5 months, while the wait for other cases was 22 months, underscoring its procedural inefficiencies [OECD, 2019]. As further shown below in 2019 data (Fig. 10), disputes may last anywhere from approximately two to 68.59 months on average depending on the jurisdiction in which they are raised.

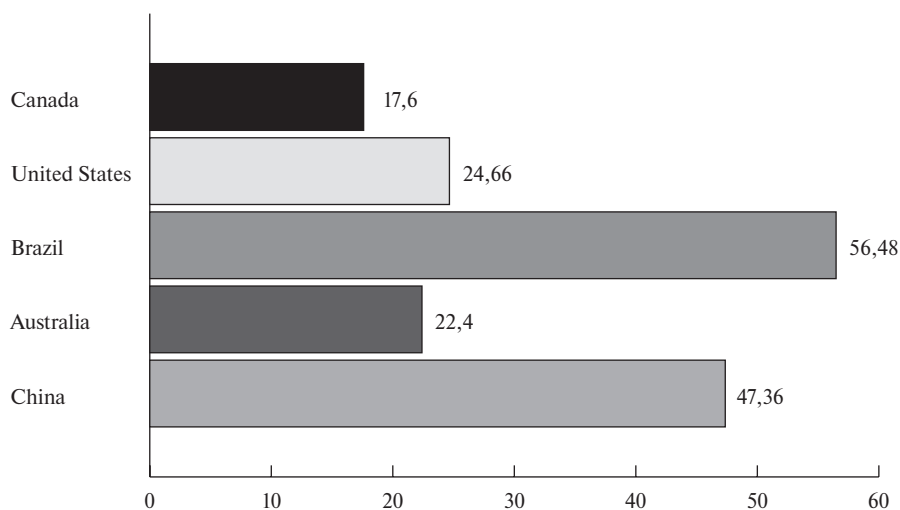


Fig. 10. Mutual Agreement Procedure Average Time for Closure in Months, 2019

Source: [Organisation for Economic Co-operation and Development, 2021].

As part of the BEPS Action Plan, in 2013 the OECD pledged to enhance the MAP framework with binding and mandatory arbitration, which would form an “integral part of the procedure that would enhance its effectiveness” [Markham, 2018, p. 4]. Arbitration can be defined as a “quasi-judicial, binding, and private instrument of dispute settlement based on a contract between the involved parties” [Majdanska, Turcan, 2018, p. 4]. In *Arbitration in Taxation* (1981), G. Lindendcroma and N. Mattsson “made the ground-breaking proposal to complement the individual case MAPs by tax treaty arbitration for cases where states have failed to settle within a certain timespan” [Ismer, Piotrowski, 2016, p. 254]. The MLI contains an optional mandatory binding arbitration provision in Part VI, which encompasses Articles 18 through 26 of the instrument [Markham, 2019, p. 21]. Article 19 permits arbitration when an aggrieved taxpayer “bring[s] an action under Article 16 of the MLI [the MAP], thus claiming that one or both of

the jurisdictions is taxing in violation of the applicable [DTA]” covered by the MLI [Morley, 2019, p. 240]. In particular, arbitration is available “where the tax authorities of the two contracting jurisdictions are unable to resolve the controversy within two years of one of several specific dates” if the party bringing the suit desires, with the arbitration to be implemented on the basis of mutual agreement [Ibid.]. There must be a pre-dispute agreement to arbitration, which means “an irrevocable agreement to arbitrate was concluded before rather than after the dispute arose,” meaning “arbitration may proceed even if one side later changes its mind and would prefer to have the dispute resolved in its own national courts” [Markham, 2019, p. 3].

Nevertheless, as J. Chaisse argued, MAPs “do not guarantee an investor can bring a case to international arbitration because arbitration is only supplementary to MAPs, and investors have to go through a lengthy process to have a case heard by an arbitration tribunal” [2016a, p. 167]. In addition, Article 19 of the MLI prescribes several cases where arbitration may not occur [Morley, 2019, pp. 240–1], and Articles 18 through 26 contain detailed rules governing the arbitration [Bacia, Toporowski, 2018, p. 393]. Parties to an arbitration under the MLI may elect between two scenarios: first, they may elect for a final offer, “in which each of the authorities in the double-taxation agreements proposes to resolve the matter, leaving the final choice to the arbitrators”; second, they may elect for an independent opinion, “in which arbitrators issue a decision based on their own independent judgment through analysis of evidence in the case” [Ibid.]. Both contracting parties must agree on the same scenario to be employed or the arbitration will not proceed. Finally, Article 21 of the MLI provides that the arbitration proceedings must be kept confidential.

The optional, consensual and supplemental nature of the arbitration provision in the MLI reflects a lack of consensus and political will amongst OECD members. Indeed, following the publication of the BEPS Action Plan, “the OECD swiftly realized that there was no consensus amongst countries on moving towards a universal mandatory binding MAP arbitration” [Markham, 2019, p. 4]. The majority of countries that were opposed, such as India, registered concern with binding arbitration on the grounds of sovereignty concerns and the need to preserve sovereignty over taxation matters [Mooij, 2019, p. 205]. Moreover, in certain cases a contracting state’s constitution or national laws may prohibit tax administrations from delegating a dispute to a foreign jurisdiction [Ibid.]. Due to a lack of consensus, the MLI’s provision on MAP arbitration is optional and applies only with the express consent of contracting parties [Markham, 2019, p. 21]. Since signatories to the MLI were not compelled to adopt mandatory arbitration under Action 15, as of 2019, only 29 of the 94 signatories to the MLI opted into the mandatory arbitration clause.

Even if a digital minimum corporate tax is fully implemented, the underlying weaknesses of enforcement provisions of the MLI threaten to undermine current efforts to eliminate corporate tax avoidance and arbitrage. As shown in statistics on pending MAP caseloads, there is a significant backlog of unresolved cases distributed unevenly by geography, suggesting that the intergovernmental approach to dispute resolution is inefficient and there are significant bureaucratic hurdles limiting its effectiveness. Furthermore, analysis of changes to the legal instrument in the form of the optional arbitration mechanism in the MLI shows that it does little to address core issues with investor standing in the process. Accordingly, the lack of progress with respect to tax dispute resolution creates powerful incentives for transnational corporations to litigate their tax disputes in alternative judicial fora in an effort to reduce their global tax burden. Therefore, if the G20 and the world’s leading powers wish to holistically address the tax challenges of digitalization, base erosion and tax arbitrage, reform of tax dispute resolution is warranted in addition to a minimum digital tax.

Tax Jurisprudence in International Investment Law

Aside from the intrinsic weakness of tax dispute resolution in the MLI, there are extrinsic threats to the prospective effectiveness of a global minimum tax in the realm of international investment law and the ISDS regime. Analysis of a growing body of tax jurisprudence litigated in the cognate regime of international investment law suggests the principle of tax sovereignty in global taxation is on a collision course with the investor protection principle in ISDS. In the 22 taxation disputes occurring within the ISDS regime considered in this article ($n = 22$), the sum total of damages awarded to investors was a staggering \$41,223,010,020.¹⁴ Notably, these tax-related cases involved transnational corporations that directly challenged a state's tax laws through BITs rather than through the MAP. As Chaisse explained, "the multiplication of tax disputes before investment tribunals represents a significant change in the landscape of international investments" [2016a, p. 164]. Determining if a tax dispute is subject to ISDS, one has to evaluate whether a given investment subject to a national tax regime constitutes a 'foreign investment' within the meaning of international law," which would in turn permit a corporate taxpayer to challenge tax administration in an alternative forum to the MAP [p. 156]. Put another way, if taxation is included in the scope of a relevant treaty, foreign investors may "challenge their host states for changes in the relevant domestic legislation that could harm their investments," and thus "a clash could emerge between the implementation of BEPS and the application of BITs that include taxation within their scope" [Chaisse, Marisi, 2016, p. 162].

Today, international investment law is comprised of a network of 3,300 treaties, most of which are bilateral, although the ISDS regime encompasses multilateral treaties as well. Examples include free trade agreements (FTAs) such as the United States-Mexico-Canada Agreement (USMCA) and the EU-Canada Comprehensive Economic and Trade Agreement (CETA), regional agreements such as the Trans-Pacific Partnership (TPP), and sectoral agreements such as the Energy Charter Treaty (ECT) [Korzun, 2017, p. 363]. Figure 11 below depicts the proliferation of BITs from 1957 to 2019. In addition to its legal foundation in BITs, regional investment agreements, and FTAs, the ISDS regime is supported by a series of international institutions and procedural arbitration rules and can be considered a form of global governance

¹⁴ Note that the following cases and dispositions were analyzed in the course of research for this article: *Perenco Ecuador Limited v The Republic of Ecuador*, ICSID Case No. ARB/08/6, *TCW Group, Inc. and Dominican Energy Holdings, L.P. v. The Dominican Republic*; *Venezuela Holdings, B.V., et al* [case formerly known as Mobil Corporation]; *Venezuela Holdings, B.V., et al. v. Bolivarian Republic of Venezuela*, ICSID Case No. ARB/07/27, *Hulley Enterprises Limited [Cyprus] v. The Russian Federation*, UNCITRAL, PCA Case No. AA 226; *Yukos Universal Limited [Isle of Man] v. The Russian Federation*, UNCITRAL, PCA Case No. AA 227; *Veteran Petroleum Limited [Cyprus] v. The Russian Federation*, UNCITRAL, PCA Case No. AA 228; *The Rompetrol Group N.V. v. Romania*, ICSID Case No. ARB/06/3, *Burlington Resources, Inc. v. Republic of Ecuador* [ICSID Case No. ARB/08/5]; *Quasar de Valores SICAV, S.A., Orgor de Valores SICAV S.A., GBI 9000 SICAV S.A. and ALOS 34 S.L. v. The Russian Federation* [SCC Case No. 24/2007]; *Jan Oostergetel and Theodora Laurentius v. The Slovak Republic, El Paso Energy International Company v. Argentine Republic* [ICSID Case No. ARB/03/15], *Señor Tza Yap Shum v. The Republic of Peru*, ICSID Case No. ARB/07/6; *Sergei Paushok, CJSC Golden East Company and CJSC Vostokneftegaz Company v. The Government of Mongolia*; *RosInvestCo UK Ltd. v. The Russian Federation* [SCC Case No. 079/2005]; *EDF [Services] Limited v. Republic of Romania* [ICSID Case No. ARB/05/13]; *Corn Products International, Inc. v. United Mexican States* [ICSID Case No. ARB(AF)/04/11]; *Limited Liability Company Amto v. Ukraine* [SCC Case No. 080/2005]; *Tokios Tokelés v. Ukraine* [ICSID Case No. ARB/02/18]; *Enron Creditors Recovery Corporation [formerly Enron Corporation] and Ponderosa Assets, L.P. v. Argentine Republic* [ICSID Case No. ARB/01/3]; *EnCana Corporation v. Republic of Ecuador* [LCIA Case No. UN3481]; *Marvin Roy Feldman Karpa v. United Mexican States* [ICSID Case No. ARB(AF)/99/11]; *Link-Trading Joint Stock Company v. Department for Customs Control of the Republic of Moldova*; *Antoine Goetz and others v. Republic of Burundi* [I] [ICSID Case No. ARB/95/3]. All cases are available at UNCTAD [n. d.].

[Koivusalo, 2019, p. 112–4]. The World Bank established the International Centre for Settlement of Investment Disputes (ICSID) in 1966 following the Convention on the Settlement of Investment Disputes between States and Nationals of Other States signed in 1965, which has since been ratified by 154 states.

The ICSID is a key forum for the settlement of investment disputes between host states and investors [Islam, 2018, p. 2]. Many investment agreements may rely on the United Nations Commission on International Trade Law (UNCITRAL) rules to govern the disposition of their claim, while others may rely on the rules of commercial arbitration promulgated by the London Court of International Arbitration (LCIA) or the International Chamber of Commerce (ICC) [Ibid.]. Although not all claims brought under the ISDS regime are publicly disclosed, the available evidence collected by the United Nations Conference on Trade and Investment (UNCTAD) in Figure 12 below shows that at 36%, the plurality of claims are decided in favour of the state, 30% are decided in favour of the investor and 21% of cases are settled, with the remainder either discontinued, settled or decided in favour of neither party. Compared to the MAP, the disposition of ISDS cases suggests that binding arbitration proceedings may be more efficient than intergovernmental negotiation over tax jurisdiction.

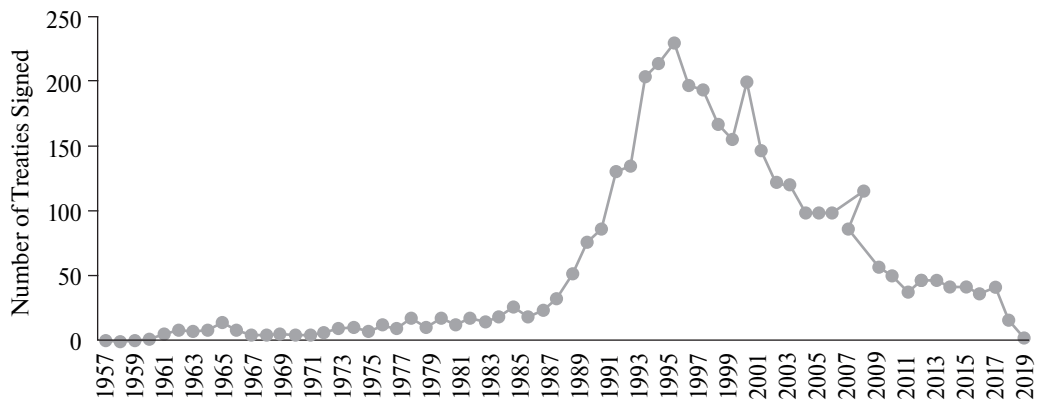


Fig. 11. Number of Bilateral Investment Treaties (BITs) Signed (1957–2020)

Source: [UNCTAD, n. d.]

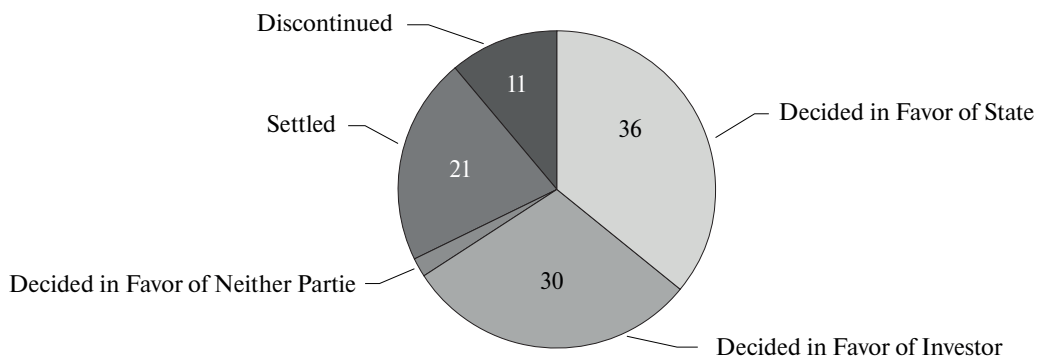


Fig. 12. Disposition of Public ISDS Cases

Source: [UNCTAD, n. d.]

The key legal objective of ISDS is to promote foreign investor protection and to provide investors with certainty that the value of their investment will not be diminished as a result of government intervention. ISDS strives to ensure a stable and predictable environment by ensuring there is access to arbitration if a state breaches its obligations under a BIT or other investment agreement [Chaisse, 2016a, p. 152]. The four principal investor protection obligations imposed on the state in ISDS relate to non-discrimination, fair and equitable treatment (FET), protection from direct and indirect expropriation, and full protection and security (FPS). ISDS is ultimately concerned with the protection of the international investor's private property rights, and it does so by signalling the state's credible commitment to binding dispute resolution in an international convention that provides remedies where investor rights have been breached.

ISDS and tax governance are engaged in a conflict of norms that have practical implications for both legal regimes and international business. As Chaisse argued, "tax treaty and international investment law *prima facie* appear to be two different worlds and two different legal regimes," yet "they largely overlap, as evidenced by the rising number of cases brought before investment tribunals related to tax disputes" [2016b, p. III]. To understand why, consider how tax law thus interacts with investment: the prospect of double taxation can impact the choice of an investment host, transfer pricing rules can increase costs of compliance, tax may create a climate of uncertainty, and exit taxes levied on profit distort the global allocation of capital and labour [Chaisse, Marisi, 2017]. Thus, to attract foreign direct investment (FDI), states will provide foreign investors with tax relief and other incentives to attract capital [Owens, Zhan, 2018, p. 1]. Since host states often provide preferential tax regimes to attract international investment, and corporations can challenge subsequent changes to those preferential regimes, and thus bring taxation measures within the remit of ISDS [Haufler, Mardan, Schidler, 2018, p. 25].

The conflict of norms between ISDS and tax sovereignty reveals a core tension between the investor protection objective, on the one hand, and the state's right to regulate in the public interest, on the other. Investor protection calls for legal certainty and imposes obligations on states not to discriminate, expropriate or violate other broad standards without incurring a liability. In the domestic political context, regulation can be understood broadly as "any act of the legislature, public administration, or courts that is an exercise of the regulatory or police power of the state" [Korzun, 2017, p. 373]. Internationally, "the expression of the right to regulate [is] that a state may enter into international investment treaties and, in doing so, undertake investor protection obligations" [Ibid.]. A core issue is thus whether ISDS conflicts with the legitimate welfare objectives of domestic tax sovereignty among other regulatory areas, and if so, whether it risks a "regulatory chill" effect that harms the public interest. To critically evaluate this tension and its implication for both regimes, this article considers tax dispute jurisprudence under the ISDS regime in the context of indirect expropriation claims and the FET standard, which are universally worded clauses in the BIT network and other investment treaties. Under both standards, arbitrators are tasked with balancing the narrow objective of investor protection with the domestic objective of public policy and regulation concerned with promoting the general welfare [Hepburn, 2017, p. 6].

Expropriation

Of the 22 cases analyzed for this study, 20 cases, or 91% overall, contained investor claims of direct and indirect government expropriation of the underlying value of their investment, and it is the most often claimed provision overall. In the disposition of the cases, overall tribunals found a total of 41% in favour of expropriation claims, being nine cases total. There are two main types of expropriation claimed in ISDS: direct and indirect expropriation. Whereas di-

rect expropriation contemplates the seizure and nationalization of an investor's assets, indirect expropriation refers to "government actions that have a substantial adverse impact on a firm without nationalizing a firm outright," which, given the broad language used to draft the clause, "is difficult to define precisely ... in practice ... in particular since the law does not prevent a government from rightful regulation" [Eckhard, 2018, p. 1173]. Indeed, examining the jurisprudential record, scholars note the "debate has shifted to the application of indirect expropriation to regulatory purposes aimed at protecting the environment, health, and other welfare interests of society" since government policy and actions can affect a compensable "taking" from investors [Yannaca-Small, 2010, p. 446].

The prohibition on indirect expropriation exists "to provide a guaranteed, absolute minimum standard of protection regardless of the standards that might be contained in domestic law" [Hepburn, 2017, p. 61]. As extant case law suggests, once there is a finding of expropriation, other conditions – such as the public purpose animating the impugned measure, whether the action was non-discriminatory and whether it followed the due process of domestic law – are largely irrelevant to the juridical analysis [Ibid.] As a consequence, J. Hepburn [Ibid., p. 7] noted that "many states and their citizens already feel slighted by the perceived disregard of their interests and circumstances." In this vein, V. Korzun added that "the reputation of investor-state dispute settlement (ISDS) has suffered a heavy blow in recent years" [2017, p. 357]. Given the prominence of expropriation claims in the cases examined and their relatively high success rate of 41%, there is clear evidence of a growth of tax-related cases in ISDS, as well as emergent legal avenues for transnational corporations to effectively challenge states' sovereign tax prerogative.

Fair and Equitable Treatment Standard

Of the 22 cases analyzed for the study, 15 cases, or 68% overall, contained investor claims of a violation of the FET standard, and it is the second most often claimed provision overall in the data set. In the disposition of the cases, overall tribunals found a total of 23% in favour of FET claims, five cases in total, rendering it the second highest claim accepted by arbitral tribunals. FET clauses are found in the majority of BITs and other investment agreements, and provide that states must treat investors in a fair and equitable manner according to a minimum standard of treatment in customary international law.

FET clauses are worded very generally and are typically vague, leading to a range of interpretations by arbitral tribunals and a lack of precedent. The broad and open-ended construction of FET has led it to become one of "the most contentious issues in the field" in jurisprudence, aided by the fact that "the FET standard serves as a core [if not *the* core] protection instrument foreign investors," and the language of the FET standard promulgated in the majority are so similar that scholars argue "there is an overarching and singular concept of FET" [Islam, 2018, p. 20]. From the investor perspective, the FET clause is intended to protect legitimate expectations when investing in host countries. From the state perspective, the FET standard, like expropriation clauses, may conflict with the state's right to regulate as a function of the expression of its police powers.

Conflict of Norms Between ISDS and Tax Governance

Given the investment protections afforded by the ISDS network of treaties and the coordinated tax law changes produced by BEPS, scholars think it is possible there could be a tidal wave of investment arbitration concerning domestic tax law and policy. Other scholars forecast a "per-

fect storm” of international tax disputes pursued under ISDS because of “untested international tax rules, inconsistent implementation and interpretation in different jurisdictions, increased information sharing, and a drive to raise revenues” [Duffy, Bailey, 2017]. From the investor perspective, there is a lack of certainty in the MLI concerning cross-border disputes and the prospect of unresolved double taxation cases [Owens, Zhan, 2018, p. 4]. What is more, there has been a “dramatic surge” of investment disputes in the area of tax, which is “contributing to the formation of a jurisprudence that is elucidating the meaning of key provisions and contributing to the emergence of global economic regulation for tax matters” [Chaisse, 2016a, p. 149].

Although the vast majority of BITs can be used to challenge national tax law and regulation, not all BITs exercise jurisdiction over questions of national fiscal policy. While there are many BITs that include tax within their investment protection jurisdiction, many model and actual BITs contain exclusions, exceptions, vetoes and other clauses that address the conflict of norms with tax governance. For example, Article 2103.1 of the NAFTA provides that “except as set out in this Article, nothing in this agreement shall apply to tax measures” [Chaisse, 2016a, p. 162]. The 2007 French Model BIT stipulates that “the provisions of this article [national treatment and most favoured nation] do not apply to tax matters” [p. 163]. Similarly, the 2007 German Model Treaty specifies that “the treatment granted under this Article shall not relate to advantages with either Contracting States’ accords to investors of third States by virtue of a double taxation agreement or other agreement regarding matters of taxation” [Ibid., p. 163]. Article 21 of the 2012 United States Model BIT provides that nothing “shall impose obligations to tax measures” generally, although it provides that expropriation claims may be brought only after the claimant has referred the matter to competent tax authorities under tax governance.

Even if a global digital minimum tax is agreed and implemented, the conflict of norms between tax and investment law highlights a fundamental flaw in the contemporary approach to tax governance reform. Due to the complexity of the BIT network and the lack of double taxation carve-outs, the global minimum tax and other BEPS-related reforms are vulnerable to litigation on the grounds of the investor protection principle contained in BITs, and therefore tax base erosion and corporate tax arbitrage. Given the practical implications of this conflict of norms as borne out in the tax jurisprudence surveyed in this study, in addition to strengthening tax dispute resolution under the MLI, U.S. leadership and global policymakers ought to reform the BIT network to address double taxation loopholes.

Conclusion

This article has argued that G20 states’ compliance with a prospective global minimum corporate tax rate of 21% will be high based on their past performance and the distribution of relative capabilities in the international system, but it will not go far enough. Recent reforms to the global tax dispute resolution mechanisms of the MLI failed to address the substantive deficiencies in the current MAP, which is the cornerstone of state-to-state tax dispute resolution. In particular, the MAP remains deficient given the lack of binding arbitration, the lack of formal taxpayer standing in the legal process, the bureaucratic inefficiency of the intergovernmental procedure itself, evidence of backlogged cases, and most critically, the ability for multinational corporations to challenge the implementation of BEPS and a digital tax given loopholes in the related regime of international investment law.

Therefore, to advance a new paradigm of tax governance, policymakers should consider more than adding mandatory arbitration to the current MAP. There is in fact a growing number of tax cases in which private corporations challenge the tax laws of sovereign states, which indicates a conflict of norms between the international tax and investment regimes that has practi-

cal implications for the implementation of a global minimum tax and other BEPS objectives. Put simply, U.S. leaders and global policymakers must address the conflict of norms between tax sovereignty and investor protection and the interaction of tax law with the ISDS regime if BEPS 2.0 is to work.

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Between Hyperglobalization and National Policy. Is There a Way to Mitigate Populist Risks for Global Economic Governance in the Post-COVID-19 World?

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Abstract

Some scholars of global governance advocate rebalancing from global to national governance. They underline the incompatibility of global economic governance with democracies, which have the right to protect their social arrangements. They discern the fact that global (economic) governance is under heavy fire from a new vox populi, underscoring the socio-economic and cultural sources of their resentment and opposition to the liberal international order. While pointing at the timeliness of such argumentation, this article examines the fundamental problem with a sovereignty-related solution to the populist challenge. It lies in the fact that reconstituting global economic steering with a stronger emphasis on sovereignty may open the door for pursuing distinct national policies, which have blossomed during the COVID-19 pandemic and which not only overlap with populism but dismantle the benefits of international cooperation in the post-COVID-19 world. By asking about the role of the fragmented system of economic governance in inspiring populist resentment, this article creates an opportunity not only to address the challenges to global economic governance, but more specifically to reflect upon: the justification of decisive shifts toward national governance; risks which remain hidden for those discontented with economic globalization; and drafting an alternative solution, namely taking the middle way between hyper globalization and a more national policy.

Key words: global economic governance; integral governance; fragmentation; digitalization; sovereignty; populism; WTO; G20

For citation: Rewizorski M. (2021). Between Hyperglobalization and National Policy. Is There a Way to Mitigate Populist Risks for Global Economic Governance in the Post-COVID-19 World? *International Organisations Research Journal*, vol. 16, no 2, pp. 132–156 (in English). DOI: 10.17323/1996-7845-2021-02-07

Introduction

Global governance is a concept that has travelled a long way from initially denoting “virtually anything” [Finkelstein, 1995] to a perspective on world politics [Dingwerth, Pattberg, 2006]. Its fundamentals leave the traditional tenets and perceptions of power relations behind and accentuate various forms of steering beyond states. They include divergent norms, regimes, organizations, transnational and advocacy networks, and communities of practice which, given no single organizing principle on global governance, rest on numerous mechanisms, practices and codes reflecting the heterogeneity of the international community [Adler, 2008; Keck, Sikkink, 1999]. One such mechanism is global economic governance (GEG) which, both in its political and economic dimensions, resembles a normative framework set up by state and non-state ac-

tors to “[p]romote cross-border co-ordination and co-operation in the provision or exchange of goods, money, services and technical expertise in defined issue areas of the world economy” [Moschella, Weaver, 2014, p. 4]. This framework is considered highly insufficient and unreliable in the context of the “messy” multilateralism of the recurrent crisis era and the related uncertainty as to the direction, speed, intensity and nature of changes which leave decision makers helpless. Not only does the structure of global governance remain an open question, but also the characterization of its institutions is blurred by the absence of a common analytical perspective and lack of consensus as to the ontological form and nature of governing without government. The most widespread perception of global governance and its institutions (norms, regimes and organizations) in political science is that of fragmented governance [Biermann et al., 2009], divided amongst largely intergovernmental clusters of cooperation with sets of patterns of behaviour and practice which contrast with one another (cooperation vs. competition, functionality vs. dysfunctionality or connectivity vs. disconnectivity). This approach to global governance is rooted in regime theory, which sees the essential feature of regimes in the conjunction of convergent expectations and patterns of behaviour or practice. Supporters of a different approach to global governance characterize it as a system that is polycentric [Jordan et al., 2018] or complex [Orsini et al., 2019]. While polycentrists question the fragmentationist perspective of constructing integrated regimes and underline the value of relatively decentralized systems, the supporters of the complex systems approach underscore the value of autopoietic, self-reproducing and self-maintaining systems consisting of many parts (or cogs in a cog-wheel), which coordinate and adapt their behaviour without any overarching authority.

The above characterization of fragmented global economic governance, full of inconsistencies and contrasting patterns of functionality and dysfunctionality, serves as a point of departure in this article. By asking whether there is a way to mitigate populist risks for global economic governance in the post-COVID-19 world, this article examines the proposal of building resilient global economic governance from the bottom up (national level), and thus escaping the conflictive fragmentation of global steering toward more domestic and sovereignty-based solutions. It underlines the arguments of the research community that supports the “global to national” approach and claims that it might seem reasonable and good for democracies haunted by the uncompensated adjustment costs and redistributive effects of economic globalization. However, the examples discussed below of the downplaying of the consequences of the COVID-19 pandemic by populist leaders, or assuming illiberal legislation that hinders the coordinated action needed to confront economic and financial slumps, may water down this argumentation. These findings lead to a “national to integral” solution manifested by the combination of sound domestic policies and enhanced international cooperation.

The article starts with the observation of the blurriness of global economic governance and showcases the fragmentation and fuzziness of economic steering exemplified by the inconsistencies of the global trade regime. Then, building on previous studies [Cox, 1994; Rodrik, 2011], it emphasizes the downsides of hyperglobalization and inconsistencies of global economic governance underscored by some academics, notably D. Rodrik, who indicates the incompatibility of global economic governance, perceived as the ultimate framework for economic globalization, with democracies, which have the right to protect their social arrangements. It discusses a proposal for reconstituting economic globalization with a stronger emphasis on sovereignty that may open the door for pursuing distinct national policies and mitigate populist resentment and opposition to global economic steering. It also reflects on the risks of the above-mentioned proposal and, by building on an ideational approach to populism [Mudde, 2004], shows how pursuing distinct national policies blooming in the times of the COVID-19 pandemic may dismantle the benefits of international institutional cooperation in the post-COVID-19 world in-

stead of working as an effective vaccine against the current economic and political malaise. The article then outlines an alternative way of mitigating tension between hyperglobalization and national policy, suggesting a shift from national to integral governance. The conclusion summarizes the observations and calls for further research.

The Blurred Horizon of Global Economic Governance

The global economic governance framework is widely perceived as an imperfect ideational construct. This is due to the fact that it is affected by chaotic multilateralism, fragmentation, uncertainty and the competing narratives of East vs. West, and North vs. South, where the end of history was denied by recurring crises, the relative decline of established powers, the emergence of new hubs of economic influence and the multiplication of challenges which have not been properly addressed by policy- and decision makers. Even naming them all is a hopeless task, as new ones constantly enter the stage. It is beyond doubt, however, that the future of GEG and its architecture seems to be shaped by the need to address challenges, both old and new, such as the stalled Doha negotiations, the surge of populism and renunciation of “unfair” macroeconomic policies by the public, new policies affecting the operation of global value chains (GVCs), digital trade, the global infrastructure gap, volatility in global commodity prices and, finally, disenchantment with western models of development and aid, which called into question many of the solutions worked out during the era of the Washington Consensus.

To date, we can distinguish at least three main sources of the fragility of global economic governance. The first is denoted by diffusion of power. In the current phase of globalization, dubbed by K. Schwab the “fourth industrial revolution” (4IR) [Schwab, 2016], new technological breakthroughs (digitalization, the cloud, artificial intelligence (AI)/robotics, 3D printing and 5G/Internet of Things) coincide with the rapid emergence of ecological constraints, the advent of an increasingly multipolar international order and rising inequality [Deaton, 2013; Held, 2018; Pikkety, Saez, 2003; Pikkety, 2014]. More evident than in the last quarter of the twentieth century is the transfer of power from developed countries to emerging economies, accompanied by rapid expansion of non-state actors such as global corporations [Dicken, 2015], civil society and non-governmental organizations (NGOs) [Scholte, 2011] or credit rating agencies [Sinclair, 2005], to name but a few. This process leads to the emergence of several issues, such as: the proliferation of non-territorial entities that may increase barriers to international cooperation, which can further contribute to increasing transaction costs of negotiated agreements; a focus by cost reduction-driven governments on increasing participation in these institutions and pushing for changing the model of governance, which casts doubts on matters of fairness (fair distribution of benefits); and an increasing number of states that are considered prominent in various fields of international cooperation, which may reduce the chances of a reconciliation of interests and the achievement of compromise and cooperation.

A second source of the malaise of global economic governance is a process described by J. Rosenau [1997] as “intermestication,” that is, a blurring of boundaries between what is “internal” and “external” that is reflected in the consequences of decisions that seemingly fit into the logic of intra-regulation. This grand mismatch of unresolved issues is evidenced virtually everywhere. The Turkish government’s decisions affect the increasing or decreasing migration pressures in Europe and at the same time raise questions about the sense of security of Europeans. Increasing subsidies for French farmers under the Common Agricultural Policy

(CAP) deeply affect the cultivation of barley in Morocco. U.S. firms moving production out of China and the U.S. government imposing restrictions on technology, trade and investment from China have a disruptive impact on the global trade regime, as well as accelerating Beijing's response, "Made in China 2025" [Springborg, 2018]. The latter is a state-led industrial policy that seeks to make China dominant in global high-tech manufacturing, localize technology supply chains and, through a combination of government subsidies and intellectual property acquisitions, facilitate catching up with – and possibly surpassing – western technological superiority in advanced industries.

A third source of GEG blurriness is the combination of the high volatility of institutional patterns involving diverse actors of global governance and the fragmentation of many policy fields. The latter is marked by a patchwork of international institutions that are different in their constitution (organizations, regimes, norms), constituencies (public and private), spatial scope (bilateral, regional and global) and their agenda (from narrow to broad). The above-mentioned institutional patterns resemble the type of network equilibrium points set under certain conditions in order to meet the emerging needs of the time, reflecting the balance of power and interests. Over time, changes in the conditions in which international institutions operate cause a mismatch between their resources and declared objectives and the new environment in which they operate. As a result, they become less effective. The emergence of crises, such as the Great Lockdown compelled by the spread of the COVID-19 pandemic, Brexit or the 2008+ sovereign debt crisis, leads to a weakening of some institutions (as the examples of the European Union (EU) or Group of 7 (G7) show) or the disappearance of worn-out mechanisms (for example, the Council for Mutual Economic Assistance – COMECON), to be replaced with new ones (such as the Group of 20 (G20) and the BRICS grouping of Brazil, Russia, India, China and South Africa) better adapted to the new operating conditions, but without any guarantee of their long-term utility [cf. Cooper, Thakur, 2018; Kirton, 2013; Stuenkel, 2015]. The proliferation of various GEG actors (some of which are private) has brought both benefits and losses. On the one hand, the more intensive competition between divergent actors makes it possible to address major cross-border problems effectively [Boot et al., 2006]. On the other hand, constantly extended regulatory mechanisms have led to a race to the bottom. What is more, many actors of global governance often act in the same areas, thereby duplicating their activity and wasting resources, which de facto leads to rising transaction costs of drafted agreements (for example, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), which partly overlap in terms of subject matter and members).

The above-mentioned fragmentation of global economic governance is particularly notable in the global trade regime. The latter can be described as a set of implicit or explicit principles, norms, rules and decision-making procedures around which expectations converge in the area of international trade (for more on international regimes see S. Krasner [1983]). Building on the framework of governance architecture fragmentation proposed by F. Biermann et al. [2009], we can distinguish three main forms of fragmentation: synergistic, cooperative and conflictive. The main differences between them result from applying a set of differentiation criteria, namely the degree of institutional integration and degree of overlap between decision-making systems, the existence and degree of norm conflicts and, finally, the type of actor assemblages. Adjusting this framework to the global level of analysis makes it possible to conceive of the global trade regime with its core institution – the World Trade Organization (WTO) – as an example of a "space" of conflicting fragmentation.

Table 1. Typology of Fragmentation of Global Regimes

Type/Criterion	Synergistic	Cooperative	Conflictive
Support for institutional integration	One core institution is closely integrated with companion institutions. They all support the regime	Core institution or several main institutions with their companions are loosely integrated. Major regime foundations are supported	Different, largely unrelated institutions with a poor level of integration and support for the regime
Integration with principles, norms, rules and decision-making procedures	Principles, norms, rules and decision-making are integrated and overseen by core institution	Principles, norms, rules and decision-making are loosely integrated, not conflicting and in most cases overseen by core institution	Principles, norms, rules and decision-making are questioned and conflictive
Actor assemblages	All important actors support the same institutions	There are insiders supporting main institutions and others who remain outside the regime	Major actors support different institutional designs

While meeting the first criterion of cooperative fragmentation, in the second and third criterion the global trade regime is a decidedly conflictive space where principles, norms, rules and decision-making are questioned and where stakeholders of the regime support an alternative institutional design compared to the non-discriminatory multilateral trade system based on the most favoured nation clause (MFN) and the national treatment clause. This assumption corresponds with the shrinking capacity of the WTO to deliver as the core organization and overseer of the multilateral trading system. The latter excels in carrying out four functions, namely, acting as a code of conduct for trade policy, administrating the dispute settlement mechanism, providing multilateral surveillance of trade policies, and serving as a forum for negotiations that seeks to ensure progress on trade liberalization through successive rounds of trade negotiations [Hoekman, Kostecki, 2001].

Let us note that the rule-based trade system symbolized by the unconditional MFN clause is incrementally being replaced by discriminatory trade liberalization based on the preferential trade agreements which have been initiated after the completion of the General Agreement on Tariffs and Trade (GATT) Uruguay Round, and which accelerated in June 2006 when the Doha Round negotiations were suspended [Wróbel, 2017]. Despite a later return to multilateral negotiations, this trend continued, deepening the crisis of the WTO as a negotiating forum. According to WTO data, in October 2020 there were 306 preferential trade agreements (PTAs) in force, of which 132 were goods-related, two were services-related and 156 covered both goods and services, compared to 154 PTAs in 2006 [WTO, 2020].¹ The trend toward bypassing the tenets of a non-discriminatory trading system indicates negotiation fatigue, or at least doubts as to whether the goals of multilateral negotiations are achievable. WTO members are rejecting the “single undertaking principle” (nothing is agreed unless everything is agreed) [Wolfe, 2009] and opting for an à la carte WTO (allowing them to focus on selected issues during negotiations) or a menu de jour, whereby groups or clubs of states enter into preferential trade agreements or plurilateral agreements [Hoekman, Mavroidis, 2015]. These forms of discriminatory liberalization of trade allow them to overcome gridlocks in trade negotiations. More importantly, they

¹ The number of active preferential trade agreements is calculated according to WTO data contained in the Regional Trade Agreements Information System (RTA-IS) including WTO notified trade agreements.

make room for a possible shift toward market-driven regionalization, evident in shorter, more local and regional value chains and proliferating regional and intra-regional trade agreements clustered around three regions: Asia, Europe and North America. This notion is underscored by data published by the Asian Development Bank indicating a high volume of intra-regional trade in Asia, which increased from an average of 55.9% during 2010–15 to 57.8% in 2017, thus being similar to the intra-regional trade share in the EU (63.8%) and significantly surpassing the volume of intra-regional trade in North America (40.7%) [ADB, 2018, p. 22].

Discriminatory trade liberalization accelerated by mega regional trade agreements² and dependency of global value chains on a handful of suppliers, exerts a powerful, albeit not always beneficial, impact on both emerging and advanced economies. R. Baldwin and E. Tomiura [2020] investigated the trade impact of COVID-19 and indicated the possibility of “supply chain contagion,” that is, direct supply disruptions hindering production in major manufacturing centres of global value chains (Japan, Korea, Taiwan, China, the U.S. and Germany) which economically hard-hit most states – even those that are much less touched by the pandemic. The size of their gross domestic product (GDP), cumulative share in world manufacturing and exports, and trade linkages with other countries contributed to a fall in the volume of world mercantile trade forecast at approximately 9.2% in 2020 [WTO, 2020]. The economic crisis resulted not only from the supply disruption brought by a number of COVID-preventative policies that slowed manufacturing in major GVC countries in Asia, Europe and North America, but also was triggered by demand shock, the rise of economic nationalism, and protectionism. The latter may be further intensified by discriminatory trade arrangements, which American economist J. Bagwath [2008] compared to termites undermining free trade.

Perhaps risks of conflictive fragmentation, discriminatory treatment and protectionism are most discernible with regard to technology trends reshaping trade. The case of its digitalization is particularly interesting, as digital commerce already accounts for roughly 20% of global trade and is projected to increase to 25% by 2025 [Manyika et al., 2018]. Despite its potential, this virtual economic space is drastically underregulated and has divided regional regimes, which are constantly competing and undermining each other. Balkanized [Alves Jr., 2014] digital trade and, more broadly, the digital economy may be defined as uncharted territories, with a system of governance in which states seek to assert or even impose their rules on a politically, technically and legally supervised cyberspace, while giant global corporations, most frequently acronymized as GAFAM (Google, Apple, Facebook, Amazon and Microsoft), strive to defy any form of state-controlling power.

The conflict between public and private stakeholders of a balkanized Internet governance stems from the lack of an Internet regime with a core overseer organization and a fundamental clash between two visions of (digital) sovereignty. At present, the model of Internet governance is based on a multi-stakeholder model involving states, companies, civil society and organizations³ dominated by the U.S., traditionally perceived as the guarantor of a decentralized Internet. This system is contested by major G20 emerging powers, with China, Russia and Saudi Arabia proclaiming the doctrine of “Internet sovereignty,” framed as a sovereign right to

² Examples of mega regional trade agreements include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which evolved from the Trans-Pacific Partnership after withdrawal of the U.S. in January 2017, and the Regional Comprehensive Economic Partnership (RCEP), signed on 15 November 2020 by 15 countries (China, members of the Association of Southeast Asian Nations (ASEAN) and four middle powers – Japan, Korea, Australia and New Zealand) and accounting for about 30% of global GDP and 30% of the world's population.

³ Its technical organization is based on the Internet Corporation for Assigned Names and Numbers (ICANN) and Internet Engineering Task Force (IETF), responsible for network protocols, and the World Wide Web Consortium (W3C), focused on web standards.

regulate the national segment of the Internet [Gueham, 2017]. These countries, together with other emerging economies, such as Brazil, India and Indonesia, adopt restrictive digital policies that imperil global digital trade and data services. One example is the Chinese policy, which predominantly hits U.S. companies by restricting the digital presence of high-tech U.S. companies, such as Apple or LinkedIn [Beattie, 2018] and by contributing to “digital protectionism” (for example, localization of data requirements, forced transfer of source codes, restriction of global commercial data flows, and/or cloud ownership), which is a fertile ground for further fragmentation of Internet governance.

Conflictive fragmentation of Internet governance, which impedes digital commerce, is paired with the fundamental disagreement between sovereign states and transnational corporations as to the very nature of sovereignty in cyberspace. While states refer to a concept of (national) sovereignty that is a pre-modern, Westphalian institution representing a form of legitimate, controlling power exercised by a state on its territory and the resources that are found in it, dominant high-tech companies accentuate a post-modern, and post-Westphalian, concept of corporate digital sovereignty as a form of controlling power based on corporate self-regulation and resistance against any forms of legislative intervention and regulation. In other words, Internet governance, digital economy and commerce are restrained by a clash between the poetic (creative) and anti-poietic (regulatory) visions of cyberspace [Floridi, 2020]. While private stakeholders tend to underscore the laissez-faire approach and the value of market-based equilibria by designing, producing, selling and maintaining control over the digital, states – as public stakeholders of Internet governance – take defensive positions, attempting to regulate the digital and thus upgrade power over resources stemming from the traditional perception of sovereignty to a “sovereignty+” form of cybernetic control over data as a new political and economic commodity. Their ultimate goal is to guarantee and petrify the power of determining which behaviours are legal (and expected) and which are forbidden when it comes to any forms of economic activities, such as taxing digital commerce, regulating public procurement or demanding compliance with national regulations. The case of state control over private stakeholders in the digital space has been evident for the last decade, since P. Bellanger, the CEO of French radio station Skyrock, made an initial attempt to define digital sovereignty in 2011 as: “control of our present and destiny as manifested and guided by the use of technology and computer networks” [2011]. The recent example of the EU’s General Data Protection Regulation (GDPR), implemented in 2018 as a regulatory mechanism creating a global standard that safeguards privacy while not curbing commerce and as a European response to cybersecurity risks stemming from over-reliance on Chinese 5G infrastructure and GAFAM’s control over online users’ data, suggests that digital sovereignty is highly politicized and securitized. This notion has been substantiated during the economic fallout caused by the consequences of the COVID-19 pandemic. The technological choices of the biggest tech companies (such as Apple or Microsoft) may frustrate the majority of states able to design their own solutions (such as “Stop COVID” in France) and fuel the quest for digital sovereignty. Therefore, in a post-coronavirus world, where the role of technology will be rising, one of the main challenges for the policymakers will be finding the right balance between control (which is not synonymous with surveillance) and privacy rights.

From Global to National Governance

Observations of blurriness of global economic governance, its fragmentation and the dysfunctionality of economic steering invite academics to ponder the consequences of the incompatibility of the default economic framework, perceived as the ultimate framework for economic globalization, with democracies, which have the right to protect their social arrangements.

They discern that global (economic) governance is under heavy fire from a new vox populi underscoring the cultural and socio-economic sources of their resentment and opposition to the liberal international order. The latter is challenged by populism, most commonly interpreted as an ideology, and characterized by the moral and Manichean distinction between “the people” and “the other” and the conviction that politics is about respecting sovereignty at any cost [Mudde, 2004; Mudde, Rovira Kaltwasser, 2018]. As noted by C. Mudde and C. Rovira Kaltwasser [2012], populism with a strong anti-elitist angle can lead to the marginalization of specific groups of society and weakening of political institutions, culminating in the undermining of minority rights and protections. In a similar vein, D. Rodrik [2018] suggested that the populist backlash against political elites and globalization can intensify the formation of new political rifts, deter or prevent compromises, or undermine the legitimacy or power of political institutions. In his view, populists may target liberal democracy and the established international order in two ways. One is that populist leaders can mobilize “the people” along ethno-national/cultural lines when the globalization shock becomes felt in the form of immigration and refugees [Ibid., p. 2]. This shock effect is exemplified by the political practice in Hungary, where the formerly conservative mainstream political party, Fidesz, has targeted liberal, non-traditional social values, as well as “delocalized” elites (judges, journalist, academics) as representing the vanguard of pro-globalization forces that are detached from the homeland rhetoric [cf. Krekó et al., 2018]. J.-W. Müller [2016] shared a similar view and argued that what can help populists is a “culture war” instigated in a certain country. It makes it possible for supporters of populists to confirm their belief that they are “the real people” and that those on the other side of the “war” do not truly belong and/or are fundamentally immoral. The second way of playing on resentment is to mobilize supporters along income/social class borders, where the globalization shock is rooted in the transformation of international trade and finance, becoming apparent to the poorer social strata of western countries [Autor et al., 2013; Pierce, Schott, 2012]. Indeed, there is a widespread view that the effects of globalization, including unfair international trade, capital mobility and recurring economic and financial crises, may lead to increased unemployment, reduced wages, stalling growth rates, and deprivation, which stirs dissatisfaction and radicalization [Funke et al., 2016].⁴

The economic sources of populist resentment and opposition to liberal economics and globalization are discernible in specific populist agendas targeting globalization as a “thick” ideology, weakening states, undermining sovereignty and democracy, eroding international co-operation regulatory mechanisms and misleading “the people” with the empty promises of the elitist framework of global economic governance. Rodrik, known for his critical approach to deeper economic integration, called global governance a “false promise” [2017, p. 206] arguing that civil society is national, and so are states, and the world economy should be cured at the domestic level where most of the failures of global trade and finance are born. While seeking the major drivers of the rise of populism in the uncompensated adjustment costs and redistributive effects of economic globalization, Rodrik fleshed out the matter of inequalities and sovereignty being restricted by the “dark spectre” of globalization, represented by the transnational bureau-

⁴ However, not for all social scientists are economic circumstances the key variable that explains the emergence of an international wave of populist politics. R. Eatwell and M. Goodwin, instead of exploring financial crises or differences in socio-economic status as the main causes for populism, looked into identity politics and underscored the importance of the “four Ds” which empower national populism. The first is “distrust” (or low trust) in the political establishment. Second is the “destruction” of long-held notions of communal identity, which are gradually replaced by patterns of unfettered globalization. The third “D” is “deprivation” originating from rising inequalities and deepening of cleavages between “haves and have-nots.” The last “D” Eatwell and Goodwin identified as “de-alignment.” Here they accentuated the phenomenon of dislocation between personal identity and specific political parties or brands. See R. Eatwell and M. Goodwin [2018].

cratic and business elite, operating above heads of states. His reflection is reminiscent of the ideas of the school of critical theory in International Relations [cf. Moolakkattu, 2009], which focused on the emergence of hubs of governance that combine inter- and transnational regulations and public-private regimes with forms of private governance and self-regulation, constituting a new form of global polity [Cox, 1994]. R. W. Cox named these new structures “global nebula.” A similar view was expressed by S. Strange, the grande dame of international political economy, who observed that both formal and informal entities that enjoy a considerable scope of autonomy, and have assets at their disposal, can play the role of originators of ideas. Such ideas are subsequently propagated as mental constructions by the highest echelons of state officers, executives in international businesses, specialists and experts sitting on working groups, meeting at conferences and forming epistemic communities [1996, p. 62].

Both Cox and Rodrik, in their broad views on economic globalization, accurately point out the risk of pushing globalization to socially unacceptable limits in developed societies, dubbed “hyperliberalism” [Cox, Sinclair, 1996] or “hyperglobalization” [Rodrik, 2011]. Cox looked at hyperliberalism as the fundamental transformation of the neoliberal form of state into its excessive, hyperliberal version, materialized as an effect of denouncing the contract worked out with capital and labour during the post-war economic boom. Prepared and introduced by the collective effort of the government-business, or “global nebula,” alliance, it rules out corporate-type solutions like negotiated wages and price policies and relegates employment and welfare commitments to a lower league. The restructuring of production leads to accentuating segmentation and division within the working class (for example, between migrant workers and local established workers) and juxtaposing the “haves” and “have-nots.” It also greatly expands the list of disadvantaged and excluded groups experiencing hardships, from the unemployed, as direct welfare recipients, through farmers and small businesses to workers in sensitive industries, such as textiles, automobiles, steel or shipbuilding, all thrust into precarious conditions due to reduced real wages and temporary contracts. Socio-economic populists master the use of the capital of social frustration that has been accumulated over many years and politically mobilize a disenfranchised majority against a small majority (or the elite) and their hyperliberalist policy orthodoxy [Cox, 1996]. This opposition between excluded and included groups of society, and the process of storing up the capital of resentment and social anger, is discernible, particularly in western societies, along income/social class lines, as illustrated by American political scientist I. Bremmer [2018]. He depicted a situation in which the process of economic liberalization in the United States contributes to the growth in GDP and average income of national economies while leading to an uneven distribution of benefits. As the differences in affluence increase, this distribution is viewed as more and more unfair. If we add the recurring subject of high compensation for bankers (who are thus rewarded for mismanagement), unclear remuneration systems in banks and state enterprises (which circumvent the regulations on excessive salaries), the unbridled desire of representatives of the political class to increase their remuneration and bonuses, which are over ten times or so higher than median salaries, it comes as no surprise that anti-establishment movements relish making the issues of the distribution of wealth the primary element of their election campaigns [King, 2017].

Twenty years after Cox described hyperliberalism as “a would-be” new policy orthodoxy, Rodrik drew a picture of hyperglobalization as a real “agenda of economic liberalization and deep integration” and of the post-war globalization model as beyond its limits, where “[t]rade agreements [were] extended beyond their traditional focus on import restrictions and impinged on domestic policies; controls on international capital markets were removed; and developing nations came under severe pressure to open their markets to foreign trade and investment. In effect, economic globalization became an end in itself” [2011, p. xvii].

According to Rodrik, hyperglobalization is key to understanding the three iterations of political regimes (the golden straitjacket, Bretton Woods compromise and global governance regime)⁵ that are marked by a strained relationship between globalization and national democracy. Rodrik [2011], in the so-called “globalization political trilemma,” argued that there is an inescapable conflict between globalization, the state and democratic politics. The golden straitjacket regime is incompatible with democratic politics, the Bretton Woods compromise is incompatible with hyperglobalization, and the global governance regime is incompatible with the state. Each of the political regimes can have two, but not all three characteristics, so countries need to restrict democracy, limit globalization or globalize democracy.

Observing the incompatibility of this ultimate form of economic globalization with democracies, which have the right to protect their social arrangements, Rodrik [2018, p. 38] advised “rebalancing in three areas in particular: from capital and business to labor and the rest of society, from global governance to national governance, and from areas where overall economic gains are small to where they are large.” However, the fundamental problem with the Rodrikian solution to the populist challenge is that reconstituting the international economy with a stronger emphasis on sovereignty may open the door for pursuing distinct national policies which not only overlap with cultural and socio-economic populism, but also dismantle the benefits of international institutional cooperation obtained so far [Hoekman, Nelson, 2018]. Giving too much space in determining policy to governments that are free from the constraints imposed by international institutions and free to adopt policies allowing national economic development goals to be achieved can also alter the calculus of risk and support for the key agents of structural change in global economic governance. Thus, it may amplify antiglobalization signals, boost rolling back liberalization and increase discrimination against foreigners – migrants, companies, or investments perceived as a threat to national security. What is more, non-restricted national governance may work as an amplifier of external threats, such as trade shocks, economic and financial crises, and as a justification of rolling back compensation mechanisms (social welfare/safety nets) as a result of pursuing austerity policies.

The threats stemming from pursuing a national policy detached from wider international cooperation are underscored by the COVID-19 crisis, which showcases how diverse liberal and illiberal democracies controlled by populist leaders have mastered the use of the national narrative and assume excessive emergency powers in order to crack down on political opponents or media, increase the base of supporters and, finally, cripple the coordinated action needed to confront the economic consequences of the pandemic [He, Chen, 2020]. Here, we should note that, while looking at populism as an ideology characterized by a distinction between “the people” and “the other” and by the conviction that politics is about respecting sovereignty at any cost, populist leaders differ in the identification of their opposition, which further translates into their policy choices. Socio-economic populists (such Andrés Manuel López Obrador (Mexico), Daniel Ortega (Nicaragua) or Nicolás Maduro (Venezuela)) appeal to less-educated segments of society (“true people”) and stand against both domestic business elites and international capitalists/financial institutions (“the other”). Cultural populists (Jair Bolsonaro (Brazil), Donald Trump (U.S.), Viktor Orbán (Hungary), Narendra Modi (India), Rodrigo Duterte (Philippines) and Recep Tayyip Erdogan (Turkey)) further the cultural conflicts that brought them to power by opposing ethnic/religious-group natives (“true people”) and ethnic/religious minorities and cultural elites (“the other”).

⁵ The first of the political regimes can be identified as the 19th century gold standard or the golden straitjacket regime. The second corresponds with the Bretton Woods regime of the mid-20th century, according to which a group of democratic states imposed limits on globalization via political control over international trade (tariffs) and finance (managed exchange rates). The third political regime is hyperglobalization as an agenda of economic liberalization and deep integration within which the state is replaced by global governance.

The COVID-19 pandemic in particular exposed socio-economic, cultural and political rifts between populists and globalists that directly translated into disparate reactions in such areas as domestic disease control, attitudes toward the core organizations of the global health governance regime, and international cooperation against the consequences of the pandemic (providing assistance, disclosing data, cooperative research on vaccine). Cultural and socio-economic populist leaders who downplayed the consequences of COVID-19 (Trump, Bolsonaro and Obrador) understated the severity of the pandemic to maintain the economy and employment at any cost and disregarded hazards for public health while assuring base voters that “Pandemics ... won’t do anything to us” [Linthicum, 2020]. As a consequence of the “conceal and distort policy” carried out by the U.S. and Brazilian presidents, promoting huge economic recovery programmes [Mason, Holland, 2020] instead of focusing on science-based prevention and control measures following the early stages of the pandemic, the U.S. and Brazil suffered a dramatic escalation of cases of infection and deaths, and these countries are now ranked first and third worldwide in terms of deaths [Worldometer, 2020].^{6, 7}

What brings cultural and socio-economic populists together is downplaying pandemic hazards or using illiberal responses to COVID-19, which in some cases blurs the above-mentioned distinction by combining the goals of restraining the political “other” and blaming the economic/financial elites for the current malaise. One example here is the illiberal response to COVID-19 in Central Europe carried out by Hungarian prime minister Victor Orbán. He uses a cultural and socio-economic ideology to reconstitute regional (European) politics and the economy toward utterly sovereignty-oriented solutions. For Orbán, as primarily a cultural populist, the first wave of the pandemic created an opportunity to use extraordinary legislation on the grounds of enhancing national security. A bill passed in the Hungarian parliament in March 2020 circumvented the separation of powers and envisaged imprisonment for up to five years for publishing false or distorted facts that might alarm or agitate the public, or undermine its successful protection [Szekeres, 2020]. Although Hungarian lawmakers in June voted in favour of repealing the extraordinary powers granted to Orbán, various NGOs declared that the vote to remove them only created an illusory solution which did not invalidate Orbán’s extraordinary law allowing him to prosecute independent journalists and political opponents [BBC, 2020]. Cultural populism in Orbán’s domestic policy has been blended into a mixture of cultural and socio-economic forms of external ideological pressure and became apparent at the international level due to the clash between Hungary and the EU over a 1.82 trillion euro European budget and recovery package that involved the blocking of talks on collective debt.⁷ For a long time, Hungary prevented the package from being finalized because of its opposition to a new mechanism that would allow the EU to cut off funds to member countries found to be violating the rule of law principle. In this case, the fundamental disagreement between the ideas of national sovereignty and the EU’s pooled sovereignty, taking the form of personal grievances between the Hungarian prime minister and the EU vice president Věra Jourová [Bayer, 2020], could have had severe consequences for regional and global economic governance. Blocking the EU’s 750 billion euro coronavirus recovery fund due to the opposition to linking EU funds with respect for the rule of law may significantly escalate a supply shock generated by the great lockdown in Europe and intensify the already-mentioned “supply-chain contagion” on a global scale [Baldwin, Weder di Mauro, 2020]. Its negative effects could bring about loss of employment and wages, compensated only to a limited extent by income support measures introduced

⁶ At the end of November 2020 Mexico was ranked 11th [Worldometer, n. d.].

⁷ After long-haul negotiations in December 2020, the EU leaders have reached a consensus on the budget package and the rule of law mechanism conditioning it.

by individual governments (guaranteed incomes, tax relief and so on). This example leads to certain conclusions. One is that even a populist leader of a small country may, given a specific international or regional context, exert a powerful ideological pressure in terms of political leverage and economic resources, thus hindering a large economic community in the implementation of long-term anti-crisis recovery programmes. A second conclusion indicates that the Rodrikian idea of rebalancing from global governance to national governance may be a suboptimal solution in a time of populist revival.

From National to Integral Governance

The political and economic analysis so far has shown that globalization and global economic governance are difficult to abandon, yet the alternative of recasting politics and economics along national and sovereign lines is arguable. Perhaps the most feasible solution to the current malaise would be to take a middle way between hyperglobalization and a more national policy approach, a solution dubbed here as “integral economic governance” (IEG).⁸

The intellectual provenance of the approach to bridging the global and the national is derived from integral management theory. It combines different elements of hard and soft management to achieve goals that are often contrasting: stability versus innovative (or creative) development [Drucker, 1992; Templar, 2011]. Whereas hard management underlines the technical and economic systems of organization and prioritizes rationalization of work, maximalization of productivity, and minimalization of resource consumption in organization, soft management inclines toward the development of an organizational culture based on a flexible, networked and effective system of moulding interpersonal processes and groups. Alongside hard and soft managerial modes there are hard and soft problems [Ackoff, 1993]. While hard organizational problems are expressed as difficulties in formulating a clear purpose or goal, using relevant data, or establishing clear control mechanisms, their soft equivalents are related to obstacles to finding agreement or room for negotiation in an organization. The latter is seen as a multidimensional structure where the power is diffused and assessing the situation and reaching goals is increasingly difficult, given the co-existence of both consensus and conflict.

Similar to managerial innovations in organization, IEG views global governance as a fragmented structure full of hard and soft problems. While this approach agrees with Rodrikian claims that civil society is national, as are states, and that most of the failures of global economic governance are born at the domestic level, it underlines the necessity to look for a cure beyond the national level in order to more comprehensively address both hard and soft problems. It demands combining both hard (sound domestic policy) and soft (enhanced international co-operation) elements of a compromised solution.

⁸ The idea of a middle course between hyperglobalization and national policy has been at the centre of debates for many years. Notably, there is a significant community of scholars who examine “global to regional” shifts in the current structure of global economic governance. They indicate a paradox faced by global governance, namely, that the policy authority for resolving global issues and mobilizing necessary resources is attributed to the national level, while the source and scale of problems and potential solutions to them are transnational or global. If “all politics is regional,” as they argue, global governance shall be enhanced through regional integration, perhaps under the auspices of rising/emerging powers developing a number of regional institutional structures, such as Greater Eurasia, RCEP, the Belt and Road Initiative (BRI), ASEAN+ and the Southern Common Market (MERCOSUR), to name a few. While this approach is valuable in discussing ways of enhancing state cooperation in trade, finance or security when stymied by collective action problems, it neglects non-elitist issues of the advancement of democracy, human security, good governance and improvement of public policies. For a discussion on this, see R. Thakur and L. van Langenhove [2006] and A. Krickovic [2015].

Sound Domestic Policy

The first component of IEG will be expressed by improving the quality of domestic policies, by identifying good regulatory practices and encouraging learning, which, in turn, might diminish the burden placed on domestic policy, enhance good governance and influence perceptions of globalization as a (more) fair process rather than as the cause of the current malaise. Achieving these goals is dependent on developing international cooperation in areas of global governance that go far beyond foreign trade and investment. A good example of such a “marriage” of domestic policy with international cooperation is provided by Korea. As a middle power [Jordaan, 2003], Korea’s economy has grown at a remarkable pace since the 1960s [Chung, 2007] and effectively responded to COVID-19, as it flattened the epidemic curve quickly without closing businesses, issuing stay-at-home orders, or implementing many of the stricter measures adopted by other high-income countries. These positive effects of containing the pandemic were possible due to the identification of good regulatory practices and the lessons learned from the flawed response to an outbreak of Middle East respiratory syndrome (MERS) in 2015, which prompted the Korean government to implement several reforms to the national health system [Oh, 2020]. Contrary to other middle powers controlled by cultural and socio-economic populist leaders, such as Brazil and Mexico, the Korean effective healthcare system has been based on the combination of detection (innovative high-capacity screening clinics and public-private cooperation to ensure an adequate supply of tests), containment (isolation of infected people, complemented by an advanced system of tracing contacts supported by various databases) and treatment (increasing number of healthcare staff, building temporary hospitals, and centralized purchases of personal protective equipment) [Our World in Data, 2020].

Korea’s success in containing the coronavirus (this country is ranked 94 on Worldometer) was largely possible due to reliance on personal data-sharing and was heavily dependent on its ability to rapidly scale up technological solutions. The latter seem to be critical not only from the perspective of the national healthcare system, but also for global economic governance in the post-COVID-19 world. Technological innovation and public policy choices influence the global value chain revolution, which started at the end of the 20th century and visibly reshaped the division of power in the world. R. Baldwin called it the “second unbundling,” as information and communications technology made it possible to offshore know-how at almost no cost from the most developed countries of the G7 toward developing countries [Baldwin, 2016]. The technology flow was defined by international production networks, rather than simply by national borders. Korea, as well as China and Japan – countries that went beyond respective national policies, implemented firm, effective, science-based prevention and control measures and actively participated in international anti-disease cooperation (for example, providing financial support for the WHO) – fared much better regarding the number of cases and mortality rates, which in those countries are among the lowest levels worldwide [Worldometer, 2020].

Enhanced International Cooperation

The combination of sound domestic policies and international cooperation in health governance, which can be dubbed “integral governance,” can serve as a useful lesson for those reforming global economic governance. The latter is seen as a constellation of actors involved in a few fragmented and ineffective international regimes that over time took the shape of conflictive spaces where principles, norms, rules and decision-making are questioned, and where various stakeholders of the regimes support alternative institutional designs. The promise of integral economic governance is founded on bypassing the fragmentation of regimes and the

ineffectiveness of their core organizations by shifting attention to the Group of Twenty (G20) as a keystone for a more flexible, effective, transparent and networked response to collective problems in the full array of global governance dimensions [Kirton, 2013].

The main argument justifying the role of the G20 as the guarantor of integral economic governance is the high flexibility of this informal “premier forum for international economic co-operation” [G20, 2009] and its experience assuming the role of smooth responder to the various needs that have been raised by members of the international community. The high point for the G20, specifically, the three breakthrough leader summits in Washington (2008), London (2009) and Pittsburgh (2009), gave this forum momentum and strengthened its image as an appropriate hub, steering a variety of institutional nodes in the G20 network. The meeting of leaders conducted in the heart of the United States drifted away from the G7, which was often described as a “talking shop” [Debaere, Orbie, 2013, pp. 311–23; Lesage, 2007, p. 107], toward a G20 that leaders perceived rather as a “workshop,” “steering committee” or “high table” forum that is global in composition [Cooper, Thakur, 2013, p. 16]. In this context, the Washington summit set out the key actions to mitigate the financial and economic crisis and initiated the process of applying them and building a response to the process of globalization by creating a permanent body (G20 Leaders). The second G20 summit in London achieved substantial results in tackling the economic and financial crisis by agreeing to triple financial resources (to \$750 billion) in order to strengthen the International Monetary Fund (IMF) and build a more resilient financial regime. They also agreed on new special drawing rights allocations and support for trade finance [Hajnal, 2014]. During the third G20 summit in Pittsburgh, not only did the leaders proclaim the G20 as the premier forum for international economic cooperation, but they also launched the so-called Framework for Strong, Sustainable and Balanced Growth, advanced reforms of the international finance system and signalled expansion of the G20 agenda into areas such as sustainable development (energy and climate) and greater economic inclusiveness [G20, 2009]. The latter was reiterated during the Seoul G20 summit (2010) in the bold development programme known as the Seoul Development Consensus for Shared Growth [G20, 2010]. A decade later, during the extraordinary G20 leaders’ summit hosted by Saudi Arabia on 26 March 2020 [G20, 2020] and targeting COVID-19 consequences, G20 leaders issued a statement that confirmed the anti-crisis character of the group, by agreeing, first, to inject over \$5 trillion into the global economy as part of targeted fiscal policy, economic measures and guarantee schemes to counteract the social, economic and financial impacts of the pandemic and, second, to coordinate a global response with front line international organizations, such as the WHO, the IMF, the World Bank Group, the International Labour Organization, the Organisation for Economic Co-operation and Development and multilateral and regional development banks to provide an anti-crisis financial package and monitor employment.

To date, the flexibility of the G20 has been proven on several occasions, not only in the event of a global crisis, but also by fact that major global economic and social challenges have been properly addressed in the group’s agenda. One example of international cooperation that translates into the opportunity to reduce the burden placed on domestic policy is the G20’s plan to close the global infrastructure gap. The infrastructure investment gap can be defined as the difference between a country’s investment needs and what is likely to be spent under current trends. According to data published in the Global Infrastructure Outlook in July 2017, encompassing 50 countries in seven sectors (energy, telecommunication, transports, airports, railways, roads and ports, and water), global infrastructure investment needs to be as high as \$94 trillion between 2016 and 2040. To meet this investment need, the world will have to increase the proportion of GDP it dedicates to infrastructure to 3.5%, compared to the 3.0% which is spent now [Global Infrastructure Hub, 2017]. International cooperation in filling the finance gap identified in the infrastructure in advanced economies has become crucial for at least two reasons.

One is that most of the post-World War II-era infrastructure assets are approaching the end of their useful lives and need replacement. At the same time, government budgets – and, consequently, infrastructure supply – are increasingly constrained as a result of the global financial crisis and, more recently, the COVID-19 pandemic pushing economies into a Great Lockdown that helped contain the virus and save lives but also triggered the worst recession since the Great Depression. The second reason is that investing in infrastructure gives opportunities to create a pool of jobs, leads to a quicker resumption of economic activity and eases the effects of the above-mentioned hyperglobalist policy orthodoxy underscored by Cox and Rodrik. Disarming the bomb of resentment and social anger discernible in western societies may be possible thanks to the efforts of the G20, which between 1998 and 2008 became the apex forum burdened with the task of tailoring an appropriate mechanism of global governance and responding to the various needs that had been raised by members of the international community [Cooper, Thakur, 2013]. In 2018, the Argentinian G20 presidency introduced a plan to fill the perceived finance gap in infrastructure [G20, 2018]. The three pillars of the projected solution—using public finance (for example, taxes, pensions, user fees for infrastructure services, and guarantees) to leverage or catalyze private sector investment, particularly long-term institutional investment; a strong commitment to build pipelines of “bankable” projects, with an emphasis on megaprojects that are financed and operated through public private partnerships (PPPs); and improving mechanisms to quickly replicate PPPs to diminish the burden placed on domestic policy (for example in a post-COVID-19 health sector) while recognizing the value of deeper international cooperation—could be a part of response to the drivers of populism.

Conclusion

This political and economic analysis discussed the blurred and fragmented global economic governance as, despite its flaws, the ultimate framework for economic globalization. It underscored the incompatibility of global governance and globalization with nationalism and populism, targeting globalization as a “thick” ideology that impairs states, undermines sovereignty and democracy, and misleads “the people” with false promises. Concomitantly, it reconsidered the proposal of building resilient global economic governance from the bottom (national level) and thus escaping the conflictive fragmentation of global steering toward more domestic and sovereignty-based solutions. While the “global to national” approach might seem reasonable and good for democracies haunted by the uncompensated adjustment costs and redistributive effects of economic globalization, the examples of downplaying consequences of the COVID-19 pandemic by populist leaders, or assuming illiberal legislation that hinders the coordinated action needed to confront economic and financial slump, may water down this argumentation.

If globalization and global economic governance cannot be abandoned, yet the alternative of recasting politics and economics along national and sovereign lines is arguable, perhaps the most feasible solution to the current malaise would be to take a middle way between hyperglobalization and a more national policy approach. This might be the “national to integral” solution materialized by the combination of sound domestic policies and enhanced international cooperation, dubbed “integral economic governance” (IEG). While the first component concentrates on improving the quality of domestic policies by identifying good regulatory practices and encouraging learning, which, in turn, might diminish the burden placed on domestic policy, it is closely linked to enhancing international cooperation in the areas of global governance, which goes far beyond fragmented and ineffective international regimes. Instead of the malfunctioning core organizations of global regimes (exemplified here by the WTO) the integrity of IEG demands shifting attention toward the G20 as not only a flexible, effective,

transparent and networked response to collective problems in the full array of global governance dimensions, but also as a forerunner of deeper international cooperation that could be a part of response to the drivers of populism in the post-COVID-19 world.

Given constraints on length, this article has been restricted to the basic characteristics of the G20 serving as the hub of integral economic governance and has portrayed the roles of this forum as both an anti-crisis committee and a smooth responder to various global challenges. Continuation of the research should focus on influences between domestic versus external issues on the agenda of the G20, analysis of compliance of G20 leaders with their collective G20 summit commitments and, finally, investigating how and to what extent the mechanistic and praxis-oriented G20 mechanism of governance that is built on the nexus between the G20 acting as a hub of multilevel cooperation and as an apex systemic risk manager, IOs offering expertise on specific issue areas, and government officials such as sherpas or ministers responsible for specific subjects, may produce enhanced international cooperation and induce a shift from global to integral economic governance.

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The Regional Comprehensive Economic Partnership (RCEP) Without Indian Participation: Can It Work as a Mega FTA?¹

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Abstract

There is no doubt that global trade has contributed to rapid global economic growth over the last five decades. However, trade growth slowed after the global financial crisis; while it started to recover several years after the crisis, it has again declined since 2017 due to the trade conflict between the U.S. and China, as well as other major trade partners such as the European Union (EU), Japan and Korea. The Trump administration regarded the World Trade Organization (WTO) as acting contrary to U.S. economic interests and tried to limit its arbitration function to trade negotiations and conflicts occurring between corporations rather than states. Despite the U.S.' attempt to weaken the WTO's functions, the rest of the world has tried to restore the WTO's role in free trade and multilateralism. To overcome U.S. unilateralism, many major economies have established mega free trade agreements (FTAs) such as the EU-Japan FTA, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). The 15 states in the RCEP agreed to complete it in 2020, signing without the participation of India – the third largest economy in Asia – although it had been part of the negotiations since 2011. Despite the absence of India, the RCEP will be the largest mega FTA in the world, covering over 30% of global gross domestic product (GDP), and contributing to strengthened regional economic integration and growth. This article explores whether the RCEP can function properly in the absence of India and examines why India decided not to participate. Furthermore, it investigates and analyzes how the RCEP will develop without Indian participation. Last, it discusses how to set the relationship as a competitor with the CPTPP given the overlapping memberships of participating states.

Key words: Global trade; mega FTA; economic growth; regional economic integration

For citation: Park S.C. (2021). The Regional Comprehensive Economic Partnership (RCEP) Without Indian Participation: Can It Work as a Mega FTA? *International Organisations Research Journal*, vol. 16, no 2, pp. 157–182 (in English). DOI: 10.17323/1996-7845-2021-02-08

Introduction

It is no doubt that the global financial crisis (GFC) in 2008 escalated existing anti- globalization sentiments and created views of opposition in liberalized trade resulting from the neo-liberalism. Under this condition, many countries have attempted to curtail imports and impose other restrictions on trade that has caused a de-globalization process. As a result, the global trade growth has slowed down since the Trump Administration. In 2018, the growth in the volume of world trade (goods and services) reached only 3.2 percent and the world economic growth accounted for 3.1 percent in the same year. Over six decades, the trade growth rate use

¹ The editorial board received the article in January 2021.

to be double higher than the economic growth in the global economy. It means that the role of trade in the global economic growth has been limited due to protectionism. In 2020, the world economy is experiencing COVID-19 pandemic that could reduce the world trade volume in merchandise from 13 percent to 32 percent given the forecast of World Trade Organization (WTO) [World Bank, 2020a; WTO, 2020].

Under such a protectionism sentiment, 15 Regional Comprehensive Economic Partnership (RCEP) member nations agreed a mega FTA without the Indian participation in Nov. 2019 and tried to persuade India to participate in the RCEP continuously under the COVID-19 pandemic period in 2020. The Asia Pacific region has become the common ground for mega FTAs that are on the process to build the RCEP led by ASEAN officially, but practically by China and Comprehensive and Progressive Trans Pacific Partnership (CPTPP) led by Japan due to the withdrawal of the U.S. from Trans Pacific Partnership (TPP) in 2017. China has negotiated the RCEP with ten ASEAN member nations and six nations with which ASEAN have existing trade agreements. These nations are Australia, China, India, Japan, Korea, and New Zealand. The ambition of the RCEP is to promote regional economic integration in East Asia in particular. Among 16 nations in the RCEP, seven nations participate in the CPTPP as well. The CPTPP aims to rebalance of the U.S. and Japanese political and economic interests against Chinese emerging in the region as a part of global strategies. It means that the CPTPP is still open to the U.S. if she is ready to join it.

The RCEP targeted to be completed in 2020, and China pushed hard to complete it because it has already announced to protect the free trade mechanism based on globalization in World Economic Forum in 2017, while the CPTPP faced turbulence after the Trump government announced its pull out from the TPP in Jan. 2017 although 12 member nations agreed with the TPP in Oct. 2016. China regards the RCEP as an opportunity to expand the free trade system in the Asia Pacific region and plans to build Asia Pacific Free Trade Agreement (APFTA) in the near future that includes the South American countries such as Chile, Mexico, Peru etc. [Graceffo, 2017; Park, 2018].

After a long negotiation process for the RCEP since 2012, 15 member nations finally reached the agreement in the end of 2019, but unfortunately without the Indian participation that was rather unexpected and at the same time expected if you look at the industrial structure in all member nations. India as the 3rd largest economy in East Asia can play important roles in the RCEP. It is still questionable whether or not India joins the RCEP as like the U.S. to the CPTPP although their doors are still open. It means that India regards the RCEP not as a springboard to develop its national economy continuously, but as a mechanism for opening its market more than ever.

This paper argues what are Chinese strategies and reasons to push the RCEP and discusses roles of the RCEP in East Asia and the Asia Pacific region. Furthermore, it analyzes the reasons why India did not participate in the RCEP and whether there are still possibilities for India to join it. Last, but not least, it focuses whether or not the RCEP can function properly without the Indian participation or vice versa. In order to answer these research questions, various methods such as critical analysis of the literature, inference, and qualitative analysis based on statistical data are employed.

Theoretical Debates on Economic Integration

The notion of international and regional economic integration claims that economic integration is the process of removing progressively discriminations taking place at the national level. It means the abolition of discrimination between economic actors. Economic integration is the creation of the most desirable structure of international economy that removes all artifi-

cial hindrances to the optimal operation and introduces all desirable elements of coordination. Countries interested in the process start from free trade agreements (FTAs) that is rather a simple form and the first step for the further economic integration. Later they progress through more advanced forms in terms of customs union, common market, and economic union. After these processes, an economic union can be a political union, but most scholars agree that there are no examples of political union. In practice, the sequence of process in economic integration does not always occur because the achievement of the final stage needs a high level of political integration that causes a loss of sovereignty in the member nations [Tinbergen, 1954; Balassa, 1961; Hosny; 2013; Park, Pasierbiak, 2018].

Countries participating in the economic integration must consider benefits and costs of the process that are not only based on economic, but also political and social perspectives. In economic terms, benefits must be larger than costs. However, it is also worth to emphasize that an efficient integration process requires a fair division of political and social benefits and costs between member nations. Based on the economic sphere, benefits of economic integration are mainly a growth of trade turnover among the member nations in the short run, while they rely on increasing production and improving productivity in the long run that result in the economic growth in the member nations. During implementing the integration process, a reduction of barriers enables wider openness among member nations for foreign companies that make increase competition and efficiency. Furthermore, a larger market attracts new business activities including investment, and existing companies make greater effort to compete with foreign companies. It increases productivity and leads to a better allocation of resources and technology transfer that generates a positive effect on consumption, wealth, and quality of life among the member nations [Molle, 1990; Siddique, 2007].

Economic integration theories discuss benefits and costs of regional economic integration that explain the effects of integration. The traditional economic group presents a model for free trade and estimated welfare gains reducing or eliminating trade barriers that is a static approach based on the short run. By contrary, the dynamic economic group takes into account ever changing economic conditions so that free trade benefits society through gains in overall quality and variety and strengthen industrial competitiveness through technology transfer and innovation. It is a dynamic approach based on the long run [Bhagwati, Panagariya, 1996; Krugman, 1979; Krugman, Obstfeld, 2009; Broda, Weinstein, 2006].

Later, scholars developed further new regionalism based on FTAs from a cross regional perspective that represents a new form of economic integration in 21st century. They argue that cross regional trade agreements have been the new trend of the current international trade systems such as the Trans Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP), the Regional Comprehensive Economic Partnership (RCEP) etc. The emergence of mega FTAs is not a random phenomenon, but part of the evolution of the 21st century regionalism that is closely linked to the 21st century trade in goods, services, parts and components. In fact, the mega FTAs have resulted from preferential trade agreements (PTAs) and regional trade agreements (RTAs) because multilateral trade negotiations guided by the WTO did not make any progress. As a result, PTAs, RTAs, and mega FTAs have filled the gap in global governance and reshape the world economic order. The mega FTAs, particularly in Asia are shaped by the dominant political interests in its member states and by the particular character of economic interdependence in the region [Velut et al., 2018; Kimura, Chen, 2016; Ravenhill, 2016].

This study adopts a dynamic model rather than a static model because the former can explain the long term benefits of free trade more precisely than the latter. Moreover, the dynamic model based on long term efficiency gains and economic growth can be emphasized in order to explore approaches of the RCEP expecting a further economic growth higher than in any

other region in the world. The dynamic model also advocates the free trade system operated by the WTO rules. However, the turbulence in the world trade mainly caused by the U.S.-China trade conflict has recently made the WTO stop working properly. Additionally, the WTO has only focused on multilateral trade agreements that used to take a long time. As a result, many countries across the world have to look after other alternatives such as bilateral FTAs, regional trade agreements (RTAs) and mega FTAs such as the RCEP and the CPTPP. Therefore, it is also wise to adopt new regionalism as a theoretical background along with the dynamic model.

RCEP as the largest Mega FTA

Development path and current issues

East Asian countries discussed the desirability and feasibility of Asian economic cooperation several years since the 2000s. After a long discussion, East Asian countries led by the ASEAN member countries decided to establish the RCEP and started to negotiate in 2013. The nations participating in the RCEP negotiations are the ten ASEAN member nations and six other nations such as Korea, China, Japan, India, Australia, and New Zealand.

East Asia has not established a region wide FTA due to different opinions among East Asian economies about creating a region wide FTA. It was a long process to agree to the RCEP. Regional economic cooperation in East Asia began to intensify in order to deal with Asian Financial Crisis (AFC) in 1997 as the first ASEAN+3 (China, Japan and Korea) Summit Meeting was held in 1998. In the summit, Korea proposed to set up East Asia Vision Group (EAVG) in order to overcome economic and financial problems collectively in the region. Moreover, the EAVG studied a long term vision for economic cooperation in the region. The expert group developed the idea of East Asia Free Trade Area (EAFTA) in 2002 and proposed ASEAN+3 economic ministers that the EAFTA needs to negotiate among ASEAN countries first, and a further membership can be open to other East Asian economies. Unfortunately, however, this proposal was not accepted due to various different national interests in 2006. The economic rationale of EAFTA was based on building highly developed production networks and supply chains among ASEAN+3 nations and harmonizing rules of origins among these countries. If these plans are realized, tangible economic benefits could be generated. Furthermore, the ASEAN+3 cooperation is able to develop the most feasible regional framework in East Asia [Urata, 2013; JEG, 2009; ASEAN Secretariat, 2009; Kawai, Wignaraja, 2011].

Compared with the Korean approach to ASEAN+3, Japan proposed Comprehensive Economic Partnership in East Asia (CEPEA) at the ASEAN+6 economic ministers' meeting in 2006. The Japanese proposal was an agreement of the region wide FTA covering ASEAN+6 member nations. These 16 nations were also the member nations of the East Asia Summit that began in 2005. Japan's economic rationale to set up the CEPEA was that the economic advantage of the CEPEA could be larger than that of the EAFTA because the incorporation of resource rich Australia and rapidly growing India could generate economic growth of East Asia as a whole. However, the reason why Japan suggested the CEPEA was that Japan tried to play a role in the leadership for setting up a regional institution because China took the initiative in the EAFTA discussions. By competing with each other between China and Japan to take a leadership in the establishment of the region wide FTA under the EAFTA and the CEPEA, China speeded up the process of regional economic integration in East Asia when Japan decided on participating in Trans Pacific Partnership (TPP) led by the USA in 2011 [Kawai, Wignaraja, 2008; Xiao, 2015].

The Chinese motivation to establish the EAFTA was stronger than any other nations in the region because it observed increasing US influences to form a regional economic framework

in the Asia Pacific region under the TPP. The Obama government started to take initiatives to complete the TPP in 2009. Under this circumstance, ASEAN proposed the RCEP involving ASEAN and its FTA partners in 2011 because it did not want to lose ASEAN centrality in East Asian regional economic integration. ASEAN understood that it could lose its role of leadership position in the process of economic integration in East Asia if big economic nations in the region and half of ASEAN member nations participate in the negotiation of the TPP. Additionally, ASEAN tried to maintain its centrality in the regional economic cooperation. After signing ASEAN+1 (China) FTA, ASEAN and its regional partners concerned about the Asian noodle bowl effects that became new obstacles to establish new regional production networks based on free markets in East Asia. Therefore, the RCEP has emerged as a tool to integrate ASEAN+1 FTA in order to support their common aspirations of the region. In the RCEP framework, ASEAN member nations can solve the noodle bowl effects effectively at once [Yi, 2014].

Additionally, ASEAN announced the guiding principles for the negotiations of the RCEP that include the WTO consistency, transparency, and open accession to ASEAN's FTA partners and others. Based on such principles, four ASEAN member nations such as Brunei, Malaysia, Singapore, and Vietnam participated in the TPP and later the CPTPP without the U.S. participation as well. As a result, ASEAN+6 leaders agreed to launch the negotiation of the RCEP in 2012 and to start in 2013. The RCEP was scheduled to conclude by the end of 2017, but did not meet the target and completed in Nov. 2020 without Indian participation. It targets to reassure the world of free trade commitment [ASEAN Secretariat, 2012; Urata, 2013; Hearn, Myers, 2015; Johnston, 2017] (see Fig. 1).

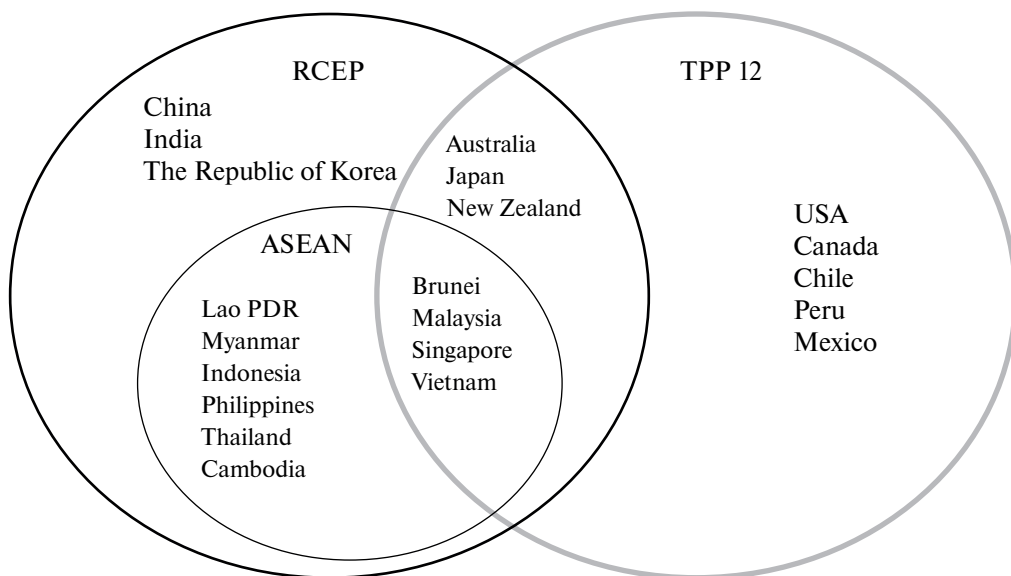


Fig. 1. RCEP and TPP Member Nations (As of 2016)

Source: [Expertise Asia, 2016].

The RCEP could be a strong rival of the TPP in the East Asian economic integration. It includes more than 3.6 billion populations, the output about 27.4 trillion US dollars, and accounts for around 33.1 percent world trade in merchandise in 2018. Its GDP accounted for 31.9%, and the total trade volume was 13.1 trillion US dollars in the same year. It is no doubt that the RCEP could create the world largest trading bloc, if it is successfully concluded. It

could provide major implication for the global economy such as spread of global production networks, reducing inefficiencies of multiple Asian FTAs such as noodle bowl effects, strengthening East Asian economic integration etc. [Suh, 2014; World Bank, 2016; World Integrated Trade Solution, n. d.].

From 2014 to 2018, the RCEP changed its global share in terms of population, GDP, and trade volume. Firstly, the global share of population declined from 49 percent to 47.4 percent during the same period. Secondly, the GDP of the RCEP increased from 29 percent to 31.9 percent. Finally, its trade volume in merchandize declined from 35 percent to 31.9 percent. It means that the share of population declined due to increasing income level rapidly and its share of GDP increased continuously based on a high economic growth in the region. Last, but not least, its share of trade volume in merchandize was shrunken because its service sectors increased that upgrades the whole industrial structure and the economic level [World Bank, 2020] (see Fig. 2).

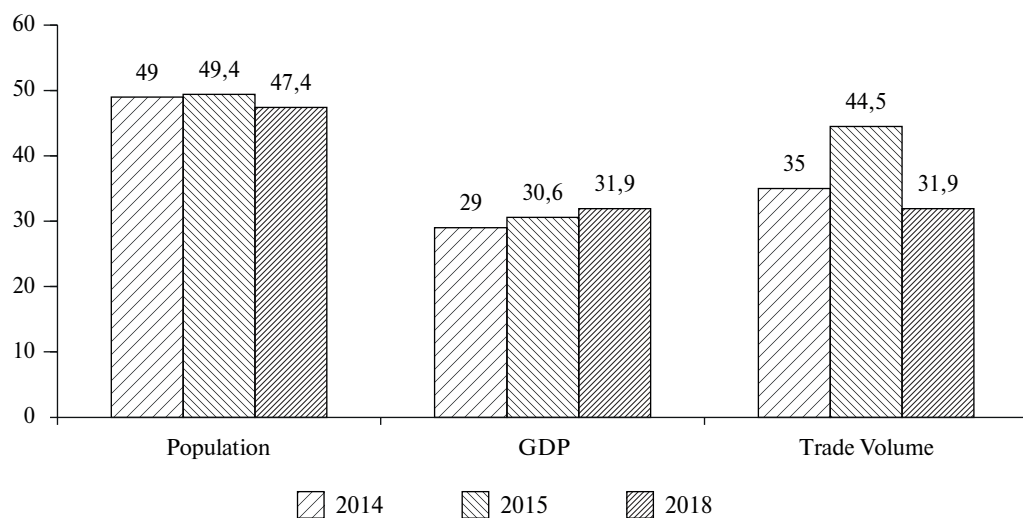


Fig. 2. RCEP's Share of World in Population, GDP, and Trade (%)

Source: [WTO, World Trade Statistics, 2015; 2016; 2019; The World Bank, 2020a].

The RCEP needs a strong leadership that is absolutely necessary to conclude the agreement successfully in 2020 and ratify it in all member nations in the near future. The leadership must be officially based on ASEAN centrality because its role is regarded as impartial, but it has been influenced by China heavily in recent years. In fact, the RCEP is a tool for rising China in the region. ASEAN, Korea, and Japan are concerned that China will eventually dominate East Asia through a China-led East Asia Economic Community. Therefore, some countries such as Japan, Myanmar, the Philippine, Vietnam have actively tried to balance between China and the U.S. in order to hedge China's possible threat. Unfortunately, however, the Trump government withdraws from the TPP due to the America First policy. It provided China to take a strategic advantage for the RCEP in the region. After the U.S. presidential election in 2020, Biden was elected. The Biden administration declared to restore its traditional policy lines such as multilateralism based on allies supports and cooperation in 2021. Therefore, it may be possible that the U.S. rejoin the TPP during the Biden's term. If it is realized, the newly formed TPP led by the U.S. would change the competitive role between the RCEP and the TPP substantially in the region [Suh, 2014; Shott, 2017; Mueller, 2019; Akimoto, 2021].

However, the TPP without the U.S. leadership leaves China as the leader of large scale regional economic integration with the RCEP that plays the role of main pillar. Moreover, the RCEP will probably be more open to new members in the Asia Pacific region. China foresees Chile and Peru's participation in the RCEP and emphasizes its intention to keep its scheme open to any possible member nations. As a result, the RCEP may enhance the regional and global roles of China that potentially contributes to creating bilateral rivalry with the USA. Among the major member nations in the RCEP, their priorities are very diverse. China enhances its intention to make the RCEP as a basis of trade rules in the Asia Pacific region, while Japan focuses on providing a high level of liberalization comparable to that of the TPP. India is keen to provide liberalization of trade in goods more than in services and investment, while Korea stands for high level of liberalization in trade and investment. Despite wide and different national interests among member nations, they have agreed to discuss goods, services, and investments as one package, primarily at India's insistence. Prospects of the RCEP seem to be positive because compromises leading to agreement are feasible. 16 member nations have accumulated their experiences by completing ASEAN+1 FTA, ASEAN+3 FTA, and other bilateral FTAs in the region. In Nov. 2019, 15 member nations in the RCEP without India's participation had finally agreed on all 20 chapters and essentially all their market access issues and decided to proceed with legal processes. The RCEP signed in Nov. 2020. China can use it as a tool to set up trade rules in the region [Kumar, Charlton, 2017; Basu Das, 2017; Chaisse, 2020].

RCEP and the three major economies' strategies

In the RCEP, major economies such as China, India, and Japan do have their own national interests that are rather very diverse. Among these three economies, China already launched FTA with ASEAN in 2001 that is called as ASEAN Plus One (ASEAN+1). Later, Japan and Korea participated in ASEAN Plus Three (ASEAN+3) in 2010. In fact, India was a latecomer negotiating to become a member of the RCEP in 2013.

China started the regional FTA with ASEAN as a whole and tried to integrate its economy with East Asian countries in order to expand their markets on the one hand, and to create its regional supply chains on the other. In order to meet the target, China preferred to adopt the ASEAN+3 framework initiated by Korea, while Japan proposed the ASEAN+6 framework. The disagreement between the two nations stemmed from a rival relationship in East Asia, and they focused on maximizing their national economic interests. As a result, ASEAN proposed the RCEP to assume leadership of the group and respond properly to the evolution of the tri-lateral FTA between China, Japan, and Korea as well as the TPP [Hamanaka, 2014; La, 2017].

Originally, East Asian regionalism was initiated by Japanese investment and transport of production in the end of the 1980s. However, since Chinese rise in the 2000s, and its surpassing the Japanese economy in 2010, China took over the economic leadership in the region and became a regional hub for trade and production that has accelerated economic integration and generated sustainable growth. In East Asia, two mega FTAs such as the RCEP and the TPP later turned to the CPTPP are competing for the leadership of the East Asian economic integration with each other. It illustrates that the U.S. and China have entered a competitive stage in the region until the U.S. maintained its leadership in the TPP [Kim, 2015; Park, Pasierbiak, 2018].

China's strategies to pursuit the RCEP are based on three fold motives. Firstly, China had to respond to the strategic repositioning of the U.S. in the Asia Pacific named as Asian Pivot Policy of the Obama government in 2008. China's rise in the 2000s created deepening East Asian economic cooperation and at the same time caused strategic vigilances among Southeast Asian countries. The U.S. legitimated its new regional presence in terms of rebalancing in the Asia Pacific and tried its strategic engagement in the region as a facilitator for the East Asia's

integration into the global order based on the establishment of the TPP [Clinton, 2011; The White House, 2012].

Secondly, Chinese domestic debates relating to the renewed identities and its regional and global roles in changing self-image as an economic superpower known as G2 influenced economic and foreign policies as an intervening factor. It focuses on strengthening the regional and global trade order particularly in the Asia Pacific region that is based on China's FTA policies for the economic diplomacy [Jiang, 2010].

Lastly, but not least China has promoted the RCEP as a part of the outcome of the strategic thinking on the regional leadership in the face of the U.S. rebalance in the region. It regards the RCEP as a tool for regional economic integration with neighboring countries in a structural dimension of rivalry with the U.S. China also thinks that close relations with countries in the region play a significant role in selecting and determining the path of the RCEP negotiation and agreement in which direct interactions between regional and Chinese officials take place. It could contribute to increasing mutual economic and political interests in the region as well as China's interaction with East Asian neighboring countries [Kim, 2015].

Japan's strategy regarding the RCEP was to use China to improve its TPP negotiation position vis-à-vis the U.S. China and Japan disagreed how to set agenda in the RCEP. The former mainly wanted to set the RCEP for the trade in goods with ASEAN+3, while the latter approached a comprehensive trade in goods and services including investment and intellectual property rights (IPRs) with ASEAN+6. After Japan secured a seat at the TPP negotiation table backed by the U.S. support, it resumed its agenda setting vis-à-vis China and the RCEP negotiations. As a result, Japan was able to enforce China to include investment and IPRs issues in the RCEP with violations subject to dispute settlement. The core point of Japanese strategy for the RCEP is to check and balance the expansion of Chinese influences in the Asia Pacific region by using the U.S. economic and political power in the TPP and forming alliances with Australia and India participating in the RCEP. Overall, it focuses on checking and controlling the Chinese expansion in the region with the participation in the two mega FTAs, while cooperating with its close allies such as Australia, India, and the U.S. at once [Hamanaka, 2014; Terada, 2013].

India had been a part of the RCEP negotiating process since the Japanese idea of ASEAN+6 was accepted in the RCEP. Its strategy for the RCEP is based on the three pillars; Firstly, India focuses on increasing its presence in Southeast and East Asian markets. Secondly, it tries to build a closer relationship with ASEAN as an institution based on geographical proximity, historic and cultural heritage between the two parties. Lastly, it is keen to increase connectivity with Northeast Asia and Oceania that could bring investment, high technology, and raw materials to India [Panda, 2014; Palit, 2019] (see table 1).

Table 1. Strategies of China, Japan, and India for the RCEP

	China	Japan	India
Strategies	1) Responding to the strategic repositioning of the U.S. in the Asia and Pacific region 2) Renewing its identity as an economic superpower and influencing regional and global trade order 3) Playing regional leadership in the region	1) Improving its TPP negotiating position 2) Initiating agenda setting such as investment and IPRs 3) Checking and controlling Chinese expansion in the region by using alliances' power	1) Focusing on market expansion 2) Building closer relations with ASEAN 3) Increasing connectivity with Northeast Asia and Oceania

Source: Adapted by the author.

India's withdrawal from the RCEP

The RCEP negotiations concluded at the 3rd ASEAN Summit in Bangkok in Nov. 2019 after 29th round of negotiations since May 2013. The 15 RCEP member nations without the Indian participation agreed to commence preparation of the legal text of the agreement composed of 20 chapters for signing in 2020. India was the only member country to reject the agreement due to significant outstanding issues that are mostly confront by domestic economic conditions.

Domestic pressures made Prime Minister Modi to withdraw India from the RCEP although it had participated in the negotiations actively from the beginning in 2013. Therefore, India's decision surprised other member nations at the last negotiation. It indicates that disengagement with other trade partners or blocs become a prominent direction of India's trade policy because domestic protectionist views and interests are successfully able to undermine outward oriented economic policy. In India, the RCEP has never been supported by the business and economic groups because it is regarded as de facto FTA with China notwithstanding the presence of other major economies such as ASEAN, Japan and Korea in the group. The trade with China in the RCEP means India that Chinese imports increase even more rapidly because the RCEP grants China preferential access comprehensively. It could increase Indian trade deficit with China even larger than now that is the main concerns of Indian perspectives [Palit, 2019].

India suggested a three tiered approach in the RCEP negotiations on trade in merchandise goods. It involves tariff concessions or elimination on 80 percent lines for ASEAN countries, 62.5 percent for Japan and Korea, and 42.5 percent for Australia, China, and New Zealand. Despite the lowest level of tariff elimination for China in the RCEP member nations, the trade deficit with China increased to USD 53.6 billion in 2018 that was 62 percent of the total trade deficit in the same year. India's trade deficit accounted for USD 87.1 billion in 2018. Moreover, a deep consternation over the unbalanced trade between China and India has existed. Indian government agencies and industries have recognized the India's dependence on China's imports and Indian's inability to develop a broad industrial manufacturing base compared with China. These resulted in the limitation of the RCEP's acceptability from the beginning because India fears more Chinese imports flooding to the Indian economy. Additionally, a traditional geo-political discomfort toward China also plays a role in avoiding the RCEP agreement among the domestic interest groups [Seshadri, 2017; Palit, 2019; The World Bank, 2020b].

India is the third largest economy in the RCEP after China and Japan. Its GDP accounted for USD 2.7 trillion in 2018 that was c.a. 10 percent of the total output in the RCEP. Indian economy was more or less the same size of the whole ASEAN member nations. Its trade volume in merchandise goods reached to USD 1.2 trillion in the same year that was the fifth largest volume in the RCEP member nations. The trade volume was lower than the Korean trade volume because India does not pursuit outward trade policy for its economic development strategy. Despite the withdrawal of India, the RCEP will not be affected seriously because of its limited GDP share in the total share of the RCEP member nations. Additionally, the other mega FTA in the region, the CPTPP has also been shrunk due to the U.S. withdrawal. The U.S. GDP accounted for c.a. 65 percent of the TPP's output. Therefore, the RCEP will still remain the largest mega FTA after the India's withdrawal and play a dominant role in the Asia Pacific region [The World Bank, 2020; Park, 2017] (see Table 2, Fig. 3).

*Table 2. GDP and Trade Volume of Merchandize Goods in the RCEP Member Nations
(As of 2018)*

Member Nations	GDP (USD Trillion)	Trade Volume (USD Trillion)
ASEAN	2.9	2.8
China	13.6	5.2
Japan	5.0	1.9
India	2.7	1.2
South Korea	1.6	1.3
Australia	1.4	0.6
New Zealand	0.2	0.1
Total	27.4	13.1

Source: [The World Bank, 2020b].

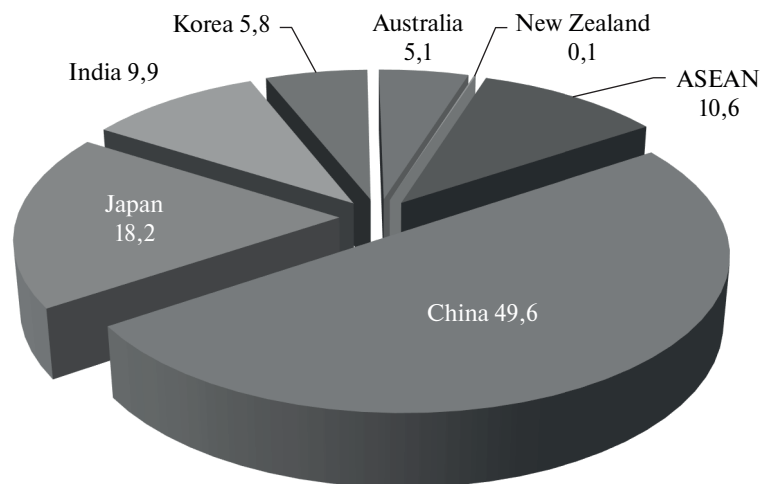


Fig. 3. Share of GDP in the RCEP Member Nations (As of 2018, %)

Source: [The World Bank, 2020b].

Analysis on the RCEP and the India's Withdrawal

The RCEP and the regional economic integration in Asia

The RCEP member nations have intensified their economic integration since the 1990s. ASEAN initiated the East Asian economic integration since its establishment in the early 1970s, and Japan took over its leadership to create the Asian Monetary Fund (AMF) in the early 1990s. However, the Japanese leadership in East Asia failed due to the U.S. pressure. After the Asian Financial Crisis (AFC) in 1997, Korea suggested a joint financial cooperation between ASEAN

and Northeast Asian countries that resulted in the Chiang Mai Initiative (CMI) in 2001. The CMI was the starting point for East Asian countries to cooperate with one another and support them jointly in the financial market that has played a significant role in integrating the regional economy. In fact, the regional production network (RPN) was already created by the Japanese industries in the 1990s, and Korea also participated in the regional supply chain (RSC). Finally, China has become a part of these since the 2000s [Park, Pasierbiak, 2018].

The economic cooperation between ASEAN+3 based on the RPN, the RSC, and the financial cooperation has contributed to increasing the regional economic integration in the region although there is no legal binding or institutions such as the European Union (EU) or the North American Free Trade Agreement (NAFTA). Despite the absence of the institutional approach, the ratio of the regional economic integration has been much higher than in the NAFTA, but slightly lower than in the EU in 2018. The regional economic integration in Asia has increased rapidly since the 1990s. It was initiated by Japan, and Korea followed. After the Chinese participation in the process of the regional economic integration based on intra-regional trade, its role as an economic leader increased rapidly since the 2000s [ADB, 2019] (see Fig. 4).

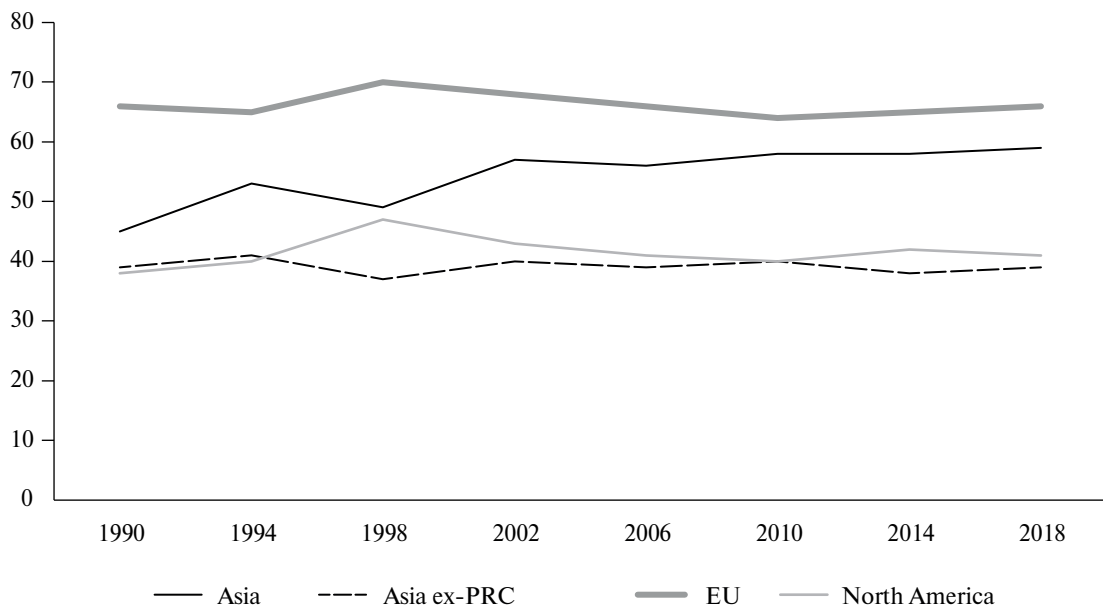


Fig. 4. Intra Regional Trade Share in Asia, the EU, and North America (As of 1990-2018, %)

Source: Authors own adaptation based on data from ADB, 2019ADB.

The regional trade is one of the most important factors to measure the regional economic integration along with foreign direct investment (FDI). In line with the process, intraregional trade shares in Asian countries increased across all sub-regions from 2010 to 2018. Among these, the Pacific and Oceania countries increased the highest intraregional trade share with 71.7 percent in 2018. South East Asian countries followed the second highest share with 69.3 percent in the same year. The intra trade share of East Asian countries accounted for 55.5 percent as the third highest share. During the same period, Central Asia's intraregional trade share increased mostly from 28.1 percent to 33.3 percent that is 18.5 percent increase. South Asia followed from 35.4 percent to 40 percent that accounts for 13 percent increase. Overall,

all sub-regions increased their regional intra trade share. It means that the leverage of the most of Asian sub-regional economies lay in Asia instead of the rest of the world. Even Central and South Asian economies try to catch up this trend rapidly. As a result, Asian economies are more dependent on one another than on the rest of the world in terms of the trade [ADB, 2019] (see Fig. 5).

Global FDI inflows fell in the three years raw from 2016 to 2018. It was estimated at USD 1.3 trillion in 2018 that accounted for a 13.4 percent decline from 2017. Despite the global slow-down of FDI, Asia was able to continue as the most important destination attracting 43.1 percent of the global total FDI. The FDI inflows to Asia increased 6.3 percent in 2018 compared with the amount of the FDI inflows in 2017. It means that Asia's inward FDI proved still bullish in 2018 despite the declining global trend. FDI to Asia in 2018 grew by 6.3 percent compared with 1.1 percent increase in 2017. This accounted for USD 559.7 billion that represented 43.1 percent of the global inward FDI. Asia was the largest recipient of the global inward FDI in the world. The top 10 destinations of the inward FDI in Asia were China, Hong Kong, Singapore, Australia, India, Indonesia, Vietnam, Korea, Thailand, and Japan.

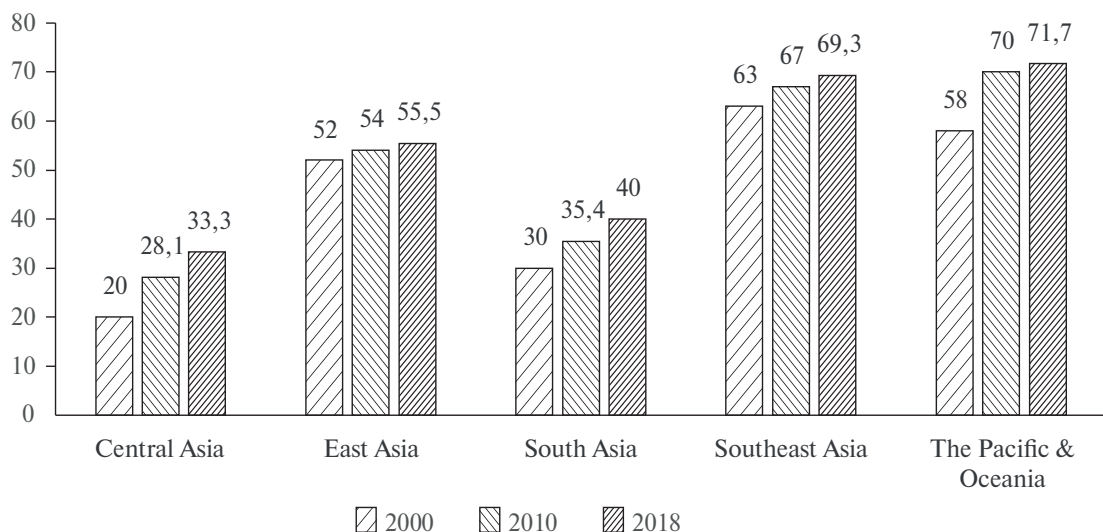


Fig. 5. Intraregional Trade shares by Asian Sub-regions (As of 2000~2018, %)

Source: Authors own adaptation based on data from [ADB, 2019].

At the same time, intraregional inward FDI has increased since 2001. It started to decline before the global financial crisis (GFC) in 2008, but increased again after the GFC and stabilized since 2010. It fluctuated around 50 percent of the Asian total FDI from 2010 to 2018. Intraregional activities such as industrial output, trade etc. relies on investment within sub-regions to a high extent. In 2018, intra sub-regional investment accounted for 28.8 percent of total inward FDI to Asia. At the same time, FDI across sub-regions regained from 2015 to 2018. The share of inter sub-regional investment increased to 19.4 percent in 2018. In sum, 48.2 percent of total FDI was invested either across or within sub-regions in Asia. The rest was invested to the rest of the world. It means that Asian countries invested around 50 percent of their FDI in Asia that contributed to increasing the regional economic integration along with the trade [ADB, 2019] (see Fig. 6).

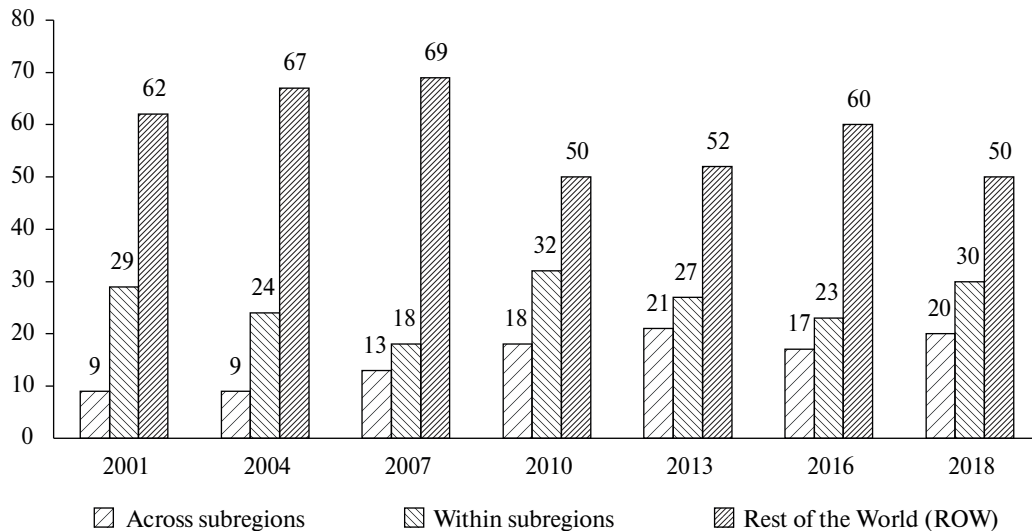


Fig. 6. Regional FDI Share in Asia (As of 2001~2018, %)

Source: Authors own adaptation based on data from [ADB, 2019].

Reasons for the India's Withdrawal from the RCEP

It was not expected that India decided on its withdrawal from the RCEP in the 3rd Summit Meeting in Nov. 2019. It surprised other member nations as well. However, there are several reasonable reasons why India had to withdraw its participation in the RCEP in the last minute. First of all, the Indian trade intensity with the RCEP was lowest with 24 percent in 2014, while ASEAN, Australia, and New Zealand accounted for 58.3 percent, 66.2 percent, and 57.8 percent respectively. The shares of Japan and Korea exceeded 40 percent of their global trade while Chinese trade with the RCEP accounted for 32.2 percent of its global trade in the same year. At the same time, India had the trade deficit in the intra RCEP trade with 40 percent of the total trade volume that was the highest share in the RCEP member nations. After India, Japan, China, and New Zealand followed the trade deficit. Among the RCEP member nations, ASEAN, Australia and Korea had the trade surplus in the intra RCEP trade. It means that India's position in the RCEP was the weakest compared with other member nations [Seshadri, 2017] (see Fig. 7).

Secondly, India has run a large trade deficit with the RCEP member nations. It has looked for specific protections its industry and farmers from a surge in imports. The India's trade deficit particularly with China increased from USD 44.8 billion in 2014 to USD 53.5 billion in 2018 that accounted for 50.9 percent of the India's total trade deficit with the RCEP member nations. India's trade intensity with the RCEP increased from 24 percent in 2014 to 25.5 percent in 2018 slightly that was still the lowest among the member nations. At the same time, the share of intra RCEP trade deficit also improved from 40.3 percent to 35.5 percent during the same period substantially. Generally, the Indian trade relations with the RCEP member nations became better with increasing share of exports and declining share of trade deficit in the intra RCEP trade since India participated in the RCEP negotiations in 2013. [Panda, 2019; Sarma, 2020] (see Fig. 8)

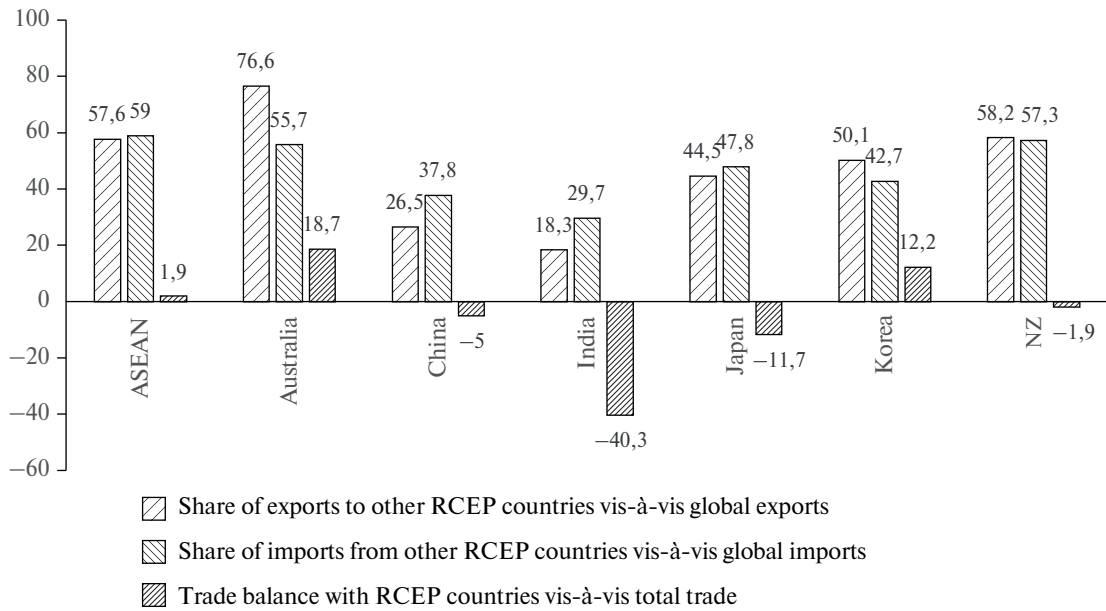


Fig. 7. Shares of Intra RCEP Trade Among the Member Nations (As of 2014, %)

Source: [Indian Government, Department of Commerce, 2017].

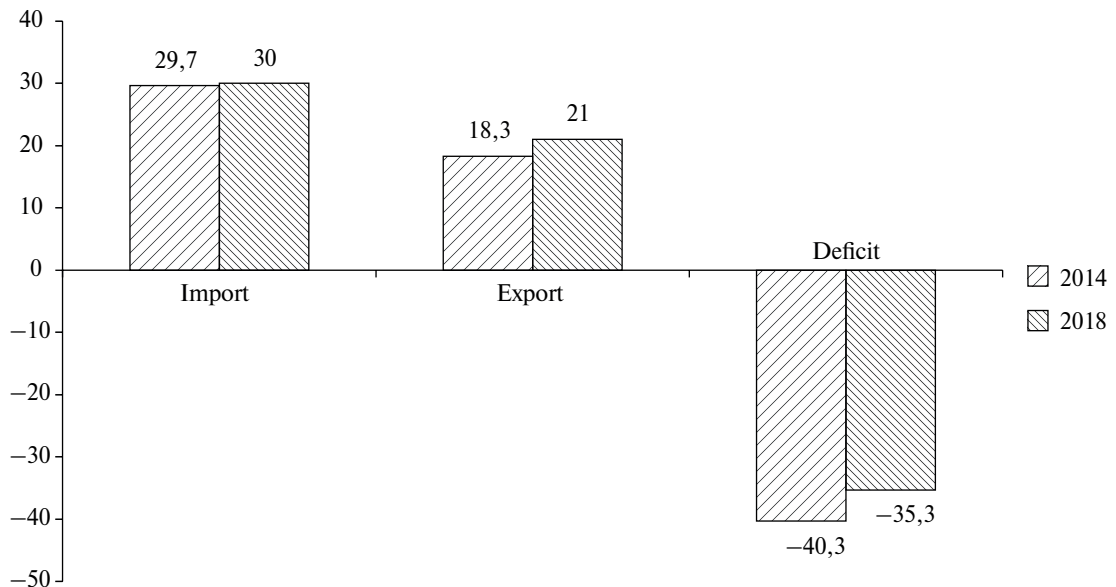


Fig. 8. Indian Shares of Intra RCEP Trade (As of 2014~2018, %)

Source: [Government of India, n. d.].

However, the import from China increased rapidly from USD 58.2 billion to USD 70.3 billion, while the Indian export to China increased only from USD 13.4 billion to USD 16.8 billion. The trade gap has tremendously grown since China's accession to the World Trade

Organization (WTO) in 2001. Therefore, it is an important matter of concern for India how the wave of liberalization under the RCEP with further reducing tariff lines would worsen the large size of trade deficit with China. The import of Chinese manufacturing goods and dairy products from New Zealand are the main worry for Indian industries and farmers that resulted in the withdrawal of the RCEP deal [Panda, 2019; Palit, 2019; Sarma, 2020] (see Table 3).

Table 3. Indian Trade with the RCEP Member Nations (As of 2018, USD billion)

Member Nations	Import	Export	Trade Deficit
China	70.3	16.8	53.5
ASEAN	59.3	37.5	21.8
South Korea	16.8	4.7	12.1
Australia	13.1	3.5	9.6
Japan	12.8	4.9	7.9
New Zealand	0.6	0.4	0.2
Total	172.9	67.8	105.1

Source: [Government of India, n. d.].

Last, but not least, a strong domestic political pressure against the RCEP increased that has burdened the Modi government to agree the RCEP deal. In fact, the Indian position on the RCEP deal has been unclear. India changed its position from actively defending why India needed to participate in the RCEP in order not to be isolated in Asia to the decision on withdrawing from the RCEP negotiations in the name of national interests in 2019. In Oct. 2018, the Prime Minister Modi announced that India will not be a part of the RCEP because it does not reflect the basic spirit and guiding principles. After the 3rd ASEAN Summit, the Indian Ministry of External Affairs officially mentioned that the reasons have been conveyed to the RCEP member nations and that the final outcome was not fair and balanced to India [Government of India, 2019].

Risks and Hopes for India after the Withdrawal from the RCEP

Joining the RCEP would have made India a part of the rule making body to be the largest mega FTA in the world. It could also push India highly needed domestic reforms to make the manufacturing sector more competitive that Modi government targets under name of Make in India. However, the Indian government has faced tremendous political pressures from the various industrial and political organizations to not join the RCEP due to the current economic slow-down estimating the declining economic growth from 6.8 percent in 2019 to 5 percent in 2020. However, the economic growth declined to minus 10.3 percent in 2020 due to the COVID-19 Pandemic. Therefore, various ministries such as agriculture, steel, chemicals etc. had also opposed the RCEP agreement [Chakraborty, 2019; Panda, 2019; Sarma, 2020; IMF, 2021]

It means that the Indian government without the participation in the RCEP has to take a high risk to lose its opportunity to reform the manufacturing sector and strengthen its trade relationship with other member nations in the long term perspective. India with abundant unskilled labor has a relatively low share of low-skill intensive exports in goods, whereas it has a high share of high-skill intensive exports in goods and services that has been rising continuously. The former declined from about 34 percent in 1995 to 20 percent in 2018, while the latter increased

from 42 percent to 65 percent during the same period. Therefore, Indian export oriented growth strategy after the withdrawal from the RCEP may face a high risk to weaken its competitiveness particularly in the manufacturing side in the region [Chatterjee, Subramanian, 2020a]

With the declining low-skill and rising high-skill intensive exports since 1995, the trade volume between India and the RCEP member nations increased rapidly. The Indian export with the RCEP member nation rose from USD 48.7 billion in 2010 to USD 67.8 billion in 2018, while the Indian import increased from USD 92.3 billion to USD 172.9 billion during the same period. As a result, the trade deficit grew from USD 43.6 billion to USD 105.1 billion that increased 241 percent within eight years. Therefore, it is no wonder that Indian government and industry fear that Indian participation in the RCEP can enlarge the trade deficit continuously that is also a high risk factor for the national economy in the short term. However, abandoning export orientation seems to get rid of the goose that lays golden eggs. Indeed, the withdrawal from the RCEP would result in constraints on public, corporate and household balance sheets [Government of India, n. d.; Chatterjee, Subramanian, 2020b] (see Table 3, 4).

Table 4. Indian Trade with the RCEP Member Nations (As of 2010, USD billion)

Member Nations	Export	Import	Trade Deficit
ASEAN	18.1	25.8	7.7
Northeast Asia (China, Japan, Korea)	28.9	53.5	24.6
Oceania (Australia, New Zealand)	1.7	13.0	11.3
Total	48.7	92.3	43.6

Source: [Government of India, n. d.].

Among the opposition groups against the RCEP, Swadeshi Jagrano Manch (SJM) organized a nationwide agitation against the RCEP deal in Oct. 2019. The SJM as an economic group protecting local products and indigenous producers was affiliated with the politically influential Rashtriya Swayamsevak Sangh (RSS) that supported Modi-led political party, BJP in order to win the general elections in 2014 and 2019. Therefore, the agitation against the RCEP organized by the RSS supported groups was one of the strongest signals for the Modi government to withdraw from the RCEP deal.

In addition to the fears of increasing Chinese imports, the dairy industry also played an important role in opposing the RCEP deal. India produces nearly a tenth of global milk production mostly in Modi's home state of Gujarat. The Gujarat Cooperative Milk Marketing Federation (GMMF) attacked on the RCEP deal because it could damage the local small dairy producers. The perception of distrust to the RCEP is a wide set of constituencies gaining greater political supports than opposing highly skilled professionals having little support from political lobbies [Palit, 2019].

As a result, India turns again to inward and hopes that its withdrawal from the RCEP can contribute to revitalizing domestic market and generating economic growth further. Domestic demand is regarded as primacy over export orientation, and trade restrictions increase at the same time. This shift is based on three misconceptions such as a big domestic market size, economic growth based on domestic not export markets, and a de-globalizing trend. However, the domestic market oriented strategy could harm large export opportunities requiring more openness and more global integration [Chatterjee, Subramanian, 2020b].

Conclusion

The RCEP started its negotiations in May 2013. Since then, the 16 RCEP member nations had held their negotiations 28 times and finally agreed all 20 chapters from the trade to the investment-state dispute agreement (ISDA) in the 3rd ASEAN Summit Meeting in Nov. 2019 and signed the RCEP agreement in Nov. 2020 although India did not participate in it.

The RCEP was initiated by ASEAN, China, Japan, and Korea and agreed to start the negotiations based on the ASEAN centrality due to the strong rival between China and Japan in the region. However, in fact, the RCEP started to be led by China because of its overwhelmed economic power in the region that accounted for around 50 percent of the total output in the RCEP, while the Japanese output was about 18 percent of the total output in 2018. Despite the fact, Japan succeeded in including investment and IPR issues in the RCEP negotiations that contributed to increasing the quality and level of the mega FTA. At the same time, the RCEP negotiations led by China weakened the position of ASEAN centrality because its trade dependency on China has increased substantially since the ASEAN+1 FTA in 2001.

The strategic approaches of the three major economies in the RCEP are various for maximizing their national interests. China focuses on responding the repositioning of the U.S. policy in Asia, strengthening its identity as an economic superpower, and promoting its regional leadership in the Asia Pacific region, while Japan pursues to improve its position of negotiations in the TPP, to set agenda in the RCEP, and to check and control Chinese expansion in the region. India's strategies are mainly market expansion, close relation with ASEAN, and increasing connectivity with Northeast Asia and Oceania.

Despite its clear strategic approach to the RCEP, India decided on the withdrawal from the RCEP because of its internal economic and political reasons. India participated in the RCEP negotiations from the beginning and planned to develop its manufacturing industries by accessing to the regional market in the RCEP and the global market based on its trade policy. However, Indian general paranoia on increasing imports from China caused strong fears and spread protectionist movement instead of trade oriented policy direction. The Modi government could not overcome the domestic pressures to protect domestic products and producers although India improved its trade relations and deficit with the RCEP member nations from 2014 to 2018.

The main question is whether the RCEP can be successful without the Indian participation in the RCEP or not. Indian economic share among the 16 RCEP member nations accounted for 9.9 percent in 2018. It is also a large market with nearly 1.4 billion populations. At the same time however, its level of economic development is based on primary industrial sectors so that the market power is limited although it has a high growing potential of domestic market in the future. Overall, the RCEP can function as the largest mega FTA in the world without the Indian participation and it will attract India continuously in the future. By contrary, India will lose her large export opportunities, especially in labor intensive sectors in the region. Additionally, the RCEP has a stronger position than the CPTPP in the Asia Pacific region because of the U.S. withdrawal from the TPP. It will be valid till the Biden government decides on returning to the TPP in the future.

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Trade Service Agreement between Vietnam and the EAEU and The Formation of Negotiation Strategies on New Agreements in the Service Sector: The First Results¹

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Abstract

In the last decades, the importance of trade in services in global trade flows has grown from strength to strength. This trend has stimulated the proliferation of bilateral and multilateral trade agreements aimed at ensuring equal and fair access for service providers to foreign markets. The states of the Eurasian Economic Union are no exceptions to this global trend and strive to ensure free trade in services with foreign partners as a part of trade policies.

The article analyzes theoretical and practical aspects of implementing the provisions on trade in services of the Free Trade Agreement between the EAEU and Vietnam, specifically applied on Russia and Vietnam. The results of the Agreement implementation are instrumental in formulating the main contributions of the strategy that will increase the efficiency of future agreements on trade in services between the EAEU and foreign partners. The following strategy has already been applied on the example of service sector cooperation between Russia and Singapore. The emphasis of the study is quite universal, and the contributions of the strategy are applicable to other regional associations.

Key words: regional trade agreements; trade in services (service trade); schedules of specific commitments; free trade agreement between the EAEU and Vietnam; free trade agreement between the EAEU and Singapore

For citation: Zuev V., Ostrovskaya E., Vasileva E. (2021). The Trade Service Agreement Between Vietnam and the EAEU and The Formation of Negotiation Strategies on New Agreements in the Service Sector: The First Results. *International Organisations Research Journal*, vol. 16, no 2, pp. 183–203 (in English). DOI: 10.17323/1996-7845-2021-02-09

¹ The editorial board received the article in February 2021.

Introduction

In six years, since the foundation, the Eurasian Economic Union and the Member States have concluded several trade agreements, including Vietnam, Iran, Serbia, and China, while continuing to develop in the field. Other agreements, specifically with Singapore (in terms of service trade and investments), Egypt, Israel, and India are still held at different stages of the negotiation process. The new trade agreements requires considering the experience of concluding and implementing previous agreements in order to increase the effectiveness of the ones in the future.

The purpose of the following stud² is to identify the depth of the liberalization of trade in services between Russia and Vietnam. On the basis of the following agreement, it will be possible to analyze the results of its implementation, and to build a strategy pattern for the formation of specific commitments that may liberalize service trade and increase the effectiveness of future agreements afterward.

The steps to achieve the goal are listed below:

- analyzing key contributions on the regulation of trade in services under the multilateral trading system and regional trade agreements;
- analyzing of the agreements reached within the framework of the national contributions of specific commitments on trade in services between Russia and Vietnam;
- analyzing the results of the implementation of agreements between Russia and Vietnam on the basis of mutual trade flows data;
- evaluating the positive and negative effects of the commitments on trade in services between Russia and Vietnam;
- shaping the contribution of the negotiation strategy on the formation of commitments on trade in services under the Free Trade Agreement between the EAEU and the Republic of Singapore (using the example of Russia);
- offering the universal interpretation of the results of the implementation of the agreement.

The study of free trade agreements in terms of services sector has not yet found proper reflection in the scientific literature. However, in the last decade, this topic has acquired particular relevance, since the role of services in international trade is constantly growing. The agreement-based framework on regulating trade in services is constantly being expanded by new agreements. Yet, there has not been a proper theoretical and practical assessment of the quality of expanding these agreements with specific commitments that stimulate the trade in services.

This work is intended to partially fill this gap. Many scholars have studied certain aspects of the formation of free trade agreements and national schedules of specific commitments in terms of services between partnering countries [Roy, 2019; WTO, 2019; Gootiiz et al., 2020]. A number of articles by Russian researchers are devoted to assessing the effects of the concluded free trade agreement between the EAEU and Vietnam. However these works are mostly devoted to the analysis of the scope of the agreement [Vityuk, 2020; Ushkalova, 2018], as well as the impact of the agreement on trade in goods flows between the participating countries [Yakovlev, Glinkina, Turaeva, 2018; Tomilov, 2020]. We were unable to find a detailed analysis of the

² This research was prepared under the supervision of the Faculty of World Economy and International Affairs, of the National Research University Higher School of Economics.

impact of specific commitments on trade in services and a critical assessment of the missing elements in the basic provisions of the Agreements in the mastered scientific literature.

Preconditions for the Shaping of a System for Regulating Trade in Services under Regional Trade Agreements (RTAs)

The rapidly growing number of regional trade agreements as a tool for regulating relations between partner countries has become an important feature of modern international trade. Such agreements are aimed not only at reducing customs duties, as it was in the beginning of the RTS development. It also includes expanded regime provisions on services and investments, as well as a number of non-regime chapters that contribute to trade liberalization (specifically, the chapters on technical barriers, sanitary and phytosanitary measures, intellectual property, competition).

The spread of RTAs on trade in services is connected with the establishment of the fundamental rules in the late 1990s, within the multilateral trading system of regulation, and along with the significant increase in the share of trade in services in the global volume of trade. Between 2000 and 2019, the share of trade in services in global GDP increased from 9.2% to 13.5% [World Bank, n. d., b]. The share of services in the structure of world trade in goods and services also increased – from 21% in 2000 to 25% in 2019 [Ibid.]. According to the latest data of 2015, the share of services in trade in the equivalent of value added (which is 49%)³ is not inferior to the commodity at all.

With the increase in global trade in services, the need for multilateral regulation of the sector has increased to create a transparent, non-discriminatory and predictable environment for services providers around the world. The General Agreement on Trade in Services (GATS) was signed during the Uruguay Round, and entered into force in 1995. The GATS has laid the fundamental basis for multilateral rules for trade in services, identified four possible modes of supply of services: cross-border supply, foreign consumption, commercial presence, private entity transfer. The GATS establishes such basic principles in service trade as most favored nation treatment, transparency, and the possibility of revising administrative decisions. The GATS also provides for the WTO member countries to take a number of commitments to provide national treatment and market access for foreign service providers. The multilateral agreement on trade in services has made it possible to fix the basic rules, protecting market participants from the instability of trade regimes. However, since the late 1990s, there have been no major decisions affecting trade in services within the WTO. At the same time, the need for new regulations has risen, which led to the transition of the liberalization of trade in services to the RTS format.

First Results of the Implementation of the Free Trade Agreement between Russia and Vietnam in Terms of Trade in Services

Being formed in 2014, the Eurasian Economic Union (EAEU) including the Republic of Belarus, the Republic of Kazakhstan, the Russian Federation, as well as the Republic of Armenia and the Kyrgyz Republic (the states that became full members of the Union in 2015) has chosen a strategy for concluding RTAs as one of the priorities of cooperation with the third countries. According to the Article 38 of the Treaty on the Eurasian Economic Union (“Foreign Trade in Services”), the Union does not have supranational competence in the field of trade in services

³ Calculated by the author based on OECD data. Trade in Value Added Database [Electronic resource]. URL: https://stats.oecd.org/Index.aspx?DataSetCode=TIVA_2018_C1

with third countries, therefore each Member State has the right to independently determine its trade policy in relation to trade in services, establishment, activity, and investment with third countries and conclude international agreements on economic integration in the field of trade in services and investments [Treaty on the Eurasian Economic Union, 2014, Appendix 16, Para. 6, Section VI].

Within the framework of the already signed free trade agreements, there is a section on trade in services only in the Agreement between the EAEU and Vietnam. However, this is a non-standard format, as the scope of Chapter 8 [VN-EAEU FTA, 2015] ("Trade in services, investment and movement of natural persons") is limited to the bilateral Russia-Vietnam pattern, while all other chapters of the agreement cover five EAEU Member States and Vietnam.

The first round of negotiations on trade in services, investment and the movement of natural persons was launched in March 2013, when the EAEU was not yet formed, and negotiations took place between the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation, on the one hand, and Vietnam, on the other hand. After several rounds of negotiations, the Republic of Kazakhstan and the Republic of Belarus changed the status of direct participants and parties to this section to observers. However, Article 8.9 ("Accession") reserves the right of other EAEU Member States to join this chapter later.

In order to identify what preferences Russia was able to fix for its national services providers, it is necessary to pay attention to the schedules of specific commitments of the parties. According to the international practice, at the moment of concluding free trade agreements in terms of trade in services, three formats for compiling schedules of specific commitments can be used [Group Author, 2017].

A positive format for the formation of schedules of specific commitments for trade in services involves fixing only those sectors in respect of which a party guarantees a certain level of access to its market for foreign services, service providers, investments and investors. Within the framework of the list, for each included sector, the commitments are formed separately for each of the four modes of supply. The use of this format is based on the provisions of the GATS.

The negative format of the schedules of specific commitments implies the fixation of only specific sectors, subsectors and restrictions (prohibitions) in relation to them, which one party can establish in relation to the access of foreign services, suppliers, investments and investors in their national market. In all sectors that are not listed, the party guarantees the ability to access its market without restrictions. Countries in the America, such as the North American Free Trade Area (NAFTA), began to use some of the first listing formats. The "Negative schedule" section also divided into two parts: one of which includes a list of "current" restrictions, and the other includes "future" restrictions. The list of "current" restrictions includes measures that are already applied in its territory and are restrictive for foreign services, services providers and investors. In the list of "future" restrictions, a party includes subsectors or measures in them, the right to apply to which it reserves in the future. The third format of schedules of specific commitments in trade in services is a mixed format that combines the two previous formats.

In the lists for Chapter 8, which regulates the terms of trade in services, investment and movement of individuals, the Russian Federation and Vietnam have chosen a combined format. Cross-border supply of services, consumption abroad, and movement of natural persons are regulated on the basis of "positive lists", while commercial presence is based on "negative lists". To analyze the degree of liberalization of market access recorded between the two Parties, a comparison was made of the commitments recorded by them in the lists to Chapter 8 of the Agreement and in the framework of the lists to the GATS.

In the course of the analysis of the liberalization of commitments made by the Parties under the chapter on trade in services, investment and movement of natural persons (see Appendix 1), it was found that neither Party has provided the other with any significant conces-

sions on access to its services market. Thus, the results revealed do not allow us to announce a significant degree of liberalization of bilateral trade in services, in comparison with the already agreed upon by them in the framework of the WTO. Accordingly, the consequences of such liberalization turned out to be minimal.

However, for a more complete picture of the results of the implementation of the Agreement, in addition to the legal component, it is necessary to take into account the first practical results of the implementation of the Agreement in the framework of bilateral trade in services between Russia and Vietnam. In general, trade in services between the Russian Federation and Vietnam has been steadily increasing since 2012, with the exception of short-term minor declines in 2015 and 2018 (see Fig. 1). However, if we analyze the structure of this turnover, it is clear that the Russian Federation, both before and after the entry into force of the Agreement, is a net importer of services from Vietnam. In 2019, the import of services from Vietnam to Russia exceeded the export of Russian services to Vietnam by 4.4 times, which indicates a rather low competitiveness of Russian services in the Vietnamese market.⁴

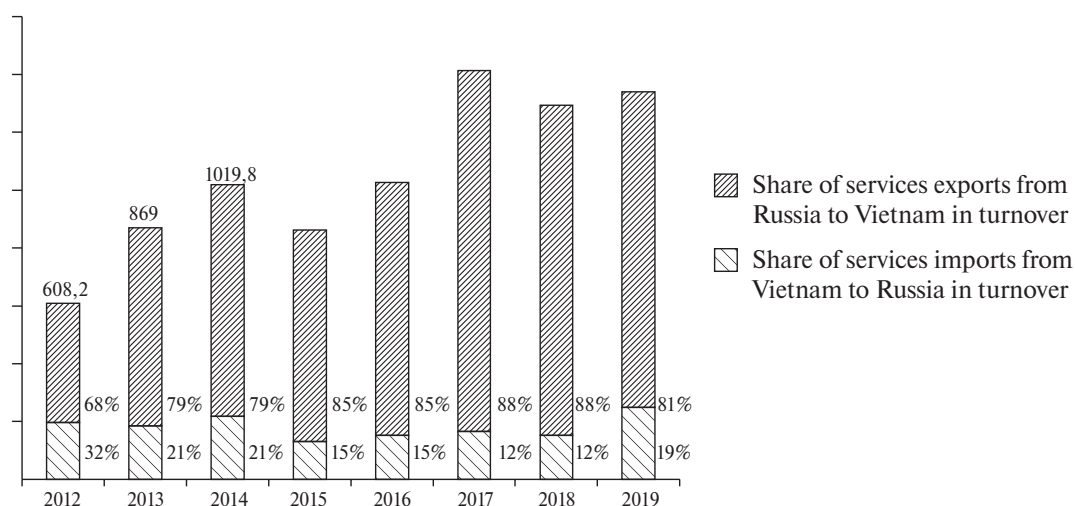


Fig. 1. Dynamics of trade turnover of services between Russia in Vietnam, million US dollars

Source: Compiled by the authors based on data from the Bank of Russia. Statistical collection “Foreign trade of the Russian Federation in services”, 2020 [Electronic resource]. Available at: https://www.cbr.ru/Collection/Collection/File/31434/External_Trade_in_Services_2019.pdf

Exports of Russian services to Vietnam from 2012 to 2019 varied from USD 197.6 million to the maximum value in 2019 – USD 248.1 million. After the signing of the Agreement in 2014, the export of Russian services to Vietnam collapsed by 40%. The entry into force of the agreement in 2016 did not greatly affect the volume of exports of Russian services to the Vietnamese market – the volume fluctuated between 150–160 million US dollars, that is, at a level lower than before the conclusion of the Agreement. In 2019, the volume of exports reached its maximum value in 7 years, however, despite such a jump, the general trend in the export of Russian services to the Vietnamese market cannot be called positive (see Fig. 2).

⁴ Authors’ calculations based on data from the Bank of Russia. Statistical collection “Foreign trade of the Russian Federation in services”, 2020. [Electronic resource]. Available at: https://www.cbr.ru/Collection/Collection/File/31434/External_Trade_in_Services_2019.pdf

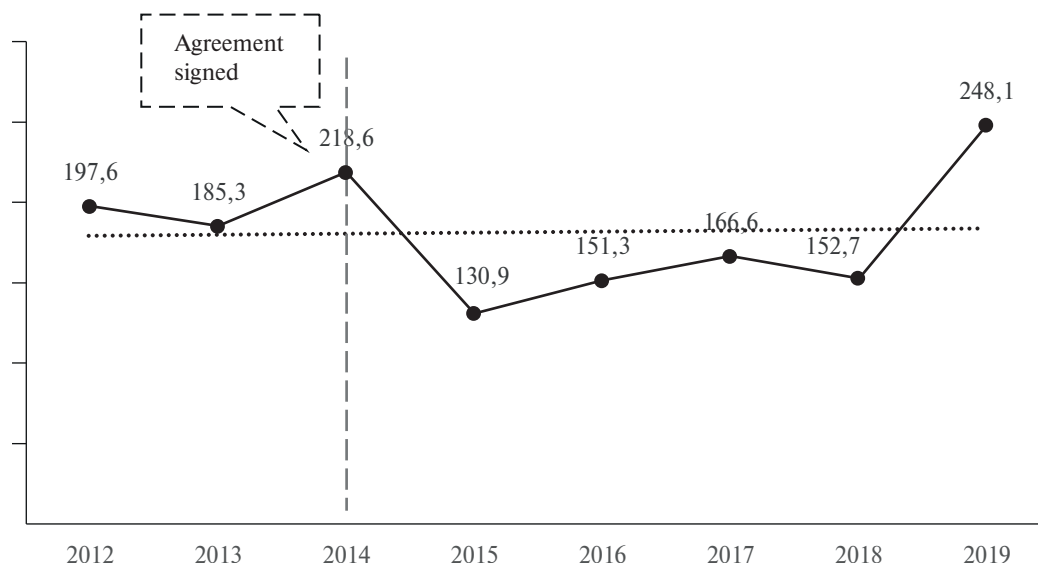


Fig. 2. Dynamics of export of services from Russia to Vietnam, million US dollars

Source: Compiled by the authors based on data from the Bank of Russia. Statistical collection “Foreign trade of the Russian Federation in services”, 2020 [Electronic resource]. Available at: https://www.cbr.ru/Collection/Collection/File/31434/External_Trade_in_Services_2019.pdf

There was also no diversification of the types of Russian services exported to Vietnam. In both 2014 and 2019, the largest share was accounted for by groups such as transportation, travel⁵ and other business services (see Fig. 3). However, despite the wide range of exported services, their quantity and value are small, and the share of Russia in total imports of services by Vietnam is insignificant (less than 1%).

In 2016–2019, there was a significant increase in Russian exports in the section of transport services (from \$ 23.4 million in 2016 to \$ 84.2 million in 2019), travel (from \$ 54.9 million in 2016 to \$ 82.5 million in 2019) and telecommunications, computer and information services (from \$ 3.4 million in 2016 to \$ 5.3 million in 2019) [Central Bank of the Russian Federation, 2020]. However, the Vietnamese side did not additionally open market access in these sectors under the Agreement.

Based on the foregoing, it can be concluded that the implementation of the Agreement did not directly have a significant impact on the volume and structure of trade in services between the Russian Federation and Vietnam. It can also be stated that the study of the schedules of specific commitments undertaken by the Parties in the framework of trade in services and analysis of statistical data on the dynamics and structure of bilateral trade in services showed that the agreements concluded between Russia and Vietnam regarding trade in services did not have a significant impact on the existing trade flows between the parties. They served only as an additional background to demonstrate the liberalization achieved in the commodity part.

⁵ In accordance with the Methodology of the Central Bank of Russia, travel related to export of services includes temporary entries of non-resident individuals from a permanent place of residence to the territory of the Russian Federation and is defined as a set of expenses for the acquisition of goods and services in the Russian Federation for their own needs or for free transfer to other persons.

If the goal of real liberalization is to be set, a significant expansion of commitments under future agreements with foreign partners in terms of services will be required, especially in the sectors of greatest interest to domestic suppliers. The use of “negative lists” for all four modes of supply can also help to gain trade effects, as this format includes a broader coverage of the sectors and sub-sectors of services to which the commitments are made.

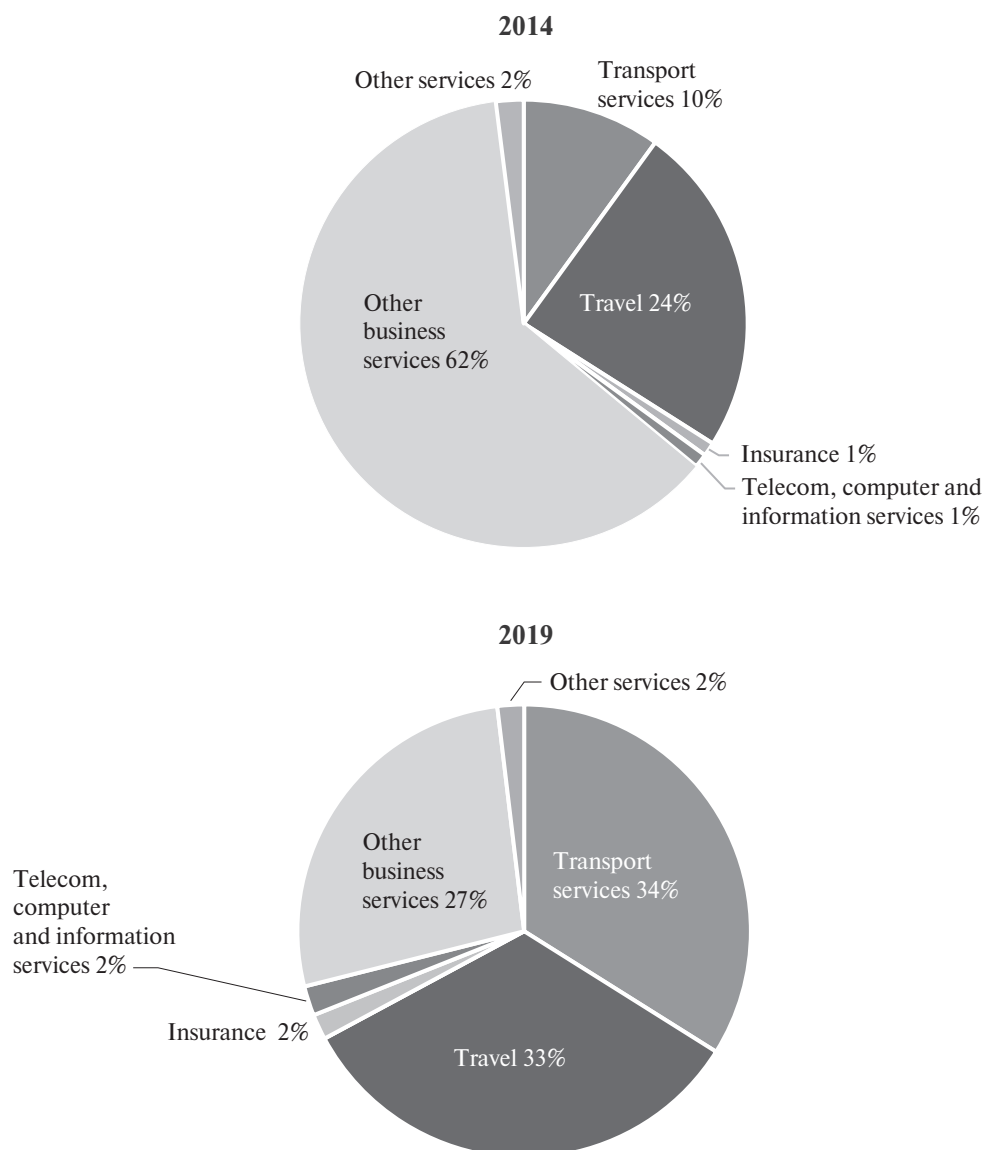


Fig. 3. Structure of export of services from Russia to Vietnam by sector in 2014 and 2019, %

Source: Compiled by the authors based on data from the Bank of Russia. Statistical collection “Foreign trade of the Russian Federation in services”, 2020 [Electronic resource]. URL: https://www.cbr.ru/Collection/Collection/File/31434/External_Trade_in_Services_2019.pdf

The Trade Format in Services between the EAEU, Russia and Singapore

After the agreement on a free trade with Vietnam, the EAEU continued to develop negotiation tracks for the signing of similar agreements with other countries. Among such agreements was the Agreement on a free trade zone between the EAEU Member States and the Republic of Singapore. Negotiations on the conclusion of a free trade agreement between the EAEU Member States and Singapore began in 2017. On October 1, 2019, the parties signed the Framework Agreement on Comprehensive Economic Cooperation, as well as the Agreement on Free Trade in Goods. As regards bilateral agreements on trade in services and investments, at the moment, only the Republic of Armenia was able to fully complete the negotiations, the rest of the EAEU Member States continue to conduct them in terms of the formation of bilateral schedules of specific commitments. The main reason for such a delay in the negotiations is that the Singapore services market, while having significant attractiveness, is already bound by a number of commitments to liberalize access (in particular, within the framework of such agreements as the Association of Southeast Asian Nations for Services, the Comprehensive and Progressive Trans-Pacific Partnership, Free Trade Agreement between the European Union and Singapore, etc.), which leads to a high level of competition between domestic and foreign suppliers in the most important sectors. In this situation, Singapore is not interested in attracting additional suppliers of the EAEU Member States to its market on the same preferential terms that have already been provided to other large partners. For this reason, the Member States of the Union need to form a convincing and concrete position to protect their interests in the liberalization of access to the Singapore market in certain sectors in order to maximize the effectiveness of the concluded bilateral agreements.

Note that Singapore is a promising partner in trade in services. The services sector is key to the Singapore economy, with services accounting for about 70% of the country's GDP (2019) [Statistics Singapore, n.d.]. In 2019, exports of services from Singapore accounted for 3.3% of the global volume of exports of services (9th in the ranking of world exporters of services). Imports of services by Singapore accounted for 3.4% of the total world imports (8th place in the ranking of world importers of services) [World Bank, n. d., a]. In addition, Singapore has extensive experience in participating in free trade agreements in terms of services – 21 agreements [WTO, n. d., a], including such major agreements as: Framework Agreement of the Association of Southeast Asian Nations on Services (after ASEAN), Comprehensive and Progressive Trans-Pacific Partnership (hereinafter referred to as CPTPP), Free Trade Agreement between the European Union and Singapore (after referred to as the EU-Singapore FTA).

Taking into account the conclusions made earlier on the section on trade in services between Russia and Vietnam, it would be advisable for the EAEU Member States to follow the upcoming strategy in order to conclude a profitable agreement in the framework of trade in services:

1) *Identify the sectors and subsectors of services in Singapore that may be of significant interest to national exporters of services of the EAEU states.* To do this, one can take into account statistical data on those services sectors that are already leading in the structure of exports of the EAEU Member State to Singapore, since in such sectors, suppliers will have the opportunity to further increase trade volumes with the possible liberalization of access conditions. You can also pay attention to the services sectors, which are leading in the structure of Singapore's imports from other countries. With additional liberalization of such sectors, even if they are not currently key in the exports of a Member State of the EAEU to Singapore, the Member State of the EAEU will have the potential to achieve additional diversification. In addition, in identify-

ing such sectors of significant interest, it is necessary to take into account the already existing infrastructure and the specifics of the functioning of each specific service market in Singapore;

2) *Analyze the commitments for the identified sectors undertaken by Singapore in the list to the GATS and lists of specific commitments in free trade agreements with the largest partners;*

3) *Analyze the national legislation in the identified sectors for the presence in the list proposed by Singapore to the EAEU Member State, restrictions that are not directly recorded in national legislation.* As noted above, international practice shows that the restrictions provided by national legislation are not eliminated within the framework of free trade zones.

As an example of the practical implementation of such a strategy, it can be examined in the context of bilateral relations between Russia and Singapore. In 2019, exports of services from the Russian Federation to Singapore amounted to \$681.99 million USA [Central Bank of the Russian Federation, 2020] (less than 1% of Singapore's total imports of services "from the world"). The structure of Russian services exports to Singapore is dominated by such sectors as: transport services (56%), business services (17.4%), telecommunications, computer and information services (11%), and construction services (7%).⁶ To determine the level of market access to these sectors, we will compare the commitments recorded by Singapore in the GATS lists and in the largest FTA of Singapore – ASEAN [ASEAN, 2018], TPP [CPTPP, 2016] and EU- Singapore FTA [EUSFTA, 2019]. The difficulty of comparing commitments in this case is primarily due to the different format of the lists used in the above-mentioned FTA (see Annex 2).

The ASEAN Services Framework Agreement uses "positive lists" for the first three modes of supply (other than the movement of natural persons⁷). The lists of ASEAN member countries are being reviewed on an ongoing basis with a view to liberalizing access conditions for foreign services and service providers. At the moment, the 10th package of commitments on trade in services (entered into force in February 2019) and the 8th package of commitments on trade in financial services (entered into force in April 2019) are in force. Under the CPTPP (for Singapore, entered into force on December 30, 2018), Singapore uses the "negative format" of the lists. The EU-Singapore FTA (entered into force on 21 November 2019) uses «positive lists» that include all four modes of supply.

When analyzing the lists of these agreements, it becomes clear that within the framework of the concluded FTA on trade in services, Singapore significantly liberalizes access to its market for the key sectors listed above, compared to the level recorded in the GATS list. Particularly notable is the liberalization in the transport services sector, where only two subsectors of maritime transport services (freight transport and maritime support services) have been granted access under the WTO. At first glance, the most liberal conditions for access to the Singapore market are provided to them under the CPTPP. According to the current measures in the transport services sector, Singapore in the CPTPP fixes only a few restrictions on auxiliary services for maritime transport⁸, air transport services and pipeline transport. However, in the list of future measures (which Singapore has the right to apply at any time and with any degree of restrictions), Singapore reserves a fairly large number of possible measures (for example, in

⁶ Compiled by the authors based on data from the Bank of Russia. Statistical collection "Foreign trade of the Russian Federation in services", 2020. [Electronic resource]. Available at: https://www.cbr.ru/Collection/Collection/File/31434/External_Trade_in_Services_2019.pdf

⁷ Issues related to the movement of natural persons within ASEAN are regulated by a separate Agreement – ASEAN Agreement on Movement of Natural Persons.

⁸ Only PSA Marine Pte Ltd or its successor is permitted to provide pilotage and desalinated water to vessels berthed in ports of Singapore or Singapore territorial waters Only PSA Corporation Ltd and Jurong Port Pte Ltd or their successors can provide cargo handling services. Only local service providers can provide cruise and ferry services.

such sectors as: auxiliary services for maritime transport, air transport services, rail transport services, road transport services, additional services for all modes of transport). In the pipeline transport sector, the restrictions fixed in all Singapore FTA are equivalent in terms of the size of the restrictions, which indicates a high probability that these restrictions are based on national legislation and the specifics of the market organization in this sector, and therefore are not removed under the FTA. As for a large number of future restrictions, the possibility of their removal may be subject to more detailed study in the negotiation process in the event of a free trade agreement with Singapore, since, as noted earlier, such restrictions often do not have a clear legislative basis.

In the business services sector, the Singapore FTA is also significantly liberalizing market access. In addition to the fact that the “positive lists” in both ASEAN and the EU-Singapore FTA record access to a much larger number of sectors than in the WTO. Moreover, in sectors where significant restrictions were recorded in the WTO (Services in the field of architecture, Services in engineering areas), access is provided without restrictions under the FTA.

The telecommunications and banking sectors are usually the most closed in the GATS country lists. Within the framework of ASEAN, access to this sector is not liberalized in any way and is fixed at the same level as in the WTO. The CPTPP and the EU – Singapore FTA removed restrictions on the maximum amount of foreign investment in operators), which leads to the conclusion that this restriction may be subject to discussion in the framework of concluding future free trade agreements with Singapore.

The computer services and construction services sectors have the maximum degree of liberalization under both the WTO and the Singapore FTA. That is, any additional work to remove restrictions in these sectors when concluding future free trade agreements with Singapore is not required.

We will also pay detailed attention to the commitments, legislative regulation and structure of individual subsectors of interest to the Russian Federation from the point of view of exports and Singapore from the point of view of imports. The main export volume of the business services sector from the Russian Federation to Singapore falls on such categories as services in the field of architecture, engineering services (39%); advertising, marketing, public opinion research (29% of the total export of business services from the Russian Federation to Singapore); consulting services and public relations services (7,65%) [Central Bank of the Russian Federation, 2020]. In the subsectors-advertising, marketing, public opinion research and consulting and public relations services, within the WTO and all the analyzed FTA of Singapore, access is already provided without restrictions.

With regard to architecture and engineering services, Singapore's GATS list provides for significant restrictions on commercial presence in these sectors. It should also be noted that in the national legislation of Singapore, restrictions are also fixed for these subsectors. Their removal from free trade agreements is most likely due to mutual recognition mechanisms, which is also subject to more detailed elaboration in the negotiation process when concluding a possible free trade agreement with Singapore.

In terms of transport services, the fundamentals of international regulation, as well as the specifics of Singapore's infrastructure, significantly narrow the areas of potential interest for Singapore in a possible free trade agreement in services. The sphere of inland water transport is extremely limited due to the small area of the state (the longest river in Singapore is the Kallang, its length is 10 km). There is no rail transport in Singapore. International air traffic and road transport, in accordance with global practice, are the subject of separate bilateral agreements.

The main interest may be the conditions of access in the subsector of maritime transport services, as well as support services for both maritime transport and other modes of transport. The interest in these subsectors is also confirmed by statistical data. Maritime transport ac-

counts for 75% of the total volume of transport services exported by the Russian Federation to Singapore, while 76.5% of the export of sea transport services is the export of auxiliary services for maritime transport.⁹

The analysis shows the possible directions of building a strategy for negotiations when concluding a free trade agreement on services, in this case – with Singapore. When setting the goal of improving the effectiveness of the agreement, the strategy should initially be based on a detailed study of the market access conditions offered by Singapore within its lists to the States of other associations (in our case, the Member States of the EAEU) in order to identify the sectors that are of greatest interest to service providers of each exporting state, and to identify among these sectors those in which it is most likely to achieve minimization of restrictions based on a comparative analysis of Singapore's commitments in other major agreements. This will become a kind of guide for choosing the sectors where liberalization will be most likely and most effective.

Effects of Free Trade Agreements in Services, a New Negotiating Strategy

As a result of the analysis, we come to a more complete understanding of the consequences of the introduction of a free trade regime for services. Access to the market for services and the application of the national regime for services are not unconditional, as in the case of goods. The reason lies in the differences in the nature of services compared to goods. When concluding agreements on free trade in goods, the key factor of effectiveness for each of the parties is the maximum reduction of import customs duties that are applied at the customs border of the importer in relation to the goods that the exporter supplies. After passing the customs clearance procedure, the goods enter the domestic market, where they should no longer face additional barriers.

The service does not have a material form, and therefore the crossing of any territorial borders by the service does not have a formal and procedural character, as in the case of goods. The terms of trade in services are determined only by the internal regulations of each country. The lists of restrictions on trade in services that countries draw up for free trade agreements, for the most part, are based precisely on the norms of national regulation. As practice shows, the probability that a country will make changes to its national legislation when concluding a free trade agreement with another country is extremely small.

Based on the protection of national services providers in the domestic market, as well as the security interests and social significance of certain subsectors of services (such as medical services, security agencies, etc.), the country reserves the right to additional restrictions from the application of the national regime for foreign service providers, which are not directly contained in its national legislation. However, such restrictions are highly likely to be fixed in agreements (on free trade) in the service sector with all partners of this country and their removal in a bilateral format will be problematic.

The schedule of specific commitments of a country to the GATS is the maximum level of restrictions that can be applied to it on access to its national market for foreign suppliers. In practice, given that many countries have fixed these lists to the GATS in the last century, and domestic regulation has changed significantly during this time, given the increasing dependence of the world economy on the services sector, a foreign service provider entering a new for-

⁹ Compiled by the authors based on data from the Bank of Russia. Statistical collection "Foreign trade of the Russian Federation in services", 2020 [Electronic resource]. Available at: https://www.cbr.ru/Collection/Collection/File/31434/External_Trade_in_Services_2019.pdf

oreign market is primarily guided by the norms of national legislation applied within this market, such as registration requirements, the maximum allowed amount of foreign capital, etc., as well as additional bilateral agreements between the parties on mutual recognition of qualifications and suppliers. The restrictions set out in the GATS and free trade agreements mainly serve as marginal benchmarks that ensure that foreign service providers' access does not deteriorate below a certain level.

Bearing that in mind, it could be argued that free trade agreements in the sphere of trade in services, in the form in which they are currently agreed upon (as in the observed case of the Agreement between Russia and Vietnam), will not introduce significant quantitative changes in flows of services, on the contrary to their possible occurrence in the trade of goods. It should also be taken into account that the restrictions imposed by the national legislation within the framework of free trade zones are not usually eliminated, which has been shown by the experience of the Agreements with Vietnam and Singapore.

If we accept this statement, it is highly probable to get the impression that there is no point in signing services agreements at all. However, we still hold to the opinion that such agreements are expedient even now, and they will be even more relevant and needed in the future due to the constantly increasing role of services in international trade.

In any case, the parties entering into negotiations on free trade in services have the opportunity to seek the maximum possible removal of restrictions that are not contained in the national legislation of the other party, but are additionally recorded by this party in order to protect national services providers. For the purpose of accomplishing the given task, while signing the agreement on the establishment of the free zone in the sphere of trade in services, it is necessary to conduct a detailed comparative analysis of the schedules of specific commitments of a partner within the framework of GATS, agreement on the establishment of the free zone in the sphere of trade in services with other states as well as national regulations, especially the sectors of potential interest for the national suppliers.

The results of the study allow us to draw up an approximate universal roadmap for signing more effective, in comparison with the existing ones, agreement on trade in services, which implies:

1. Identification of sectors and sub-sectors of services that may be of significant interest for national exporters of services.
2. Analysis of the commitments for the identified sectors, accepted by the state involved in the negotiations process, in our case, Vietnam or Singapore, in the schedule to the GATS and in the schedules of specific commitments in the free trade agreements with the major partners.
3. Analysis of national legislation in the identified sectors for the presence in the schedule proposed by the country with which negotiations are held, restrictions that are not precisely stated in national legislation.

Despite the fact that the study revealed insignificant consequences of the conclusion of Free trade agreements in the sphere of trade in services for Russia in the researched period, it should be taken into account that Russia and its partners are not the leaders in the provision of services in the world, therefore the consequences of the conclusion of an FTA in the sphere of trade in services should be tested further following the example of associations and countries occupying a more significant niche in this area. Furthermore, as the study indicated, the parties have so far taken a very cautious position on lifting restrictions, compared with the existing levels of liberalisation in the WTO, which also was the reason for the poor performance of the Agreement. As the role of the services sector in trade will continue to grow, consequently, the importance of agreements in the sphere of services will also grow, which will determine the research interest in the problem in the upcoming years.

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Appendix 1. Levels of Liberalisation of the Services Market in the Schedules of Specific Commitments of Russia and Vietnam

	Russian Federation	Vietnam
1 delivery method (cross-border delivery)	Obligations of GATS+ are not accepted	Obligations without limitations accepted in new services sub-sectors: <ul style="list-style-type: none"> – Conveying research work, creating prototypes in the field of natural sciences and interdisciplinary fields; – Boat rental services without operators; – Cleaning services
2 delivery method (consumption abroad)	Obligations of GATS+ are not accepted	Obligations without limitations accepted in new services sub-sectors: <ul style="list-style-type: none"> – Conveying research work, creating prototypes in the field of natural sciences and interdisciplinary fields; – Boat rental services without operators; – Cleaning services
3 delivery method (commercial presence)	Obligations without limitations accepted in new services sub-sectors: <ul style="list-style-type: none"> – Services in the R&D field (conveying research work, creating prototypes in the field of natural sciences and interdisciplinary fields); – Recreational services (services of libraries, archives, museums and other culture-educational institutions, and organisation of sporting activities and other types of leisure); – With regard to a number of other new sub-sectors of services, for which there were no obligations in the WTO (railway, inland waterways, pipelines, space transport), Russia de jure accepted obligations, providing for such restrictions that de facto restrict access to its market. – More liberal conditions for access to the Russian market were provided for a number of sub-sectors, which were already recorded in the schedules of specific commitments of Russia in the GATS, namely, services: accounting in the field of architecture; in the field of urban planning and landscape architecture; other business services and services of hotels and places of temporary residence. – The right to introduce measures in a number of sub-sectors has been enshrined: maintenance and repair of railway equipment, ancillary services for all types of transport, radio communication services, postal services, cinema and video projection services, technical testing and analysis, subsoil use services, construction of infrastructure facilities, transportation oil and gas 	Obligations of GATS+ are not accepted. For all those sectors for which Vietnam did not take commitments under the WTO, a clause on “future” measures was recorded in the “negative list” for commercial presence: <i>“Vietnam reserves the right to establish or maintain any measure inconsistent with the obligations of national regime, most favored nation treatment, market access ... for the sectors and subsectors mentioned above”¹⁰</i>

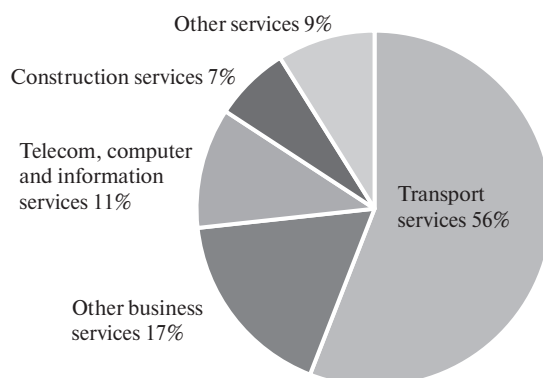
¹⁰ Annex 3 to Protocol №1 between the Socialist Republic of Viet Nam and the Russian Federation to the Free Trade Agreement between the Socialist Republic of Viet Nam, on the one part, and the Eurasian Economic Union and its Member States, of the other part. List of reservations of the Socialist Republic Viet

	Russian Federation	Vietnam
4 delivery method (movement of individuals)	Obligations of GATS+ are not accepted	Obligations without limitations accepted in new services sub-sectors: – Conveying research work, creating prototypes in the field of natural sciences and interdisciplinary fields; – Boat rental services without operators; – Cleaning services; – Packaging services

Source: Compiled by the authors based on Annex 2 and Annex 3 to Protocol №1 between the Socialist Republic of Viet Nam and the Russian Federation to the Free Trade Agreement between the Socialist Republic of Viet Nam, on the one part, and the Eurasian Economic Union and its Member States, of the other part. URL: <http://rtais.wto.org/rtdocs/973/AnnexAndRelatedDocs/English/VCUFTA%20Protocol%20No.%201%20Full-1.pdf>

Nam under section III (Establishment, Commercial Presence and Activities) of Chapter 8 (Trade in services, investment and movement of natural persons) of the agreement – Reservation № 64.

Appendix 2. Comparison of the Main Obligations of Singapore by Services in Sectors, Prevailing in the Structure of Russian Services Exports



Sector	Singapore's obligations within the WTO	Obligations within the ASEAN	Obligations within the TPP	Obligations within the FTZ EU-Singapore
Transport service (56%)	Access is not guaranteed, with the exception for freight transportation and ancillary maritime transport services (maritime agency services, customs brokerage services) without restrictions	For <i>maritime transport services</i> : access is guaranteed in all subsectors with restrictions on the 3 rd delivery method (for the maximum amount of foreign capital and the registration of ships under the Singapore flag). For services of <i>non-maritime water transport</i> : access is guaranteed in all subsectors with restrictions on the 3 rd delivery method (for the maximum amount of foreign capital). <i>Air transport services</i> : access is not guaranteed. <i>Railway transport services</i> : almost no access provided (no obligations have been accepted on methods 1 and 3). <i>Road transport services</i> : access guaranteed (except for passenger traffic). <i>Pipeline transport</i> : access is not guaranteed (no obligations accepted for 1 st and 3 rd delivery methods). <i>Ancillary and ancillary services for transport</i> : access is guaranteed in some sub-sectors of warehouse and pack-house services	For <i>maritime transport services</i> : access is guaranteed in all subsectors, except for ancillary services for maritime transport. In the subsectors, shunting services and ancillary services for maritime transport have the right to introduce new restrictions. For services of <i>non-maritime water transport</i> : access with no limits. <i>Air transport services</i> : current restrictions remain, new restrictions are possible. <i>Rail transport services</i> : access with no limits. New restrictions in all subsectors are possible. <i>Road transport services</i> : access with no limits. New restrictions in all subsectors are possible almost in all sectors. <i>Pipeline transport</i> : access with significant restrictions (for gas – the presence of a license, which, taking into account the size of the market, is issued to only one single company; for oil and oil products – local presence) <i>Ancillary and additional services for all types of transport</i> : under the current regulations – access is unlimited. New restrictions are possible	For <i>maritime transport services</i> : access is guaranteed for passenger and cargo transportation with restrictions on the 3 rd delivery method (for the registration of ships under the Singapore flag). There are several restrictions on ancillary services. For services of <i>non-maritime water transport</i> : access is not guaranteed. <i>Air transport services</i> : access is not guaranteed. <i>Rail transport services</i> : access is guaranteed only in the sub-sector of maintenance and repair of railway equipment. <i>Road transport services</i> : access is guaranteed in the following sub-sectors: rental of commercial vehicles with a driver (no obligation for the 1 st method of delivery accepted), Transportation of certain types of goods (for the 1 st method of delivery no obligations are accepted), maintenance and repair of road transport equipment (no restrictions) and parking services (with no restrictions). <i>Pipeline transport</i> : no obligations accepted for 1 st and 3 rd delivery methods. <i>Ancillary and additional services for all types of transport</i> : access is guaranteed only to the sub-sector of storage and warehousing services, including warehouse and pack-house services (no obligations are accepted for 1 st and 3 rd delivery methods; for 2 nd – no restrictions)

Sector	Singapore's obligations within the WTO	Obligations within the ASEAN	Obligations within the TPP	Obligations within the FTZ EU-Singapore
Other business services (17%)	Access is guaranteed in about 45% sub-sectors of business services*. The largest number of restrictions are recorded in such subsectors as: Services in the field of architecture, Services in engineering fields, Services in the field of reporting, audit and accounting, and Services in the field of taxation	Access is guaranteed in almost all sub-sectors of business services. Access is guaranteed in the major part of sub-sectors with no restrictions. Some restrictions are present in 7 sub-sectors only	In the list of "existing measures" restrictions are present in the services sector: rental of vehicles and other ground transport equipment without an operator; investigation and security provision. There are no restrictions in all other sectors. New restrictions in the sub-sectors of services are possible: legal, real estate, consulting in scientific and technical fields, publishing and printing	Access is guaranteed in almost all sectors of business services. The access level is generally equivalent to that provided by ASEAN.
Telecommunication, computer and information services (11%)	<i>Computer services</i> : access with no restrictions. <i>Telecommunication services</i> : access with restrictions on foreign investment. The maximum share of foreign investments in operators is 73.99% (49% of direct investments and 24.99% of portfolio investments). Cross-border delivery is possible if agreements are signed with licensed operators. Commercial presence is limited	<i>Computer services</i> : access with no restrictions. <i>Telecommunication services</i> : access guaranteed on terms equivalent to the WTO	<i>Computer services</i> : access with no restrictions. <i>Telecommunication services</i> : access guaranteed with restrictions: – operators and providers must be registered in Singapore under the Companies Act; – the number of issued licenses is limited due to the scarcity of resources. In the list of "future measures" has the right to impose restrictions in certain sectors ¹¹	<i>Computer services</i> : access with no restrictions. <i>Telecommunication services</i> : access on the terms of the possibility of cross-border supply only subject to signing of commercial agreements with licensed operators and limited licenses for commercial presence. There is also the commercial presence requirement that all service providers must be incorporated as companies under the Companies Act (Cap. 50)
Construction services (7%)	Access is guaranteed with no restrictions	Access is guaranteed with no restrictions	Access is guaranteed with no restrictions	Access is guaranteed with no restrictions
Other services (9%) (including financial services – 4.9%, maintenance and repair services – 1.4%, royalties and license fees – 1%, insurance services – 0.8%, travel – 0.5%, services to individuals and services in the cultural sphere – 0.4%)				

* The comparison of regulation of this sector was carried out according to the subsectors of Business Services, identified in the GATS services sectoral classification list.

Source: Compiled by the authors based on the schedules to the relevant Agreements.

¹¹ The right is reserved to take any measure that confers treatment on the other party, equivalent to any measure taken or supported by that other party, limiting the ownership of persons of Singapore companies involved in the provision of public mobile and wireless communications in that other party's territory. The right is also reserved to take any measures that provide differential treatment for countries under any international agreement entered into force or signed after the date of entry into force of the Agreement, which includes telecommunications issues.