SESSION ONE | THE SEARCH FOR GLOBAL LEADERSHIP

Challenges to the Rules-Based International Order

Economic and political upheavals are emboldening challengers to the rules-based international system, and to the liberal Western values it embodies. To stay relevant, the system must address three major flaws.

The international order established by the victorious allies after the Second World War has been remarkably enduring. The framework of liberal political and economic rules, embodied in a network of international organizations and regulations, and shaped and enforced by the most powerful nations, both fixed the problems that had caused the war and proved resilient enough to guide the world into an entirely new era.

But given its antique origins, it is not surprising that this order now seems increasingly under pressure. Challenges are coming from rising or revanchist states; from unhappy and distrustful electorates; from rapid and widespread technological change; and indeed from the economic and fiscal turmoil generated by the liberal international economic order itself.

In general these challenges seem serious rather than catastrophic. There is little coherence or common interest among the challengers, except for discontent with aspects of the current order, and therefore little coordination. There is no sign of any integrated international opposition movement which might unite the discontented and advocate an alternative system, leading to the sort of ideological struggle that marked the last century. And, despite continuing conflicts around the world, war remains an exceptional and disreputable activity rather than, as in much of the past, a proper and attractive tool of international dispute resolution.

These are small mercies. The danger to the current order comes not from a single deathblow from a rival system, but from its gradual weakening in the face of widespread dissatisfaction among those it needs to serve. If the system is to survive, its weaknesses must be recognized and resolved, and it must adapt better and faster to the changing international situation.

Three interconnected problems must be resolved. The first is the problem of legitimacy. For a system based on rules to have effect, these rules must be visibly observed by their principal and most powerful advocates. In this respect, the decision by the George W. Bush administration to invade Iraq in 2003 under a contested UN authorization continues to cast a long shadow over America's claim to be the principal defender of a rules-based international system. Questioning the legitimacy of US leadership has not eased under Barack Obama, despite his more multilateral approach to problem-solving and reticence in using overt military force. The failure to close the Guantanamo Bay detention facility; the Senate report on the use of torture under the previous administration; the continued use of presidential authority under 'war on terrorism' directives to carry out lethal drone strikes in the Middle East and Pakistan; and the exposure by Edward Snowden of the way US intelligence services used the dominance of US technology companies over the internet to carry out espionage –

all have left the United States vulnerable to the accusation that it is as selective as any country about when it does and does not abide by the international norms and rules that it expects of others.

The danger today is that this questioning of US global leadership has opened the space for other countries to pursue a ‘might is right’ approach to their own policy priorities. Russia has annexed Crimea in violation of commitments to the Budapest Memorandum, has intervened directly in the conflict in Ukraine, and has laid out a doctrine that brazenly demands recognition of a Russian sphere of influence around its neighbourhood. The Chinese leadership is taking steps to turn its contested claims over islands in the South China and East China seas into a fait accompli. And regional powers in the Middle East, concerned about the current and future US administrations responding to the post-Iraq experience by being more selective in their support for traditional allies, are taking the preservation of their security into their own hands. The question arises, therefore, whether the post-Second World War institutions and rules can survive these challenges to US global leadership.

The second problem, which is tied to the question of legitimacy, is one of equity, in that a rules-based order must work to the advantage of the majority and not a minority. This has always been a problem. Ever since the institution of the current international system, any assessment of its fairness and effectiveness was often a matter of perspective. Democracy and respect for human rights were established in Western Europe, but not in the East. Decolonization reduced formal Western influence in Africa and Asia, but this was often replaced by the informal constraints of debt and foreign economic domination of key market sectors and finance. Freer movement of trade, investment and people stimulated economic growth in the developed and developing worlds, but also threatened cherished notions of culture, identity and religion.

For much of the past 70 years such problems, though grave, did not threaten the system. The Cold War helped limit their impact, including by allowing the survival of autocratic regimes that limited discontent through oppression. Then the phenomenal economic growth of the post-Cold War era helped spread prosperity and personal well-being to a much larger proportion of the world’s population than before.

Discontent with the system was not eliminated, but made less apparent. This changed with the global financial crisis of 2008–09. The impact of the crisis was both economic and ideological, spreading dissent among those affected, and exposing the structural weaknesses and unfairness of much of the established international economic system.

This was particularly apparent in the European Union, perhaps the most rules-based and rules-observant of all branches of the current international order. Discontent in many member states was triggered by the economic impact of the financial crisis, but it has expanded to include dissatisfaction with the EU’s policies on issues such as migration, the Union’s elite-led political culture, and the balance of political and economic power within it. In response, the EU is working its way through an uncomfortable, messy and difficult restructuring programme; for this to be successful it will have to convince member states and their citizens that it can serve them better than in the past, and that it is more open and responsive to their concerns.

The third problem is one of self-confidence. The longevity of the current international system may have led to the assumption that it was in some way the natural order of things, requiring only occasional repair and defence against particular challengers. This has bred complacency.

Many aspects of the order are in fact revolutionary, disruptive and disorderly. They provoke violent and understandable resistance from those who see themselves as champions of their own established order, based on different rules. Global free trade regimes, UN Security Council-sanctioned interventionism, human rights activism on such issues as gay rights, and anti-censorship campaigns are elements of a transformative agenda being actively pursued by Western states and societies. What many in the West see as an attempt to spread the benefits of modernity is perceived elsewhere as an aggressive bid for dominance by Western economic and political interests and by the West's materialism and secularism. To its opponents, the West's refusal to accept that it has such an agenda makes its liberal policies appear all the more sinister. For many regimes, the Western agenda is truly an existential threat.

These fears do not provide a case for the West changing its approach, withdrawing or accepting cultural relativism. However, the West must recognize how radical its agenda can be, realize the depth of the opposition it may provoke, and sometimes tailor its policies accordingly.

This clearly was not the case with the EU's pursuit of an association agreement with Ukraine, the act that ultimately triggered Russian aggression in the region. The EU failed to appreciate what a big threat the agreement would be to President Vladimir Putin's regime, and to pro-Putin interest groups in Ukraine. It also failed to place this particular negotiation in the wider context of the West's erosion of Russian influence in the region since 1989. In this case the EU lacked both understanding of the situation and the determination to marshal the additional levers of power – including a means of deterring hostile military action – necessary to secure its interests in the face of Russian opposition.

These three problems – of legitimacy, equity and self-confidence – are serious, to be sure. But they do not imply that there is something fundamentally wrong with a rules-based system. Rather they suggest that the rules need to be revised to ensure that they remain relevant, and that they need to be applied as consistently and extensively as possible. In this, form follows function. Any reform of the rules-based order must first decide what the order aims to accomplish, and only then consider what structure is needed to achieve this. Just as the current order was constructed with the clear aim of avoiding a repeat of the nationalism, totalitarianism and conflict of the 1930s and 1940s, a modernization effort should reflect a reforming agenda intended to tackle the problems of the 2000s and 2010s. Who decides this agenda, and what it should contain, remain open questions.

The West has the opportunity to take the initiative, to decide now what sort of revised rules it would like to establish, and how far it is willing to take into account the interests of its rivals or alternatively to fight for its own priorities. If the leading Western powers do not take this opportunity – and at the moment there is little sign that they will – there are now plenty of others who might.

SESSION TWO | NATIONAL POLITICS AND THE GLOBAL ECONOMY

Overcoming the Risks and Contradictions of Globalization

Open markets and technological advances have the potential to empower and enrich everyone, but they present political challenges to governments that require coherent national and multilateral policy-making.

Today's global economy appears riven by contradictions. Steady growth in much of the developing world – enabled by the opening of markets to goods, services, investment and technology – has lifted hundreds of millions of people out of poverty. Yet more than 1.2 billion people still live in extreme poverty, and even the better off have profited unevenly from liberalizing markets. As the global economy prospered between the mid-1990s and the late 2000s, the median income of the 'upper middle class', in countries as diverse as Argentina, the United States and France, stagnated. The current debates over 'inequality' and 'exclusion' imply that while the wealthy are able to take full advantage of an ever-integrating global economy, the majority experience scant returns.

Can governments be confident that it is just a matter of time before a rising tide of global economic integration lifts all boats? Or are there structural deficiencies in today's capitalist model that require more active government intervention to resolve? And how will the world's changing demographic profile help or hinder efforts at adjustment?

The contradictions

Two contradictions in the globalized economy stand out in particular. The first concerns the way in which open markets create both benefits and negative distortions for societies. Openness to trade and foreign investment can break internal oligopolies and weaken vested interests. Export markets enable countries to profit from their natural and human endowments. In both cases, workers have a greater opportunity to move up the value chain by earning, spending and saving more.

However, without a globally level playing field, market opening can just as easily disenfranchise domestic producers and threaten the jobs they sustain. Markets continue to be regulated by governments, which have national priorities and must respond to domestic pressures. Even as cross-border markets have deepened on many fronts, governments continue to use product standards, health and safety regulations, tax policies and currency intervention to provide preferential treatment to their own citizens and companies.

The result is that the winners and losers from globalization are not necessarily determined by their skill and national endowments. And there appears to be a growing divergence of opportunity between those – such as bankers and asset managers – who direct global flows of goods, services and capital and those who are the objects of this globalization. Critics argue that the first group gets steadily richer in an open global economy, while the second group – from the blue-collar and office workers of multinational companies to waiters, carers and taxi-drivers – sees incomes stagnate.

A second major contradiction in the modern global economy concerns the simultaneously empowering and disrupting effects of technological progress. Technology can raise productivity and make expensive goods and services cheaper, thus helping economies to grow and generate wealth. But it can also disrupt traditional forms of manufacturing or service provision. The question is whether technological disruption principally releases labour into alternative forms of employment that are more productive and remunerative. If so, the overall income in an economy will rise.

Yet technology can also open a divide between those at the top, who are technologically integrated and well paid, and those at the bottom of the economic ladder, stuck in low-income service provision. Continuing advances in computing power also create the prospect that many of the technologically literate – even those programming the new internet of things – will be disenfranchised by self-learning machines or artificial intelligence.

The demographic challenge

Even as governments struggle with the impacts of globalization on their societies, many of those societies are ageing structurally. And not just in Europe, where the World Bank expects more than a third of people to be aged over 60 in 'less than four decades'; or in Asia, where Japan and South Korea are already experiencing population decline. Emerging economies, from Mexico to China, are also undergoing a transition from youthful to ageing societies. Demand for welfare provision will grow in these countries, just as its burden is already affecting developed economies.

Ageing societies make it difficult to generate economic growth. They consume more and produce less. If older people remain in or re-enter the workforce (90 per cent of new employment in the UK in 2008–14 was accounted for by those over 50), their presence can depress wage growth.

Increasing longevity also makes pensions, health care and other social services costlier. Unsustainable social welfare commitments have contributed to rising public debt levels in Europe and the United States. In developing countries, a lack of welfare provision may prompt societies to save too much, constraining healthy economic growth. China is grappling with precisely this challenge, as it tries to shift from export- and investment-driven growth towards a more consumption- and service-led economy.

Options

Three practical options are available to policy-makers to try to mitigate these contradictions and challenges. First and most important are microeconomic policies. By providing better education, apprenticeships, career training and less rigid labour markets, policy-makers in developed economies can help their societies to adapt to the pressures of globalization and technological advance. Education can also have a catalytic effect on developing economies, especially where young women are given equal opportunities to young men. Developing-country governments also need to provide the necessary physical and institutional infrastructure to unlock growth. This not only means building roads, railways and ports, but also enforcing the rule of law, tackling corruption and removing economically distorting price subsidies on staple goods.

Second, investment in technology can open new opportunities for sustainable growth. In the developed world, new manufacturing technologies are driving an 'onshoring' of jobs, as producers deliver customized products more rapidly while keeping inventories to a minimum. New technology can replace centralized energy infrastructure with more flexible, distributed systems that can lower costs while reducing carbon emissions. Technological innovation also has the potential to reduce health care costs for ageing societies through self-diagnosis and treatment, and through robotized caring.

In the developing world, technology offers societies the opportunity to leapfrog expensive traditional energy, educational, medical and communications infrastructures, and to deliver government services at lower cost and with less scope for corruption. Used effectively, technology can convert the massive migration of people to urban centres into an engine for progress rather than a driver of misery. As Mathieu Lefevre argued in the February–March edition of *The World Today,* about 400 mid-sized cities (with an average of less than 2 million inhabitants) could generate 40 per cent of global economic growth in the next 15 years.

But however competent and far-sighted governments prove to be, they will still need to collaborate if they are to draw on the full potential benefits of globalization. This is where the third policy option comes in. Faced with the growing protectionist instincts of populist political movements that reject the benefits of globalization, policy-makers need to coordinate their economic policies at multilateral levels in ways that reflect countries' economic interdependence. Regional institutions, from the European Union to the Association of Southeast Asian Nations (ASEAN), are essential components in this process, given that they can help governments to lower barriers and coordinate standards at a pace and within a cultural context that will be less disruptive than some multilateral initiatives.

Competent government, acting in partnership and unlocking the potential of rapid technological advance and deepening regional economic integration, can overcome some of the growing contradictions of globalization, even as the world enters an uncertain period of demographic change and a sharpening contest between economic winners and losers.

SESSION THREE | POLICY-MAKING IN A FRAGMENTED WORLD

Thinking Beyond the State

The lack of alternatives to the state as the building block of international order is distorting politics, complicating policy cooperation and aggravating extremism.

Remarkably, as national governments find their policy options increasingly limited by the external forces of globalization, 'demand' for statehood appears robust. From separatist movements in the West to ongoing civil wars, the prize is almost always control of a state, whether asserting authority over an existing entity or creating a new one. The reason why is clear: even diminished, the sovereign state has no ready competitor as a generator of political legitimacy for a group or regime, and of the power that accompanies it. The problem is, in many cases, this pursuit of statehood causes or aggravates existing political problems. While states are not going away any time soon, there is a need to think creatively about new models of political organization.

The modern state has been around since the Peace of Westphalia in 1648. For most of that time, it has coexisted with other forms of political organization, including feudal and imperial systems. It was only really in the aftermath of the First and Second World Wars that states gained the currency they have today across the world as the primary and ultimate form of political authority. The modern state system compares favourably with the imperial one it replaced, but it has also made it difficult for different and overlapping structures to take hold.

Today, there is simply no alternative model. For instance, the European Union has often been lauded as a new model of political relations, but its member states retain many of their key sovereign prerogatives, and the Union itself has made its most dramatic strides by aping the trappings of statehood, often to its detriment. The contradictions of the common currency – which was always known to be, at least in part, a political project – now threaten the stability of the entire edifice.

This primacy of the state can make less radical political solutions seem untenable. Separatist movements throughout the West, though couched in nationalism, are often driven by dissatisfaction with political outcomes. For a group that feels it is not getting what it wants out of politics, statehood can seem like the only option. In last year's Scottish referendum, some of the most popular reasons 'yes' voters cited for wanting to separate from the United Kingdom included dissatisfaction with Westminster politics, the National Health Service, tax and public spending.[1] Implicit in this was the idea that it was near-impossible to change or affect these things without the power of statehood.

Such insistence on sovereign power also leads to more alarming and absurd trends. Even as Islamic State of Iraq and Syria (ISIS) is violently erasing the colonial-era border between Iraq and Syria, there has been no serious discussion of the possible political shape of the region if ISIS forces are defeated, though it is growing ever more obvious that reconstituting Syria or Iraq as the states that they resembled before their civil wars is unlikely. Meanwhile, Russia's president, Vladimir Putin, has manoeuvred to create a new sub-state system in eastern

[1] http://news.stv.tv/scotland-decides/news/292749-ashcroft-poll-no-voters-would-always-have-rejected-independence/.

Ukraine in a shape that benefits him. The international community's failure to consider different types of political organization that could peacefully be integrated into the global order, combined with the unsatisfying status quo, means that the terms of the argument are ceded to extremists and challengers.

Instead, reform of the international system could better incorporate varying levels of political entities and representation. Though some supranational bodies are now invited to participate in major international groupings, in very few are they members in their own right, and always heavily outweighed by state representatives. One of the problems for the EU in claiming its own explicit legitimacy alongside its member states in international forums such as the G20 is the lack of a distinct 'European polity'. This is even more problematic for international organizations and other actors that have no 'citizens'.

Other sub-national entities, such as cities or regional governments in federal states, are rarely represented at all except through their national governments. This could change if, as seems possible, central governments are forced to cede more power to cities and regions. Among other factors, the difficulty of managing increasingly complex policy dossiers for better-informed and more engaged citizens could encourage such decentralization.

However, even if states change the balance of political power within their borders, it will still be very difficult to replace sovereign state governments as the prime players in world affairs in the near future. Major powers such as China and the United States will jealously guard their sovereignty and seek to check any efforts by sub-state actors to acquire rights to international rule-making.

For their part, non-governmental organizations, which are increasingly present at the fringes of major international negotiations, such as over climate change or the Millennium and Sustainable Development Goals, find that their influence is undercut by the fact that they do not command the explicit loyalty of their own constituencies, with the added complexity of identifying where those constituencies are.

Despite these many obstacles, one of the few ideas on which there is a growing global consensus is that the international system needs to reform so as to become more representative of the people it is meant to protect and support. Openness to a world order beyond the current state-dominated system could help correct some of the imbalances in outdated post-Second World War institutions, without having to take on in each case the actual balance of state-to-state power. A more open world order might help alleviate the political gridlock and atrophy that risk delegitimizing both the international system itself and the governments that cling to its state-led approach.

SESSION FOUR | SUSTAINABLE FUTURES: DECOUPLING GROWTH FROM RESOURCE USE

The Challenges of Resource Price Volatility, Investment and Disruptive Change

New technologies and business models could accelerate the shift to a low-carbon economy, but prospects for such a shift are uncertain at a time when the fall in oil prices is challenging energy investment assumptions.

Current patterns of resource use are unsustainable. Research suggests that we are now consuming one and a half 'Earths' worth of renewable resources per year and on current trends will exceed three 'Earths' by 2050.[2] The global population is rapidly expanding and is projected to reach 9.6 billion by 2050.[3] Current fossil fuel consumption trends could lead to a global average temperature rise of 2°C by 2035, and more than 4°C by the end of the century. As today's global economic growth model both relies on and drives these patterns of resource use, it too is unsustainable.

A broad consensus is emerging on the need to build a sustainable, carbon-neutral economy. Momentum is growing in the international climate negotiations towards agreeing a new global deal in Paris later this year. Among the elements being discussed is a long-term goal to achieve 'net-zero' emissions by 2050. Agreement on a new set of Sustainable Development Goals is expected in New York in September, to replace the Millennium Development Goals.

These are positive signals, but progress towards a sustainable future will require a combination of top-down and bottom-up activity. It will be individual and collective action – by governments, businesses and investors – that will translate global commitments into national legislation, develop new products and technologies, and shape commercial responses to energy market developments. In this context, the recent collapse in energy commodity prices is potentially significant.

Price signals and volatility

The fall in the global oil price since mid-2014, reflecting weak demand growth and rapidly increasing supply from unconventional sources such as shale oil, may be creating a structural shift in the market. If sustained, this could lead to a 'new normal' of low oil prices that would have major implications for energy investment and the competitiveness of different energy technologies. OPEC's November 2014 decision not to limit production may also imply a future oil market driven more by economic fundamentals. As other resource commodity markets have shown, this is likely to mean more volatility – and again more uncertainty for potential investors.

It is not just oil that has been falling in price. Almost 60 per cent of the global gas trade is indexed to the oil price, so gas has also become significantly cheaper.[4] In the United States

[2] WWF, Global Footprint Network and ZSL (2013), *Living Planet Report*. The report estimates that we are currently in ecological overshoot – taking 1.5 years to regenerate the renewable resources we consume in a single year, a ratio set to rise to three years by 2050.
[3] United Nations (2013), *World Population Prospects: The 2012 Revision.*
[4] IEA (2013), *World Energy Outlook.*

the price of coal fell 40 per cent from its peak in 2008 to 2012, largely as a result of increased shale gas supply reducing demand for coal.[5]

These developments, in turn, have renewed the policy debate around fossil fuel subsidies and the potential for new forms of carbon pricing. Although the G20 in 2009 agreed to remove such subsidies, there has been little progress since then.[6] Fear of the impact on consumers is one of the main political barriers to tackling subsidies. However, the recent falls in fossil fuel prices have created a window in which subsidies could be reduced without raising consumer prices. The World Bank has emphasized the importance of reducing fossil fuel subsidies in oil-importing countries, to allow rebuilding of fiscal reserves for future economic stimulus. Recent action in India and Indonesia shows that some emerging economies might be serious about tackling subsidies.[7]

The fall in the oil price, combined with the prospect of a global climate change deal in Paris, is also renewing interest in carbon-pricing mechanisms. Former US Treasury secretary Larry Summers has called for the United States to consider introducing a carbon price of $25 per ton, which could generate over $100 billion in tax revenue annually.[8] In practice, new carbon taxation and fossil fuel subsidy reform both face serious barriers to implementation.

Investment and stranded assets

With their implications for company balance sheets, income streams, market capitalizations and creditworthiness, resource price changes and the potential for stronger environmental regulation are feeding through into investment decisions. The oil and gas majors have significantly scaled back their investment plans. The US government's 2030 target for its power sector, and the possibility that China's domestic coal use will peak before 2020, could depress future coal investment. Tougher environmental regulation, competition from new technology and downwardly revised projections of investment returns may result in 'stranded assets' – that is, legacy assets that are no longer commercially viable – in coal, oil and gas markets.[9]

The debate on stranded assets matters, in part, because it asks fundamental questions about the relationship between government regulation and company valuations and creditworthiness. The stakes are extremely high: the top 200 fossil fuel companies have a market value of $4 trillion and debt of $1.5 trillion.[10] The prospect of an increase in stranded assets raises concerns that fossil fuels could be the source of the next big financial crisis.

These are questions for investors, but also for governments, regulators, accountants and actuaries. Banks are not currently required to evaluate the risks posed by stranded assets when lending to fossil fuel companies; nor do securities regulations require companies to address such risks in their disclosures. However, the situation may now be changing. The European Parliament last year passed a directive on non-financial reporting by large companies, seeking to enhance transparency on social and environmental matters.[11] Major

[5] BP (2013), *Statistical Review of World Energy.*
[6] Elise Buckle (2012), *Fossil fuel subsidies and government support in 24 OECD countries: Summary for decision-makers*, 31 May 2012.
[7] World Bank (2015), *Global Economic Prospects.*
[8] http://www.rtcc.org/2015/01/07/world-bank-urges-leaders-to-use-oil-crash-to-slash-subsidies/.
[9] www.carbontracker.org and www.smithschool.ox.ac.uk.
[10] www.carbontracker.org.
[11] http://europa.eu/rapid/press-release_STATEMENT-14-124_en.htm.

credit rating agencies are researching the impact of climate regulation on corporate liabilities and sovereign risk;[12] and Mark Carney, the governor of the Bank of England, has recently launched an official inquiry into stranded assets.[13]

Managing disruptive change

Changes in resource prices have varying implications for the transition to a low-carbon economy. Cheap oil is likely to make some alternative energy sources, such as biofuels, less competitive. For other renewable technologies the story is more complex. The cost of solar photovoltaics has fallen by 10–12 per cent per year for the last five years;[14] and electric car-maker Tesla's new 'Gigafactory' may, on its own, reduce battery costs from $250 to $150/kWh by 2020.[15] The impact of cheap fossil fuels on these technologies is much more uncertain.

Renewable technologies are already disrupting the business models of traditional energy utilities. Last year in Germany renewables accounted for 22 per cent of all power generation, with a maximum of 80 per cent on a single day in May. In response to these changes, E.ON recently announced it was splitting into two: the main company will focus on renewables, distribution and customer solutions; upstream commodities and fossil fuel power generation will be spun off into a new company.[16]

It is not just in the power sector that business is evolving. New models include the 'circular economy', where waste from one sector is used as an input for another, and distributed manufacturing through technologies such as 3D printing. By disrupting value chains, such ideas have the potential to aid the transition towards sustainability across a broad range of different resources. However, they may not get very far if lower resource prices reduce incentives to improve efficiency.

Ultimately, disruptive change poses challenges for all economies, but it also presents opportunities. Many rapidly growing emerging economies, for example, face concerns about falling into the 'middle-income trap', wherein growth stagnates as rising wages reduce competitiveness in bulk manufacturing. New growth models and technologies have the potential to address this problem. They may enable countries to raise productivity and increase competitiveness in higher-value-added sectors – while transitioning to more sustainable resource use at the same time. Achieving this, however, will require a rapid shift in investment focus to prevent economies, industries and companies from being locked into outdated development pathways based on unsustainable resource use.

[12] https://www.spratings.com/economic-research/Climate-Change.html.
[13] http://www.parliament.uk/documents/commons-committees/environmental-audit/Letter-from-Mark-Carney-on-Stranded-Assets.pdf.
[14] Citi Research 2014.
[15] Morgan Stanley 2014.
[16] http://uk.reuters.com/article/2014/11/30/uk-e-on-divestiture-idUKKCN0JE0TZ20141130.

SESSION FIVE | COMMON INTERESTS, COMMON SOLUTIONS

The Elusive Consensus

Many states agree on the global issues that need tackling, and broadly on what needs to be done. But national agendas and the dynamics of multilateral negotiations often impede progress. What other ways might there be to break the deadlock?

There is a contradiction at the core of international affairs. Tackling the world's most pressing challenges – including climate change, terrorism, nuclear proliferation and international economic instability – would broadly serve the interests of the majority of peoples and states. However, on many crucial issues international cooperation is stalled, sporadic or deficient. Rising interdependence has not yet led to a comparable surge in effective international governance, which is still conducted through an incomplete patchwork of institutions and agreements and hostage to sovereignty, short-termism and zero-sum politics. As many have observed, there is an imbalance between the 'demand' for global governance and the supply of it.

The past 12 months have offered few reasons to be optimistic about the prospects for better global cooperation. The international community has singularly failed to stop the Syrian civil war or prevent the humanitarian crisis there. The Ukraine conflict showed what limited levers are available to confront a great power willing to disregard international norms. The global response to the Ebola outbreak in West Africa was sluggish. In the face of such events, the logic that common interests should lead to common solutions can seem glib, even naive.

How can we account for the international gridlock? The impediments to cooperation are legion. Common interests may be clear at a high level of generality, but lofty goals – international security, global prosperity – obscure divergences in the detail of states' agendas. Sometimes this is because an issue is a higher or lower priority from one country to another. For example, while the whole of the European Union may share an aspiration to constrain Russia's destabilizing actions in Ukraine, some EU states share a border with Russia or depend on imported Russian gas. Each EU state approaches the Ukraine challenge with a different degree of vulnerability. Another obstacle to cooperation is that in many cases the consequences of inaction on a given issue are unequal. Climate change is a clear example: many of the countries likely to be most adversely affected by global warming produce few of the greenhouse gases responsible for climate change.

The pursuit of public goods creates opportunities for 'free-riding'. States often have incentives to let others bear the costs of furnishing a public good, particularly if those other states attach more importance to that good or regard threats to it as more severe. The low level of defence spending among many European NATO members illustrates this tendency. Most European states do not meet the target of spending 2 per cent of GDP on defence that they agreed upon as NATO members; but they still benefit from higher spending by other NATO members, particularly the United States.

Sometimes the problem is one of collective action: a state may not be willing to bear the cost of an action unless all others, or a sufficient number of them, are willing to contribute too. All may agree that acting is necessary, but none may be willing to do so alone. One reason for this is that the unilateral pursuit of policies that serve the collective good may bring 'first-mover disadvantages'; for example, a state that tightened regulatory requirements for a given economic sector could suffer a loss of competitiveness in that sector, at least in the short term.

The processes of domestic political decision-making complicate matters further. Elected leaders have strong disincentives to commit to policies that incur short-term costs for long-term gains, particularly when the timescale of prospective benefits stretches far beyond the term of a president or the life of a parliament. Leaders also vary considerably in their capacity to implement commitments, and face a variety of domestic constraints to doing so.

In recent years, things seem to have got even more difficult. While the concept of 'complex interdependence' is not a new feature of the international system, changes in the distribution of global economic and political power have increased the number of states needed to make major agreements work. This redistribution of power also allows more states to play a disruptive role. Arguably, international issues have themselves become more complex, reflecting both the number of parties involved and the details to be negotiated.

Given these structural impediments to achieving global consensus even where interests overlap, how might progress be made?

The first thing is to avoid undue pessimism. Over the past 70 years a broad range of international organizations and agencies has evolved to facilitate and enhance global cooperation across numerous fields, such as trade (the WTO), finance (the Financial Stability Board), energy (the International Energy Agency, the International Atomic Energy Agency) and arms control (the Organisation for the Prohibition of Chemical Weapons). International law has becoming increasingly codified and developed, from trade to international criminal law. The WTO dispute resolution mechanism is a successful example of an institutionalized form of supranational dispute settlement, in which national governments from across the world give primacy to decisions taken outside their sovereign jurisdiction.

Second, as noted in the third essay, above, strengthening regional organizations may be a route to finding common solutions to shared challenges. Despite its flaws, the European Union, the most developed form of regional integration in the world, has shown the capacity of states to pool sovereignty and create binding rules in the service of common economic and political interests. Although born from unique historical and geopolitical circumstances, the EU demonstrates that the habit of institutionalized negotiation and cooperation among states can build the trust necessary to achieve difficult compromises.

Third, it may also be sensible to try to tackle some global challenges without hoping to build universal multilateral agreements from the outset. Essential global pacts can be captive to the agendas of individual players, to which multilateral, consensus-driven systems give disproportionate influence. In some instances, smaller 'minilateral' groupings of states may make more sense, especially as these can still be broad in their reach. The G20 stands out as a prime example, accounting for around 85 per cent of the world's economy and two-thirds of its population, offering a good balance between coverage and efficiency on those issues where it can achieve consensus to act. Similarly, there is evidence that regional trade agreements have done more to liberalize trade than global ones have done. And the US–China deal on climate change in late 2014 may help unblock negotiations on a wider deal in Paris in December 2015.

Decision-makers must now be forward-thinking and determine what new areas of policy would benefit from common solutions, such as the regulation of outer space and governance of the internet, and strive to create new institutions where necessary. Building cooperation between major powers in less politically divisive areas, such as global health, may also help to create the relationships and trust needed to tackle harder negotiations later.

There is no single route forward to improving global cooperation. It will take a great deal of pragmatism, patience and diplomatic ingenuity to make progress. But, given the realities of economic and political interdependence, there is no more urgent agenda.