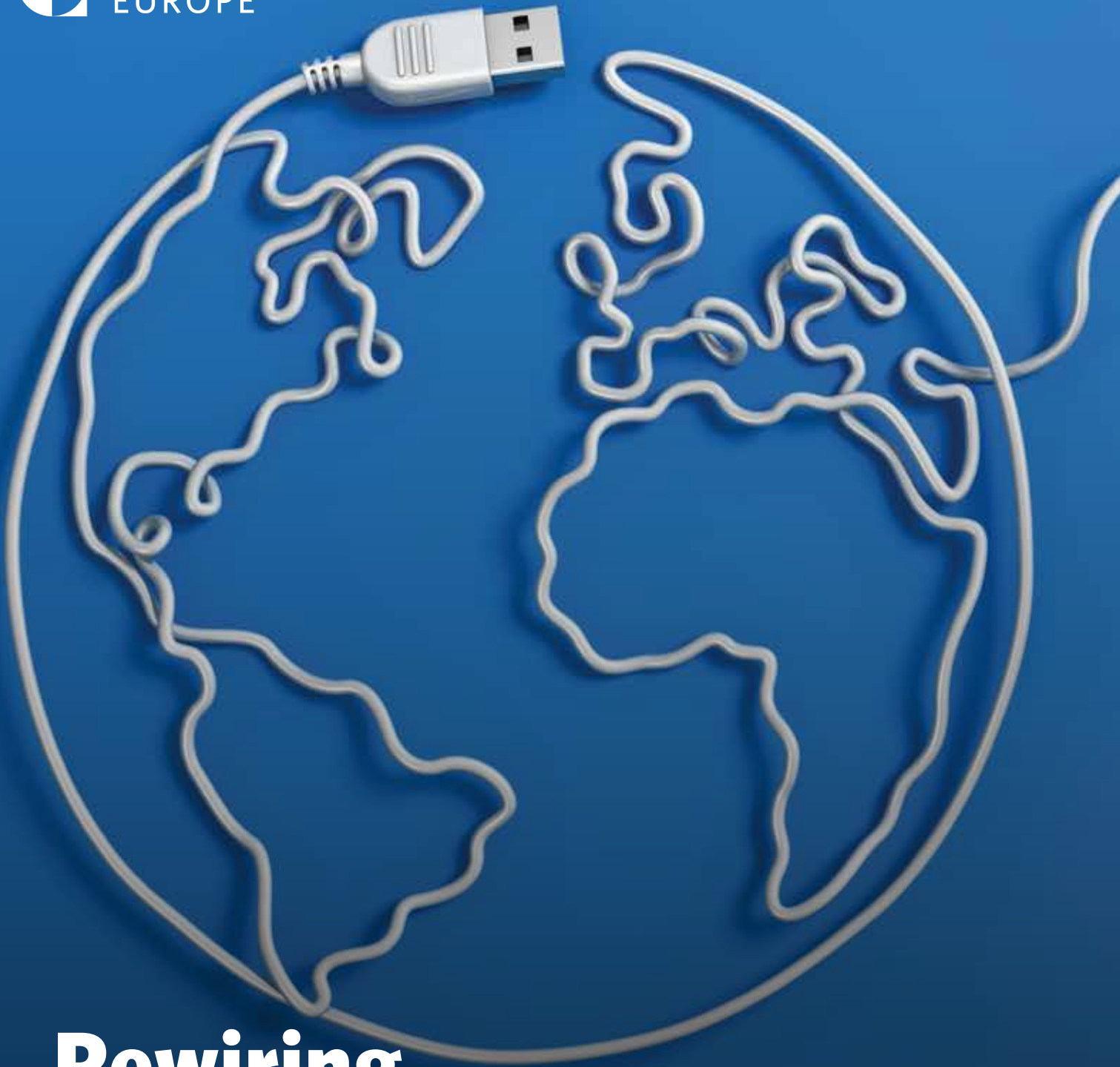




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# Rewiring Globalization

Sinan Ülgen et al.

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# Contents

<b>About the Authors</b>	<b>v</b>
<b>Introduction</b> <a href="#">Sinan Ülgen</a>	<b>1</b>
<b>Chapter 1</b> <b><a href="#">From the Local to the Global: The Politics of Globalization</a></b> <a href="#">Sinan Ülgen and Ceylan Inan</a>	<b>5</b>
<b>Chapter 2</b> <b><a href="#">The United States: A Cautious Return to Internationalism</a></b> <a href="#">Rozlyn C. Engel and Tobin Hansen</a>	<b>37</b>
<b>Chapter 3</b> <b><a href="#">The European Union's Competitive Globalism</a></b> <a href="#">Richard Youngs and Sinan Ülgen</a>	<b>51</b>
<b>Chapter 4</b> <b><a href="#">Latin America and the Caribbean: Continued Engagement Despite a Deglobalizing Turn</a></b> <a href="#">Francisco Urdinez</a>	<b>63</b>
<b>Chapter 5</b> <b><a href="#">India: Testing Out New Policies on Globalization</a></b> <a href="#">Suyash Rai and Anirudh Burman</a>	<b>73</b>
<b>Chapter 6</b> <b><a href="#">Russia: Looking for Prominence in the Global System</a></b> <a href="#">Dmitri Trenin</a>	<b>87</b>

<b>Chapter 7</b>	
<b>Africa: Aspiring to Greater Global Agency</b>	<b>99</b>
Elizabeth Sidiropoulos	
<b>Chapter 8</b>	
<b>China: Between Domestic Priorities and Global Rulemaking</b>	<b>115</b>
Minghao Zhao, Zhao Wenxiang, Ding Yifan, Lyu Jinghua, Wei He, and Jodi-Ann Wang	
<b>Chapter 9</b>	
<b>The Limits of Convergence and the Road Ahead</b>	<b>129</b>
Sinan Ülgen	
<b>Notes</b>	<b>137</b>
<b>Carnegie Europe</b>	<b>157</b>

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## **Acknowledgments**

Sinan Ülgen would like to sincerely thank Nicolas Véron from Bruegel and the Peterson Institute of International Economics and Richard Youngs from Carnegie Europe for having kindly peer reviewed the draft of this analysis.

# Introduction

SINAN ÜLGEN

The past decade has seen a steady rise of populist movements across the political landscape in many societies. Unlike in the 1990s, when the antiglobalization movement opposed neoliberal economic integration with an emphasis on developing countries, today's backlash against globalization is fueled by ire about its impacts in advanced economies. The most notable antiglobalization undertones were reflected in the June 2016 Brexit vote in the United Kingdom and the November 2016 election of president Donald Trump in the United States. The European Union (EU) is under threat from Euroskeptic political parties, North-South cleavages, and the markedly distinct vision for the EU favored in capitals like Budapest and Warsaw.

In the most recent era of globalization, many households have experienced a fall in their standard of living due to stagnant or declining wages coupled with the rapidly increasing costs of a middle-class lifestyle amid growing job insecurity.<sup>1</sup> Nativist arguments that open markets and globalization have impoverished the middle class and systematically attacked national identities resonate with segments of society that have become disenchanted with the purported benefits of the current system. The risks facing those living in precarious situations—a social class known as the precariat—are rooted primarily in technological factors or mismanagement of economic transformations rather than trade. Be that as it may, waves of immigration—another characteristic of this period—provide fertile ground for right-wing politics to capture these frustrations and blur the mechanisms of causality in terms of what creates this damage and who benefits from it.

It is clear today that those left behind view globalization as interlinked with job security and cannot tolerate transformations in the global or national economy without some form of support from the state. Given that this group will only grow in size with technological change, mainstream political parties are already recalibrating their long-held positions on issues such as trade and migration in response to this trend.



The political salience of antiglobalization sentiment not only in developing countries but also in industrialized nations will depend on the extent to which post-pandemic social contracts re-embed markets in social values. For centrist politicians, the challenge will be to convince electorates that they can deliver the necessary transformations in policy thinking to ease the sense of unfairness felt by those left behind and overcome their distrust of the elites who helped shape the system they oppose.

The coronavirus crisis has certainly magnified existing weaknesses in developing economies and elevated the status of questions such as the optimal design of capital controls. On the bright side, the pandemic has also produced new opportunities by exposing the risks inherent in global supply chains built around China. Ongoing debates over redundancy versus reshoring—the process of returning the production of goods to a company’s country of origin—will have significant implications for economies that can present an alternative to China in their region. As global foreign direct investment flows and trade are rejiggered, developing countries can be expected to pursue somewhat nationalist economic policies to deal with the crisis. In parallel, they are likely to seek to benefit from a broader restructuring of global value chains toward a more diverse, flexible, and region-focused architecture to ensure the sustainability of their industries in a new world.

A key challenge in this regard will be to galvanize capacity-building efforts to design localization policies rooted in identifying and advancing comparative advantages at a product level. Since labor cost differentials will continue to become less relevant with automation, the way developing countries manage this process will determine the political potency of globalization in the domestic political economy. After the pandemic, the management of countries’ debt-servicing obligations will be a major force in molding popular sentiment.

In summary, dissatisfaction with globalization has turned into a powerful political dynamic in many nations. It has triggered a backlash against established political systems and actors, propelling the emergence of populist and nativist platforms. At the same time, this dissatisfaction has created a domestic policy environment that is conducive to widespread trade protectionism and tighter immigration policies. It has therefore finally become clear that rampant and unimpeded globalization has produced an unsustainable model that creates ever-wider income disparities within and among nations. But more importantly, unchecked globalism is increasingly seen as a threat to the integrity of democratic rule. The predominant question for policymakers around the world is how to reframe globalization to mitigate its negative consequences while keeping its core growth-enhancing dynamics intact.

This compilation focuses on five key themes that underpin globalization: trade, data and technology, finance, tax, and climate change. The study’s first aim is to identify the concerns related to these anchor policies. The second aim is to explore regional convergences and divergences regarding possible solutions to these common problems. The compilation concludes with a road map that includes specific proposals designed to address the shortcomings of the current framework of globalization. These proposals benefit from sufficient multilateral support to drive an agenda of policy reform.

The compilation’s methodology was designed to collect regional perspectives on globalization by leveraging the know-how of Carnegie’s global presence. Thus, the chapters on the United States, the

EU, India, Russia, and China were written by Carnegie experts; those on Latin America and Africa were commissioned to independent experts. The next chapter consists of a broad analysis of the prevailing criticisms and cleavages of globalization. It starts with an overview of the political implications of globalism gone wrong. It then focuses on the five major policy areas, which also constitute the core analysis for the following regional chapters.

The final chapter summarizes the main findings with the aim of charting a policy-relevant agenda for globalization reform. It also recommends the establishment of a high-level task force to streamline the various recommendations for rewiring globalization. This proposal aims to address a core deficiency of current debates: the lack of an inclusive discussion across the range of policy fields that shape globalization.



# From the Local to the Global: The Politics of Globalization

SINAN ÜLGEN AND CEYLAN INAN

Globalization has been a key driver of growth and affluence around the world. It has allowed industrialized countries to rely on their exports to boost their potential for growth. It has also helped developing nations diversify their economies and fight poverty. In China alone, nearly 800 million people have been lifted out of extreme poverty since the 1980s.<sup>2</sup>

Yet, globalization has produced both winners and losers (see table 1), and their uneven distribution has started to raise concerns. A chief criticism of globalization is that in its current form, despite its overall welfare-generating nature, it has worsened inequality within and among countries.<sup>3</sup> Around the world, educated and highly skilled workers have enjoyed outside growth in income and wealth, both of which are increasingly concentrated in the top percentile of earners.

**Table 1: Winners and Losers of Globalization**

Developing Countries		Developed Countries	
Winners	Losers	Winners	Losers
<ul style="list-style-type: none"> <li>• Middle classes</li> <li>• Workers and capital of export industries</li> <li>• High-skilled workers</li> <li>• Workers who can move to high-income countries</li> </ul>	<ul style="list-style-type: none"> <li>• Poorest 5%</li> <li>• Landlocked countries</li> <li>• Isolated rural areas</li> <li>• Low-skilled workers</li> <li>• Low-productivity firms</li> </ul>	<ul style="list-style-type: none"> <li>• Richest 1%</li> <li>• High-skilled workers</li> <li>• Research and development-intensive industries</li> <li>• Consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Workers in labor-intensive sectors</li> <li>• Low-productivity firms</li> <li>• Middle- and low-income classes</li> </ul>

Source: Authors' analysis

In recent years, demand for unskilled workers in industrialized economies has steadily declined because of skill-biased technological change, the offshoring of labor-intensive jobs, and the substitution of local production with cheaper imports from emerging markets. This trend has depressed wages for low- and middle-income earners in advanced economies, especially since the 2008 global financial crisis. As a result, while the general welfare benefits have been immeasurable, distant, and diffused, the costs of globalization have been concentrated in specific communities, industries, or geographies that have suffered from dislocations.

At the same time, the commodification of labor during the competition for capital has exacerbated inequality, notably in underdeveloped economies. Globalization has redistributed income toward capital at the expense of labor, invigorated by the growing impact of technology and trade deals tilted in favor of capital and the wider financial community. As a result, the share of capital in total income and profits has grown steadily while conditions have become increasingly precarious for labor, which inevitably bears a disproportionate economic risk given its immobility relative to capital or goods. This picture has had important implications in the form of widespread political mistrust and thus a lower perceived effectiveness of democratic institutions.

This chapter highlights the main international cleavages in the reform of multilateral governance and the institutional processes that underpin globalization. After a review of the costs and risks of globalization, the chapter explores the five key themes of trade, data and technology, finance, tax, and climate change.

## Costs and Risks of Globalization

As reform advocates rightly point out, the distribution of gains from free trade has been skewed at not only the national but also the global level.<sup>4</sup> Wealthier nations that specialize in high-value-added trade grab a larger share of global economic growth.<sup>5</sup> A major contributing factor has been the rising share of intangibles, such as patents and software, in global value added. When intangibles are accounted for, the United States' overall trade deficit falls by nearly half from \$763 billion to \$390 billion in 2015, the year for which the latest data on value-added trade are available.<sup>6</sup>

The industries of established economies have successfully leveraged the removal of trade barriers to reduce their costs and penetrate new markets with the help of global rules and trade deals designed in their favor. Most of the world's largest companies and intellectual property owners are entities from developed countries, and the accumulation of their profits—protected by globally enforced intellectual property rights regimes—has sustained existing income and wealth disparities.

By contrast, even the best-performing developing countries—with the exception of China—face severe challenges to lift their populations out of poverty. Developing countries participate in global value chains at earlier stages, with increasingly limited opportunities to use their labor cost advantage to balance their technological disadvantage or move toward forward linkages and higher-value-added trade.<sup>7</sup> As global value chains become more knowledge intensive, it is ever more difficult for developing economies with limited access to a skilled workforce and other relevant capabilities to retain a market share.

For middle-income economies with lower productivity, the rise of China as the global manufacturing powerhouse has transformed the unbundling of production from an opportunity to a risk of premature deindustrialization.<sup>8</sup> In 2016, East Asia accounted for \$7 out of every \$10 earned by the developing world from manufacturing exports.<sup>9</sup> For most developing nations, the speed of automation, a lack of structural reforms, and the risk of becoming locked into a low-value trap have reduced the array and force of their growth prospects. These factors have also diminished the positive externalities of participating in global value chains, such as mass employment gains or large-scale skills upgrading.

Export opportunities for less developed economies have been further stifled by the quotas, subsidies, and trade barriers maintained by developed countries. This is especially true in agriculture, which remains among the most protected sectors globally despite being the primary source of income for large populations in many developing nations, which, furthermore, have a comparative advantage in the sector.<sup>10</sup> The dynamism of upward mobility has therefore been lost.

Meanwhile, unimpeded financial globalization has nurtured devastating debt crises in developing economies. Much-needed help from international financial institutions has often come with strings attached in the form of austerity and costly structural adjustment programs.

Another fundamental problem centers on intrusions into the national autonomy of sovereign states—in other words, restrictions on countries' policy spaces that prevent them from pursuing policies that best fit their unique circumstances.<sup>11</sup> Globalization entails a functional need to transfer a certain degree of political authority to international entities, but this transfer inevitably fuels the politicization and contestation of global governance. The question is whether economic globalization threatens or unduly restrains the legitimate choices made in and by states.

On the one hand, the current form of globalization has brought with it structural changes and norms that disproportionately empower its drivers—investors, banks, multinational corporations—vis-à-vis national governments.<sup>12</sup> The owners of capital derive substantive bargaining power from states' structural dependence on capital, the protections entrenched in investment treaties, and unhindered capital mobility. Notably, multinational corporations determine how a country links to global value chains. This, in turn, has great implications for the force and direction of gains in the industry and the economy as a whole. The risk of relocation precludes significant disturbances to the status quo created by a race to the bottom in terms of reductions in regulations and taxation. A government seeking to cut a budget deficit has powerful incentives not to raise corporate income taxes out of fear of prompting investors to exit its domestic market. Firms with vast resources lobby policymakers at critical junctures to secure outcomes that reduce their costs of doing business, both at home and abroad.

On the other hand, the institutions and legal frameworks that accompany global integration restrict the strategies and instruments that governments can use to pursue domestic objectives or respond to the practices of foreign counterparts. Deeper integration requires global rulemaking and stewardship in a growing number of areas to sustain harmony and address the systemic risks that arise from interconnectedness. Globalization asks states to adhere to international rules even if they do not align with those states' interests or priorities, thereby impinging on governments' ability to put their populations first.

Thus, governments that wish to increase their environmental ambitions or adopt stringent consumer-health regulations may stumble on World Trade Organization (WTO) rules, which prohibit discrimination among like products. Those seeking to retaliate against what they deem to be market-distorting practices by WTO members must accept defeat if the organization's dispute settlement mechanism does not validate their discretion. Developing countries must design industrial policies meticulously to prevent them from being challenged as unfair trade practices.<sup>13</sup>

The central questions are then: Who makes the rules? What underpins their legitimacy? And are they subject to satisfactory oversight, transparency, and accountability mechanisms? A crucial consideration in this respect is the unbalanced representation of interests in the core bodies of global governance. There is evidence that rulemaking has so far favored rich nations and private creditors at the expense of developing countries. The latter too often occupy the position of rule takers without a powerful voice in debates that carry enormous implications for them. These nations are then compelled to implement regulations or ratify treaties designed primarily for mature economies or with business facilitation and investor protection in mind.

For each new domain regulated without inclusive multistakeholder processes, globalization has the effect of perpetuating the systemic inequities that widen the gap between rich and poor. An essential factor in this regard is the global regime for protecting intellectual property. Given the pace of technological change and the nature of value creation in the digital economy, global intellectual property rights risk fostering a new dependency between a tech-producing core and an importing periphery, entrenching the income disparities between them for the foreseeable future.

In the absence of adequate oversight mechanisms, the systemic risks of globalization cascade into crises with negative repercussions the world over. Uncontrolled globalization not only breeds volatility from short-term capital flows and hyperfinancialization but also spreads both the good and the bad effects faster and more broadly than ever before. Imbalances among nations in growth, trade, savings, and consumption patterns may appear to be irrelevant, but, in many ways, they are closely linked.<sup>14</sup> Contemporary global finance has evolved into an oscillating system that creates boom-and-bust cycles in which the magnitude of the eventual bust gets bigger with interconnectedness. The probability of a crisis occurring is driven mainly by global conditions, while local outcomes appear to be idiosyncratic.<sup>15</sup>

Moreover, the crises that are endemic in hyperglobalization particularly harm the poor and the vulnerable, no matter where they live. Developing countries are now highly exposed to shocks from misguided practices, economic policies, or regulatory changes in the core countries of global financial networks. The 2008 global financial crisis provides a case in point. Burgeoning cross-border financial trade in the lead-up to the crisis helped foster excessive growth in the credit markets that were central to the initial stage of the downturn. Unlike previous episodes, the 2008 crisis had an impact on all types of countries. To be sure, the episode provoked notable changes in policy thinking. But the speed of integration has continued to outpace efforts to address the challenges of an increasingly complex configuration.

A final consideration is the deleterious impact of hyperglobalization on the Earth's ecological infrastructure. The rise in industrial activity, the expansion of transportation networks, and changes in

land use have severely degraded the environment and depleted vital resources on which current and future generations depend. The environmentalist critique of globalization initially targeted constraints on states' autonomy to go beyond multilateral rules and adopt more ambitious standards. Nowadays, the struggle is to integrate increasingly strict environmental, health, and safety standards into international regimes that seem to ignore such standards or subordinate them to other policy goals.

## The International Trade System

The international rules-based trade regime needs a revision to meet today's realities, prevent frustrations with globalization from empowering protectionist forces, and create an equitable and sustainable model that helps developing countries grow. In recent years, the WTO has faced obstacles in providing a forum for multilateral negotiations on new and improved rules, monitoring trade policies, and resolving disputes among its members. The global economic downturn and the collapse in world trade, coupled with continued geoeconomic tensions between the world's largest economies, have boosted the urgency of an exhaustive trade reform agenda.

### The Future of Global Trade Negotiations: Multilateralism or Regionalism?

The frustration of inconclusive WTO negotiations has led industrialized economies to pursue alternatives to multilateral rulemaking. The result has been an increased emphasis on plurilateral approaches and the entrenchment of preferential trade agreements (PTAs). Regionalism has become a policy alternative for most countries and will be a permanent feature of the international trading system for the foreseeable future. Since the turn of the millennium, the number of PTAs has grown extensively to include increasingly sophisticated and comprehensive intercontinental and megaregional accords. Today, virtually all WTO members are party to, or in the process of negotiating, at least one regional trade arrangement.

Supporters present evidence that PTAs promote trade and growth both within and outside the trading area while addressing the free-rider problem of multilateralism.<sup>16</sup> For example, these agreements reconfigure members' economies to make further liberalization politically optimal and motivate nonmembers to join or emulate them. There are arguments that PTAs have a building-block impact by fostering the multilateral consolidation of comprehensive frameworks and diffusing standards that pertain to technical trade barriers.

It is often highlighted that some aspects of PTAs, such as transparency obligations and liberalization in services and investment, either are nonpreferential by nature, are easily extended to nonmembers on ratification, or benefit all economic actors by increasing predictability in the trading system.<sup>17</sup> For developing countries, it is argued, PTAs may serve as a vehicle to lock in reforms that result in greater foreign direct investment (FDI) and reap economies of scale before countries are prepared to liberalize at the multilateral level.<sup>18</sup>

Critics, however, point to substantial risks that can ensue from the prevalence of regional arrangements.<sup>19</sup> Regionalism can have negative impacts on welfare and the international trading system by diverting trade



away from the most efficient global producers in favor of regional partners and diverting resources and incentives away from multilateral processes. PTAs can produce suboptimal results for developing countries as negotiations allow powerful partners to exert unilateral pressure on other parties to adopt onerous rules and strict enforcement mechanisms. Protectionist interests can capture labor and environmental standards embedded in PTAs.

Regionalism can also polarize the global trade system by establishing blocs that maintain high external trade barriers. The treatment of PTA partners may violate the WTO's nondiscrimination principle and erode the preferences that developing countries enjoy under WTO rules. The rising number of PTAs may result in a patchwork of regulations that cover overlapping areas and complicate current business and future multilateral convergence. By encouraging or obligating the use of purpose-built dispute settlement mechanisms, PTAs can enable forum shopping, result in the fragmentation of case law, and weaken the relevance of the WTO's own dispute settlement mechanism.

By contrast, plurilateral agreements (PAs) focus on limited issue areas.<sup>20</sup> These accords allow like-minded members to bypass the hurdle of finding consensus in multilateral negotiations and respond to the changing needs of industries with agility in areas that are not yet covered or that, these members believe, are insufficiently covered in existing treaties. PAs are presented as a solution to maintain the WTO's negotiation function and address the complications raised by multiple, overlapping PTAs. Developed countries favor flexible negotiating formats in the WTO to design rules in areas of interest to groups of members.

Developing nations remain committed to multilateralism and wary of rules shaped in exclusive forums. For them, the lack of inclusivity inherently risks perpetuating the imbalances of the existing regime by establishing de facto rules without considering the needs and interests of countries that are absent when those rules are formulated. Developing countries view efforts to circumvent the arduous task of reaching multilateral accords in the name of progress as a bid by industrialized members to undermine the power developing nations derive from the consensus rule of the WTO.

Blocking progress in new areas that developed members prioritize before existing mandates are completed is a bargaining tool that empowers developing members to pressure powerful countries to concede to their demands. Rather than inspiring a quest for shortcuts, this tool is meant to motivate negotiating parties to engage in constructive dialogue to develop common approaches and norms and seek creative issue linkages to reach an accord. Plurilateral approaches inevitably limit the developing world's contribution to a choice between objection and consent, and restrict their demands to reforms and rectification, instead of allowing meaningful participation from agenda setting to ratification.

### **Development and Differentiation**

The 1994 Marrakesh Agreement, which established the WTO, mandated the organization with helping less developed countries integrate into the global economy and achieve higher standards of living for their populations through trade. Developing countries require policy space and nonreciprocal market access to grow, adapt, and gradually open up to global competition while supporting their industries and populations against shocks that may ensue.

To that end, developing nations benefit from various forms of special and differential treatment (S&DT) embedded in WTO treaties. Through S&DT provisions, developing countries enjoy more favorable thresholds and longer time frames for undertaking specific commitments and are granted derogations from several restrictions on industrial policies. Additionally, through best-endeavor clauses, developed members are encouraged to support developing nations with institutional, technological, and financial assistance.

A crucial task of the reform agenda is to redefine the link between the international trade regime and development to ensure fairness and efficiency. With the 2001 Doha Declaration, all WTO members agreed to put development at the heart of the organization, and revise and strengthen the S&DT provisions to make them more precise, effective, and operational.<sup>21</sup> However, meaningful progress has not transpired throughout twenty years of negotiations. The Doha round of multilateral trade talks collapsed over a deadlock in agriculture—namely, over subsidies and barriers to market access maintained by developed economies.

From the perspective of developing countries, S&DT provisions are unconditional rights earned during political negotiations and a fair way to help address their economic and development challenges, especially given the historical roots of their circumstances. Recent successes have reduced the economic disparity between developing and developed countries in measures such as gross domestic product (GDP) and share of global trade, but the gaps in per capita income and human development indicators, like undernourishment and poverty, continue to widen. As such, developing countries see the preservation of S&DT in current and future negotiations as crucial for continued improvements in their development status. Accordingly, they want to strengthen and expand the scope of such treatment.

More fundamentally, the prescription often does not match the patient in the WTO's existing differentiation regime. S&DT flexibilities that allow subsidies and safeguards are not enough to promote or protect disadvantaged groups in developing countries. Some provisions, such as those embedded in the Agreement on Agriculture, have even ironically led to a situation of reverse differentiation where, in essence, only developed WTO members can use the existing flexibilities.

During the WTO's 2003 ministerial conference in Cancún alone, developing countries made a total of eighty-eight proposals on S&DT, to no avail.<sup>22</sup> Among their demands was a call to substantiate the best-endeavor approach with legally binding obligations. In a nutshell, S&DT often rests on generalized processes that lack defined targets where noncompliance cannot really be shown, like the obligation to review the developmental impact of a particular measure imposed by developed countries. Even when a detrimental effect can be proved, key texts do not specify the withdrawal, modification, or remedy of the action concerned. Retaliation against such practices does not redress past damages and seldom carries enough weight to prompt policy changes.

For developed economies, offering blanket privileges to countries at varying levels of development complicates the way differentiation is handled in the WTO. The current architecture was designed in an era when the disparity between the leaders and the laggards was relatively clear cut. As emerging economies increase their market power and account for higher shares of world trade, linking strengthened S&DT with the WTO's self-designation regime—in which members declare their own development status—becomes costly.

## ***Developed WTO members wish to share the burden of development with large emerging economies.***

Developed members wish to share the burden of development with large emerging economies. To that end, they want to categorize developing members based on the sophistication of their economies and their capacity for growth and development. These categories are meant to help channel resources to the countries with the greatest need and provide the basis for a mechanism for the lifting of market access privileges. This is indispensable, according to developed members, if S&DT is to eventually enable all WTO agreements to apply universally.

In 2019, the United States proposed hard criteria to replace self-designation and define a developed country.<sup>23</sup> These criteria included being designated a high-income country by the World Bank for three consecutive years, accounting for over 0.5 percent of global merchandise trade, and being a member of the Organization for Economic Cooperation and Development (OECD) or the Group of Twenty (G20). The European Union (EU) and the Ottawa Group of WTO members followed up with a more flexible approach based on needs and evidence to ensure that S&DT is as targeted as possible.<sup>24</sup> Under this proposal, members should be actively encouraged to graduate with clear road maps devised in close cooperation with the WTO secretariat. Requests for additional S&DT should be reviewed on a case-by-case basis.

Emerging markets generally reject differentiation among developing countries. Brazil and South Korea have renounced S&DT in future negotiations, citing their development successes or in return for political support elsewhere. China relinquished most S&DT measures when it acceded to the WTO in 2001, and many of its commitments go beyond the standard WTO accession–related policy commitments. Some smaller economies have shown a willingness to discuss categories if this brings them closer to least developed countries rather than emerging markets, as the former are unlikely to lose access to S&DT under any framework.

### **Intellectual Property Rights**

The 1994 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) established the global regime that governs the ownership and flow of knowledge, technology, and other intellectual assets. TRIPS set out minimum standards for the protection of intellectual property with extensive and binding rules for national policies, whether these are trade related or not. Developing countries were given until 2005 to incorporate TRIPS into their national laws. The transition period for least developed economies was extended to 2013 for most areas and to 2016 for pharmaceutical patents.

Often cited as a victory for firms that wanted to boost intellectual property protection in developing countries and forced the issue onto the agenda, TRIPS is a deeply contested agreement. Developing countries see the accord as a painful manifestation of disciplines enshrined under multilateral trade rules that blindsided these states about the extent to which they would benefit industrialized countries. As the United Nations (UN) Development Program put it in 1999, “intellectual property rights agreements were signed before most governments and people understood the social and economic implications of patents on life.”<sup>25</sup> Only twenty developing countries could mobilize the resources and expertise needed

to follow the TRIPS negotiations and the matters at stake.<sup>26</sup> The deal was concluded when progress on improved market access for textiles and agriculture was made conditional on consent on intellectual property.

Technology-producing countries and firms see intellectual property protection as a prerequisite to drive research, investment, and innovation, and they wish to reinforce and expand the TRIPS regime. The existence of intellectual property rights in host countries is crucial for them to feel secure against the theft and reproduction of the fruits of their investment and research. This is why the EU and the United States lambast forced technology transfer in exchange for market access as a systematic problem that puts foreign operators at risk of losing their competitive edge. The chief strength of more robust global intellectual property rights lies in the reliability of a stricter international regime. This, Brussels and Washington argue, could stimulate domestic innovation and encourage FDI flows, technology transfer and licensing, and the diffusion of knowledge to the developing world.

Subsequently, over time, intellectual property regimes in advanced economies have expanded to cover tangible resources and intangible procedures, with the period of exclusivity spanning decades. Technology-producing countries and firms successfully expanded domestically granted rights and generally harsher intellectual property regimes to other countries through bilateral free trade agreements and parallel processes in other forums, such as the World Intellectual Property Organization. Intellectual property rights became an essential precondition for certain types of FDI from industrialized economies.

From the perspective of developing countries, strengthening TRIPS risks consolidating corporate monopolies over the ownership of ideas and cultural goods. This would aggravate the technology gap between rich and poor countries and expedite the transfer of capital from developing to developed nations. Critics agree that TRIPS enables firms in developed countries to lock in their appropriation of technological rents over innovation.<sup>27</sup> Stronger intellectual property standards would hurt the development prospects of developing countries, and most are ill equipped to exploit any purported gains.

For developing countries, the seemingly never-ending enlargement of the realm of property elevates intellectual property to a matter that has serious consequences. These include threats to food sovereignty, inaccessible medicines, reduced scope for innovation, and excessive outward capital flows. Meanwhile, data show that developing countries, especially least developed nations, are not getting what they bargained for. Specifically, developed countries are not satisfying the promise of technology transfers ingrained in TRIPS because of a range of textual and implementation-related issues. Scholars from various disciplines have urged the exclusion from TRIPS of certain categories, such as biomedicine.<sup>28</sup> Other analysts have objected to the handling of intellectual property at the WTO altogether.<sup>29</sup>

Developing countries demand a clearer definition of the scope of TRIPS and an expansion of the debate on the agreement's flexibilities. Least developed countries call for the effective implementation of the deal's technology transfer requirements.<sup>30</sup> The relationship between TRIPS and the Convention on Biological Diversity when it comes to intellectual property rights over traditional knowledge and genetic resources, 90 percent of which originate in developing countries,<sup>31</sup> is also contested.<sup>32</sup> Developing countries demand a TRIPS amendment to strengthen the link between the two regimes to stop the misappropriation and reckless patenting of plant varieties and traditional knowledge.<sup>33</sup> Specifically, these countries seek measures

such as “incorporation of the mandatory disclosure of a biological resource’s source or origin, evidence of prior informed consent, and benefit sharing from patent applicants before any patent is granted to a company.”<sup>34</sup>

A fundamental cleavage that underpins TRIPS is that it is based on a Western conception of intellectual property. Developing and developed members disagree on the balance between the private right of ownership associated with patent holding and the public good of shared knowledge for the welfare of society. For example, some forms of traditional knowledge as shared among Indigenous communities do not conform to the codified model of individual and exclusive ownership. For Western advocates, modern genetic research aimed at increasing human welfare constitutes so-called bioprospecting, a form of intellectual property that is covered by the TRIPS framework. For Indigenous Peoples, meanwhile, the patenting of traditional knowledge resources like ancestral medicinal recipes can be tantamount to biopiracy.

TRIPS has come under fierce criticism for its implications on public health due to the inclusion of pharmaceutical patents and the adverse effects of increased protection on drug prices in developing nations. The 2001 Doha Declaration affirmed that TRIPS should not prevent members from taking measures necessary to protect public health.<sup>35</sup> Nonetheless, developing countries have long argued that the agreement’s flexibility provisions, such as compulsory licensing, are almost impossible to exercise. Similarly, critics assert that the safeguards to remedy the negative effects of patent protection or abuse are incompatible with the capacity constraints of less developed economies.

### The WTO Dispute Settlement Mechanism

Perhaps the WTO’s most notable institutional innovation is a two-tier dispute settlement mechanism (DSM) to resolve trade disputes without members resorting to unilateral measures. Dubbed the WTO’s crown jewel and the only multilateral legal body of its kind, the mechanism consists of an independent adjudication panel and a seven-member Appellate Body (AB). The DSM’s findings are legally binding unless overturned unanimously by WTO members. Unlike its predecessor under the General Agreement on Tariffs and Trade (GATT), which used political mediation to resolve trade disputes, the DSM is based on judicial independence and legal reasoning, giving a rules-based character to the international trade regime.

In recent years, fundamental differences of opinion have emerged over how WTO law should be applied and how legitimate the DSM’s scope of interpretation is. The AB is currently in a state of paralysis. Due to a U.S. blockade of all new appointments, the body has been effectively disabled since December 2019 with only one remaining member—two short of the requisite number for hearing new cases. In practice, this means that the respondent to a case can unilaterally reject panel reports with which it disagrees.

The fundamental paradox that underpins the DSM debate is how to reconcile the international rules-based regime and its need for a global referee with the national sovereignty of a diverse membership—especially when the political will to negotiate clear rules on controversial matters is lacking. As of this writing, the WTO has 164 members at varying stages of development, with distinct policy agendas and divergent interpretations of what constitutes legitimate and market-distorting policies. WTO agreements

leverage constructive ambiguity to find consensus among countries with diverse capitalist models. When disputes arise on clauses that are deliberately vague, the AB becomes both responsible for and empowered with legitimizing one party's interpretation while disqualifying another's.

Since China's accession to the WTO, the AB has been compelled to rule on matters that pertain to the Chinese state capitalist model with its state-owned enterprises and use of subsidies. For instance, a 2011 U.S. complaint required the AB to rule on how a public body should be defined according to WTO law. Such a definition would ascertain the freedom with which state-owned or -subsidized banks and enterprises could engage with exporters in financing and production processes. The AB decided that an institution must perform an explicit government function to be classified as a public body, denying Washington the right to retaliate against practices it regarded as dumping.

Other grievances include outgoing AB judges' continued involvement in cases and the body's inability to settle appeals within the ninety-day deadline. According to former judges, these criticisms target an underresourced AB that seeks to preserve predictability in the international trading system by providing coherent case law while dealing with increasingly complex cases. Over the years, the AB's workload has grown significantly, reflecting not only the high number of cases but also increases in the size of disputes, the number of issues raised on appeal, the number of participants, and the length of submissions. Thus, reforms are needed for the AB to deliver on its mandate without bending the normative framework that defines it.

To break the AB impasse, the EU suggested concrete reforms in a joint proposal with several WTO members.<sup>36</sup> The proposal set out new rules for outgoing AB members, conditions for extensions of the ninety-day time frame, and clarifications on AB discretion and the scope of admissible claims. The joint framework included annual meetings between WTO members and the AB to discuss systemic issues or trends in jurisprudence. The EU also proposed a single but longer term of six to eight years for an increased number of AB members. In March 2020, the group agreed on the Multiparty Interim Appeal Arbitration Arrangement for appeals of panel reports to be resolved among participating countries until the AB becomes operational again.

## Global Governance of Data and Technology

Throughout history, technological change has been at the source of economic transformation. But an accelerating pace of innovation, coupled with a high degree of globalization, has heightened the impact of technological change as the major cause of social dislocations, alongside international trade. Innovation has enhanced populations' standards of living, but it has also been responsible for considerable upheaval, including more precarious employment. The emergence of large global internet platforms, and their unmatched hoarding of data, risks creating permanent oligopolistic markets—with a significant impact on the global distribution of wealth.

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The rise of the intangible economy, in which value creation depends on the acquisition and processing of vast amounts of information, has transformed data into a valuable commodity. As a result, the governance of technology and data has emerged as a critical consideration in the digital economy. But the current ways of governing cross-border data flows through trade agreements have not produced multilateral, binding, or interoperable rules for the use of data.

The ubiquitous transfer of data across borders has given rise to a range of privacy, national security, and commercial concerns from governments and citizens. U.S.- and Chinese-owned firms that enjoy near-monopoly power over the sector collect and use terabytes of data on a daily basis, often without the knowledge of those concerned. In response, more than one hundred countries have enacted laws to regulate or prohibit the transfer of data abroad, affecting trade in the process.<sup>37</sup>

### Internet and Data Governance

The three major digital markets—the United States, the EU, and China—have taken divergent approaches to internet and data governance. Both sides of the Atlantic support a free, rules-based cyberspace with limited state intervention. Beijing, along with Moscow and other partners in the Shanghai Cooperation Organization, advocates a strictly regulated internet in which national authorities retain the sovereignty to govern and define the network's frontiers through domestic regulation, unfettered by external interference.

In accordance with these differences, the limits of privacy protection and data localization rules also vary strikingly across the world. The fragmented regulatory landscape complicates global commerce by raising compliance costs for businesses. Rule harmonization rooted in multistakeholder consultations is necessary to reduce barriers to trade and innovation, improve predictability for businesses, and prevent a complete technological rupture in a duopolistic or monopolistic global economy dominated by U.S. and Chinese interests.

In view of these disparate models of data and internet governance, emerging countries are searching for formulas that would allow them to capture a bigger or fairer share of the economic value generated by the processing of their citizens' personal data. The interest in a digital services tax, to be imposed directly on the territorial turnover of large data-centric digital companies, illustrates this need. But more broadly, a new and transposable blueprint is required to create compatible data governance regimes that do not act as barriers to cross-border trade but still allow a fair allocation of the economic value derived from the use of global citizens' personal data.

At the June 2019 G20 summit in Osaka, then Japanese prime minister Shinzo Abe declared the launch of the Osaka Track, a policy dialogue that aims to advance international rulemaking on the digital economy in alliance with the EU and the United States. By strengthening data protection, intellectual property rights, and cybersecurity norms, the Data Free Flow With Trust (DFFT) initiative, pursued through the Osaka Track, seeks to reinforce consumer and business trust, establish interoperability, and enable free data flows to harness the opportunities of the digital economy among members. The project consists of plurilateral negotiations in the WTO to regulate electronic commerce and trust building through regulatory cooperation in cybersecurity, privacy, and other areas. Fifty countries signed the declaration of

the G20 Osaka summit, and eighty-six WTO members, including China, Russia, and the United States, have joined the e-commerce talks so far.<sup>38</sup>

At the Osaka summit, some emerging-market economies, such as India, Indonesia, and South Africa, boycotted the DFFT initiative, arguing that multilateral negotiations remained the most appropriate platform to regulate the digital economy. The BRICS countries of Brazil, Russia, India, China, and South Africa, some of which have enacted substantive data localization rules that could contradict the DFFT, defend data sovereignty, given the vital role data will play in the economic development of emerging markets. India's foreign secretary has said that data are a "form of trade" and should be addressed in the WTO.<sup>39</sup>

Whether it is through the WTO, private or public multistakeholder initiatives, or trade agreements, most countries with sizable data-driven companies are locked in debates over how to govern these services and the data that underpin them. Developing countries are almost entirely absent from these processes.

A June 2019 report of the UN High-Level Panel on Digital Cooperation presented a vision for strengthening multilateralism and diversification of voices in digital cooperation.<sup>40</sup> A year later, the UN secretary general unveiled the organization's road map for digital cooperation.<sup>41</sup> However, the document did not expand on three previous models offered by the panel as alternatives for reforming the global architecture for digital governance. These models were a strengthened and improved Internet Governance Forum Plus, a dispersed co-governance architecture that delinks the design of digital norms from their implementation and enforcement, and a structure that would treat the digital world as a global common requiring collective management.

A key consideration in this respect is the reinterpretation of competition rules to limit oligopolistic practices in the tech economy. For instance, the European Commission fined Google €2.4 billion (\$2.6 billion) in 2017 for abusing its dominance as a search engine and €1.5 billion (\$1.8 billion) in 2019 for abusive practices in online advertising.<sup>42</sup> Many developing country governments believe that large technology firms are knocking out rooted local businesses and start-ups before they can establish themselves in their home markets. In August 2020, Mexico's competition watchdog launched an investigation into the abuse of dominance in digital advertising space.<sup>43</sup> And in April 2021, Turkey fined Google \$25 million for breaching the country's competition law.<sup>44</sup>

Antitrust concerns have gained ground in the United States as well. In 2020, a report on big tech by the U.S. House of Representatives Judiciary Subcommittee on Antitrust, Commercial, and Administrative Law asserted that companies exploited their dominant position to preserve a monopoly status. The report recommended measures that, if implemented, could result in the breakup of these companies.<sup>45</sup> A few months later, in a case against Google, the U.S. Justice Department brought the most significant antitrust charges yet for big tech.

Big tech has gotten even bigger during the coronavirus pandemic, adding to frustrations. The combined market capitalization of Alphabet, Amazon, Apple, and Meta (formerly Facebook) has exceeded \$5 trillion.<sup>46</sup> In July 2021, U.S. President Joe Biden signed an executive order containing seventy-two



initiatives to coordinate the federal government's response to competition issues while focusing on administrative policies and urging federal agencies to take action.<sup>47</sup>

Ultimately, there are noteworthy limits to the policy options available to developing nations that push them to adopt frameworks created by advanced economies and foreign companies. On the one hand, governments and private actors in developed countries have been instituting rules and standards that apply beyond borders. For instance, the EU's General Data Protection Regulation (GDPR), which governs the processing of personal data, and the U.S. Clarifying Lawful Overseas Use of Data (CLOUD) Act, which allows U.S. law enforcement to request data stored by tech companies, apply extraterritorially. Yet, even if they did not, most developing countries constitute negligible markets in the revenue portfolios of large multinational firms. The fear of prompting companies to exit the market would suffice to restrain governments from diverging far from de facto global standards they had no input in establishing.

On the other hand, great power rivalry over the future of the internet and discrepancies among governments' plans oblige states to choose strategically which set of standards to mirror. To illustrate, the EU increasingly incorporates GDPR principles into free-trade agreements and presents alignment with the regulation as essential to securing certain types of funding from the union's institutions. Developing countries that want to preserve access to the European market, like the advanced economies pursuing the same goal, adopt regimes that follow the EU's approach. The countries that write the rules and shape governance architectures derive considerable power from this arrangement. As other capitals choose to opt into their standards, complex technical and regulatory interdependencies are formed, over which developing countries have hardly any control.

Notably, the data-driven economy—in particular, new technologies like artificial intelligence and automation—inherently favors the first movers, as innovation is driven by the increasingly sophisticated processing of ever-larger amounts of data. The general paucity of data governance and enforcement has been an essential source of competitive advantage for U.S. tech companies in their global expansion and a catalyst in the rise of Chinese competitors. The interplay between these elements has enabled a few firms to assume control of the market and hoard troves of data sourced from across the world.

Against such a backdrop, it is increasingly difficult for developing nations to move ahead in the data economy and capture a share of the market—let alone present a real challenge to the dominance of U.S. and Chinese firms. Developing countries therefore need regulations and standards that create a level playing field between innovators and laggards and provide security and privacy while fostering data-driven innovation and growth.

### **Technology Governance**

Like the framework for data governance, a lack of inclusivity underpins global governance of technology as well. In general, most norms and rules that govern the cross-border diffusion of technology have been devised by either private industrial actors, technical committees, or domestic policymakers in a small number of advanced economies.

Of crucial importance in this respect is the global regime of intellectual, industrial, and commercial property rights. The intellectual property standards entrenched in and diffused by the TRIPS agreement originated first and foremost in the practices of today's advanced economies, where national patent regimes had developed over many years. These regimes require patents in all domains of technology, including where they may imperil other crucial goals, such as climate change adaptation and mitigation, public health, and food security.

Developing countries pay to use intellectual property that is held mostly by entities from developed economies, while the latter use their political heft to protect the fruits of their firms' investments in research and development at home and abroad. Through bilateral trade agreements, developed countries push for more robust regimes in less developed markets, at times going as far as expanding the application of domestic intellectual property rights to free-trade partners. As a result, developing nations find themselves forced to conform to increasingly harsh intellectual property norms to ensure access to other components of the development equation.

Critics of strong global intellectual property rights put forth a range of arguments.<sup>48</sup> Such rights, it is contended, impose adverse welfare effects on developing countries, expedite the transfer of capital from developing to developed nations, and, in doing so, afford unfair gains to developed countries at the expense of developing ones. Opponents worry that intellectual property rights diminish access to knowledge, slow industrialization, stifle innovation, affect competition, and pose a barrier to technology transfers to developing countries. Patent protection increases the prices of essential goods such as agricultural inputs, threatening food sovereignty and access to medicines.

There are also concerns that intellectual property rights entrench existing disparities in the world economy and prevent developing countries from implementing the appropriate system of protection for their circumstances.<sup>49</sup> That is despite evidence that the impact of the rights regime differs for countries at different stages of development.<sup>50</sup> Indeed, there is no empirical evidence that patents increase innovation and productivity in developing countries.

Importantly, for many of today's developed countries, intellectual property policies with weak patent protection were fundamental to their growth.<sup>51</sup> The United Nations Conference on Trade and Development (UNCTAD) noted in 1991 that "a premature strengthening of the international intellectual property system can then be viewed as a one-way scheme that favours monopolistically controlled innovation over broad-based diffusion through free-market competition, a scheme that does not conform to the practices of many of today's most developed countries at earlier stages of their growth."<sup>52</sup>

In issues of global governance of technology, developing countries focus on the way technology relates to economic development. This is because the structural changes required to leapfrog the barriers of the digital economy are extremely arduous. Developing countries face substantive risks to their labor force from skill-biased technological change. The latest technologies mean that the comparative advantages of low-income countries in conventional manufacturing will disappear before long. As more sectors undergo digitization, employing surplus unskilled labor may become more complicated, which may trigger dire social consequences. Developing countries therefore need support to devise agile regulations, alleviate the

impact of technological disruptions in traditional sectors, and boost investments in human capital to keep up with the dynamism of the digital economy.

Finally, it is worth noting that in contrast to other issue areas, civil society organizations with thematic expertise in technological transformation and the data economy are few and geographically clustered in Western countries. There are compelling reasons to think that this has weakened the traditional role of civil society to fill crucial gaps; support developing countries with tailored policy guidance, technical information, or capacity-building efforts; and help them participate actively in global debates.

## The International Financial System

Critics have long called out the international monetary and financial regime for reflecting the interests of post–World War II economic powerhouses, even though large developing countries occupy increasingly important positions as stakeholders and innovators in the global financial system. Despite some progress, international financial institutions continue to be criticized for promoting a logic that favors private interests, heightens volatility, and poses obstacles to healthy and sustainable growth, most notably in underdeveloped economies.

The importance of the financial sector in the global economy has grown considerably in recent decades with globalization and the digital revolution. Cutting-edge financial technology has brought millions of stakeholders into the financial system. However, this has not led to the establishment of mechanisms either to minimize the systemic risks that threaten to spill over into nontraditional financial institutions or to protect vulnerable groups with less capability to shield themselves from harm.

Amid the ongoing recovery from the 2008 global financial crisis, the world must now deal with the challenges of the coronavirus pandemic. More than \$100 billion had already left emerging markets by May 2020 in the largest and fastest case of capital flight in history.<sup>53</sup> Against this backdrop, there is an urgent need to enhance the workings of an increasingly fragmented global financial system and address sources of systemic risk in an ever-more interconnected world.

### Governance Reforms

A fundamental grievance of developing countries is lopsided influence in the core councils of global financial governance, which undermines the legitimacy of the system and imperils more effective global coordination. Developing countries do not feel fairly represented in the decisionmaking processes of international financial institutions and standard-setting bodies. These nations contend that failure to

***Developing countries do not feel fairly represented in the decisionmaking processes of international financial institutions and standard-setting bodies.***

implement governance reforms will weaken trust and the implicit social contract stipulated by G20 members when the forum gained prominence during the global financial crisis. Such failure could fuel regionalism and fragmentation—not in the name of effectiveness but as a reaction to the avoidance of critical and long-overdue reforms in multilateral institutions.

Although the World Bank and the International Monetary Fund (IMF) between them represent 190 countries, a small number of economically powerful nations hold disproportionate control over decisionmaking. This is due to the continued use of weighted voting mechanisms based on an outdated allocation of voting rights. The Bretton Woods institutions remain locked into a system that gives the United States veto power over major decisions and grants European countries significantly outsize influence.

For example, in the IMF, voting rights are allocated based on a system of quotas, which are calculated according to a formula that considers a country's GDP, openness, reserves, variability, and financial contributions to the fund. This formula currently gives the United States a 16.5 percent share of the quotas and the twenty-seven EU member states 21.8 percent of the quotas.<sup>54</sup> A realignment of quota shares is crucial because disparities in voting weight fuel conflict when more and less developed countries disagree on essential policy problems, such as the amount of IMF resources, the purpose and content of IMF conditionality, and the deployment of special drawing rights.

Moreover, historically, the World Bank director has been an American and the IMF has been headed by a European, based on a gentlemen's agreement fashioned by Western powers in the postwar period.<sup>55</sup> The arrangement has prevented candidates from other regions from taking leadership roles—at times despite superior credentials.

The decisions made in the World Bank and the IMF have profound impacts on developing nations. The principal borrowers from international financial institutions are developing countries, and the contributions of emerging markets to the Bretton Woods system have grown disproportionately to their voting weight over the last decade. Emerging-market governments feel that allocations of voting rights should reflect their nations' heightened importance in the global economy.

At the same time, less developed countries highlight that decisions are too frequently made against their interests in the councils of global financial governance.<sup>56</sup> Since the first G20 summit in November 2008, developing countries have called for comprehensive adjustments to the governance of the Bretton Woods institutions.<sup>57</sup> Proposed areas for reform include the quota shares and the formula that links shares to voting power in the IMF, the composition of the IMF and World Bank boards of directors, the services provided by these institutions, and the selection procedures for their chief executive officers.

There have been efforts to make decisionmaking in global financial institutions more inclusive, such as an incomplete G20-led governance and quota reform of the IMF in 2010. Although some adjustments were made in both the World Bank and the IMF, these did not create meaningful improvements toward addressing the grievances of developing countries, as they primarily—albeit incrementally—improved the positions of China and a few middle-income nations. Despite repeated assurances to the contrary, low-income countries gained hardly any voting power in the Bretton Woods institutions. In fact, some lost voting power in the IMF, fitting a larger pattern of the marginalization of their interests.

In the IMF, quota reviews are supposed to take place every five years, but over the years, the G20 has made multiple requests to bring forward the schedules for these reviews. In an appreciable move, the Europeans agreed in 2010 to give up two of their seats on the fund's executive board to emerging markets and make

the body fully elected. In February 2020, the IMF officially abandoned its fifteenth quota review after failing to secure the necessary backing.<sup>58</sup>

Like the Bretton Woods institutions, standard-setting bodies, such as the Basel Committee on Banking Supervision or the Financial Action Task Force, play critical roles in shaping the behavior of actors in the global financial system. Countries that are not represented in the executive committees of standard-setting bodies are profoundly affected by their regulatory decisions all the same. Accordingly, these bodies have material implications for economic development and the attainment of the UN Sustainable Development Goals. Even the world's poorest economies are deeply integrated into the global system.

Be that as it may, these bodies tend to respond to the priorities and conditions of advanced economies and the interests of the financial community. There are concerns that the decisions made in standard-setting bodies, such as the move to introduce macroprudential standards in Basel III, do not adequately take into account the primary source of systemic risk in developing countries and are poorly calibrated for their regulatory priorities.

Developing nations' insistence has prompted some standard-setting bodies to take actions to identify the unintended negative consequences of financial regulatory reform, but such attention continues to be an afterthought. After the global financial crisis, the memberships of several critical bodies were extended to include all G20 countries, giving developing nations a seat at the table for the first time. Nevertheless, a lack of deliberative parity lingers.

### The International Debt Architecture

A core reason why debt crises recur, have such ruinous impacts, and require a long time to resolve is the lack of an insolvency regime akin to the procedures for corporations on a path toward default. The IMF has warned that the coronavirus pandemic presents a very serious threat to the stability of the global financial system as debt levels are rising rapidly around the world.<sup>59</sup> In 2020, global government debt increased by 13 percentage points to a new record of 97 percent of GDP. It rose in advanced economies by 16 points to 120 percent of GDP and in emerging markets by 9 points to 63 percent of GDP.<sup>60</sup>

***In 2020, global government debt increased by 13 percentage points to a new record of 97 percent of GDP.***

Emerging markets have reached the limits of sustainable debt and low-income countries are especially vulnerable, as their collective debt burdens rose by 12 percent in 2020 to a record \$860 billion.<sup>61</sup> Even advanced economies might be at risk, because many of them entered the coronavirus crisis

carrying more debt than at the start of the 2008 global financial crisis. Against this backdrop, there are mounting calls for a multilateral framework to ensure that future debt standstills are resolved fairly—and not through bargaining among unequal parties.

Since the global financial crisis, it has become best practice to design debt contracts with collective action clauses (CACs)—provisions to make it easier for creditors to agree to lighter terms for a debtor that would

otherwise struggle to honor the original conditions. The G20 has endorsed CACs as an indispensable element of the international debt architecture, and the eurozone has adopted the clauses for all of its sovereign debt from 2022 onward.

A rise in sovereign debt that takes forms other than standard bond contracts—and therefore eludes the reach of CACs—has produced new risks. Much government-to-government debt is now undisclosed or owed to countries, such as China, that are not a part of traditional debt-negotiation groups. This makeshift structure, which lacks oversight of emerging creditors, perpetuates an information asymmetry that leads to misinformed lending decisions, makes traditional creditors reluctant to lend or participate in restructuring, and puts developing countries at the risk of predatory lending practices.

UNCTAD has repeatedly underlined that the ad hoc structure that has evolved to deal with debt crises in the current era of globalization strongly favors creditors. The organization has pointed out that the current system is inept at addressing chronic financial vulnerabilities and enhancing debt-servicing capabilities across developing countries in a debt landscape that has evolved massively in scale and complexity.<sup>62</sup> The UN champions “an ordered multilateral debt settlement mechanism” that links debt restructuring to green debt swaps and buyouts to support countries in preserving biodiversity, shifting away from fossil fuels, and curbing global warming.<sup>63</sup> As an initial step, UNCTAD has proposed the establishment of a global debt authority or standing body.

Previous initiatives aimed at multilateral reform of sovereign debt management have generated substantial opposition to a supranational authority, including from the United States and the EU. In late 2014, the UN General Assembly adopted a landmark resolution and formed a committee to develop a multilateral legal framework for sovereign debt restructuring. The EU, led by Germany and the United Kingdom, boycotted the committee’s sessions. Because of the boycott, the Group of Seventy-Seven (G77), a coalition of developing countries, agreed to adopt an alternative set of “basic principles on sovereign debt restructuring processes” instead of the multilateral legal framework.<sup>64</sup> However, the UN’s members could not reach a consensus on the proposal.

Meanwhile, the G20 continues to deliberate on a common approach to longer-term debt restructuring in addition to a debt freeze for low-income economies as an urgent measure to deal with the pandemic. In October 2020, senior IMF officials published a blog post underlining the urgency of reforms to the international debt architecture against the backdrop of the coronavirus.<sup>65</sup>

### Multilateral Lending Reform

Even before the coronavirus crisis, meeting the UN Sustainable Development Goals by 2030 was moving out of reach, in large part because of a growing investment gap. The international financial system currently does not allocate enough resources for long-term sustainable development, which is integral to progress in key areas such as infrastructure, healthcare, education, and renewable energies. There is a need to align the international financial system’s incentives for long-term investments that are consistent with sustainable development.

In recent years, this situation has set in motion the creation of alternative international financing options and given rise to emerging creditors. This trend has improved the availability of much-needed funding for projects in a wide range of areas, but it has also made the international financial architecture patchier and ineffective in certain ways. For example, in the words of one group of analysts, “the activities of multilateral development banks often overlap in specific sectors when they operate in the same countries, with limited coordination, even competition, among them.”<sup>66</sup> Moreover, there has been a rise in bilateral lending to countries that have trouble borrowing from international capital markets and are disinclined to approach lenders like the IMF or multilateral development banks. Loans approved at lower standards create new risks associated with opaque credit assessment and debt accumulation, especially in underdeveloped economies.

As regional arrangements gain prominence, multilateral development banks are in a unique position to streamline the achievement of the Sustainable Development Goals by mobilizing finance, addressing cross-border issues, and reaching the most vulnerable people. On that premise, there have been calls for reforms to ensure that multilateral and regional development banks establish common guiding principles and procedures, a more effective division of labor, and a more productive allocation of resources. The G20 Eminent Persons Group on Global Financial Governance has proposed a fundamental transformation in the business model of multilateral development banks from direct lending toward risk mitigation aimed at mobilizing private capital.<sup>67</sup> There have been no substantial moves toward multilateral lending reform so far.

The IMF has reformed its lending instruments since the bailouts prompted by the eurozone crisis. For instance, the fund introduced a flexible credit line and a precautionary liquidity line to enhance its lending capacity to members in cases that might otherwise be ineligible for assistance. The IMF boosted its resources and provided emergency financial assistance to eighty-five countries without full-fledged programs to help deal with the pandemic.<sup>68</sup> Critics, however, urge a review of the fund’s policy thinking in crisis management and the conditionality of IMF loans, especially now that countries need to support those suffering from income loss and prepare inclusive stimulus plans to recover from the coronavirus crisis.<sup>69</sup>

### The Global Reserve System

Another essential debate in the context of the global financial architecture concerns reliance on the U.S. dollar as the global reserve currency, and what happens when the stability of the system is inconsistent with the monetary policy objectives of the United States. This problem motivates developing countries to self-insure in the face of volatility in external financing by accumulating foreign exchange reserves. At the same time, this situation creates an inequity issue as investments are channeled to the assets of safe industrialized countries.

The coronavirus crisis has provided an impetus to debates about sources of liquidity in the global economy. Countries’ national reserves are not sufficient to deal with the financial shock of the pandemic. The lending facilities of the IMF and multilateral development banks are underresourced. Treasury repo facilities and swap lines from the U.S. Federal Reserve provide selected countries with access to U.S. dollars, but such arrangements do not create reserves and are not accessible to all countries. In light of this situation, demand for a new allocation and/or a reallocation of special drawing rights (SDRs) at the IMF to enhance the global reserve system has arguably reached its highest level.

The SDR is an international reserve asset that supplements IMF members' official reserves.<sup>70</sup> SDR allocations expand countries' international reserves in proportion to their IMF quota shares. A member can transfer SDRs to another member in exchange for credit in a convertible or hard currency at a certain interest rate. The interest earnings offset the variations in the cash position and borrowing requirements that may result from the exchange. To be approved, a new SDR allocation requires at least 85 percent of the votes at the IMF—that is, the consent of the United States and the EU.

The G20 Eminent Persons Group has proposed an SDR-based global reserve system to supplement bilateral swaps for U.S. dollars.<sup>71</sup> This approach seeks to generate unconditional liquidity with countercyclical allocations of SDRs while providing conditional liquidity to countries facing balance-of-payments crises with countercyclical IMF financing made entirely in SDRs.<sup>72</sup> SDRs not used by countries to which they are allocated as deposits would be used to lend to countries in need.

Proponents argue that this would give developing countries a share in the seigniorage of creating international money—that is, the revenue from the manufacture of money, calculated as the difference between the money's value and the cost to produce it.<sup>73</sup> This system would also reduce the demand for foreign exchange reserves intended as self-insurance. Both advantages would be enhanced if there were an agreement to consider factors besides quota contributions to increase developing economies' shares in SDR allocations. Another strength of such a system is that it would provide a degree of freedom from U.S. monetary policy and take some pressure off the Federal Reserve.

By contrast, critics believe that the relevance of SDRs is limited by the fact that they cannot be used outside the IMF and selected agencies.<sup>74</sup> They point out that SDRs impose interest charges and highlight the political infeasibility of redistributing the reserves.

In August 2021, the IMF approved a general allocation of SDRs equivalent to \$650 billion to boost global liquidity.<sup>75</sup> About \$275 billion of the new allocation will go to emerging markets and developing countries. Sub-Saharan African states will receive around \$23 billion of this amount.<sup>76</sup> IMF Managing Director Kristalina Georgieva has stated that the fund will explore options for the voluntary channeling of SDRs from wealthier to poorer and more vulnerable member countries.<sup>77</sup>

## The International Tax Regime

Numerous interlinked factors have eroded the apparatus for taxing multinationals over the last few decades: falling tax rates, ever-increasing cross-border capital flows, loopholes that arise from inconsistencies between jurisdictions, and aggressive incentives from states that compete to attract multinational enterprises, to name a few. For several years, political leaders and civil society across the world have voiced concerns about tax avoidance by multinational corporations, which, unlike domestic companies, can take advantage of gaps in the interaction of diverse tax systems.

In the United Kingdom, a 2019 study found that over half of the subsidiaries of foreign multinationals reported no taxable profits.<sup>78</sup> In the United States, numerous Fortune 500 companies paid an effective



***Studies estimate that between \$500 billion and \$600 billion in corporate income and \$200 billion in individual income is lost to tax havens annually.***

federal tax rate of zero in 2018.<sup>79</sup> Depending on the methodology, studies estimate that between \$500 billion and \$600 billion in corporate income and \$200 billion in individual income is lost to tax havens annually through legal and illegal means. Of these losses, about one-third occur in developing countries.<sup>80</sup>

The rapid rise of the digital economy has raised essential questions about the taxation of companies that no longer need local employees, offices, or operations in a country to generate profits there. The current international tax regime requires multinationals to pay corporate income tax where production takes place, rather than where consumers or users are located. This principle of physical presence, which has underpinned the global tax system since 1924, needs to be adjusted to respond to the reality of today's global economy. The urgency of this task grows with digitization, given that it is increasingly difficult to pinpoint where a technology firm's production occurs—not to mention to clarify the link between its revenues and its reported profits.

The rise of intangible assets, like patents and software, as chief drivers of value in the global economy has fueled competition among governments to host a larger share of such assets, which can move across jurisdictions quickly. This environment has encouraged multinationals to structure their affairs to minimize tax liabilities, such as by reducing taxable income or moving profits to low-tax jurisdictions that report little or no economic activity. There is a shared sentiment around the world that the current system has enabled multinationals to free ride on the public goods needed for their businesses to thrive while eroding governments' capacity to provide such goods. This picture underpins the allure of using minimum taxation to weaken tax-planning incentives.

In such a setting, developing countries face several additional constraints. Before the pandemic, they were already under pressure to invest in achieving the UN Sustainable Development Goals and to address developmental deficits while keeping their debt levels low. Investments, available aid, and borrowing mechanisms have remained scant, however, compared with the financing needs of growing populations, notably in infrastructure and healthcare.

On top of that, the surge in public spending and debt levels against falling government revenues due to the coronavirus crisis has amplified the urgency of mobilizing available sources of domestic income, turning the spotlight on corporate income taxes. Corporate income tax represents a higher share of tax revenues and GDP in developing countries than in rich economies. During the pandemic, multinationals have thrived and accrued significant profits, while most sectors have struggled to cope with the adverse circumstances. In this respect, the fair taxation of multinationals is a priority to release a much-needed, untapped source of revenue for all countries. But for many developing nations, it may be vital moving forward.

Finally, policymaking in host developing countries may be more susceptible to the influence of multinationals because of the risk of capital flight and business loss. A comprehensive tax regime would help level the playing field, increase predictability, and promote financial stability in developing economies.

## Policy Directions

As a multilateral solution remains in the works, three policy directions have prevailed among countries seeking to deal with the challenge of aggressive tax avoidance. A first group of countries has implemented varying forms of a digital services tax (DST)—a tax on gross revenues of specific, defined, digital services. These taxes are often presented as interim measures to be repealed in the event of an OECD deal. Half of all European OECD members have either announced, proposed, or implemented a DST.<sup>81</sup> The European Commission is withholding details on a digital levy until countries finalize the global tax overhaul announced in October 2021.

Meanwhile, India and Turkey are among the developing countries that have enacted DSTs. The African Tax Administration Forum (ATAF) has also begun developing a DST tool kit for its members. More broadly, the coronavirus pandemic has provided an impetus for the introduction of such taxes across the world.

Although they answer legitimate grievances, uncoordinated DSTs risk fostering tax competition and uncertainty in the global economy. Unilateral actions can result in double taxation, retaliation, and even the weaponization of taxation. In brief, DSTs—much like other unilateral trade barriers—can create an environment that is conducive to new trade wars. Last but not least, in most cases, the cost of a DST is passed onto consumers, resulting in unintended consequences on household budgets.

A second set of countries, including India, Israel, Nigeria, and Slovakia, has sought to resolve the problem of local physical presence by formulating definitions of “permanent establishment.”<sup>82</sup> Each nation experimented with a slightly different approach, involving the treatment of companies that have many online contracts or sales in a country as having a virtual permanent establishment there. There are indications that many authorities view potential changes in the way “permanent establishment” is defined as a soft target to increase their revenues. If this were true, it would increase the risk of double taxation and tax disputes worldwide, creating an uncertain landscape for taxpayers and consumers.

Third, some countries have pursued alternative ways to apply indirect taxes like value-added tax (VAT) and goods and services tax (GST) to cross-border digital services provided by nonresident suppliers to consumers. This approach requires nonestablished businesses to register and report VAT or GST locally. The EU has adopted a set of standards in this area, and several African and Latin American countries have expanded the scope of their existing indirect taxes to cover digital services.

From a government’s perspective, the effective collection of indirect taxes involves challenges and risks. Many jurisdictions offer a VAT exemption for imports of low-value goods because the related administrative costs tend to outweigh the expected revenue. The exemption threshold differs substantially from one country to another, increasing the volume of low-value imports and allowing businesses to take advantage of threshold differentials. Likewise, supplies of services and intangibles often lead to no or inappropriately low collection of VAT and result in additional competitive pressures on domestic suppliers.

## The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting

In July 2013, at the request of the G20, the OECD announced an action plan that identified fifteen steps to address base erosion and profit shifting (BEPS)—tax-planning strategies that exploit gaps and mismatches in fiscal rules to avoid paying tax—by multinational enterprises. Subsequently, the OECD and the G20 launched the Inclusive Framework on BEPS, which began working toward a multilateral scheme to address the challenges of the digital economy. The initiative’s current project found life in 2017, when the United States showed willingness to discuss limited, globally agreed reforms to avert unilateral measures against its firms.

In January 2019, the Inclusive Framework adopted a two-pillar work program on the tax challenges of digitization, which formed the basis of the tax deal announced in October 2021.<sup>83</sup> One hundred thirty-seven of the Inclusive Framework’s 141 member jurisdictions have joined the agreement so far.<sup>84</sup> The OECD secretariat estimates that more than \$125 billion of residual profit will be reallocated to market jurisdictions from the application of pillar one and around \$150 billion of additional revenue from pillar two.<sup>85</sup> The G20 has acknowledged the deal as a “historic achievement” and called on the Inclusive Framework to swiftly develop the model norms and multilateral instruments in the detailed implementation plan to ensure that the new rules come into effect globally in 2023.<sup>86</sup>

While the OECD is currently the dominant platform to address issues of international taxation, demands continue for tax reforms to be carried out at the UN with binding resolutions to ensure inclusivity and transparency. Indeed, over one-third of the world’s countries were absent from the OECD-led process. In the meantime, the UN has inserted a new article into its model for taxation of automated digital services to address the concerns of developing countries to get a larger and fairer share of tax revenues from digital companies.

The Inclusive Framework has a large membership and employs private and public consultations to ensure inclusive decisionmaking. However, developing countries argue that the political and technical complexities of the framework’s proposals and the time targets involved make it extremely challenging for less developed economies to participate in the process. They point out that some countries might commit to new rules without a full understanding of the revenue and investment implications, and the final product might not align with their interests. In several OECD consultations, delegations have reported that they feel ignored because they are not primarily market countries, so they might not benefit much from the proposed new rules.

### *Pillar One: New Taxation Rights*

Pillar one of the Inclusive Framework’s program seeks to integrate new business models into the international income tax system through changes to the profit allocation and nexus rules that apply to business profits. This pillar expands the taxing rights of market jurisdictions where a business participates in the economy through activities in or directed at that jurisdiction. It introduces a new taxing right for jurisdictions over a share of firms’ residual profits, known as amount A.

Amount A applies to multinational companies with a global turnover of over €20 billion (\$23 billion) and profitability of over 10 percent. About one hundred of the largest multinationals fall into this category.<sup>87</sup> For firms that are in scope, 25 percent of residual profit—defined as profit in excess of 10 percent of revenue—will be allocated to market jurisdictions with lower turnover thresholds. For smaller jurisdictions with GDP under €40 billion (\$45 billion), the threshold will be €250,000 (\$283,000).

The Global Alliance for Tax Justice and the European Network on Debt and Development argue that the deal is based on clear biases in favor of the countries where multinational corporations have their headquarters.<sup>88</sup> These watchdogs maintain that it is an unhealthy international principle that the country where a firm is headquartered should get the lion's share of that firm's tax income. Additionally, civil society groups have concerns over many of the exemptions in the OECD deal. The fact that countries will have to waive DSTs, which are important sources of revenue for some developing states, is also problematic and prompted Kenya, Nigeria, Pakistan, and Sri Lanka to reject the deal.

The G24, a group of twenty-four developing countries to coordinate on monetary and development issues, finds the agreement suboptimal and unsustainable in the medium run. The G24 and ATAF argue that “the reallocation percentage [of tax revenues to developing countries] should not be less than 30% of multinationals' non-routine profits. With a limited number of companies and the nature of the business in scope any share of less than 30% will not ensure any meaningful revenue for developing countries.”<sup>89</sup> The G24 also believes that the removal of DSTs and other, similar measures should be gradual alongside the implementation of amount A.

According to the ATAF, “the reallocation of profits [should] be calculated as a portion of the MNEs [multinational enterprises] total profits instead of its residual profit. The quantum to be reallocated [should] be a Return on Market Sales based on the Global Operating Margin of the MNE group, whereby the higher the Global Operating Margin of the MNE, the higher the reallocation.”<sup>90</sup>

The ATAF and the African Union “have stated . . . that there should be no form of Mandatory Binding Dispute Resolution mechanism for transfer pricing and permanent establishment disputes in the Pillar One rules for countries where there is little double taxation risk as this would impose a demanding and complex process on such countries.” The ATAF and the African Union demand that an “elective binding dispute resolution mechanism [be] made available to all African countries that have limited capacity.”<sup>91</sup>

### ***Pillar Two: A Minimum Corporate Tax Rate and Accompanying Rules***

Pillar two of the work program provides for a global minimum corporate tax rate of 15 percent on all multinationals with annual revenue of over €750 million (\$850 million).<sup>92</sup> Through this pillar, the OECD aims to limit how much countries can lower their corporate tax rates to lure company headquarters to their jurisdictions. The tax rate is accompanied by three rules that would make it much harder for firms to move taxable profits around to minimize their liabilities.

A major grievance regarding pillar two is that the turnover threshold would exclude 85–90 percent of the world's multinationals.<sup>93</sup> Many criticize the 15 percent effective rate for being far lower than the

global average corporate tax rate of approximately 25 percent and closer to the 12.5 percent proposed by some low- or no-tax jurisdictions, which, some suggest, will put countries with higher corporate tax rates into a “race to the minimum.”<sup>94</sup> The ATAF and the African Union insist that the minimum effective tax rate should be at least 20 percent.<sup>95</sup> Furthermore, there are concerns that in many cases, extra tax paid by corporations topping up their tax bills to 15 percent will go to countries where those firms are headquartered. In many cases, these will be already rich nations, such as the United States, the United Kingdom, and various EU countries.

Finally, while governments are not obliged to implement the pillar two rules, there are concerns that developed countries will use their economic advantage to pressure poorer nations into joining the plan. A similar move happened when the EU placed Namibia on its list of noncooperative countries and territories for tax purposes from 2016 to 2018 because the nation refused to comply with OECD guidelines.

## Climate Change

Although it is difficult to measure the impact of globalization on climate change, it is indisputable that globalization has accelerated the leading causes of greenhouse gas emissions. Burgeoning international trade and investment have spurred global industrial activity and multiplied transportation networks within and across national borders. The global power supply, generated mainly from fossil fuels, has had to snowball to sustain this momentum, as countries have sought to reap the benefits of globalization.

Global warming is already producing dire consequences, especially for developing countries. Rising temperatures have fueled extreme weather events that have devastated communities, caused glacial melt in the Antarctic, and hastened the global rise of sea levels, among a plethora of other problems. The UN’s Intergovernmental Panel on Climate Change warns that food security and water availability will be prevalent concerns in the next decades and will disproportionately affect the most vulnerable.<sup>96</sup> Floods, droughts, and cyclones will become more frequent and intense, threatening the livelihoods and survival of large populations.

Scientists warn that the mounting effects of global warming require urgent changes from a committed international community to limit the rise in global temperatures this century to 2 degrees Celsius from preindustrial levels.<sup>97</sup> To that end, there is a growing need to decouple economic activity and greenhouse gas emissions to resolve the twin challenges of reducing poverty and combating climate change as well as preserve the conditions for future generations to thrive.

## Equity in Climate Action

Equity concerns in climate action are rooted in the asymmetry between emissions and burden sharing, for example when it comes to the risk of exposure to impacts or the costs of emissions mitigation and adaptation. On the one hand, most human-driven greenhouse gas emissions stored in the atmosphere originate in economic activities performed in or for affluent countries—but natural processes place an astonishingly greater burden of the impacts on poorer nations. On the other hand, large emerging

markets have become today's main emitters and economic powerhouses, increasing international pressure for them to take action to address their emissions.

Industrialized countries are responsible for three-quarters of the cumulative global emissions released into the Earth's atmosphere since the start of the Industrial Revolution; these countries still have much higher per capita emissions today.<sup>98</sup> Despite their commitments under the United Nations Framework Convention on Climate Change (UNFCCC), most OECD countries continue to have growing greenhouse gas emissions. So far, forty-seven countries—including Canada, Denmark, France, Germany, Hungary, New Zealand, Spain, Sweden, and the United Kingdom—have made legally binding commitments to meet net-zero emissions targets.<sup>99</sup>

***For developed nations, emerging markets must grow in a climate-responsible manner to genuinely tackle global warming.***

Currently, the EU operates the world's most comprehensive emissions-trading system and is discussing a new carbon tax as part of its European Green Deal, which aims at decoupling the economy from resource use and achieving net-zero greenhouse gas emissions by 2050. Biden has returned the United States to the 2015 Paris Agreement on climate change, from which former president Donald Trump had withdrawn, and set a target of reducing U.S. emissions by 50–52 percent from 2005 levels by 2030.<sup>100</sup>

Many in the industrialized world acknowledge their responsibility to spearhead the green transformation and support developing countries with the resources they need to grow in a climate-responsible manner. However, the rise of emerging powers, which introduce a greater diversity of interests into the core councils of governance, complicates the issue of equity in climate action. For industrialized countries, the developmental progress and the new power-political positions of emerging markets have transformed the notions of fairness and legitimacy in climate politics and made the binary worldview based on developing versus developed countries outdated. The current system, which gives rapidly growing emerging powers the same emissions rights as the less developed while binding industrialized economies to lower emissions, has given rise to concerns about competitiveness.

Developed economies concentrate on current emissions in climate debates and discuss equity as a matter of allocating mitigation targets. The United States and Europe have historically been the primary polluters in the global economy, but emerging markets have overtaken them as global production has moved to these countries, where weaker environmental standards often apply. Developed countries believe that today's main emitters should jettison claims for special treatment and articulate how they will reduce their emissions over the next century with legally binding targets. For developed nations, emerging markets must grow in a climate-responsible manner to genuinely tackle global warming.

In the developing world, the main concern is that countries have to suffer impact burdens from climate change that do not match their historical responsibilities—an issue that, in their view, developed countries deliberately brush aside. The world's poorest 3.5 billion people contribute little to carbon emissions but endure the greatest harm from the impacts of climate change.<sup>101</sup> Although it is mainly developing

countries that placed equity on the agenda in climate change negotiations, governments and entities from the industrialized world defined the scope of that agenda. As a result, efforts have so far focused primarily on mitigation. Developing nations want impact burdens and adaptation to take center stage because while mitigation burdens are still up for debate, impact burdens are not. Developing countries therefore call on developed ones to honor their financial pledges and help them build resilience.

Differences in economic structures and vulnerabilities have fostered the formation of developing country subgroupings and issue-based alliances between developed and developing nations in climate negotiations. Least developed countries and small-island developing states, which face an existential threat from climate change, demand urgent solutions from both established industrialized nations and the newly industrialized countries of Brazil, South Africa, India, and China (BASIC), no matter how they feel about capabilities or culpability.

Members of the Organization of the Petroleum Exporting Countries want industrialized economies to pursue policies that would minimize the welfare losses of developing countries that depend on petroleum exports. The BASIC states divided when Brazil and South Africa accepted greater responsibility than India and China, although all defend the differentiation framework agreed at the 1992 Earth Summit in Rio de Janeiro. In a globally welcomed development, Beijing pledged in September 2020 to reach carbon neutrality by 2060.<sup>102</sup>

Emerging market economies, in coalitions with other developing countries, stress that issues of international responsibility and accountability on this matter were already debated, negotiated, and decided on in Rio when the climate regime was formed and unanimously accepted. They contend that their aggregate and per capita emissions need to continue to rise because despite recent developmental successes, they remain far from ensuring reasonable standards of living for their populations.

Having already adopted measures toward greener economies, developing countries oppose additional international obligations to constrain their growth and permit greater scrutiny of their emissions. The primary responsibility for global emissions reductions cannot be passed onto them, these countries argue, because while several emerging powers have caught up with industrialized nations on production-related emissions, the gap in per capita and consumption-related emissions remains wide.

### **The Current Climate Regime**

At the 1992 Earth Summit, the UNFCCC institutionalized an architecture based on the principle of common but differentiated responsibilities and respective capabilities.<sup>103</sup> This principle acknowledged countries' different abilities and adjusted their responsibilities in addressing climate change. The Rio regime recognized sustained economic growth and poverty eradication as legitimate national priorities. It affirmed that the emissions of developing countries would need to grow to meet their current and future developmental needs. The scheme exempted developing countries from having to undertake any uncompensated mitigation actions, given their low per capita emissions. The follow-up 1997 Kyoto Protocol incorporated legally binding mitigation commitments with targets and timetables for developed but not developing countries.

The 2015 Paris Agreement did not explicitly refer to country groupings but leveraged respective capabilities as a subtle form of differentiation among countries at varying stages of development. Under the accord, all parties are required to make voluntary national pledges toward their long-term climate-mitigation targets and review their progress over time. Developing countries are allowed to increase their ambitions in light of their conditions. The agreement granted least developed economies and small-island developing states exclusive flexibilities in preparing mitigation actions and prioritized them for climate funding.

## Finance and Technology Transfers

Finance has always been a focal point of climate debates, both as a core concern of developing countries and as an indicator to assess whether industrialized countries have met their responsibilities. Under the current regime, developed countries have agreed to provide funding and other resources to less developed economies to help them cope with climate change. At the 2009 UN Climate Change Conference (COP15) in Copenhagen, developed nations made considerable pledges on fast-start and long-term finance. Several funding mechanisms have been established to coordinate efforts since.

Yet, there is still a huge funding gap and distribution problem in global climate actions. The annual financing needed to deal with climate change is estimated to be a staggering \$7 trillion.<sup>104</sup> Industrialized nations have consistently failed to honor their pledges, and it is unclear how much space the coronavirus-driven rise in debt levels will leave for climate goals. The distribution of existing funds has been problematic as well. Market-rate debt has prevailed as the preferred instrument in most climate finance, and most tracked finance continues to flow toward mitigation activities, with adaptation accounting for only around 5 percent of total flows in 2017–2018.<sup>105</sup>

## A Global Price Mechanism for Carbon

According to many in industrialized nations, environmental goods must enter the market system and be valued so that market forces can optimize the consequences of policies on global competition.<sup>106</sup> To this end, there have been suggestions of a global carbon-pricing mechanism in the form of a tax or an emissions-trading system (ETS). A carbon tax sets a price on carbon by defining a tax rate on greenhouse gas emissions or the carbon content of fossil fuels. Under a carbon tax, regulators determine the carbon price, while the quantity of emissions reductions depends on measures adopted by the industry. An ETS, also called a cap-and-trade system, caps the total level of greenhouse gas emissions and allows industries with low emissions to sell their extra allowances to larger emitters. Under an ETS, the market determines the price, while regulators decide on the quantity of emissions reductions.

For proponents, the chief strength of a global price mechanism for carbon is that it provides a low-cost way to shift the burden for the harm caused by climate change onto the market forces that are responsible for it. Such an arrangement would encourage producers in all countries to adopt—and innovate in—low- or zero-carbon technologies by emitting an economic signal, as opposed to laying down who should reduce emissions where or how. It would also reduce uncertainty in the private carbon-offset markets used by companies and individuals that seek to compensate for their emissions.



Although it cannot be relied on to substantially solve the problem, a price that is applied simultaneously in all countries can help level the international playing field. In June 2021, IMF staff proposed global carbon price floors of around \$75 per ton to help meet Paris Agreement goals. The fund estimates that this scheme could help achieve a 23 percent reduction in global emissions below baseline by 2030.<sup>107</sup>

Meanwhile, critics argue that the barrier to technological change that carbon prices address is ceasing to be relevant for current climate policy ambitions.<sup>108</sup> There is little evidence that carbon pricing has produced deep emissions reductions to date.<sup>109</sup> To some, global carbon pricing fails to resolve the contentious issue of allocating emissions rights fairly between developing and developed countries. A global ETS would leave an ever-smaller carbon space for less developed economies. Indian career diplomat Shyam Saran has suggested that such an approach carries the risk of positioning the “survival emissions” of developing countries and the “lifestyle emissions” of developed countries as equal.<sup>110</sup> Carbon taxes can also aggravate poverty by raising the prices of basic goods and services, such as food, energy, and travel.

The increase in energy costs that would arise from reduced fuel consumption in wealthier countries may curtail economic activity in markets that cannot absorb such price changes. In countries where economic structures depend on energy-intensive activities that are heavily exposed to international competition, industries fear competitive disadvantages in international markets, which could result in job losses.

Developing countries reject ETSs for sidelining the multilaterally agreed international regime and establishing ad hoc norms. These countries want multilateral negotiations to lead on the creation of norms, as these talks focus not only on meeting mitigation targets but also on minimizing subsequent welfare losses. At the same time, plans that exempt developing countries from emissions limits run the risk of carbon leakage, as carbon-intensive industries could shift their operations to these locations, undercutting the goals of the climate regime while harming the competitiveness of industrialized countries.

### **Domestic Carbon Prices and Border Tax Adjustments**

Another policy direction discussed in developed countries in response to carbon leakage is a domestic carbon tax levied together with border tax adjustments on imports from countries that do not impose equivalent carbon prices on their producers. In July 2021, the EU announced a proposed Carbon Border Adjustment Mechanism, which would put a carbon price on imports of selected products.<sup>111</sup> The news ruffled feathers around the world. In a joint statement, ministers from the BASIC countries expressed their concern about “trade barriers, such as unilateral carbon border adjustment, that are discriminatory and against the principles of Equity and [common but differentiated responsibilities and respective capabilities].”<sup>112</sup> U.S. Special Presidential Envoy for Climate John Kerry warned Brussels in March 2021 that a carbon border tax adjustment should be a “last resort” as it would have “serious implications for economies, and for relationships, and trade.”<sup>113</sup>

A fundamental issue with border tax adjustments is how to make them compatible with WTO rules to avoid trade disputes and retaliatory escalation. Under WTO law, countries are prohibited from discriminating between like products based on process-related factors, such as energy inputs, and from

discriminating between imported and domestic products, for example by imposing different taxes on substitutable or directly competitive products. While border tax adjustments are permitted under certain conditions, they must not impose arbitrary discrimination, subsidize exports, or constitute a disguised barrier to trade. The technical issues of definition, admissibility, and rule order complicate the relationship between climate policies and the international trade regime.

Border adjustments can help reduce leakage in some key emitter sectors and help countries make great strides toward carbon-neutrality targets. Supporters of this approach view it as an efficient way to let consumers in industrialized economies take responsibility for their carbon footprint in terms of both domestic and foreign emissions. This logic is underpinned by an assumption that unilaterally imposed border adjustments would incentivize exporting countries to impose equivalent domestic carbon taxes to prevent their companies from paying taxes at the importer's borders. In this way, border adjustments would act as a building block toward global price mechanisms. Among the ideas floated to prevent the mechanism from functioning as a de facto tariff is to channel the revenue collected at the border to overseas climate aid programs.

***Developing countries have less capacity to offer offsets to compensate for the border adjustment measures of developed countries.***

Critics point to several pitfalls with this policy direction.<sup>114</sup> There is mixed evidence of the carbon leakage the measure seeks to address, yet there are many obvious and complex trade-offs. Border adjustments can, in effect, act as tariffs given that the importer retains the revenue with no assurance over how the funds will be used. In food and agricultural products, the UN's Food and Agriculture Organization has found that technical and legal constraints on the effective application of border measures to prevent carbon misallocation are extremely challenging, and that such measures could result in protectionism.<sup>115</sup>

Developing countries have less capacity to offer offsets to compensate for the border adjustment measures of developed countries. Their industries would suffer a competitive disadvantage against international competition as a result. Such mechanisms would therefore hinder the competitiveness of exporters, posing a particularly unfair burden on those from less developed countries, unless they are exempted, as the UN has warned.<sup>116</sup> Importantly, border adjustments may raise the price of energy-intensive products, such as steel and cement, which would increase the cost of construction and imperil infrastructure development in developing countries that import these products. In light of these dynamics, developing countries view such arrangements as unfair burdens and disguised protectionism.<sup>117</sup>

Against this background, the following chapters provide the perspectives of seven regional and national actors involved in shaping the rules of multilateral governance. These perspectives are needed to assess in more detail the areas where globalization reform can realistically be advanced.



## The United States: A Cautious Return to Internationalism

ROZLYN C. ENGEL AND TOBIN HANSEN

U.S. President Joe Biden struck many familiar and reassuring notes in his initial foreign policy speeches. He pledged to defend “cherished democratic values” and uphold “America’s abiding advantage.” He promised to repair the country’s strained relations with close allies, stating that “America’s alliances are our greatest asset.” And he rallied the diplomatic corps by declaring “diplomacy is back at the center of our foreign policy.”<sup>118</sup>

While offering a vision of U.S. reengagement globally, the president also emphasized the need to reinvest at home. Over the past two decades, American households have faced a major financial crisis, significant trade shocks, technological change favoring skilled workers, declining public investment, and the accumulation of climate-related risks—a toxic combination that stoked a populist backlash. In this environment, a full-throated defense of free trade, liberal immigration policies, unfettered capital mobility, and global governance appears to be a political nonstarter. Instead, Biden’s advocacy of a foreign policy for the middle class argues for a domestic-foreign policy mix that delivers more tangible benefits to a broader swath of the American working public while preserving the benefits of economic openness.<sup>119</sup>

At the same time, realism about the growing constraints on American power abroad has taken hold across the foreign policy community. Two decades of continuous warfare secured only modest improvements in political stability and democratic governance in Afghanistan and Iraq. This disappointment fed calls to rescope the U.S. national security mission, including the full withdrawal from Afghanistan carried out in summer 2021, and to refocus on domestic needs. Meanwhile, Chinese ambitions in technology, trade, military capability, finance and development lending, and institutional influence are contributing to a sense that the United States needs to husband its national resources and get more serious about defining its strategic interests.

In short, the Biden administration faces a difficult balancing act. It needs to better manage the downsides of globalization and counter the significant challenges to democratic capitalism—even as it offers an updated vision of an open, tolerant, and inclusive world order in which the United States continues to play a significant leadership role. To do so effectively, the administration will need to articulate national interests clearly and persuasively and pursue them in a coordinated fashion across many policy domains.

The United States will approach foreign economic policy in a more deliberate and pragmatic manner than in the past. America will continue to defend general principles, like economic openness in the face of increasing protectionism, democratic accountability and the rule of law in the face of growing authoritarianism, and respect for basic human rights in the face of intensifying great power competition. But it will do so with a keener eye on securing good middle-class jobs, protecting the financial and economic stability of households, fostering a global business environment in which American firms of all sizes can thrive, and ensuring a better environmental outlook.

## Rescoping the U.S. Trade Agenda

After four years of harsh rhetoric and hardball negotiating tactics, the current U.S. administration seems determined to restore a degree of normalcy to the way in which the United States interacts with its trade partners. The administration's clear embrace of economic diplomacy over economic conflict has calmed the waters and created more political space for negotiation. The new emphasis on diplomatic engagement should not be mistaken, however, for a reversal of the previous administration's attempt to reshape certain relationships, improve overall burden sharing, and answer domestic calls to address unfair trade practices. In an October 2021 speech laying out her "strategic vision" for trade policy, U.S. Trade Representative Katherine Tai stated,

We need to show that trade policy can be a force for good in the lives of everyday people. We will create durable trade policy that benefits a broad range of stakeholders by rebuilding trust with our workers and aligning our domestic and foreign policies. . . . [We will] work with allies to shape the rules for fair trade in the 21st century, and facilitate a race to the top for market economies and democracies.<sup>120</sup>

These goals hardly represent an unbridled return to the neoliberal economic policies of the post–World War II order. Nor do they make for straightforward talks with major trade partners. In sum, the pace of U.S. trade negotiations is likely to remain measured for the near term.

***After four years of harsh rhetoric, the current U.S. administration seems determined to return U.S. trade relationships to normalcy.***

To date, new trade deals have been subordinated to the goal of spurring domestic economic recovery after the coronavirus pandemic and the early foreign policy priorities of global coordination on climate and tax. The July 1, 2021, expiration of the Trade Promotion Authority (TPA), a time-limited power that the U.S. Congress had used to establish trade

negotiations, points to this lack of urgency. For now, bold action on major new trade deals, which have proved time consuming to negotiate and difficult to manage politically, is off the table.

Instead, the administration will focus on more issue-specific agreements that can be framed as solving concrete problems and implement upgrades and revisions to existing trade and investment framework agreements. Alongside these efforts, the administration will calibrate its investments in multilateral institutions to maintain the legitimacy and effectiveness of these bodies without tying U.S. hands.

## Bilateral and Regional Trade Deals on a Quieter Track

Bilateral trade deals offer attractive foreign policy wins for countries—from cementing long-standing alliances to gaining toeholds in important regions and from solidifying trade rules to building ties across business communities. For the United States, with its vast national economy, bilateral agreements have also had more limited domestic impacts. This has brought political breathing room at home and a significant degree of leverage with prospective partners.

On entering office, Biden inherited ongoing bilateral trade negotiations with Japan, Kenya, and the United Kingdom. Each deal represented a serious effort by the administration of former U.S. president Donald Trump to take up thorny issues like financial services, healthcare markets, trade capacity building, and digital services. So far, in keeping with its cautious approach to trade, the Biden administration has dampened near-term expectations by refusing to commit to any timelines and allowing the TPA to expire.<sup>121</sup> This hesitation reflects the complexity of the core issues, many of which involve trade in services, and a reluctance in the Biden administration to embrace bilateralism too heartily and undermine multilateral institutions. But it also reflects a political calculation that leading with trade is a serious risk in an era marked by populism and nationalism.

All this makes the prospects for major regional trade deals particularly dim. However, with the United States now on the periphery of the Asia-Pacific's two major trade blocs, some countermove seems necessary. Many analysts view an expanded U.S. role in regional economic frameworks as crucial to balancing Chinese economic influence and keeping U.S. businesses competitive across the region. For example, emerging rules of origin across the fifteen members of the Regional Comprehensive Economic Partnership (RCEP) could push U.S. companies to relocate to Asia to remain competitive in those markets.

Meanwhile, the hope that multilateral institutions could nudge China into greater compliance with a rules-based order has faded, pushing U.S. leaders to consider other ways of countering Beijing's nationalist and expansionist agenda. As Tai noted in October 2021, “We need to take a new, holistic, and pragmatic approach in our relationship with China that can actually further our strategic and economic objectives for the near term and the long term. As our economic relationship with China evolves, so too must our tactics to defend our interests.”<sup>122</sup>

Because joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) remains politically difficult for the U.S. administration, the United States looks more likely to pursue limited executive-level agreements with key Asia-Pacific partners, like Australia, India, and Japan. These

deals would allow Washington to maintain a foothold and exert rulemaking pressure despite lacking CPTPP membership.<sup>123</sup> The United States will also use its bargaining power to push for fairer terms from China in certain areas.

### **Issue-Specific Wins Through Plurilateral Deals**

Even as the U.S. administration de-emphasizes major new trade deals, it is teeing up several critical issues for a plurilateral approach. These negotiations aim to shape the future operating system of the global economy through close work with a handful of partners. Given the strategic importance of these discussions, many world leaders would prefer to see them occur in a multilateral setting, where smaller and lower-income countries would have seats at the table. But the complexity of the issues and slow-moving processes in multilateral bodies will probably dictate otherwise.

For the United States, the focus areas include environmental goods, digital economy governance, and capital taxation. They allow the Biden administration to advance specific policy priorities in a more timely and targeted manner than traditional multilateral negotiations or broader trade deals. Some agreements may attempt to regionalize new model language drawn from the United States–Mexico–Canada Agreement (USMCA) and the U.S.–Japan Digital Trade Agreement. Some of this language exceeds that of either the CPTPP or the RCEP, although the challenge of imposing such new rules without awarding deeper U.S. market access remains substantial.

In the best case, such agreements can serve as building blocks for broader arrangements if pursued across regions and issues concurrently. So-called open plurilateralism may help resolve logjams in multilateral forums if enough signatories join a specific agreement over time. Some analysts also argue that these types of deals will be subject to less legal wrangling and, potentially, create more innovative policy solutions.<sup>124</sup>

### **A Recommitment to Multilateralism**

In recent decades, the growth of bilateral and regional free-trade agreements (FTAs), plus the increasing focus on issue-specific plurilaterals, is pressuring multilateral institutions to better define their unique role in managing international trade. As globalization has proceeded, membership in these organizations—foremost among them the World Trade Organization (WTO)—has become larger and more diverse. Deliberations in these institutions have also grown more tendentious, especially on the scope for rulemaking and the role of the state in the economy. Clarifying the core rationale and strategic functions of these multilateral bodies seems paramount. Hence, a final pillar of the U.S. trade agenda seems to be a recommitment to multilateralism in ways that support effective dispute settlement while safeguarding national sovereignty and principles of market competition.

The WTO has provided a useful forum for settling trade disputes among its members, including for the United States, which has filed the most complaints among WTO members and won the vast bulk of its prior suits.<sup>125</sup> Several key losses have created concern among U.S. officials, however, and led the past two U.S. administrations to block appointments to the Appellate Body (AB)—the WTO arm that hears appeals in disputes brought by members—and effectively disable it. In the October 2021 confirmation

hearings for Biden's nominee for U.S. envoy to the WTO, María Pagán, the AB's future was a subject of intense questioning. In that testimony, Pagán called WTO reform a top priority but also cautioned that "this won't be easy."<sup>126</sup>

Two main issues are at stake for the United States. First, the organization needs to address procedural concerns with the AB, including panel members working on cases after their terms have expired and not abiding by the ninety-day deadline for making decisions. These concerns are fairly concrete and reasonable solutions have been proposed to resolve them, some of which the United States is likely to support. Second, AB decisions have added binding language to WTO agreements, a development to which the United States continues to reject.<sup>127</sup> Washington argues that the AB should treat national law as fact and not open to WTO interpretation. This latter point lies at the heart of the impasse, and the United States is highly unlikely to concede on it. Indeed, Biden continues to block AB appointments and retain the leverage bought by the two previous administrations.

Still, continued paralysis in such a central dispute settlement body is not in the long-term U.S. interest. Other countries have begun to create alternative systems as stopgap measures, such as the Multiparty Interim Appeal Arbitration Arrangement among some twenty-two members plus the European Union (EU).<sup>128</sup> The longer the AB remains suspended, the more entrenched these other frameworks could become. While Tai has yet to clarify specific U.S. negotiating objectives with respect to AB reform, broader WTO reform has featured prominently in her meetings with international counterparts and congressional testimony. In the latter, she has had to contend with pervasive bipartisan frustration at the sclerotic pace of WTO decisionmaking and growing calls to take a tough stance on Chinese practices seen to hurt U.S. workers and businesses.

### Engaging With the International Monetary Fund

The growth of China, India, and other populous developing nations has fed debates about the need to reallocate voting power in international financial institutions. With respect to the International Monetary Fund (IMF), Biden reversed the previous administration's decision to block a new allocation of special drawing rights (SDRs)—an international reserve asset that supplements the official reserves of IMF members—of \$650 billion; the allocation became effective in August 2021.<sup>129</sup> Critics of the Biden decision worry that the transfer of U.S. taxpayer dollars will indirectly fund projects in China or other countries with which the United States has poor relations.<sup>130</sup> On the other side, supporters argue that increased reserve capacity at the IMF will help countries recover from coronavirus-related shocks and engender greater financial stability. Moreover, the United States can reserve the right to refuse SDR allocations to specific countries.<sup>131</sup>

While the SDR debate grabbed some initial policy attention, the U.S. administration will soon need to adapt its strategy to meet China's rising influence inside and outside the Bretton Woods institutions. So far, the Biden administration has not articulated its approach to the Asian Infrastructure Investment Bank (AIIB) or the New Development Bank established by Brazil, Russia, India, China, and South Africa beyond announcing a cooperative campaign with Japan to create a digital alternative to China's Belt and Road Initiative and floating the idea to other world leaders.



In short, the United States is unlikely to engage in outright collaboration with China's development initiatives, though some arm's-length dealings remain possible. For example, the AIIB coordinates with Western-led multilateral development banks—something the United States has tolerated because the AIIB does not finance Belt and Road projects to the same extent as China's other policy banks.

## Coordinating Global Taxation

With the 2017 Tax Cuts and Jobs Act, the Trump administration pushed through a major corporate tax reform that brought the statutory U.S. corporate rate much closer to the global average. The reform also shifted away from worldwide taxation and toward greater territoriality in its treatment of corporate income earned abroad. Together, the two measures aimed to enhance U.S. tax competitiveness and encourage repatriation of U.S. corporate earnings held overseas.

Yet, the act did little to rein in major tax havens, which some wealthy individuals and corporations have been using to minimize taxes. Frustration with the perceived inequity of the current system, the loss of potential revenue to governments, and rising concerns about the relative ease with which growing technology companies could avoid taxation drove conversations about the need for international tax coordination. But the Trump administration expressed little interest in such an effort, and it stalled.

Much of the focus for global capital taxation has centered on the framework to address base erosion and profit shifting—tax strategies that exploit gaps and mismatches in tax rules—proposed at the Organization for Economic Cooperation and Development (OECD). Yearslong discussions have debated the merits of a global minimum tax rate that would fix some of the worst inconsistencies across national tax systems and address growing questions about how to resolve major differences on digital services taxes. With the change in U.S. administration, those discussions got back on track and have finally yielded an agreement.

### A Global Minimum Tax Rate

In February 2021, U.S. Treasury Secretary Janet Yellen signaled the shift in U.S. policy when she announced that the United States was dropping its demand for safe-harbor provisions, which might have exempted some companies from new OECD tax rules. Then, in April, the administration offered a significant proposal to the OECD, setting out criteria to tax large multinational enterprises. The head of tax administration at the organization, Pascal Saint-Amans, lauded the Biden proposal, saying, “This reboots the negotiation and is very positive.”<sup>132</sup> By May, the United States had followed up with a proposed 15 percent floor for the global minimum corporate tax rate.<sup>133</sup>

In June, the Group of Seven (G7) announced the outlines of a deal that would serve as the road map for a broader OECD framework, and the Group of Twenty (G20) followed suit a few weeks later. By October, the OECD had worked through enough details to reach a political agreement on a two-pillar solution that consists of a global minimum tax rate and a digital services tax regime. The G20 formally adopted the agreement at its summit later that month, calling it “a historic achievement through which we will establish a more stable and fairer international tax system.”<sup>134</sup> The G20 then charged the OECD

with developing model rules and multilateral instruments to take effect in 2023. To date, 136 countries, representing more than 90 percent of the global economy, have agreed to the reforms.<sup>135</sup>

The final political agreement put in scope the overseas profits of multinational companies with at least €750 million (\$850 million) in global sales revenue.<sup>136</sup> Governments can still set local corporate tax rates, but a company's home country can insist that the company top up taxes owed on overseas earnings to hit a 15 percent minimum. In addition, sales revenue would be taxed on a country-by-country basis according to where sales occur. That is a major shift from long-standing tax standards that have allowed companies to shift profits into low-tax jurisdictions around the world, even when they do little business on the ground there.

Under the new agreement, a government can tax up to 25 percent of a multinational's excess profit—defined as profit above 10 percent of revenue—that originates in its country. Even so, some argue that the agreement does not go far enough. For example, the place of employment is not included in the tax formulation, only the place of sale, meaning that less revenue will be directed to developing countries, where a large amount of offshore labor in services resides. Furthermore, a range of deductions and exceptions were incorporated into the deal to limit the impact on certain low-tax countries like Ireland, which is home to some large U.S. multinationals, leaving the agreement vulnerable to accusations of favoritism and critiques of business as usual.

In coming months, the global minimum tax rate will likely garner increased political attention in the United States because it must be implemented in 2022 for the agreement to come into force in 2023. Given the highly partisan environment in Washington and the agreement's ties to the Biden administration's desire to unwind parts of Trump's corporate tax reform as a way to fund its domestic policy agenda, the accord will face stiff headwinds.<sup>137</sup> For example, the administration had announced plans to raise the corporate tax rate on domestic income to 28 percent from the current 21 percent. But that proposal has now been pulled from pending congressional legislation in light of lukewarm support from some Democrats and uniform hostility from Republicans.<sup>138</sup>

## Digital Services Taxes

A second line of effort in global tax policy concerns digital services taxation. As major online platforms like Amazon, Facebook, and Google have grown into massive social and commercial entities, they have upended the channels through which companies earn revenue. National tax authorities around the world took notice and introduced digital services taxes to capture more of that revenue. These tax proposals raised legitimate questions about where the revenues from online activity should be taxed, but they also seemed squarely aimed at large U.S. tech companies, like Meta (which operates Facebook) Alphabet (the parent company of Google), raising hackles in the United States, which saw the taxes as highly discriminatory. Not surprisingly, digital services taxes became part of the broader international debate about global taxation and were successfully folded into the agreement announced in October 2021.

In late 2018, France was the first major economy to announce a digital services tax, and many other countries followed suit, including Brazil, India, the United Kingdom, and several EU states. Because

many of these taxes disproportionately affect U.S. companies, they triggered retaliation from the Trump administration in the form of investigations under section 301 of U.S. trade law. In the first part of 2021, the Biden administration maintained the pressure, even announcing in late March that it was taking “next steps” in its section 301 processes.<sup>139</sup> Indeed, Tai reported that six countries had adopted digital services taxes that unfairly hurt U.S. companies and that together their taxes had generated a combined tax liability of \$880 billion for U.S. companies.<sup>140</sup>

As these issues became more intertwined with the global minimum tax deal, however, the Biden administration softened its approach. In June, Tai announced an immediate suspension of tariffs related to section 301 investigations into digital services taxes.<sup>141</sup> In negotiations, the United States favored a sector-neutral approach to digital taxation—a major ask from the Digital Economy Group, which represents major U.S. digital companies—and the final global tax agreement adheres to this principle. Yet, until the deal is fully implemented in 2023, the United States has agreed that Austria, France, Italy, Spain, and the United Kingdom can retain their digital services taxes without the threat of U.S. retaliatory tariffs.

## Revitalizing the Environmental Agenda

With his immediate commitments to rejoin the 2015 Paris Agreement on climate change and cancel the proposed Keystone XL oil pipeline, Biden marked a sea change in climate policies on his first day in office. The president also invited forty countries to join a climate leadership summit in April 2021, which concluded with the United States announcing an ambitious climate agenda and pledging to take action on numerous fronts. Among them are environment-focused agreements, environmental standards, green financing mechanisms, and new carbon-pricing policies. In November 2021, Biden traveled to Glasgow to attend the United Nations Climate Change Conference (COP26) and deliver on those early pledges to

recommit the United States to cooperative climate policies.

***With his immediate commitments to rejoin the Paris Agreement on climate change and cancel a proposed oil pipeline, Joe Biden marked a sea change in climate policies.***

Challenges to executing this agenda are significant, such as the twenty-one U.S. states that sued over the Keystone XL pipeline decision and a one-vote Senate majority that rests on a member from coal-rich West Virginia who also chairs the Senate Energy

Committee.<sup>142</sup> Indeed, the United States’ conspicuous absence from the group of forty countries that pledged at COP26 to stop coal development at home almost certainly reflects these political constraints.<sup>143</sup> Even as a younger generation pushes the United States into a greener future, resistance will remain in certain segments of the American electorate and business community.

## Greening the Trade Agenda

In her first public speech as U.S. trade representative, Tai observed, “The view that environmental issues are not an inherent part of trade ignores the reality that the existing rules of globalization incentivize downward pressure on environmental protection.”<sup>144</sup> She also gave credit to the Trump administration for

achieving the “most comprehensive environmental standards” of any U.S. trade agreement in its USMCA negotiation. A week later, Republicans urged Tai to relaunch the Environmental Goods Agreement (EGA), a plurilateral accord devoted to reducing trade barriers on more than fifty climate-friendly goods, such as solar panels, equipment to control air pollution, energy-efficient light bulbs and equipment, and wind turbines.

In the increasingly dynamic arena of trade and environmental sustainability, the U.S. trade representative will pursue many diverse opportunities to green the U.S. trade agenda, like phasing out fossil-fuel subsidies from global supply chains, pursuing anti-subsidy measures at the WTO to protect global fisheries, and setting up more robust environment enforcement actions. The announcement at COP26 that the United States and China will seek to strengthen cooperation on climate-related actions adds to the multipronged effort and the complexity.

Nonetheless, as a medium-term policy focus, the EGA is likely to survive in some form or other for several reasons. First, it connects directly to a reenergized environmental agenda and offers a concrete talking point, allowing the administration to link greener trade with freer trade. Second, because tariffs on these goods tend to be lower in the United States than in many other potential signatories, the U.S. administration can rest its arguments on basic reciprocity principles, which have popular appeal. This gives the agreement bipartisan appeal—no small thing in Washington these days. Over summer 2021, the EGA garnered the support of Democrats in the U.S. House of Representatives and the Cato Institute, a conservative and libertarian think tank.<sup>145</sup>

Finally, the negotiations are housed within the WTO, which allows the administration to lean into multilateralism even as it pursues a plurilateral deal. This approach also helps blunt criticism that the agreement will narrowly serve the interests of developed economies.<sup>146</sup> In late October 2021, former WTO deputy director general Alan Wolff urged progress on these questions and offered the prompt restarting of an ambitious EGA as a prime example of what a multilateral trading system can and should achieve in this arena.<sup>147</sup>

## Financing the Transition

In addition to integrating environmental concerns into trade policy, the Biden administration has committed to strengthening the green finance agenda. In January 2021, Biden directed the preparation of a climate finance plan, which was released as the conclusion of the April summit. On a parallel track, U.S. Special Presidential Envoy for Climate John Kerry publicly pledged that the United States would “make good” on its promise to fund the United Nations (UN)-backed Green Climate Fund. This promise refers to a \$2 billion shortfall—out of the \$3 billion promised by former president Barack Obama—that neither Obama nor Trump provided to the fund.<sup>148</sup>

With Biden’s plans on climate finance taking more concrete shape, the United States is signaling a greater willingness to engage in development-oriented spending, albeit in a narrower framework than many lower-income countries would like. The climate finance plan promised to double annual U.S. climate financing to developing countries over the next few years. Although the baseline for that doubling was somewhat vague, Leonardo Martinez-Diaz, a former Obama administration official, estimated that the

newly doubled amount would be around \$5.6 billion.<sup>149</sup> In Glasgow, the United States joined France, Germany, the United Kingdom, and the EU in a joint \$8.5 billion pledge to South Africa, signaling a willingness to selectively target developing countries not only with significant emissions problems but also, perhaps, with geostrategic importance.<sup>150</sup>

Currently, climate mitigation projects—ones that reduce emissions from existing sources—garner the vast majority of green finance dollars.<sup>151</sup> These projects are usually found in emerging markets, where investing in the improved sustainability of an existing industry often provides a healthy return on investment to funders. The subsequent benefits from reducing those emissions are experienced globally, creating broad social returns. But another category of climate-related spending involves climate adaptation projects, which typically help communities prepare for impacts of climate change and thereby provide more localized benefits. Consequently, these projects usually entail smaller financial and social returns, making them less popular with possible funders. To meet some of these needs, the U.S. administration has pledged to triple its contributions to funds dedicated to climate adaptation projects, possibly up to \$1.5 billion, which represents a modest shift in green finance.<sup>152</sup>

Along the same lines, the administration has directed the U.S. International Development Finance Corporation (DFC) to reach a net-zero investment portfolio by 2040. The corporation has hired its first chief climate officer and established a \$50 million fund to provide technical assistance on green finance in developing countries.<sup>153</sup> An early example of the potential for innovation in this space is the DFC's backing of Belize's 2021 debt restructuring, in which the country agreed to pay back its new blue bond via spending on marine conservation in its waters.<sup>154</sup> The administration also directed the Millennium Challenge Corporation to deepen its investments in climate-smart development.

### Pricing Carbon

The carbon-pricing debate is taking on international dimensions as the EU seeks to finalize its Carbon Border Adjustment Mechanism. Under the scheme, an imported good would be taxed according to the carbon intensity of its production. The implications for U.S. exporters, especially farmers and energy-intensive manufacturers, are significant, and the plan has already forced a U.S. response, with Kerry arguing that the EU carbon border tax should be a “last resort.”<sup>155</sup>

The U.S. position reflects the historically weak political support at home for a domestic carbon tax, which would be needed to comply with WTO rules that prohibit discriminatory taxes against foreign goods. Moreover, the implementation of a carbon tax would be subject to heated debate in the United States, given the levy's possible pass-through to American households, its regressive nature, and its implications for American businesses. Progressives tend to favor more comprehensive redistributive schemes that address a range of social concerns, while conservatives generally prefer direct rebates of tax revenue in the form of carbon dividends.

For now, the U.S. administration seems set on making concessions in other key areas and then seeking flexibility with the EU. The Biden administration's pledge to halve U.S. emissions by 2030 relative to a 2005 baseline—together with its wide array of other climate-friendly policies, including many undertaken

jointly with EU partners—should help in this regard and strengthen Washington’s hand as it seeks future waivers for U.S. exports.

## Cooperation With China

As the world’s two largest carbon emitters, the United States and China will need to cooperate—or, at least, compete constructively—on reducing greenhouse gas emissions, advancing green technology, and devising adaptation strategies in the coming decade. But many wonder whether climate issues can be kept separate from other areas of ever-increasing geopolitical tensions and whether a more realistic framework needs to be considered.<sup>156</sup> With the announcement at COP26 of enhanced climate cooperation between the two countries, the United States seems intent on maintaining political space for more sustained dialogue and calming the waters.

At the April 2021 climate leadership summit, Chinese President Xi Jinping reiterated his 2020 commitment to reach peak emissions by 2030 and Beijing’s continued adherence to the principle of common but differentiated responsibilities among nations. This concept calls on developed countries to accommodate developing countries’ climate change reduction timelines and be more generous with green financing. The United States has partly accepted this principle, but Kerry has questioned the value of climate commitments by states such as China when the timelines are too long.<sup>157</sup>

As for taking historic responsibility for climate change, the United States has acknowledged its role in past emissions in previous international agreements and regularly releases public data on its cumulative greenhouse gas emissions. However, Washington will resist efforts to link its past emissions too tightly to current and future obligations. Instead, it will choose to pay down its emissions debt in a more discretionary manner, such as by financing global mitigation efforts, providing green technologies to lower-income countries, and reducing emissions at home.

With limited prospects for extensive cooperation on lowering emissions, the most likely arena for U.S.-China coordination seems to involve shared capacity building in the development and deployment of green technologies. Electrification of vehicle fleets, energy-efficient infrastructure building, and cooperative standard setting are possible focus areas. That said, leaders face an increasingly securitized technology space and a growing desire to create fully independent supply chains, including for the rare-earth elements needed to make electric vehicle batteries. The Biden administration has minimal political room to appear soft on China, so cooperation here would require accountability measures to mollify the national security community and concerned constituencies.

## Securing a Healthy Digital Economy

As the global economy moves online, competing visions have emerged over digital regulation, digital taxation, forced transfer of digital intellectual property rights, and data storage and transfer. In the EU, a universalist approach has arisen that champions privacy protections for individuals, and this is enshrined in article 8 of the union’s Charter of Fundamental Rights and evidenced in its General Data Protection

Regulation. In China, a more particularist stance has emphasized data sovereignty and the importance of state-level interests, as shown in Beijing's insistence on national sovereignty carve-outs in international data agreements. In the United States, a more utilitarian approach has welcomed market forces that enable private data flows, upheld intellectual property rights, and adopted a looser regulatory environment, with ex-post accountability placed on companies for breaches that compromise personal data.

***Global and national data governance schemes will need to reach greater harmonization—a major strategic endeavor that will require sustained leadership and compromise.***

it is also possible that interstate rivalries and fundamental debates about the values that should govern the digital economy will feed fragmentation and degrade the digital ecosystem. Over the long term, global and national data governance schemes will need to reach greater harmonization—a major strategic endeavor that will require sustained leadership and compromise. Until then, U.S. policy attention will focus on near-term efforts, like the rules governing digital trade and international taxation of digital services, as Washington seeks to advance its model of a more open and dynamic digital ecosystem.

In the decades ahead, societies will stand to gain enormously from a healthy, robust, and competitive information environment. Perhaps these potential gains will be enough to spur creative problem solving and resolve conflicts at the global level. But

### **Digital Trade and Data Transfers**

As governments try to address public concerns about privacy and security, the growth of new and conflicting rules for digital business practices is creating risks for the global digital economy, including many U.S. information companies. Worries about the direction of these restrictions led the Obama administration to develop digital trade provisions for the Trans-Pacific Partnership and led the Trump administration to roll many of those provisions into the USMCA in November 2018 and the U.S.-Japan Digital Trade Agreement in October 2019.

Both administrations sought to establish basic rules for the nondiscriminatory treatment of digital products, acceptance of electronic authentication methods, electronic transfer of information across borders, digital intellectual property rights, and more. While the U.S.-Japan agreement took a cautious approach on issues that impinged on national law and international treaties, it found ways to enable cross-border data flows, limit data localization, and enforce consumer protections for trade in digital products. Several of these issues are now being taken up in the reopened U.S.-India trade talks and have entered into on-and-off trade dialogues with other developing nations, like Kenya.

Another priority for the United States will be to resolve its ongoing dispute with the EU over the Privacy Shield framework, which the European Court of Justice struck down in 2020. The Privacy Shield offered legal certainty to companies that transfer EU citizens' data to the United States for commercial purposes. The European court determined that the framework did not offer adequate protection due to excessive surveillance of noncitizen data by the U.S. government, particularly the intelligence community.<sup>158</sup> The court also raised concerns about some of the standard contractual clauses used in the industry.

In March 2021, the Biden administration pledged to “intensify negotiations” on an enhanced shield.<sup>159</sup> With discussions advancing through the summer, the U.S. Chamber of Commerce announced its full support for a new EU-U.S. Privacy Shield that “brings legal certainty to data transfer mechanisms” and estimated that the “data transfer relationship” is worth about \$7.1 trillion to the two parties.<sup>160</sup> Revisions to the framework seem likely to include limits on bulk intelligence collection, mechanisms to adjudicate complaints about U.S. collection efforts, or a more comprehensive legislative solution in the United States to enhance data protection.

## Global Data Governance

In 2019, around the same time that the United States was solidifying several bilateral digital trade deals, Japan launched a major global initiative, known colloquially as Data Free Flow With Trust. It aimed to enhance cooperation on cross-border digital flows by creating a tractable policy architecture for digital governance and providing an ongoing policy dialogue within the G20, called the Osaka Track.<sup>161</sup> The OECD is working on a similar effort. Some analysts suggest these multiple lines of effort could provide a useful focus for U.S. reengagement in Indo-Pacific trade and serve as the building blocks for a major plurilateral agreement on digital trade.<sup>162</sup> Such a deal would knit together the digital provisions in the CPTPP and numerous upgrades made by countries throughout the region, ensuring that the United States plays a role in the Indo-Pacific’s growing digital economy.

Despite promising movement on some digital trade issues among subsets of countries, broader multilateral progress has lagged. Currently, eighty-six members of the WTO are negotiating an e-commerce agreement, but concerns about “e-readiness” among lower-income countries and the potential for data—and therefore value—to be extracted from their populations have struck a political chord.<sup>163</sup> Developing countries also voice worries about how the growth of digital trade will erode customs revenues, how their limited regulatory and technical capacities will hinder compliance, and how the power wielded by the world’s largest information companies will undermine national sovereignty. The split between developing and developed countries continues as India and South Africa push back against a G7 proposal to prohibit customs duties on electronic transmissions and continued limits on digital technology transfers to developing economies.<sup>164</sup>

## A Divided America Reengages Globally

After decades of rapid globalization, technological change, and declining public investment, the U.S. public is skeptical, restive, and divided. In 2016, Trump won the White House by offering an economic nationalism that rejected global cooperation as ineffective and argued for an America First mentality. In 2020, despite losing the presidential election, he increased his support by 11 million votes.<sup>165</sup> This is the political reality of the United States today.

Since taking office, Biden has repeatedly declared that “America is back” and rededicated the country to its extensive set of international alliances and agreements.<sup>166</sup> He has appointed a seasoned foreign policy team that reflects those ideals. He has reversed Trump administration decisions to withdraw from



international commitments and upped U.S. contributions to fight the coronavirus and climate change. While the Trump administration represented a turn inward, the Biden administration seems set to turn outward. But it is doing so with a caveat.

# The European Union's Competitive Globalism

RICHARD YOUNGS AND SINAN ÜLGEN

The European Union (EU) has demonstrated a growing concern in recent years with rewiring globalization. The bloc's focus on reforming key elements of globalization is not new, but it has intensified in the last decade. This is significant because many European governments and the EU collectively played important roles in shaping globalization; their policies over many years help explain why the phenomenon took on the characteristics it assumes today. The EU has increasingly questioned many elements of globalization for which it was partly responsible in earlier decades.

The EU has never seen itself as supporting unchecked, laissez-faire globalism. A narrative of taming globalization has long been at the forefront of the EU agenda. Indeed, European integration was partly about harnessing globalization and partly about containing it. The union has had a major influence over the regulations that provide global governance frameworks. This is the area in which the EU sees itself as making the biggest contribution internationally and reflects a conceptual preference for regulated globalism.

However, in recent years, the EU's efforts to steer globalization in particular political directions have intensified. The EU's emerging approach to rewired globalization is not yet fully defined; the bloc is in the midst of rethinking many of its global policies, and its internal debates are still lively and unresolved. Yet, the broad outlines of a recalibrated strategy have begun to appear. The central thread is an aim to combine global dynamics with a reassertion of sovereign control over key areas of international policy. A dominant narrative of European sovereignty and autonomy has started to imbue EU approaches to globalization with a different tone. European leaders and policymakers insist this is not a repudiation of globalism as such but an effort to take more strategic control over its contours.

To some extent, this EU approach echoes analysts' calls for more measured forms of globalization. However, it is also an approach tailored more closely to the union's immediate interests. Despite much

European rhetoric about more equitable globalization, the EU's rejiggered priorities do not constitute a form of globalization aimed at mutually beneficial problem solving or the kind of rebalancing sought by most other states around the world. If anything, the EU has moved in the other direction of a more competitive globalism, trying to craft a globalization more tightly attuned to its own concerns. A difficult and unresolved question is whether the EU's strategy amounts to a qualitative rewiring of globalization or simply a preference for less globalism.

## Global Trade

Over many decades, the EU was a powerful force in extending international trade. The union supported multilateral trade accords, the creation of the World Trade Organization (WTO), and the gradual widening of the trade agenda. In more recent times, the EU has sought to keep the WTO functioning as various of its procedures have atrophied. In the early 2010s, a crisis-hit EU turned to many, often subtle, forms of protectionism. However, rather than proceed down a path of outright protectionism, the union has more recently pursued a series of nuanced changes in its international trade policies.

Crucially, flanking its support for open trade, the EU has played a leading role as the world's regulator of global markets. It is through this regulatory prism that the EU has found its most distinctive place in, and influence over, globalization. The EU developed a policy of regulated globalism in part because the union had to put in place regulatory frameworks for the governance of European integration, meaning that these frameworks offered themselves as templates when interdependence gathered pace at the global level. But this policy also represented a preference for managed globalism in the guise of rules on competition, healthcare, safety, the environment, and other domains.

Over the last decade, the EU has moved incrementally to adjust its international trade policies, with implications for the way the bloc positions itself with respect to globalization. In a delicate balancing act, the union has sought to contain other powers' protectionism while defending itself from some dimensions

***The EU's focus is increasingly on instrumentalized globalization through political negotiation, as opposed to rules-based market liberalization.***

of hyperglobalization. The EU's narrative has shifted to embrace terms such as autonomy and economic sovereignty—or, in the words of EU High Representative for Foreign Affairs and Security Policy Josep Borrell, an outlook under which “[we] rely on ourselves to guarantee our future.”<sup>167</sup> The union's adjusted approach to international trade denotes a different stance on globalization.

The clearest shift has been toward bilateral trade deals and a policy of setting tighter conditions on other powers' access to European markets. In 2006, the EU reversed its prohibition on bilateral accords.<sup>168</sup> In recent years, the EU has completed or launched more preferential trade negotiations than any other power. The union now has over seventy bilateral trade accords, and many other talks are still open.<sup>169</sup> While the EU insists these trade agreements are WTO compatible, the union has clearly used them to tailor trade policy to its immediate commercial interests.<sup>170</sup> The EU's focus is increasingly on instrumentalized globalization through political negotiation, as opposed to rules-based market liberalization.

The changed approach is seen equally in the EU's evolving positions at the multilateral level. The bloc is now strikingly assertive in concentrating its efforts in multilateral institutions on pushing back against practices that run counter to its interests. For example, the union has fought in the WTO for tougher measures against trade-distorting subsidies and state-owned enterprises, fewer exemptions for developing states, and more scope for plurilateral deals to advance its interests. The EU has also come to share some of the United States' interest in issue-specific multilateral accords.<sup>171</sup>

The EU has become less, not more, generous toward poorer economies in its trade policies. It is now somewhat less unconditionally supportive of the WTO's system of special and differential treatment (S&DT) for developing states. The union no longer focuses so strongly on WTO reform as a development tool to make globalization more equitable. It has sought to bring developing countries that have done well more fully under WTO norms. The EU has not been as severe on S&DT rules as Washington but has looked for more subtle ways of narrowing states' designations as developing economies to limit the extent of differentiation within the WTO.

The EU now shapes its economic partnership agreements with African, Caribbean, and Pacific (ACP) states much more closely around its economic interests than previous agreements under the union's ACP partnership; for this reason, many African countries have refused to sign such accords. The EU also uses many of these bilateral trade deals to push third countries to accept intellectual property restrictions that go beyond the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The union's approach has moved from nonreciprocal market opening to more reciprocal trade and investment policies.

As part of this shift, the EU has mobilized its regulatory influence in more instrumental and sharper ways. In the last several years, the union has made more efforts to get regulatory standards onto the WTO agenda than it has for commitments to further trade liberalization. The EU's stated policy since 2015 has been to use its regulatory norms to protect consumers from many types of imports.<sup>172</sup> A new Global Gateway initiative published in 2021 is based expressly on an aim to push third countries to adopt EU norms in return for the union mobilizing several hundred million euros worth of investment financing.<sup>173</sup> The union is widely seen to have become more assertive in pushing EU technical regulations in an attempt to protect its commercial advantage.<sup>174</sup> Other powers complain that this is a form of soft protectionism to hinder access to European markets and have increasingly pushed back against such regulations.<sup>175</sup>

Since 2018, several EU member states have been calling for the bloc's competition laws to be relaxed to allow support for European champions to compete internationally. The union's updated industrial strategy is framed expressly as necessary for "Europe's sovereignty."<sup>176</sup> In addition, in 2020, the EU created a European-level investment screening process. Under this, by the end of 2021, the commission had considered over 400 bids and in 3 percent of these cases issued an opinion to block or limit incoming investment.<sup>177</sup> An international procurement instrument has been working its way through the EU institutions for several years, designed to limit third country access to EU procurement contracts where they decline to offer EU companies similar access in return; the instrument finally cleared a European Parliament vote in December 2021.<sup>178</sup> The EU insisted that this tougher push for reciprocity and market leverage paid off in the Comprehensive Agreement on Investment that the EU reached in principle with China at the end of 2020. If implemented, this accord would give European firms enhanced access to the Chinese market and dilute Chinese government requirements on joint ventures.

The coronavirus pandemic has intensified these trends in EU external economic policy. The crisis has deepened concerns about the EU's dependence on global supply chains. French President Emmanuel Macron argued that France and other EU states needed to bring back manufacturing and medical production from China and elsewhere.<sup>179</sup> The European Commission's post-coronavirus recovery instrument included a clause on using new funds to support European champions against external takeovers. Most EU states and the United Kingdom opposed a TRIPS waiver to help vaccine production in developing states (although by late 2021 they were starting to consider a number of ad hoc, targeted waivers). The WTO called the EU's moves in early 2021 to control vaccine exports the most serious threat to multilateral open trade since World War II—a striking indictment against the bloc, which promotes itself as the strongest upholder of those rules.<sup>180</sup>

Responding to the coronavirus crisis, Borrell argued in April 2020 that the EU needed to bring production “as close as possible to the place of consumption . . . a balance between the undeniable advantages of open markets and interdependence, and between the sovereignty and security of countries.”<sup>181</sup> A new trade strategy released in February 2021 confirmed this evolution; the European Commission promised an assertive defense of the union's interests in reforming international institutions, supporting domestic industry, and protecting the EU from other powers' trade practices.<sup>182</sup> In a new strategy on multilateralism published the same month, the union tied itself to “a more interests-based approach” alongside support for open markets and rules.<sup>183</sup> And in September 2021, the commission brought forward a new anti-coercion instrument that allows the EU more systematically to counteract offensive trade measures taken by other powers.<sup>184</sup>

These changes to the EU's international trade and investment strategies are the result of both global and domestic factors. Policymakers have felt increasingly defensive as the EU has lost market shares around the world over the last two decades. Domestic politics have added further pressures. Most populist parties that have gained ground in recent years have exhibited varying degrees of hostility to open, international trade and large inflows of investment from China and elsewhere. Large-scale protests took place in many European countries against EU trade deals with Canada, South Korea, and the United States.

To rebut accusations of protectionism, the EU has increasingly adopted the terminology of open strategic autonomy—although some member states, like France, have expressed unease at the “open” prefix. In June 2020, then European commissioner for trade Phil Hogan defined this concept as standard support for open trade combined with “a tougher, more assertive approach to protect our businesses and consumers, notably through stronger trade defence and enforcement.”<sup>185</sup> At the end of 2020, Hogan's successor, Valdis Dombrovskis, reinforced the message that the EU's approach was “to ensure that we remain open for business and trade, while at the same time becoming more assertive in defending and enforcing our interests, rights and values.”<sup>186</sup>

## Technology Governance

The political tailoring of EU policies has been especially noteworthy in the digital technology sector. In February 2020, the commission oriented itself around the goal of “European technological sovereignty” and stressed that this required an effort to decrease Europe's reliance on the rest of the world for important

technologies.<sup>187</sup> In her mission letter at the end of 2019, European Commission Executive Vice President Margrethe Vestager was given an explicit instruction to foster European strategic autonomy in the digital domain.<sup>188</sup> European control over European data has emerged as a guiding digital leitmotif. This has involved two components: constraining U.S. technology giants and supporting the EU's self-reliance.

## Restraining U.S. Tech Giants

It is well known that the EU has progressively toughened its policies toward U.S. tech giants. The current European Commission has moved to tighten restrictive measures against these companies. Both the commission and member-state governments have developed a more assertive combination of regulations, standard setting, competition policy, and taxation of tech giants. The EU fined Google €4.3 billion (\$5 billion) in 2018 for antitrust transgressions.<sup>189</sup> In addition, the union has increasingly pushed for rules to ensure that trade deals do not undermine digital privacy or safeguards on companies' use of data.

In May 2018, the EU's General Data Protection Regulation (GDPR) placed a range of obligations on companies, including mandatory user consent, the anonymization of data, notifications for data breaches, and safe cross-border data transfers.<sup>190</sup> Many other jurisdictions have used the GDPR template as a means of enhancing data privacy.<sup>191</sup> The regulation and the related Osaka Track in the Group of Twenty (G20) are nominally aimed at building in guarantees that would help cross-border e-commerce. Still, many other powers see the GDPR as a protectionist tool, and several have raised the issue in the WTO against the union. Linked to this regulatory influence, the union has stepped up several connectivity initiatives in developing states to help governments that meet EU tech standards resist the Chinese digital orbit.

The EU's proposed Digital Services Act (DSA) will oblige tech companies to increase the transparency of their algorithms and be more assiduous in removing and curating content. The penalties for breaking DSA rules will be severe, with fines of up to 6 percent of a firm's annual revenue.<sup>192</sup> In parallel, the Digital Markets Act will function like antitrust law, prohibiting tech gatekeepers from taking advantage of access to competitors' data and forbidding them from favoring their own services over competitors operating on their platforms. Anticompetitive behavior will lead to fines of up to 10 percent of turnover, and repeated violations could mean the breakup of the company.<sup>193</sup> This package is the EU's most comprehensive assault to date on large tech companies. In April 2021, the commission took these steps further with proposals for a legislative framework to govern future artificial intelligence (AI) developments.<sup>194</sup>

## Fostering EU Self-Reliance

In terms of the second component of the EU's digital autonomy, the European Commission's 2020 digital strategy set the aim of "reducing [our] dependency on other parts of the globe."<sup>195</sup> An AI white paper published the same year included a goal of attracting investment of over €20 billion (\$23 billion) per year for AI development. The paper also talked of firms needing to develop AI based on EU data, not data generated in other countries.<sup>196</sup> The European Investment Fund has coordinated AI incubation efforts through six venture-capital funds, while a new EU public-private partnership is attempting to spur a leap to the next wave of tech, based on edge computing and the like.<sup>197</sup> Germany has launched a particularly sizable program to fund such efforts at the national level.<sup>198</sup>

In fall 2021, the EU introduced a European microchip act and a new fund for semiconductor development. The commission has set up an Observatory of Critical Technologies to monitor and prompt progress toward the now ubiquitously cited goal of EU technological sovereignty.

European decisions on fifth-generation (5G) technology contracts have not only reflected security concerns but also revealed the balances the EU now seeks in its position on globalization. The commission has published guidelines for common EU-level assessments to keep suppliers deemed a security risk out of sensitive areas while leaving member states to make their own decisions on these companies' access to other parts of the 5G network.

### ***The 5G issue has reinforced the EU's desire to reduce its external dependencies on technological equipment.***

Most EU members have opted to allow Huawei to participate in European 5G—but only in its noncore elements. Estonia, Poland, and Romania were strictest in wanting to ban Huawei's access to 5G auctions. The French government introduced a de facto ban on the company, saying it would not

renew licenses for operators that use Huawei's 5G equipment—although Paris also approved Huawei's plans to build a factory in northeastern France. In 2021, a new German law introduced a more severe trustworthiness test on tech companies that bid for 5G contracts. Fusing geostrategic concerns and changing views on globalization, the 5G issue has reinforced the EU's desire to reduce its external dependencies on technological equipment and prioritize a degree of self-reliance over globalized markets.

At stake is what these developments in the tech sector say about the EU's stance on globalization. The EU line is that its regulatory and other measures seek a less oligopolistic form of globalism. Other powers insist they cross the line into de facto market distortion and protectionism, and that they are tailored more to EU commercial concerns than to well-regulated, equitable globalization.<sup>199</sup> The EU's focus has been on trying to create space for its digital champions and responding to citizens' fears about online control and business models.

The EU approach is mainly about containing and controlling digital technology and AI; the union has embarked on efforts to develop its capacities and competitiveness, but, as yet, these are less noteworthy than its regulatory approaches. In this, the EU marries healthy concerns about the social and security impacts of technology with a more interest-driven reflex to politicize globalism in this sector. Increasingly, the internet is fragmented among different regional models, and the EU has played its part in hastening this move away from digital globalism.

## **Global Finance and Tax**

The same trend lines are apparent in EU positions on the global financial architecture. EU states have been unwilling to give up the privileged status in this system afforded to them by the post–World War II power configuration. After the United States, Europe is the International Monetary Fund's (IMF's) most powerful bloc, even though developing countries now have a greater collective weight in the world

economy. Emerging markets criticize the special treatment given to European countries, made possible by the bloc's influence over the fund's decisionmaking structures. While the EU insists it upholds rules-based multilateralism against other powers, in reality member states frequently bend these rules in global financial institutions to serve their national interests.<sup>200</sup>

Over the years, there have been various attempts to correct the overweighted European representation on the IMF's executive board. In 2010, the Europeans agreed to give up two of their seats to emerging markets in return for the latter assuming greater responsibility on currency valuations. Still, member states have opposed changes to the current form of representation on the board. Although a proposal to consolidate European representation has been on the table of the EU Council since 2015, this has not advanced, and the European Commission has called into question the nominal 2025 implementation deadline for this goal. The current system allows smaller European countries, in particular, to punch above their weight in decisionmaking. At the same time, genuinely fair adjustments would require countries like France or Germany, which hold their own seats, to give up power.

## International Debt

With regard to the international debt architecture, the EU has not supported debt cancellation. The union's approach is to back only modest and gradual changes to rules to deal with the new global-power reality. The EU common position is that "neither the EU nor Member States would participate in discussions" that aim to establish a binding multilateral legal framework for sovereign debt restructuring processes.<sup>201</sup>

The EU has expressed concerns that the 2015 United Nations (UN) General Assembly resolution on sovereign debt restructuring does not adequately accommodate the preferred creditor status of international financial institutions or support the decisions of competent courts on debt issues. For the EU, the most appropriate institution to address technical capital-market issues related to restructuring sovereign debt is the IMF, not the UN. Yet, competing interests hinder ongoing efforts within the fund.

In late 2020, G20 countries, including European states and China, agreed on a common framework for restructuring government debt. The details of the framework were not disclosed. The absence of most developing countries from this deal sparked widespread criticism. From a European standpoint, new creditors and private lenders who do not participate in traditional groupings and often adopt less stringent risk-assessment procedures considerably heighten the risks of more ambitious debt-relief efforts. Adding to this unease over reform, the EU has expressed some concern over IMF loans to developing countries to help deal with the coronavirus crisis.

In February 2021, Macron, Germany's then chancellor Angela Merkel, European Council President Charles Michel, Senegalese President Macky Sall, UN Secretary General António Guterres, and European Commission President Ursula von der Leyen called for the use of special drawing rights (SDRs)—an international reserve asset that supplements IMF members' official reserves—to ease developing countries' debt burden.<sup>202</sup> Gelsomina Vigliotti, then director general for international financial relations at the Italian Ministry of Economy and Finance, called it "an absolute priority" to make additional reserve assets available to those in need.<sup>203</sup> Vigliotti and IMF Managing Director Kristalina Georgieva have pointed out



that advanced economies that do not need their SDRs could donate their allocations to help developing countries.<sup>204</sup> Still, EU states have still been willing to take only small steps in relation to these sensitive issues on international debt.

## Global Taxation

Similar interest-protection dynamics are strong in debates on global taxation. Frustrated by slow progress at the global level, in 2018, the commission proposed two directives for taxing the digital economy. The first put forward a digital tax, while the second proposed to alter the definition of “permanent establishment” by introducing the notion of significant digital presence in determining EU tax obligations. The commission envisaged these as temporary measures while member states contemplated longer-term reform to the global tax system.

Yet, for a long time, member states failed to reach an agreement on such reform. Countries such as Denmark, Estonia, Germany, Ireland, and Sweden opposed EU measures, arguing that the broader international proposals of the Organization for Economic Cooperation and Development (OECD) should precede European action. This impasse led several EU member states to enact unilateral digital taxes with sunset clauses to remove the measures in the event of an agreement at the international or the EU level.

Meanwhile, for several years, the commission continued to back OECD efforts and was concerned in particular to target U.S. tech companies. Little was achieved as the United States blocked progress, while EU states voted against developing states’ efforts to agree on more far-reaching taxes on multinational companies. The 2021 change in U.S. administration proved decisive, and, after many years of deadlock, an international agreement was reached on a 15 percent minimum global tax rate on large companies. Most European governments supported this agreement.<sup>205</sup> While a group of member states, led by Estonia and Ireland, was initially hesitant, by late 2021, they too had come around to the new tax. Debates over separate European digital levies on U.S. companies rumble on inconclusively.

## Climate Change

Climate policy has become an equally powerful factor in reshaping the EU’s approach to globalization. Formally, the EU frames the challenge of climate change as a way to reinforce its commitment to balanced, rules-based, open globalization. The European Green Deal, published in December 2019, has a strong global dimension that is defined in this vein, promising to use the union’s internal transition as a platform for shaping more sustainable, low-carbon globalization.<sup>206</sup>

The EU provides nearly half of the world’s climate funding, with climate projects in developing nations accounting for €23.2 billion (\$26.9 billion) in 2019.<sup>207</sup> These funds aimed at managing the global aspects of climate transition and helping developing countries plug into globalization based on low-carbon economies. The EU has also long sought to externalize its emissions-trading scheme as a means of globalizing its nascent carbon markets.<sup>208</sup>

However, if these aims suggest climate and globalization objectives moving in tandem, in several areas there is clear tension between the two. Numerous aspects of emerging policy suggest that the EU has been increasingly willing to place climate objectives above the open flows and connections of globalization.

One of the main links between the EU's climate and globalization policies is its increasing use of climate-related trade conditionality. The EU is set to make third countries' respect of the 2015 Paris Agreement on climate change a core precondition in all of its external trade deals.<sup>209</sup> So-called green clauses have become a more prominent part of the union's trade agreements and one of the most tangible ways in which the climate priority has begun to infuse other areas of EU external action.

In talks between the EU and the Association of Southeast Asian Nations (ASEAN) in the late 2010s, the union insisted on a cap on biofuel exports from Indonesia and Malaysia while these countries continued to undertake mass deforestation to produce palm oil<sup>210</sup>—and this pressure had an impact. France, Germany, Ireland, and others have held back an EU-Mercosur trade agreement in response to Brazilian President Jair Bolsonaro's destructive actions in the Amazon. France and the Netherlands have launched proposals for a further upgrade of climate conditionality in EU trade accords. In its recent deals with China and the United Kingdom, the EU insisted on tougher conditionality measures to link trade to environmental standards. In late 2021, the European Commission proposed a ban on food imports from areas at risk of deforestation.<sup>211</sup>

More specific issues arise from the EU's new Carbon Border Adjustment Mechanism, which will put a carbon price on imports of selected products. This mechanism is set to have a significant impact on the global trading system. Its aim to stop carbon leakage will involve raising the costs of much cross-border trade, especially from developing economies. The European Commission insists that the new charge on imports can and will conform to WTO rules. However, other powers have already criticized it as a distortion to fair and open global trade and as protectionism dressed in the cloak of climate action: the EU will be charging carbon production outside Europe while member-state governments continue to subsidize it in their own countries.<sup>212</sup>

The draft EU regulation on the Carbon Border Adjustment Mechanism has established a mechanism that can potentially force other states to act: if they adopt carbon pricing, their goods will not be subject to the tariff.<sup>213</sup> The mechanism was delayed by differences among member states over how wide a range of products should be taxed at the EU border, with some states like Germany wanting to narrow the coverage. Uncertainties persist in this regard, and the mechanism will not kick in until after 2025.

EU policies also foreground the notion of self-reliance as an integral part of climate policy. Since 2018, the commission has approved several instances of state aid for pan-European consortia in sectors like battery-cell manufacturing, thus waiving state-aid rules expressly to build European champions. The EU and many member states have increasingly called for a green industrial strategy, and this is nominally the centerpiece of the commission's Next Generation package for the post-coronavirus recovery.

When the EU presented its European Green Deal in December 2019, the United States and other powers complained that it seemed to indicate that subsidy rules would be relaxed for renewable projects in the

EU in a way that contravened WTO rules.<sup>214</sup> In September 2020, the commission published a strategy for an industry alliance to reduce EU dependence on critical rare earths, framing this move as part of the wider post-coronavirus aim of bringing more production back to the EU, especially from China.<sup>215</sup> The EU and individual member states have begun to call for more negotiated, geopolitical accords to guarantee supplies of critical minerals from Africa, Asia, and Latin America.

While the EU promotes this cluster of measures as a benign and balanced form of ecoglobalism, other powers have tended to see this claim as disingenuous and the EU's climate narratives as a pretext for narrow self-interest. Arguably, many of these policy developments contain strands of both of these interpretations: there are signs that the EU's priority is climate action over unchecked globalization, but there is also evidence of a turn within climate policy toward direct EU geoeconomic interests, to the detriment of developing economies' interests and comparative advantages.

### Claims of Green Protectionism

Developing countries increasingly berate what they see as the EU's green protectionism, which is more about defending European commercial interests than about fostering a genuinely rebalanced form of ecologically sustainable globalization.<sup>216</sup> Developing states have also criticized the EU's refusal to relax intellectual property restrictions on renewable energy technology to help its uptake across the world and have accused the union of prioritizing its commercial gains over climate goals. European governments have often insisted that EU-supported renewables projects in third countries be used to increase energy supplies to Europe rather than boost the energy resilience of the source countries.<sup>217</sup>

Nevertheless, the overall policy mix is still contested, and many aspects of the EU's trade policies cut across climate commitments. Despite all of the union's negative discourse about globalization and positive rhetoric about climate action, in practice, policy aims of economic globalism still often trump climate goals. Much of the trade the EU promotes is clearly detrimental to the environment,<sup>218</sup> no matter how much the union insists on including formal references to climate goals in its trade agreements and stresses the need for open trade in renewables. The EU pushes third countries to sign up to emissions reductions but then presses them to sign trade agreements that will increase those same emissions.

The EU is the biggest source not only of climate aid but also of aid for trade. The EU-China investment agreement—were it to proceed—could cancel out EU climate policies, to the extent that it prioritizes automobile exports and the like. In the case of the EU-Mercosur trade deal, nine member states and the EU foreign policy high representative are pushing for Macron to lift his block on the accord, thus putting trade before climate preconditions.

While other powers complain about EU green protectionism, the union seeks to prevent these powers from using climate change arguments to block goods from Europe. The EU is also looking for new rules to ensure the easier flow of its green technologies to external markets.<sup>219</sup> The EU's efforts to gain access to critical minerals risk significant ecological damage in third countries. EU policies are in danger of widening a decarbonization divide by accentuating the instabilities of global systems. As yet, the

European Green Deal does not promise a fundamental change in the union's economic model; it focuses on emissions targets rather than a full-spectrum revision of growth models. As long as this remains the case, the spillover from internal climate action to the EU's position on globalization will be less game changing than would otherwise be the case.

## Conclusion

The EU occupies a curious place among the perspectives on globalization that this compilation examines. The union is part of the dominant, developed world that set the terms of globalization over many decades and was, in part, responsible for its many iniquities. Yet, in recent years, the EU has become one of the most defensive and ambivalent actors when it comes to globalism's future. The defining problem has inverted from the EU worrying mainly about other powers' ability to navigate globalization to a concern with Europe's own vulnerabilities to open globalism. This is an approach oriented more toward the weaknesses and frustrations of European societies than toward global systemic imbalances. The gap between the EU's and other powers' visions of globalization has widened, not narrowed.

The EU's emerging disposition is not antiglobalization, and the union is still a relatively open trader compared with many other powers. Rather, the EU is adopting a more instrumental position toward the gains and risks of globalization. Many in the EU have moved away from embracing globalization as a generically beneficial, win-win public good. Instead, they understand it as setting an international terrain on which the EU must battle harder to harness the potential of globalism and achieve relative gains over other powers. This conceptual shift is not absolute; many EU and member-state policymakers retain a more broadly positive perspective on globalization. Yet, the EU's core trade, investment, and technology policies have taken on a more competitive, rather than cooperative, approach to globalization.

The EU increasingly seeks to shape globalization as one channel of its geopolitics, reflecting a more geoeconomic or mercantilist take. This adjustment flows from both international and domestic trends. Much of the change has been forced on the EU by power rivalries and the toughened approaches of other actors, while part of the adjustment is a strategic choice. The EU has lost trade and investment market shares, and the need for the union to reposition itself with regard to the U.S.-Chinese rivalry has also spurred a more political approach to globalization. The coronavirus pandemic has added a further exogenous prompt to EU repositioning. Domestically, populist forces have surged in most European countries, often on platforms that question globalization. While their rise is the product of many complex factors and not reducible to economic problems, it has reinforced the sense that EU policies toward the global economic system need to be rethought.

***The EU increasingly seeks to shape globalization as one channel of its geopolitics, reflecting a more geoeconomic or mercantilist take.***

It is fairly clear that the EU now defends its short-term interests more rigorously than in the past and seeks to limit at least some globalization dynamics. It is less clear whether the union has a firm, long-term vision for a different kind of globalization. To some

extent, the EU's emerging policies take on board the many calls from analysts for a more measured and less hyper form of globalization, led by a careful calculus of domestic concerns.<sup>220</sup> But this also entails greater deference to short-term and ad hoc interests and is not a strategy likely to command inclusive legitimacy as a long-term, sustainable form of globalism.

Globalization may not be intrinsically incompatible with notions like sovereignty and autonomy, but these concepts do not easily pull in the same direction. The EU's adjustments are still tentative—the first steps in what is likely to be a long process of change. For now, the question remains whether the EU seeks minor tactical tweaks or can devise a fully worked and coherent alternative vision of globalization.

# Latin America and the Caribbean: Continued Engagement Despite a Deglobalizing Turn

FRANCISCO URDINEZ

Latin America and the Caribbean have lively debates on globalization on account of the region's endemic economic stagnation. Since at least the 1970s, many of Latin America's largest economies have been unable to grow further and have been stuck in a middle-income trap.<sup>221</sup> The ensuing concentration of income in the hands of the privileged few has generated deep resentment among the so-called losers of globalization.<sup>222</sup> A 2019 study by the United Nations (UN) Development Program noted that in Latin America and the Caribbean, perceptions of unfairness in the distribution of wealth had "increased since 2012, returning to levels of the late 1990s."<sup>223</sup>

After decades of betting on models of insertion into the embedded liberal order, Latin America is experiencing a period of deglobalization, whose supporters consider such a turn necessary to strengthen economic sovereignty. In recent years, there have emerged nationalist candidates who have appealed to the losers of globalization and favored policies of deglobalizing their countries' economies.<sup>224</sup> The states with the three largest economies in the region—Brazil, Mexico, and Argentina—are currently governed by presidents openly hostile to economic globalization.

In Brazil, the government of President Jair Bolsonaro has been deeply critical of multilateralism, opposing not only economic but all globalization. Brazil has loudly voiced its concern about the 2015 Paris Agreement on climate change and the 2018 UN Global Compact for Migration, the second of which Brazil no longer supports.<sup>225</sup> Brazil's government has been ranked the worst in the world in its handling of the coronavirus pandemic, in part because of its denialist stance toward both the virus and the efficacy of vaccines.<sup>226</sup>

In Mexico, the antineoliberalist discourse of President Andrés Manuel López Obrador, who had been extremely critical of the North American Free Trade Agreement, does not align with his support for its

revamped form, the United States–Mexico–Canada Agreement. However, this shift does not make López Obrador a champion of free trade.<sup>227</sup> His push for a self-sufficient energy policy for Mexico has led him to break commitments with foreign investors, and, at times, he seems to care little about international market norms.<sup>228</sup>

In 2020, the government of Argentinian President Alberto Fernández decided to stop his country's free-trade negotiations in Mercosur with Canada, India, Lebanon, Singapore, and South Korea.<sup>229</sup> The same year, Argentina defaulted on its debt for the ninth time in the country's history. Buenos Aires is still negotiating with the International Monetary Fund (IMF) to repay the money it owes.

Even Chile, once considered a paradigm of the success of economic liberalism, has been experiencing deep social unrest since October 2019. These troubles led to the cancellation of the 2019 Asia-Pacific Economic Cooperation (APEC) meetings and a delay in the ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

And yet, despite this challenging backdrop, Latin American countries remain interested in contributing to international debates on globalization and reform of the multilateral system. The priority for the leaderships of Latin American countries is to amend the prevailing rules with the aim of creating the institutional foundations of a form of global governance that will produce more equitable outcomes.

## Reforming International Trade

Given the stagnation of the multilateral agenda, regionalism has become a policy alternative in Latin America. The region's governments are trying to ratify two interregional trade agreements, which, between them, cover a large share of global gross domestic product (GDP). The first is the free-trade agreement (FTA) between Mercosur and the European Union (EU), and the second is the CPTPP. Supporters see both projects as opportunities for developing countries that lack international leadership to have a voice in the creation of global norms.

For Latin American countries, the agreements are means of importing best practices from the EU and the developed countries that make up the CPTPP. For example, the Mercosur-EU accord, which has been concluded in principle but not signed, can function as a mechanism to improve environmental protection standards in Brazil. Indeed, the environmental agenda has increasingly become a central condition in advancing the agreement because of Bolsonaro's backsliding policies. European politicians and nongovernmental organizations, worried about deforestation and fires in the Amazon, demand protection of the rain forest as a prerequisite for moving forward with the FTA.<sup>230</sup>

In parallel to these efforts at strengthened regionalism, Latin American countries have defended changes to international trade rules, in particular in relation to the regime of intellectual property rights, the principle of special and differential treatment, and reform of the World Trade Organization's (WTO's) dispute settlement system.

## Intellectual Property Rights

According to the 2021 Index of Economic Freedom published by the Heritage Foundation, a U.S. think tank, Latin America scores an average of 45 out of 100 points for respect for property rights, below the world median of 51.<sup>231</sup> Discussion of the limits on state sovereignty imposed by intellectual property agreements is strong in Latin America. For example, in 2007, then Brazilian president Luiz Inácio Lula da Silva signed a decree to import a generic version of the Merck-owned HIV/AIDS drug efavirenz. Brazil cited the compulsory licensing provision in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) to claim that this clause allowed the government to override pharmaceutical patents in cases of national emergency or public interest.<sup>232</sup> This episode shows that enforcing TRIPS is tricky because of a constant tension between the claims of large multinational corporations that develop intellectual property and underdeveloped countries that want to use these patents for humanitarian purposes without paying to use the licenses.

***The coronavirus pandemic has deepened the long-standing tension between national sovereignty and intellectual property.***

The coronavirus pandemic has deepened the long-standing tension between national sovereignty and intellectual property, sparking a debate on when it is ethical to violate intellectual property rights. In March 2020, the Mexican government submitted a proposal to the UN on international cooperation to ensure equal global access to medicines, vaccines, and medical equipment to address the crisis.<sup>233</sup> Mexico's initiative led to the April 2020 adoption of a UN resolution that urged all member states to prevent speculation and practices that hide or limit access to products needed to contain the pandemic. The resolution also encouraged greater funding for vaccine and drug research.

Furthermore, in October 2020, Latin American countries supported an initiative led by India and South Africa that called for a waiver for all WTO members of the TRIPS agreement to allow for the “prevention, containment and treatment” of the coronavirus for the duration of the pandemic.<sup>234</sup> However, as of October 2021, negotiations were deadlocked due to the strong opposition of pharmaceutical firms, backed by the United States and Switzerland. Indeed, in May 2021, U.S. President Joe Biden reversed the previous U.S. position in support of the proposal.

## Special and Differential Treatment

Special and differential treatment (S&DT)—a WTO principle that exempts developing nations from certain obligations—has been a demand of Latin American countries since the creation of the multilateral trading system.<sup>235</sup> With the conclusion of the Uruguay Round of trade negotiations and the 1995 launch of the WTO, the focus of S&DT shifted from a development policy to expectations that developing countries also have to grant concessions to reciprocate market opening.<sup>236</sup>

One of the strongest demands in Latin America for S&DT concerns subsidies for illegal fishing, as included in the UN's 2030 Agenda for Sustainable Development. The agenda stipulates that by 2030,



UN members must “eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies.”<sup>237</sup> This goal was championed by the Friends of Fish group, which includes Australia, Chile, New Zealand, and the United States. These countries argued that overfishing and fleet overcapacity were consequences of subsidy programs that led to the exploitation of fisheries.

Another group, which included Argentina, Brazil, China, and India plus the bulk of the other countries in the Global South, shared the call by the Friends of Fish to remove subsidies but demanded certain exemptions based on their status as developing nations. Yet, the December 2017 WTO ministerial conference in Buenos Aires echoed the urgency raised by the UN and called on the WTO’s 164 members to introduce the reforms within the deadline demanded by the UN.

### Dispute Settlement

Between 2015 and 2020, Latin American countries accounted for a lower proportion of all cases heard by the WTO’s dispute settlement mechanism (DSM) than in the previous twenty years, although the region still punched above its weight in world trade.<sup>238</sup>

A frequent objection among small Latin American countries is that they do not have the resources to sue powerful states through the DSM. As a result, the use of the mechanism is concentrated in a limited number of countries in the region, mainly those with the largest economies. Brazil, Mexico, and Argentina currently account for 61 percent of cases initiated by a Latin American country and 53 percent of cases in which a country in the region is a defendant.<sup>239</sup> These states have also set up specialized WTO dispute settlement teams in their ministries of trade, industry, or foreign affairs. Yet, it remains a major challenge for Latin American countries, especially the smaller ones, to strengthen their capacity to enforce their rights through the DSM.

### Global Governance of Data and Technology

Two competing models regulate the digital economy in Latin America. One is the stricter European model, while the other is the more flexible approach taken by the United States and promoted by APEC. Most Latin American countries have followed the European model, based on the EU’s General Data Protection Regulation (GDPR).<sup>240</sup> The EU’s influence is explained in large part by the bloc’s trade agreements, which often impose on counterparts compliance with key elements of the European framework.

The GDPR has provided the necessary momentum for Latin American countries to update their existing laws on data protection. Argentina was the first country in the region to implement such laws and the first non-European nation to be recognized by the European Commission as having adequate levels of data security. A new data protection bill proposes further changes to bring Argentina’s legal framework into line with the GDPR. The bill acknowledges the right to be forgotten and the right to data portability.<sup>241</sup>

Brazil’s data protection law, which entered into force in August 2020, has similar definitions of personal data to the GDPR and, essentially, the same data subject rights. In Chile, Congress is discussing a bill

inspired by the GDPR. Uruguay, which has traditionally followed the European framework, has updated its rules to include the role of data protection officer and accountability measures to ensure the EU continues to recognize these rules as compatible with GDPR standards.

Meanwhile, Colombia, Mexico, and Peru have followed the more flexible approach promoted by APEC, based on the organization's 2005 privacy framework, which is a voluntary certification scheme that allows companies to transfer personal data among APEC members.

High costs pose a barrier for Latin American developing countries to increase their representation in the global governance of technology and data. There is no regional coordination of data governance in Latin America, and each country defines its regulations with reference to either the EU or the U.S. model. There are, however, various regional organizations in Latin America that establish competition provisions for cross-border cooperation.<sup>242</sup> Yet, the overlapping nature of these organizations and a lack of enforcement have hampered progress toward a more effective and integrated regional digital economy.

## The Global Financial System

The overriding view in Latin America is that the only way to reform the Bretton Woods institutions is for European countries and the United States to recognize that their quotas in these institutions should be reduced to give greater participation to China, India, and other emerging powers. Historically, Latin America has been an important pillar of the Bretton Woods system. The innovative embedded liberal vision of Bretton Woods was first put forward in the context of U.S.–Latin American financial relations between 1938 and 1942, which influenced subsequent international negotiations.<sup>243</sup> At the time, U.S. policymakers sought to build a multilateral economic order that could accommodate the developmentalist goals of Latin American governments.

However, in recent decades, Latin America has been a rule taker rather than a rule maker in the international system. Leftist governments have seen the World Bank and, above all, the IMF as enemies of development in Latin America. The external debt crisis that several countries in the region have entered since the 1980s has led these states to seek alternatives to the Bretton Woods rules. In the last ten years, World Bank and IMF loans have been gradually replaced by credit from financial institutions promoted by China.<sup>244</sup>

## Multilateral Development Banks

In Latin America, the balance of forces between competition and collaboration among multilateral development banks (MDBs) and other sources of development finance has produced a decentralized and client-oriented system. Within Latin America, the Inter-American Development Bank (IADB) and the Corporación Andina de Fomento development bank have assumed many of the responsibilities originally attributed to the World Bank.<sup>245</sup> More recently, Chinese policy banks have joined them in financing infrastructure through public-private partnerships and state-to-state loans.<sup>246</sup>

Latin American and Caribbean countries have been able to diversify their access to financial sources to the point that more MDBs operate in the region than in any other part of the globe. Most of the

development banks in Latin America have been operating there since before 1980.<sup>247</sup> In the meantime, MDBs have specialized. For instance, Chinese credit tends to focus on infrastructure, power, energy, and water, while the World Bank and the IADB concentrate on social services and support the public sector and civil society. Between 2005 and 2020, Chinese policy banks financed projects in Latin America worth a total of \$136 billion.<sup>248</sup> In the same period, the U.S. International Development Finance Corporation provided \$9.7 billion of funding and the World Bank gave \$31.2 billion.<sup>249</sup>

To strengthen the division of labor among MDBs, which has so far been positive in Latin America, there needs to be greater coordination between the Bretton Woods institutions and the new Chinese banks, especially the Chinese-led MDBs, such as the Asian Infrastructure Investment Bank and the New Development Bank. This is important because Latin America needs better infrastructure to integrate into global value chains. The region has the world's largest infrastructure gap after that of sub-Saharan Africa.<sup>250</sup>

### Special Drawing Rights

An important feature of the proposed reform of the international financial system relates to reliance on special drawing rights (SDRs), an international reserve asset that supplements IMF members' official reserves.<sup>251</sup> The redistribution of SDRs has also been proposed in the context of the coronavirus pandemic to help with fiscal imbalances in emerging markets and less developed countries.

Until the 1980s, the reserves of developing countries were equivalent to about 3 percent of their GDP, a similar level to that of industrialized nations. By 2007, low- and middle-income countries—excluding China—had foreign exchange reserves equal to 20.6 percent and 16.2 percent of their GDP, respectively. By that point, China had amassed reserves equivalent to 46.7 percent of its GDP. This accumulation of foreign reserves, Colombian economist José Antonio Ocampo has argued, was a result of overly conditional financing from the IMF.<sup>252</sup> Better collective insurance in the form of ample and less conditional IMF financing could help by discouraging developing countries from holding such significant reserves.

From a Latin American perspective, SDR allocations could follow one of two approaches. The first—and best—would be to issue SDRs in a countercyclical way, meaning that they would be issued during crises rather than booms. Concentrating issuance during crises would help circumvent the deflationary pressures that the world economy faces in these periods because of demands on deficit countries to adjust. The second approach would consist of regular allocations of SDRs, reflecting additional global demand for reserves. In the long run, the IMF should allow the use of SDRs in private transactions to turn the reserves into a true global monetary instrument.

### Reforming International Taxation

The 2013 action plan on base erosion and profit shifting (BEPS) led by the Organization for Economic Cooperation and Development (OECD) and the Group of Twenty (G20) is the most important revolution in international tax law in the last century. The plan set out fifteen actions to tackle BEPS—the

practice of exploiting gaps and mismatches in tax rules to avoid paying tax—four of which are considered minimum standards.<sup>253</sup> The implementation of these standards is of particular importance, and each is the subject of a peer-review process that evaluates a country's progress and provides clear recommendations for improvement.

Ten Latin American countries—Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Panama, Paraguay, Peru, and Uruguay—have signed up to the BEPS action plan. Several Caribbean countries, many of which are tax havens, have also joined. However, there is no coordination among countries to support each other in the implementation of the actions, and all progress has been unilateral. In Latin America, the BEPS action plan fills a gap in the absence of a regional tax-regulating body.

The four actions that constitute minimum standards are 5, 6, 13, and 14. Action 5 is a continuation of the OECD Forum on Harmful Tax Practices, which since 1998 has been reviewing preferential regimes to determine whether they could harm the tax bases of other jurisdictions.<sup>254</sup> Action 6 aims to eliminate treaty shopping, which typically involves an attempt by a person to indirectly access the benefits of a tax agreement between two jurisdictions without being a resident of either. There are many arrangements through which a person who is not a resident of a jurisdiction may attempt to obtain benefits granted to residents.<sup>255</sup>

Action 13 seeks to improve access to public taxation data. The lack of quality data on corporate taxation has been a major limitation to measuring the fiscal and economic effects of tax avoidance. This makes it difficult for authorities to carry out transfer pricing assessments on transactions between linked companies and even more difficult to conduct audits. Finally, action 14 aims to enhance the resolution of tax-related disputes between jurisdictions. This process comprises two stages: in stage one, states' implementation of the action is assessed and recommendations are made for improvement; how those recommendations are executed is measured in stage two.

The ten Latin American countries that have subscribed to the BEPS action plan have committed to having their compliance with the minimum standards reviewed and monitored by their peers through a robust process that seeks to increase efficiencies and speed up the resolution of double-taxation disputes.<sup>256</sup> In all ten participating states, actions 5 and 6 are complete. Action 13 has a legal framework in place in all countries except Paraguay. As for action 14, Argentina, Brazil, Chile, Colombia, and Mexico have completed stage one but not yet started stage two. Western European countries and the United States are already at stage two, so this is the action on which Latin America is farthest behind.

In addition to the four minimum standards, action 15 is of particular importance. This consists of a multilateral convention that allows governments to modify existing bilateral tax treaties in a synchronized and efficient manner to implement measures developed as part of the BEPS project without the need to renegotiate each treaty bilaterally. In Costa Rica and Uruguay, this convention is already in force. Chile and Panama have accepted and ratified the accord but not yet implemented it. As of this writing, Argentina, Colombia, Mexico, and Peru have yet to ratify the convention, while Brazil and Paraguay have yet to sign it.

## A Global Minimum Corporate Tax Rate

A global minimum corporate tax rate is an excellent initiative to curb the race to the bottom among developing countries, whereby competition to attract investment creates incentives to cut business regulations, labor standards, environmental protections, and business taxes.<sup>257</sup> A proposal for such a tax rate was signed at the October 2021 G20 summit in Rome.<sup>258</sup> The largest Latin American economies—Argentina, Brazil, and Mexico—view the measure favorably as they see it as an equalizer of rules. Experts in these countries, however, recognize that such a measure would take years to implement without an enforcement mechanism.

At the same time, smaller nations—in particular, Costa Rica, Panama, and Uruguay—have for years attracted investment by offering better tax benefits than their protectionist neighbors. In these countries, there are concerns that a minimum corporate tax rate would make them less attractive to investors. Each of these three states is to Latin America what Ireland is to the EU: a country that has attracted investment from its neighbors through special regimes for multinational enterprises.

Finally, there is the case of tax havens in the Caribbean. The Bahamas, Bermuda, and the Cayman Islands have no corporate tax rate at all, making them havens for incorporation. The economic well-being of these countries depends in large part on providing financial services to large corporations. These states would be among the biggest losers from a global minimum corporate tax rate.

Despite differing views of this tax among large and small countries in Latin America, it may be an opportunity to attract large enterprises that have moved away to Asian countries in the past decade. For example, in 2014, Intel closed a huge chip factory in Costa Rica that accounted for 0.5 percent of the country's GDP and moved it to Malaysia and Vietnam, which offered better tax incentives.<sup>259</sup> The plant reopened in 2020 after the company renegotiated more favorable tax benefits with Costa Rica.

## The Climate Change Agenda

Latin America and the Caribbean have some of the world's most vulnerable ecosystems to climate change. Forest fires in the Amazon and coral bleaching in the Caribbean threaten the viability of habitats that are vital to the global climate balance. In Central America, increasingly frequent hurricanes cause great human and material losses.

Latin America and the Caribbean lose an average of \$11 billion a year to climate-related natural disasters.<sup>260</sup> In addition, nine of the world's twenty countries with the greatest declines in GDP due to climate change are from the region.<sup>261</sup> There are two reasons for this stark picture. First, 79 percent of the region's population lives in cities—compared with 51 percent in Asia and 43 percent in Africa—and the main risks of climate change impacts are concentrated in cities.<sup>262</sup> Second, Latin America suffers from a multibillion-dollar infrastructure gap that prevents countries from being able to adapt to climate change.<sup>263</sup> In 2019, Latin America's climate finance was \$4.4 billion, far short of the region's annual infrastructure gap of \$260 billion or its climate change adaptation gap of \$110 billion.<sup>264</sup>

Latin American countries have been very clear that, in historical terms, the region's contribution to climate change is relatively small. In the words of one analyst, Latin American states “have repeatedly highlighted the responsibility of developed countries as the reason why [the latter] should take the lead on climate change mitigation and transfer money and technology to developing countries to facilitate their adaptation and mitigation.”<sup>265</sup>

***Latin American countries have been very clear that, in historical terms, the region's contribution to climate change is relatively small.***

According to 2020 data, Latin America and the Caribbean contributed 8 percent of global greenhouse gas emissions—a percentage similar to the region's shares of world population and GDP. Yet, the structure of the region's emissions is different from that of global emissions. Whereas 70 percent of the world's emissions come from the energy sector, Latin America's energy share is 45 percent, while agriculture and livestock account for 23 percent, indicating significant scope to mitigate deforestation by increasing arable land use.<sup>266</sup>

Latin American and Caribbean countries have collectively expressed the need to achieve climate justice, meaning that developed nations should pay their environmental debt to developing countries affected by climate change and help them lessen its impacts. In response, developed nations have emphasized the need to share the burden of international efforts. The industrialized world has tended to put more weight on the common aspect of the problem and the associated principle of common but differentiated responsibilities, insisting that effective action on climate change requires a concerted effort and sacrifices from all parties.<sup>267</sup>

During many negotiations under the UN Framework Convention on Climate Change, a clear North-South delineation has emerged. This division became apparent in the text of the 2008 Kyoto Protocol Reference Manual on Accounting of Emissions and Assigned Amounts, as states argued about assigning historical responsibility, resulting in the categorization of developed versus developing countries.<sup>268</sup> The depth and longevity of North-South divisions in international climate negotiations have, to a large extent, shaped the positions of Latin American countries about who is responsible for climate change, who should lead efforts to solve it, and how the burden of contributions should be split, given global disparities in economic development and technical and material capabilities.

The progress of each country toward implementing its environmental commitments, such as the nationally determined contributions under the 2015 Paris Agreement, depend too much on the political will of the government of the day. Probably the clearest example of this is Brazil: once a global leader on this agenda, the country now has a president who denies climate change.<sup>269</sup> Indeed, Bolsonaro has dismissed protection of the Amazon to the point that EU countries have tried to make ratification of the Mercosur-EU FTA conditional on Brazil improving its policy toward the rain forest.

There is concern in Latin America that some negative externalities produced by developed countries in their efforts to achieve the Paris Agreement goals will fall on the region. Amid the environmental transition, there are real worries that the impacts associated with the extraction of raw materials in the Global South,

such as lithium, cobalt, copper, coltan, and green hydrogen, may reduce the carbon footprints of richer countries at the expense of the environments of underdeveloped states.

As regards compliance with the Paris Agreement, Latin America and the Caribbean still lag far behind in implementing mitigation policies. According to the Climate Action Tracker, which evaluates government strategies and policies to meet the accord's objectives, Costa Rica is the only Latin American country that has made "almost sufficient" commitments and efforts to hold global warming well below 2 degrees Celsius above preindustrial levels.<sup>270</sup> All other Latin American countries in the index have performances that are either "insufficient" or "highly insufficient."<sup>271</sup>

Where Latin America and the Caribbean have made the greatest advances on the environmental agenda is in investment in renewable energy. To date, Latin America has pledged to derive 70 percent of its energy production from renewables.<sup>272</sup> That surpasses the EU's ambition and would give Latin America and the Caribbean the cleanest energy matrix worldwide.<sup>273</sup> Between 2006 and 2016, solar, wind, and wave power in the region recorded a spectacular average growth rate of 34 percent, higher than for any other power source.<sup>274</sup>

## Conclusion

In recent decades, Latin America has been a taker rather than a maker of global rules, and this trend is likely to deepen in the coming years. The region's situation is clear when it comes to the global governance of data and technology and the international tax regime. There is no regional coordination of data governance in Latin America, and each country defines its regulations according to either the European or the U.S. model. Meanwhile, the OECD/G20 action plan on BEPS fills a gap in the absence of a regional tax-regulatory body. It is widely expected that the region's role in future multilateral discussions on global standards and regulations will be limited to passive adoption rather than active leadership.

In general, Latin American countries seek a reengineered form of globalization in which the nation-state plays a more dominant role in regulating negative market externalities. This is reflected in the region's stances toward trade integration, the global financial system, and the climate change agenda. In terms of trade, Latin American countries will continue to support advances in international trade rules as long as they protect the interests of less developed countries, particularly in relation to intellectual property rights, the principle of S&DT, and reform of the DSM. As for the global financial system, Latin American countries agree with the use of SDRs to support countercyclical policies and the implementation of a global minimum corporate tax rate to mitigate a race to the bottom and sudden capital flights.

Finally, there is a growing debate about how and whether the private sector should be further regulated to limit global warming and environmental degradation. Since Latin American and Caribbean countries are mostly commodity producers, they will need to levy efficient green taxes to mitigate the climate effects of predatory mining, fishing, and agriculture to compensate future generations and guarantee sustainable development.

# India: Testing Out New Policies on Globalization

SUYASH RAI AND ANIRUDH BURMAN

India has a strong tradition of self-sufficiency. Historically, the country's foreign trade usually involved exports of goods such as textiles and spices and imports of precious metals.<sup>275</sup> The Industrial Revolution changed the world economic order and rapidly diminished India's salience in the global economy. It also caused irreparable damage to the country's idea of self-sufficiency. India produced about 25 percent of the world's industrial output in 1750, but by 1900 this had fallen to 2 percent.<sup>276</sup>

In the twentieth century, foreign colonial rule and a decline in India's economic power provided a fresh cause for skepticism toward economic integration. After gaining independence in 1947, India chose an inward-looking strategy of economic development, with a focus on boosting domestic capabilities. The key elements of this strategy were investment in capital-intensive industries and state dominance in economic development. After an initial acceleration in economic growth in the 1950s and 1960s, the problems started piling up when growth slowed and other macroeconomic indicators, such as inflation, went out of control. India's mediocre economic outcomes in this period affected the country's strategic capabilities and therefore its geopolitical stature. Improving economic performance became a strategic and political imperative.

A period of slow transition then began. In the 1990s and 2000s, India witnessed an unprecedented rise in trade, financial, and, eventually, digital integration. Several global firms invested in India, and many Indian firms invested abroad. Although India lowered entry barriers, the country's economy was able to compete in many sectors—and even discovered new areas of strength, such as information technology (IT) and IT-enabled services.

These trends started reversing again at the beginning of the 2010s. Trade integration slowed, and financial integration began to unwind. Issues of taxation of multinational firms became contentious as



India sought to tax incomes generated by foreign companies operating in the country. Although the data market remained mostly open for foreign firms, India's stance gradually shifted, and it is likely that digital integration may also reverse to some extent.

While India remains committed to multilateral action in domains from climate change and taxation to trade and data flows, the country's domestic positions on these issues have altered considerably. This shift is reflected in India's overall attitude toward globalization, which is an evolving paradigm. This transition is happening in a context in which the institutional order that underpinned globalization is under pressure from the great power rivalry between the United States and China and a backlash against globalization.

## Global Trade Reform

After many years in which tariffs steadily declined, India has more recently raised tariffs again. The country's average most-favored-nation applied rate—the tariff that members of the World Trade Organization (WTO) impose on imports from other members unless they are part of a preferential trade agreement—rose from 13.8 percent in 2017 to 17.6 percent in 2019. Similarly, in 2016, 90.7 percent of tariff lines had duties of 10 percent or lower, while in 2019 only 63.5 percent of tariff lines were in this category.<sup>277</sup>

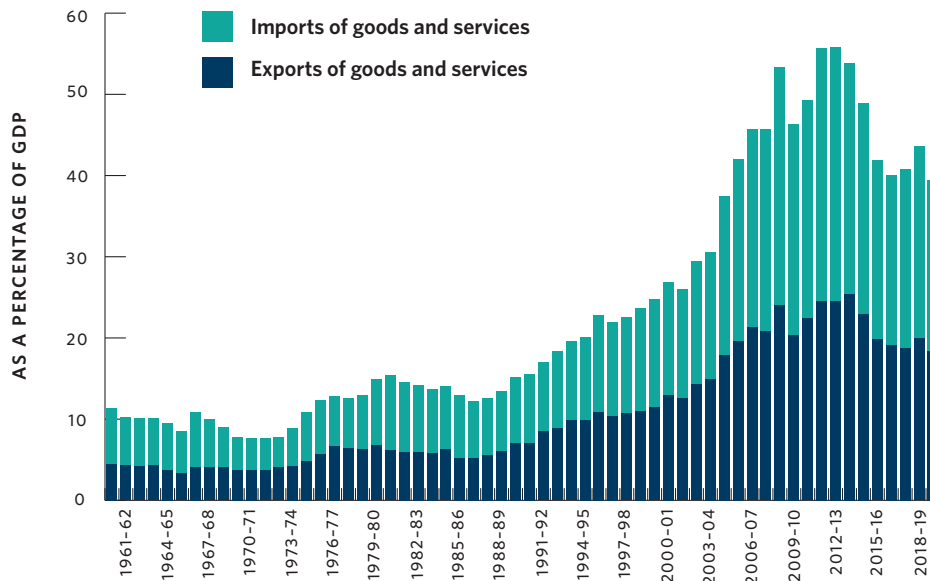
In March 2020, the Indian government announced a scheme of production-linked incentives to promote domestic manufacturing capabilities and reduce the country's dependence on energy imports.<sup>278</sup> India has become increasingly wary of joining new trade blocs to which it has been invited, most recently the Regional Comprehensive Economic Partnership (RCEP).

Meanwhile, India has struggled since 2012 to achieve export growth. In 2019–2020, the country's total exports were the equivalent of only 19.4 percent of gross domestic product (GDP)—well below the peak of 25.2 percent they had reached in 2013–2014 (see figure 1). The growth of India's share in world trade has decelerated, too. In fact, in the trade of most product groups, India's share peaked a few years ago and has declined since. India's integration into global value chains has also been low, despite the country having capabilities that should have allowed for a better performance.<sup>279</sup> India has remained a fringe player in global value chains.<sup>280</sup>

Another aspect of India's experience with trade liberalization is the country's failure to make gains in merchandise trade that involves labor-intensive manufacturing. Most of India's trade gains have come from skill- or capital-intensive goods and services.

Related to this failure on merchandise exports is an increase in India's trade deficit with China. Between 2007–2008 and 2017–2018, India's exports to China increased slightly from \$10.8 billion to \$13.3 billion, while its imports from China rose significantly from \$27.1 billion to \$76.4 billion. By 2017–2018, India's trade deficit with China was about 39 percent of its total trade deficit, up from less than 20 percent a decade earlier.<sup>281</sup> As a strategic adversary of China's, India is wary of allowing this trend to continue. The possibility of weaponized interdependence has raised concerns and calls for policy action, especially because some of this interdependence relates to crucial goods like pharmaceuticals.<sup>282</sup>

**Figure 1: India's Trade Integration, 1961-2020**



Source: Central Statistics Office, Ministry of Statistics and Program Implementation, Government of India.

India's efforts to boost its exports through nontariff measures have run into disputes with other WTO countries. Certain subsidy schemes and special economic zones have been challenged through the WTO's dispute settlement system. In 2019, India lost a major dispute initiated by the United States over alleged export subsidies.<sup>283</sup>

### A Protectionist Pivot

The slowdown in India's exports, the country's weak integration into global value chains, its limited success in labor-intensive goods, and its increasing interdependence with China have led to debates about India's stance toward trade. It is no longer easy to make the case that falling tariffs coincide with a rapid rise in exports. This has created opportunities for segments of Indian industry to demand protection and fiscal support. The language of self-reliance has gained currency in this context.

This shift in policy stands in contrast to official rhetoric. At the 2018 World Economic Forum in Davos, Indian Prime Minister Narendra Modi appealed for trade openness and global coordination: "Many countries are becoming inward focused and globalization is shrinking, and such tendencies can't be considered lesser risks than terrorism or climate change."<sup>284</sup> This seemed like a strong endorsement of globalization and open trade. When the United States and other countries were turning their backs on global economic integration, it appeared that India would be a leader in efforts to salvage and rebuild the institutional order that underpins such integration. However, India's policy changes since 2017 suggest that India, too, is turning inward. It is not clear how far this shift will go.

What is the basis for a pivot toward protectionism and producer-specific fiscal support? In some cases, such a pivot may be justified by a lack of opportunities related to a country's existing capabilities. Yet, India has the technological abilities to move up value chains by making more complex products and services in categories from industrial machinery and vehicles to chemicals and plastics. In commercial services, such as IT, India can leverage its capabilities to produce more complex services. Thus, the fact that India has struggled to increase its exports is likely because of failings in the country's domestic political economy, rather than the challenges of the niche that India occupies in the global economic order.

India's pivot toward a more protectionist and activist approach therefore cannot be explained by a lack of opportunities in world markets. Rather, there seems to be an ideological shift in India's understanding of how the country should compete on the world stage. This shift may be supported by interest groups that stand to benefit from it, but it is not based on the facts of India's present capabilities. In addition, the country's increasing interdependence with China has raised strategic concerns, which prompted India's 2019 decision not to join the RCEP. India's raising of tariff barriers in recent years seems to be directed mainly, but not solely, toward imports from China.

So, perhaps Indian policymakers believe that the policy pivot can both improve the competitiveness of Indian firms in world markets and reduce India's interdependence with China. However, India's experience in the pre-reform period from the 1950s to the 1980s offers a warning that this pivot is not without risks. In that period, too, the policy focus was on building domestic capabilities through protectionism and fiscal support. That approach did achieve significant successes in building up Indian technological capabilities in a few sectors, which played a role in accelerating the country's growth after the reforms in the early 1990s. But in the pre-reform period, India's licensing and planning institutions did not allow the country to achieve global competitiveness in its emerging sectors.<sup>285</sup> As a result, India by and large did not become globally competitive, even in high-capability sectors. Unless implemented carefully, the current drive toward self-sufficiency could lead to similar outcomes.

### A Shifting Global Economic Order

To understand how India's stance toward the world trade order might change in the coming years, it is important to take stock of the country's role in current global trade negotiations. Twenty years after it was kicked off, the failure of the WTO's Doha Development Agenda is increasingly clear—as is the resultant pause in multilateral rulemaking. Although India sometimes took an intransigent position toward this agenda, it would not be fair to blame the country for its failure, because neither did developed nations stay true to the agenda on issues like agricultural subsidies.<sup>286</sup>

More recently, global discussions have begun to find plurilateral, rules-based arrangements for trade in services such as e-commerce and investment facilitation. India has not joined these discussions; it has questioned their legal status and sees them as a surreptitious attempt to introduce new rules into the WTO framework.<sup>287</sup> The structural reason for the breakdown in multilateralism is the changing global economic order. The rapid rises of India and China have had a paradoxical effect on this order. On the one hand, the centrality of trade to these countries' growth has justified the arguments of those who consider free trade a force for good. On the other hand, the rises of these two large countries have created problems for negotiations to further open up trade.

These problems have appeared in three related ways. First, there has been an antiglobalist backlash in some developed countries, where many people have the perception that free trade has not been beneficial to them. Because of this, further opening of markets in the developed world has become more difficult. Second, an increase in the relative influence of developing countries has given them greater bargaining power to stall agreements. Third, as India's and China's exports and economic growth took off, some negotiating strategies, such as arguments about protecting the poor, appeared increasingly anachronistic. This is truer of China than of India, which has a much lower income and a lower share in world trade than China.

Still, some developed countries have cited India's and China's successes to argue for reduced flexibility for developing countries. When the United States proposed objective criteria to determine when a country could get special and differential treatment (S&DT), a WTO principle that exempts developing nations from certain obligations, India was among the developing countries that opposed the scheme. That is because some of the proposed criteria—for example, being a member of the Group of Twenty (G20) or accounting for over 0.5 percent of global merchandise trade—would have worked against India. In spite of their differences, India and China have often joined forces on the matter of S&DT.

### Possible Policy Directions

The failure of the Doha agenda is a symptom of these and similar changes. India's reform proposals—especially those addressing the WTO's dispute settlement mechanism, rulemaking, and transparency requirements—have not gone far.<sup>288</sup> There are feedback loops between India's protectionist and activist pivot and its evolving approach toward the world trade system: the outcome of the pivot may shape India's stance toward trade agreements, and the terms of those agreements may shape the extent of the pivot. While it is too early to say much about the directions in which these changes might point, certain possibilities exist.

First, India's reluctance to embrace plurilateral arrangements could eventually create an incentive for the country to contribute to rebuilding the multilateral order. India stayed away from the now-defunct Trans-Pacific Partnership and, despite participating in negotiations for the RCEP, decided not to join the agreement. Eventually, for India to benefit from trade, the country may have to invest in rebuilding the multilateral framework, which helped it achieve considerable growth for about two decades.

Second, although India and China were allies on many issues in trade negotiations until recently, their interests may not align as much going forward, which could create opportunities to break the stalemate between developed and developing countries. China has enjoyed the benefits of its considerable production capacities while making use of S&DT. Even though it is now an upper-middle-income country, China continues to classify itself as a developing nation and therefore benefits from weaker market-access commitments, easier implementation timelines, and other benefits.<sup>289</sup>

India is now more wary of China than in the past. It is in some developed countries' interests to widen this gap. For instance, if the United States modifies its proposed criteria for graduating from developing-country status for the purpose of S&DT by raising the threshold for this status or allowing a special

category based on poverty levels, India might not oppose the proposal. Criteria that would allow India to get S&DT while denying such treatment to China are now more feasible as the gap between the two countries has widened. This could lead to fewer possible alliances among developing countries.

For now, India seems to be pivoting toward protectionism and fiscal support for domestic producers. The country has been reluctant to join the major plurilateral arrangements that have taken shape. However, as the consequences of these changes become clear, it is possible that India could contribute to rebuilding the WTO-led reform of trade rules by offering a new agenda that reflects today's realities and, possibly, by allowing for more agreements by breaking ranks with China.

## Multilateral Rules on Global Finance

After a major balance-of-payments crisis in the early 1990s, India undertook capital-account reforms. The focus was on attracting investment from overseas—both foreign direct investment (FDI) and portfolio investments. From negligible levels in the early 1990s, India's gross inflow of FDI rose to about 1 percent of GDP in the early 2000s, and then to above 2 percent in 2006–2007.<sup>290</sup> The level has remained at more than 2 percent of GDP for most of the years since. The country's policy regime for FDI has gradually become more open.

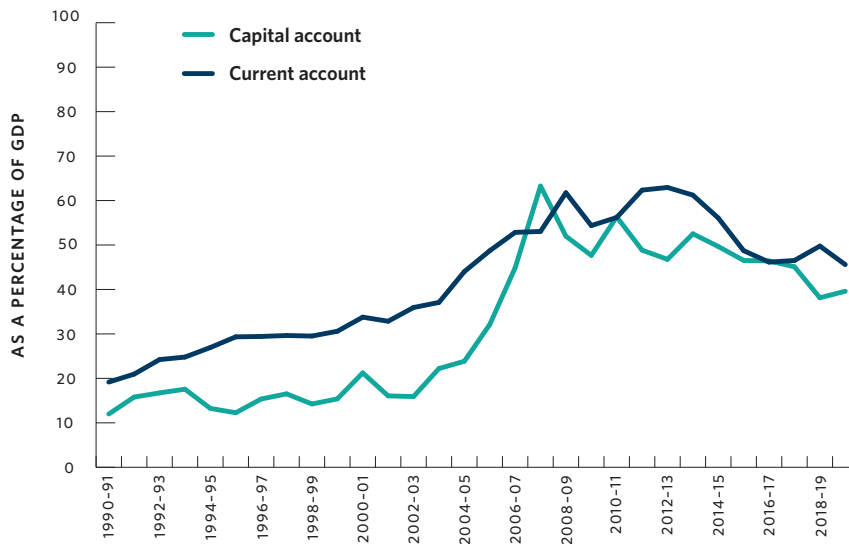
India's approach to debt flows has remained quite cautious. There is practically no sovereign borrowing in foreign currency, and external commercial borrowing by firms is regulated. As a result, outstanding external debt has remained in the same range since the late 1990s. Outward flows were liberalized, first in 1992 and then in 2004, when the limit of outbound investment by firms was raised. Outbound portfolio investments have been allowed, but with caps on the level of flows per person per year.

India's financial integration, in terms of both the country's current account and its capital account, increased substantially after the reforms in the early 1990s (see figure 2).<sup>291</sup> Capital-account integration accelerated sharply from 2003–2004 onward, as did current-account integration after 2004–2005. This acceleration reversed after the 2008 global financial crisis. India's financial integration has declined further in recent years, especially since several capital controls were put in place to arrest and reverse a sharp slide in the rupee's exchange rate in 2013. This trend broadly aligns with the reversal in trade and investments in the Indian economy.

India's approach to capital controls lacks transparency and can appear arbitrary, as the policy's objectives and evidence base are not clearly stated. A 2016 report by the International Monetary Fund (IMF) classified India as a country with “pervasive controls across all, or almost all, categories of assets.”<sup>292</sup> Indeed, India has among the most restrictive capital controls in the world. Over time, however, firms and individuals have found ways to sidestep some restrictions.

What is more, although many de jure capital controls are in place, the de facto position is somewhat different. After the economic reforms in the early 1990s, many Indian firms became multinational

**Figure 2: India's Financial Integration, 1990-2020**



Source: Centre for Monitoring Indian Economy.

corporations with a presence in multiple countries. These companies were integrating through forward and backward linkages even while India's financial integration was restricted.

India's domestic regulatory landscape has also influenced the country's policymaking stance at the international level. India has long called for reform of the IMF's governance and system of quota shares, which determine members' voting power. In 2010, the fund initiated certain reforms to give developing countries greater shares in the organization, among other aims. The United States finally ratified these changes in 2016. Yet, even though the reforms increased the quotas of India and China significantly, they are still not proportional to these countries' shares in world GDP.

After the 2008 global financial crisis, the 2009 G20 summit in London prioritized global coordination of financial regulation to promote international stability. The Financial Stability Board (FSB) was established to issue principles for regulatory systems, coordinate with member countries on the implementation of these principles, and review members' progress toward them. In the FSB's 2020 review, India scored well on the implementation of standards in banking and nonbanking regulation but poorly on derivatives regulation and a resolution regime for financial institutions.<sup>293</sup>

To a large extent, India has been a rule taker in these domains, but it has adapted the rules and implementation timelines to suit its context. The thought leadership on regulation of the global financial system and coordination among domestic regulators originated almost exclusively in Europe and the United States, but countries like India have gradually started to play a role in global policy formulation.

## Global Taxation Rules

India has played a constructive part in global tax negotiations. However, the country has not shied away from taking a unilateral position if global dialogues have not served its interests. This stance reflects India's domestic constraints on its fiscal situation.

Within the Organization for Economic Cooperation and Development (OECD), India has taken a leadership role in representing the positions of developing countries. It is a vocal member of the Group of Twenty-Four (G24) forum of developing countries in the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS)—the practice of exploiting mismatches between countries' tax systems.<sup>294</sup> In 2017, India signed the OECD-negotiated convention on tax-treaty measures to prevent BEPS, which allows governments to close gaps in international tax rules by updating bilateral tax treaties. At the same time, India recorded significant reservations about substantive provisions in the convention, for example on the arbitration of tax disputes.<sup>295</sup> In addition, India has advocated the need for a change in perspective to reflect the concerns of developing countries, especially on issues such as source-based taxation.<sup>296</sup>

The result of the OECD's effort on BEPS has been to alter and expand the agenda of international tax policymaking.<sup>297</sup> However, this expansion has not made a significant difference to lower-income countries such as India that are part of the Inclusive Framework. While large emerging economies have been able to dominate meetings of the OECD's working parties, they have not had similar successes in higher tiers of the organization's decisionmaking processes.

India has, however, driven the G24's agenda on issues relating to permanent establishment and the concept of significant economic presence (SEP) for establishing jurisdiction for digital firms. A G24 proposal in 2019 argued that businesses that interact with customers extensively in markets where they do not have a physical presence create a permanent establishment there, and that such market jurisdictions should be able to tax these firms' business income.<sup>298</sup> Yet, in the words of one expert in international tax law, the OECD "completely excised" the G24 proposal without explanation because it was "apparently not considered feasible."<sup>299</sup> This indicates that lacunae continue to exist in the OECD's decisionmaking procedures. Many members have therefore preempted the organization's decisions by adopting unilateral measures against tax avoidance that target the digital economy.

### Unilateral Steps

India started taking unilateral measures on digital taxation as early as 2016, when it became one of the first countries to impose an equalization levy on payments from Indian residents to nonresidents for online advertisements.<sup>300</sup> Similarly, India incorporated a definition of SEP into its tax laws in 2018, even while the OECD was completing its work on the taxation of the digital economy. This was followed by a second iteration of the equalization levy, which widened the scope of the measure such that "any nonresident e-commerce operator with an Indian consumer base must pay a 2 percent levy on its gross transaction value."<sup>301</sup>

India's positions on BEPS and digital taxation are based on domestic revenue considerations. The Indian government considered the 2016 equalization levy along with a range of other options for digital taxation

and chose the levy because it avoided the need to amend many tax treaties.<sup>302</sup> Likewise, in 2020, a government committee proposed revising the rules on attributing profit to companies with permanent establishment. In its report, the committee criticized the OECD model, which seeks to attribute profits to a firm's country of permanent establishment on the basis of functions, assets, and risks, because it did not include demand-side factors, such as consumer demand in the market.<sup>303</sup>

India's unilateralism has been driven by both the needs of a developing economy trying to maintain a high rate of economic growth and the country's unique fiscal situation of running significant primary deficits. To reduce this vulnerability, India is trying two approaches. The first is to increase the country's tax base by finding new sources of revenue. The second is to raise revenue collections by encouraging growth and making tax compliance easier.

India's move to impose an equalization levy and willingness to take independent steps on BEPS represent efforts to fulfill the first goal of identifying new sources of revenue to meet major revenue shortfalls. On the second goal, India has significantly reduced its corporate tax rate to 22 percent, lowered minimum alternate tax rates, provided income tax exemptions for certain individuals, taken steps to reduce tax-related harassment, and sought to make the government's revenue department less litigious.<sup>304</sup> Yet, many of the constraints facing the Indian economy are likely to be exacerbated by the coronavirus-induced economic shock.

India's negotiating attitude and willingness to adopt unilateral steps highlight problems with the structure of the OECD Inclusive Framework for negotiating a new taxation model for BEPS. From India's perspective, existing processes and substantive proposals fail to reflect the constraints faced by countries such as India. While the creation of the Inclusive Framework was an important step in expanding discussion of the tax policy agenda, the institutional forum perhaps does not go far enough toward solving procedural issues in tax policy negotiations.<sup>305</sup>

## Global Data Policy and Governance

India has moved rapidly in the past decade to build a digital infrastructure and create a legal framework for data. India's digitization reached an inflection point in the early 2010s with the launch of its unique identification system, which verifies the digital identity of every resident Indian, and the rapid growth of the internet, spurred by private telecommunications companies. These developments helped create a rapidly digitizing economy that boasts the cheapest telecommunications rates in the world. Internet penetration is still growing even as Indians consume the most data per capita of any nation.<sup>306</sup>

In 2020, India recorded its highest annual level of FDI, 40 percent of which was in the technology sector.<sup>307</sup> India has one of the world's fastest-growing fintech markets, is poised to become Asia's second-largest data-center market, and is attracting unprecedented investments in e-commerce.<sup>308</sup>

***India has one of the world's fastest-growing fintech markets and is attracting unprecedented investments in e-commerce.***



The consequent realization that India has an important voice in the global dialogue on data regulation affects the state's perspective and the way it should seek to carve out space to exercise its sovereign prerogatives.

In the second half of the 2010s, the Indian government was quick to develop a regulatory system for the digital market. The Indian parliament is considering a new data protection law, and the government has published a draft e-commerce policy that proposes a level playing field for domestic and foreign firms and stringent regulation of existing e-commerce firms. A committee is examining proposals to regulate nonpersonal data. India has implemented data localization requirements in some sectors, and the 2019 Personal Data Protection Bill proposes to extend this requirement to the whole economy.

### **Asserting India's Digital Sovereignty**

All these steps mark an assertion of India's sovereign power in the digital space and an end to the laissez-faire growth of the internet in the country. This assertion has three distinct motivations. The first is to ensure that the economic benefits of digitization and internet growth are retained within India's jurisdiction. The government has outlined an agenda to create \$1 trillion in economic value from the digital economy by 2025.<sup>309</sup> This goal underlies the proposals on e-commerce, data localization, and the regulation of nonpersonal data as well as the steps on digital taxation. The government is increasingly expecting foreign-based internet firms to undertake more value addition and pay more taxes in India. This objective also coincides with an emphasis on national champions—domestic firms that take market shares away from foreign companies.

The second motivation is to enable India to harmonize its regulatory framework with those of other leading data markets to the greatest extent possible. The similarities between India's proposed data protection legislation and the European Union's General Data Protection Regulation (GDPR) point to this aim. India is also a leading exporter of digital services to developed economies. The emergence of new regulations in other jurisdictions, such as the GDPR, has compelled India's digital industry to meet requirements to ensure adequate levels of data privacy.

Third, the Indian state seeks to entrench its autonomy and discretionary power to suit its economic, national security, and foreign policy prerogatives within the frameworks of digital regulation. For example, the proposals on data localization point as much to a desire to control data flows as to the state's freedom to make future decisions on the nature of those flows. Similarly, the proposals to regulate e-commerce and nonpersonal data grant regulatory power to government agencies to make substantive decisions on the nature of such regulation in the future.

One impulse behind this discretionary power is strategic. The Indian government has used its powers to deny market access and inflict costs on adversaries. After a 2020 border crisis with China, the government banned certain Chinese apps. As the state receives more powers over the flow, storage, and processing of data, it may use them for more such purposes.

An area in which the state's power has been particularly noticeable is the regulation of social media platforms in the context of law enforcement challenges. While India's domestic legislation has accorded

the Indian state sufficient power to impose stringent regulations on social media companies, the state has occasionally threatened such regulation in exchange for voluntary compliance. However, this approach changed in the wake of incidents of arson and violence that took place in January 2021 as an escalation of protests by some farmers against proposed agricultural reforms.<sup>310</sup> Blaming social media companies for refusing to cooperate to prevent the dissemination of inflammatory content, the government imposed the most significant changes to social media regulation in a decade.

India's positions on data regulation in international forums and its calls for the respect of data sovereignty reflect a desire to put in place a domestic regulatory framework that allows the Indian state to navigate the digital economy to its advantage. Likewise, India refused to agree to the concept of Data Free Flow With Trust, launched at the 2019 G20 summit in Osaka. The government stated that the concept was not well understood and that developing countries needed to preserve space for policymaking in the digital economy, given the digital divide between them and developed countries.<sup>311</sup>

While some of India's policy measures are indeed unilateral, the substance of the country's approach should be seen as an attempt to build domestic regulatory capabilities while preserving autonomy for these efforts at the international level. As multilateral and plurilateral arrangements emerge for the regulation of data, India is ready to play a role based on its own interests. These interests are defined by various regulatory frameworks at different stages of development.

Going forward, India's stance toward international data flows will likely be affected by several currently unresolved issues. It remains to be seen to what extent India's interests are consistent with the free flow of data across borders—and where Indian interests may not align with such data flows. It is also unclear what outcomes will arise from emerging frameworks. For instance, the economic costs of taxation and other regulation will not be known for some time. Finally, it is not clear how political elites and civil society will respond to efforts to regulate systems of storing, transferring, and processing data. It is possible that some interventions may face political and social resistance.

## The Climate Change Agenda

In the initial years of climate diplomacy, India saw climate change as a diplomatic problem rather than a developmental one.<sup>312</sup> For the best part of two decades, starting in the 1990s, this view led to a focus on preparing for climate negotiations based on equity in climate governance outcomes.<sup>313</sup> India secured the support of developing countries for its basic international positions on climate change. As summarized by Sandeep Sengupta of the International Union for Conservation of Nature, these positions were that,

first, the primary responsibility for reducing greenhouse gas (GHG) emissions . . . rested with the developed world. . . . Second, the emissions of developing countries were still very low and needed to grow to meet their future development. . . . Third, any formal agreement on climate change needed to provide for technology transfer and funds for developing countries.<sup>314</sup>

These positions led to the idea of common but differentiated responsibilities, which formed the basis of international negotiations on the 1992 United Nations Framework Convention on Climate Change and the 1997 Kyoto Protocol. The concept faced significant pushback from developed countries, which advocated a less differentiated pledge-and-review system. The 2015 Paris Agreement on climate change marked an end to the common but differentiated approach for which India had vociferously argued.

***This shift toward a domestic climate change policy is due to India's realization of its vulnerabilities to a changing climate.***

At the same time, India's domestic political views on climate change were also evolving. In the second half of the 2000s, India articulated a per-capita-plus approach to signal its willingness to go beyond its traditional stance on the responsibility for reducing greenhouse gas emissions.<sup>315</sup> Under this approach,

specific targets could be assigned through domestic legislation or executive action to key sectors of a country's economy.<sup>316</sup> At the 2009 United Nations Climate Change Conference in Copenhagen (COP15), India offered a pledge to reduce its emissions intensity by 25 percent from 2005 levels by 2020.<sup>317</sup> At the 2015 conference in Paris (COP21), India agreed to further reduce its emissions intensity by 33–35 percent by 2030, again from 2005 levels.<sup>318</sup>

India is one of the few countries on course to meet its stated targets. According to a 2021 report by India's environment ministry, "India's climate action is widely acknowledged by independent, international assessments to be among the few that are compatible with the well below 2° Celsius warming target of the Paris Agreement."<sup>319</sup>

Part of this shift toward a domestic climate change policy is due to India's realization of its vulnerabilities to a changing climate. Official documents now highlight India's susceptibility to climate change, and climate science plays a bigger role in international negotiations than in the past.<sup>320</sup> Another reason for the shift is the evolving nature of international attitudes toward climate change responsibilities. Developed countries have sought to place the onus for reducing emissions more aggressively on large emerging economies, increasing India's difficulty in maintaining a developing-country coalition that supports its position.<sup>321</sup>

This trend has been complemented by serious attempts by the Indian government to adopt more climate-friendly development policies. India's energy intensity continues to reduce in line with its climate change targets.<sup>322</sup> Forest cover in the country has increased, and the growth of renewable energy is outpacing that of nonrenewable energy.<sup>323</sup>

At the same time, India continues to adopt a tough position in climate negotiations. One of the country's major areas of focus has been the lack of financing from developed countries for climate mitigation and adaptation. For example, in a 2019 report, the Indian government argued that in contrast to its significant needs, global finance flows to India were miniscule.<sup>324</sup> The government explicitly tied its ability to meet its obligations under the Paris Agreement to climate financing by stating that India's planned reductions hinged on the availability of international finance.

India has also raised issues with the skewed nature of climate finance flows, pointing out that while developing countries need funds that focus on adaptation, the bulk of climate finance continues to concentrate on mitigation activities.<sup>325</sup> In a similar vein, the Indian government's 2019 report went on to argue that the idea of net-zero emissions is a desirable global goal, but that the responsibility for reaching the aim by 2050 lies mainly with developed countries.

## India's Outlook on Globalization

In the 1990s and 2000s, India integrated rapidly with the world economy through trade, finance, and data flows. It was a time when the country's economic, political, and strategic stature rose considerably on the basis of a dynamic and rapidly growing economy. Since the early 2010s, however, trade and financial integration have slowed. More recently, the Indian government has proposed steps to limit the free flow of data as well. India has also moved to tax foreign firms that do business in India, sometimes taking unilateral action.

At the same time, India has increased cooperation when it comes to climate action, albeit with assertiveness on the issue of climate finance. However, unless India's economic capabilities begin to grow rapidly again, its action on climate change may not yield much improvement in the country's standing in the world.

As India's experience with globalization has become less comfortable, its stance toward globalism has also changed. India has become more skeptical of foreign firms in many sectors, not only for tax reasons, but also—as seen in the digital realm—for reasons of national interest. India is in the process of implementing and testing a variety of policy changes in these domains. The outcomes of these experiments may lead to different policy frameworks, but much will depend on the intentions and interpretations of those in power.



# Russia: Looking for Prominence in the Global System

DMITRI TRENIN

The nature of globalization is changing primarily as a result of the shift of the global center of gravity away from the West and toward Asia. Globalization as, essentially, Westernization is coming to an end. In its place, other economic and political systems and cultural patterns are coming to the fore. Global capitalism is no longer Western capitalism writ large but a more diverse, global phenomenon. Russian officials criticize the ideology behind globalization—that real power is concentrated in the hands of transnational companies, predominantly with U.S. roots, at the expense of national governments. The Kremlin sees globalization in the form of unification on the basis of Western standards as a threat to national identities and Indigenous cultures.

What the world is witnessing now is not deglobalization but a new stage in the globalization process, with more players joining. Globalization is being reformed as the number of active participants proliferates. Each new major player comes with its own interests, ideas, and patterns of behavior. The result is more diversity in the world. There will be no going back to a Western-led process. Instead, the world will see the rise of a more interactive culture of striking a balance of multiple interests in the name of universal public good.

For Russian foreign policy, this transition is a chance for the emergence of a less Western-dominated, more multipolar world. The Russian expert community and wider public largely welcome this seminal trend. From Moscow's perspective, while globalization is a generally positive phenomenon, it should not be tantamount to the Westernization of the entire world.<sup>326</sup> After the unprecedented dominance of one hegemonic power whose values, norms, principles, and interests mostly drove globalization, the next stage should be a more inclusive process that involves many non-Western powers. The new set of universally recognized values and norms should be developed jointly by several leading powers from all over the world, including Russia.

To achieve this goal, Russia collaborates with non-Western powers such as Brazil, India, China, and South Africa bilaterally and within the BRICS context; with several members of the Shanghai Cooperation Organization; with other non-Western groups, such as the Association of Southeast Asian Nations and the African Union; and with individual countries from its post-Soviet neighbors to regional powers, such as Egypt, Iran, Saudi Arabia, and Turkey.

## Reforming International Trade

Russia joined the World Trade Organization (WTO) in 2012 after exceptionally lengthy negotiations. WTO membership has not, however, significantly affected the Russian economy. Russia's main exports are hydrocarbons, metals, chemicals, agricultural products, arms, and military equipment. This structure makes the country less dependent on the rules and norms that govern global trade because those rules do not apply to commodities, which still form the bulk of Russia's foreign trade, as they do to manufactured products.

Russia's official position on the international trading order is closely linked to the prevailing Russian view of global geoeconomics, which, in turn, is aligned with the country's stance on geopolitics. Moscow's principal complaints are about the many restrictions that continue to be imposed on Russia by the United States and many of its allies with the aim of changing the Kremlin's foreign and domestic policies.<sup>327</sup>

With regard to the future of the global trading order, the Russian view is that regional economic blocs are the building blocks. The European Union (EU) is a great example and a model, although Russia will not emulate it all the way. Regional trade agreements (RTAs) are more responsive to the needs of modern trade than WTO agreements, which require more time to conclude. RTAs are also ahead of WTO agreements on other issues, including investment rights, environmental standards, and protection

of workers. Some regional accords, for instance the Chile–New Zealand–Singapore Digital Economy Partnership Agreement, already cover e-commerce and intellectual property.

Russian experts point out that the agendas of RTAs often diverge from the more universal agenda set by the WTO. Yet, membership in regional agreements allows participating countries to more effectively lobby their interests in the WTO framework

because they can rely on the support of fellow RTA members. However, Russia and its partner countries in the Eurasian Economic Union are less involved in RTAs than other nations. The agreements concluded by Russia are less important than most other RTAs in terms of their share of the global market and the scope and depth of their commitments.

New global trading standards will have to emerge amid ruthless competition and dialogue among the key regional players: North America, the EU, China, India, and others. Even relatively small economic

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players, like the Eurasian Economic Union, will seek to play some role in the creation of new international norms. More importantly, future global standards will not be Western standards accepted by or imposed on the rest of the world.

## Complaints and Criticisms

On reform of the international trading system, complaints about unfair trade are mostly raised by developing countries that are used to benefiting from special treatment under various differentiated regimes. Sometimes, developing nations complain that developed countries are asking for overly beneficial conditions given their level of development. Russia is somewhere between these two positions. Despite being able to claim a developing-country status on the basis of several international qualifications, status-conscious Russia joined the WTO as a developed country. Russia's problem is that it acceded to the organization late and assumed several obligations that countries that had joined earlier never undertook. Here lie the roots of what Russians regard as unfair trade practices.

Another area of criticism relates to the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights. Specifically, the agreement's article 66.2 regulates the transfer of technology and obliges developed countries to provide incentives for such transfers. Least developed countries, in particular, wanted this requirement to be made more effective. Meanwhile, some countries, like China, are involved in forced technology transfers. These can happen under the pretext of national security interests, for instance if software companies are forced to reveal their source codes. Russia's position is ambivalent: on the one hand, Moscow is also known to engage in forced technology transfers; on the other hand, Russia is an exporter of high-technology products, including software, and its companies are exposed to such demands in other markets.

Russia has joined U.S.-led criticism of the WTO's dispute settlement provisions. This criticism has essentially focused on claims that the WTO's Appellate Body (AB) interprets provisions of agreements too loosely, abuses its authority, and delivers advisory rulings on noncore issues. The AB ignores the set appeal period of ninety days; there are too many appeals; the arbiters are overwhelmed by their workload; and the body does not honor stated norms. Russia believes that measures are necessary to ensure that all stages of the arbitration process and the AB function properly.<sup>328</sup> Moscow has also proposed that arbiters should examine claims methodically and that the requirements on their work should be stricter.<sup>329</sup> An EU-led interim arbitration system, which includes over twenty countries, merits discussion in Russia's view, but Moscow would prefer all arbitration to be handled on a multilateral basis.<sup>330</sup>

## Governance of Technology and Data

Different developing countries have different priorities when it comes to data governance. The more ambitious governments—usually authoritarian or semiauthoritarian ones with distinct nationalist agendas—seek to engage in data governance in their own jurisdictions to strengthen internal control and protect their publics from malign influences from abroad. Other developing countries essentially follow current Western trends, with few means at their disposal to change the situation.



In Russia, data governance issues have been marked by the government's pursuit of more control over information flows and the Kremlin's push for digital sovereignty. While these ambitions are not unique to Russia and have been observed in many other regions, the situation in Russia is complicated by the ongoing confrontation with the United States. This has resulted in near-total distrust of multinational tech companies by the Russian security apparatus, which clearly dominates the other parts of the Russian government. The Kremlin's ultimate aim is to be able to take down all information from the internet or digital platforms that it deems dangerous for internal stability and national security while allowing the digital economy to serve as an economic engine. When Russia faces a choice between these two contradictory goals, security always trumps the economy.

Russia has put forward various initiatives on internet governance since 2005. The country's most successful move so far has been the introduction of internet domains in Cyrillic. However, Western countries have rejected Russian proposals to change the structure of web governance to ensure equal participation of the international community in the process. Moscow sees the internet as a political resource and seeks to make it less dependent on the U.S. government. Looking ahead, Russia foresees further segmentation of the internet.

On the global scene, Russia works closely with China to promote a more inclusive, non-Western model of internet governance. Moscow and Beijing have come up with joint proposals that diverge in key points from the ideas supported by the United States and its European and other allies.<sup>331</sup> Essentially, the Russian-Chinese proposals provide for more national oversight in cyberspace. In recent years, this trend has been strengthening, as demonstrated by Russia's domestic policies on data governance and data localization.

### **Internet Laws and Control of Social Media**

Russia amended its data governance rules in 2019 with the adoption of a package of laws on the so-called sovereign internet.<sup>332</sup> The legislation ostensibly sought to ensure the continued operation of the Russian segment of the internet if it ever becomes disconnected from the global network. To this end, the Russian authorities created a register of traffic exchange points between Russian and global networks. By law, all traffic now passes only through these points.

Moreover, the laws on the sovereign internet allow for the use of new technologies to block sites and accounts, and the legislation appears to have significantly increased the Russian government's technical abilities. The laws required all internet operators to install special equipment using deep packet inspection (DPI) technology, which allows Roskomnadzor—the Russian federal agency responsible for regulating Russian media—to analyze all passing traffic, allocate specific packages, and slow down or block internet protocol addresses. In 2020, more than 80 percent of telecommunications operators in Russia were equipped with DPI technology, and Roskomnadzor deployed the technology in March 2021 to throttle Twitter traffic.<sup>333</sup>

A key component of Russia's data governance regime consists of rules related to data localization. In July 2014, President Vladimir Putin signed a data localization law, the implementation of which has become

the top priority for Russian regulators.<sup>334</sup> Under the law, since September 1, 2015, all personal data of Russian nationals must be stored and processed in data centers that are physically located in Russia. However, the implementation process differs from one company to another, and most foreign players have not followed the letter of the law—although this has not yet resulted in any penalties. In 2015–2017, a tactic that helped many global players to mitigate the challenges presented by the law was to maintain dialogue with Roskomnadzor while stating that they were taking the regulator’s concerns seriously and looking at ways to address them. Initially, the major problem for international firms was cost, not politics.

A company’s failure to communicate with Roskomnadzor would result in the blockage of its service, as exemplified by LinkedIn, which was blocked in Russia in November 2016. Firms that did maintain regular channels of communication managed to postpone the implementation of the data localization law. However, Roskomnadzor’s push for compliance has been increasing since the 2018 Russian presidential election. Many companies have since found technical means to meet minimal government criteria for storing data locally, including through various cloud solutions.

In 2019–2020, the Russian government adopted a policy of pressuring foreign companies through increased fines to store data in Russia.<sup>335</sup> The enforcement problem that the Russian government has with the data localization law is that some global companies, like Twitter, have no offices or staff in Russia, so there is no effective way to collect fines. Thus, Roskomnadzor is increasingly using its newly acquired technical capabilities to constrict traffic to certain foreign platforms—or ban them completely, as in the case of LinkedIn.

Toward the end of 2020, the Russian government began a campaign against Western social media companies for blocking access to Kremlin propaganda outlets. Russia quickly adopted legislation to protect the country’s media and bloggers from such alleged discrimination. The Russian authorities gained the ability to restrict access to platforms that the Prosecutor General’s Office considers to be in violation of the rights and freedoms of Russian media and individuals.<sup>336</sup>

After the January 2021 arrest of anticorruption campaigner Alexei Navalny and ensuing street demonstrations across Russia, the government tried to choke foreign social media platforms by claiming that they had spread information that encouraged illegal activity by minors. In March 2021, Roskomnadzor sought to fine Meta (formerly Facebook), Google, Telegram, TikTok, and Twitter for their refusal to remove information about the protests.<sup>337</sup>

Soon afterward, the Russian authorities launched a targeted offensive against Twitter for its failure to remove content about suicide, child sexual exploitation, and drug abuse.<sup>338</sup> Roskomnadzor threatened to block the social network entirely within thirty days if it did not delete the material and demonstrate a more cooperative attitude toward takedown requests from the Russian authorities.<sup>339</sup> While the authorities presented their moves as aimed at protecting children and the general public, such requests routinely include material generated by Russian political opposition groups and other avowed foes of the Russian government.

The throttling of Twitter provided the Russian authorities with a test case for the use of DPI technology to improve state control over the internet. Several unrelated sites were knocked offline on the day the

## ***Russia argues that in a globalized world, national governments cannot afford to leave internet governance to the tech majors and need to exercise more oversight.***

offensive was launched, creating embarrassment for Roskomnadzor. The necessary technical adjustments were quickly implemented, and between March and May 2021, Twitter users in Russia experienced reduced speeds for downloads of posts containing photos and videos.<sup>340</sup>

Roskomnadzor and prominent Russian government officials make no secret about their desire to use Twitter as an illustration of what awaits other firms that do not comply with their requests. Given the social network's relatively small user base in Russia, the Kremlin clearly thinks it has a free hand to operate without risking a wide public backlash. The government has so far acted with greater restraint against certain platforms, such as YouTube, that lack popular Russia-based equivalents.

Essentially, the Russian government's position has hardened significantly to make U.S.-based transnational tech giants obey Russian laws and regulations. In the information age, this is a critical element of national sovereignty. The fact that the U.S. Congress has criticized and scrutinized some tech companies, such as Facebook, has strengthened the Russian argument that in a globalized world, national governments cannot afford to leave internet governance to the tech majors and need to exercise more oversight.

### **Regulating Foreign Tech Companies**

As the Russian authorities pursue further moves to regulate foreign social networks and tech companies, they appear to be looking to Turkish internet legislation as a model. The regulation of social networks in Turkey also requires the storage of all customer data on servers in the country and the removal of any content the authorities deem offensive or defamatory. In July 2020, the Turkish parliament passed legislation that obliged all social networks with more than 1 million active users per day to open an official representative office in Turkey, and many companies have chosen to comply.<sup>341</sup>

The Russian parliament adopted a law in 2021 imposing taxes on foreign tech companies. The legislation requires such firms with over 500,000 users to register subsidiaries or representative offices in Russia and pay taxes there. There is widespread support for the law among the Russian tech community, whose members claim that they pay value-added tax and other taxes while foreigners continue to make a lot of money in Russia and pay nothing.<sup>342</sup> It is unclear, however, whether the Russian government will be as successful as Turkey's in persuading foreign companies to comply with this new legislation.

### **Financial Governance**

Russia joined the International Monetary Fund (IMF) in 1992 as a borrower but soon became a creditor. A key issue in Russia's relations with the fund has been a redistribution of the quotas on which members' voting rights are based. The need for this redistribution comes from the changing balance in the global economy and the rise in developing countries' share in global gross domestic product (GDP), which increased from 36.1 percent in 1990 to 58.1 percent in 2016.<sup>343</sup> Yet, Group of Seven (G7) countries still make the major

decisions, and the impact of the emerging economies is small. Developed countries also increasingly ask the IMF for financial assistance, while emerging economies contribute to the global financial recovery.

Russia, along with other BRICS members, sees reform of the international financial architecture as a priority. All of the BRICS countries except South Africa are among the ten IMF members with the greatest quota shares, and their combined quota share has risen from 11.5 percent in 2008 to 14.7 percent in 2016—still short of the 15 percent needed to block decisions on major issues.<sup>344</sup> If the BRICS countries manage to get support from several other members, they could exert a considerable impact on the IMF's decisions. However, the fund's members are still debating the quota formula.

Russia is a member of the New Development Bank (NDB), which was developed by the BRICS countries. Moscow sees the bank as a complement to the Bretton Woods international financial institutions and a means to focus on infrastructure and sustainable development projects. As Russia is going through a process of de-dollarization, it promotes the use of national currencies in international trade. Thus, it supports the NDB in using national currencies in lending to developing countries.

After joining the World Bank Group in 1992, Russia soon became a partner and now participates in various regional World Bank initiatives. Russia promotes reform of the bank with the aims of creating a more democratic governance structure, widening the bank's financial possibilities, and reviewing its share capital. Increasing the World Bank's capital has been one of the thornier issues. Russia supports developing countries that demand additional capitalization to increase the volume of credits. Moscow understands developing countries' complaint about the deficit of financial resources allocated to infrastructure projects. From Russia's own perspective, a major problem in its interaction with the World Bank has been anti-Russian sanctions, which have led to the suspension of the bank's activities in Russia.

For many years, Russia has promoted reform of the global system of reserve currencies. That agenda includes expansion of the basket of currencies that determine the value of the IMF's special drawing rights (SDRs)—an international reserve asset that supplements members' official reserves. Over a decade ago, Russia proposed diversifying the list of reserve currencies on the basis of a set of measures to stimulate the development of major regional financial centers. Specifically, Russia proposed including BRICS currencies in the SDR currency basket.<sup>345</sup> The IMF, however, rejected the notion of conferring the status of reserve currency onto the Russian ruble. Experts pointed to the modest scale of the ruble's emission and its inability to satisfy enormous demand.<sup>346</sup>

Since then, Western skepticism about the potential internationalization of the ruble has only grown. Russia's economy has not been doing well in the past decade, and the country's relations with the West were undermined by the 2014 Ukraine crisis. The ruble's share of global trade, which stood at 1.6 percent in 2013, had sunk to 1.1 percent by 2016.<sup>347</sup> By contrast, the IMF's 2015 decision to add the Chinese renminbi to the SDR basket resulted in the Chinese currency accounting for 10.9 percent of the basket in 2016.<sup>348</sup>

Russia is a founding member of the Financial Stability Board (FSB), which monitors and makes recommendations about the global financial system. Russia's central bank uses FSB recommendations

to improve banking regulation in the country. Moscow also uses FSB norms and standards to bring itself to the global level in various fields, such as mechanisms to regulate bank insolvency and fintech development.

With the disintegration of the Soviet Union in 1991, Russia assumed responsibility for Soviet foreign debt, which stood at more than \$100 billion.<sup>349</sup> Moscow fully repaid all of that debt in the 2000s and has since maintained a low debt-to-GDP ratio. From 1992 to 2017, Russia wrote off \$130 billion of debt owed to it, including by Cuba, Iraq, Afghanistan, Mongolia, Syria, and several other countries.<sup>350</sup> As a member of the Group of Eight (G8) from 1998 to 2014, Russia took part in joint action to restructure African countries' debt burden, but Moscow wrote off almost all of the developing countries' debt unilaterally.

According to the World Bank, Russia is currently the fifth-largest sovereign creditor of developing countries—after China, Japan, Germany, and France—and lent \$22.9 billion to thirty countries in 2019.<sup>351</sup> Moscow's principal debtors are Belarus, Bangladesh, and Venezuela. Essentially, globalization has worked to bring Russia's lending terms and practices more in line with current international models.

## Reforming Global Taxation

International tax regulation is needed for economic activity that transcends borders. This pertains to tech companies that can operate in a country's cyberspace while being physically absent from that country. International taxation is based on compromise among tax jurisdictions. Such compromise, in turn, is based on the norms of treaties on avoiding double taxation.

As tax-regulating bodies imply a partial loss of control over tax flows, Russia opposes the creation of a supranational fiscal regulator. Russia is open to cooperation, however, and the Eurasian Economic Union interacts with the International Fiscal Association, the International Tax and Investment Center, the Intra-European Organization of Tax Administrations, and other bodies.

In the mid-2010s, the Organization for Economic Cooperation and Development (OECD) raised the issue of the unfair distribution of the taxes of transnational corporations. Developing new approaches to international taxation became the number one priority of the action plan on base erosion and profit shifting—the practice of aggressive tax avoidance—led by the OECD and the Group of Twenty (G20). According to the 2023 priorities for Russia's fiscal policy, Moscow strongly supports new approaches to taxing digital companies so that tax on profits is paid in the jurisdictions where those profits are generated.<sup>352</sup>

Russia is considering imposing a new digital tax on companies that use data on Russians to shape their advertising policies in the country, such as advertising tailored to individuals. The taxes collected in this way would be directed to support Russia's tech industry.

In addition, Russia is taking steps to counter aggressive tax planning by multinational corporations and, more broadly, reduce the parts of the country's economy that are based offshore—a process known as de-

offshoring. Companies sometimes misuse agreements on double taxation to avoid paying tax altogether. Also, some multinationals use international agreements such that profit generated in the countries where they operate is declared in the countries with the lowest tax rates. The Russian government is therefore taking measures to stop the use of offshore entities to escape taxation in Russia. Moscow has introduced a rule of insufficient capitalization, which limits accounting for the interest on loan agreements and reduces exemptions under international accords in cases of cross-border financial transactions.<sup>353</sup>

## The Climate Change Agenda

In the area of climate change, Russia's policy mix cannot be categorized as that of either an advanced or a less developed country. Russia is a major global emitter: fourth in overall volume, and sixth if its vast forests are taken into account.<sup>354</sup> The Soviet Union used to have the world's second-largest carbon emissions.<sup>355</sup> Since then, Russia has halved its emissions from 3.1 billion tons of carbon dioxide equivalent in 1990 to 1.6 billion tons in 2020.<sup>356</sup> There is no risk of Russia not living up to its national commitment to reduce its greenhouse gas emissions by 70 percent relative to 1990 levels by 2030. The country will play a significant role in the future as a global exporter of hydrocarbons, and decarbonization will have a major impact on Russia.

Not being a rich country, Russia is in no hurry to dramatically cut its emissions because of the high cost that doing so would entail for the national economy. Russia is yet to recognize the need to cut emissions now to reduce future damage. The expectation still lingers that global warming will turn out to be a net positive for the country, such as by expanding agricultural activity toward the country's north and making the Northern Sea Route commercially navigable. That is despite very clear risks to the infrastructure that rests on permafrost, which covers almost two-thirds of Russia's territory. Moscow is prepared to be criticized but is unlikely to change its attitude as a result. Other states also need to recognize that Russian emissions are part of a process of producing goods that are then imported by low-emitting Western European countries. Thus, international efforts are needed to properly deal with the problem.

Indeed, there is a limit to what any one country can do on its own territory. Of key importance is to ensure a proper match between Western money and emissions-cutting projects in less developed countries. This linkage can be seen as a form of compensation for industrialized countries' historical emissions. Russia is not expected to be a large financial donor in this regard. Nevertheless, Moscow has declared its readiness to transfer a modest amount of money to the climate fund established in the framework of the 2015 Paris Agreement on climate change, with the purpose of using that money for projects in Central Asia.<sup>357</sup> From the Russian perspective, it would be fair if Western Europe were to fund projects in Russia that are aimed at lowering emissions while producing goods—such as metals, petrochemicals, and fertilizers—that are intended for the EU market.

***Russia is in no hurry to dramatically cut its emissions because of the high cost that doing so would entail for the national economy.***

## A Differentiated Approach to Adaptation

In return, adaptation should become a priority for Russia, as it is for developing countries. Moscow is likely to join the developing world in emphasizing this goal but does not expect significant international assistance to meet it. Rather, Russia should actively adapt to climate change, particularly in those parts of the country that are most affected, such as the agricultural territories of Krasnodar and Stavropol in southern Russia and the vast northern regions of Siberia that rest on permafrost.

At the end of 2019, the Russian government approved a national plan of adaptation to climate change.<sup>358</sup> However, this was only the beginning of a long process for Russia. Moscow needs to organize proper monitoring of climate developments, raise the competence of those dealing with the topic, and draw up specific adaptation plans for its many regions. There are also bureaucratic issues. Responsibility for adapting to climate change and cutting emissions is vested in the Ministry of Economic Development. However, since most emissions result from the burning of fossil fuels, the relevant technologies are the preserve of the Ministry of Energy. Other government departments should also be involved, from the Ministry of Agriculture to the Ministry of Defense, which is largely responsible for the Arctic.

The core problem is that sustainability and growth cannot be reconciled at all stages of economic development. In the long term, fostering economic growth and solving environmental problems such as emissions can go in parallel, but poorer nations at certain stages of their development cannot achieve both, particularly without external assistance. Resource-rich countries such as Russia face their own problems. To reconcile growth and ecological sustainability, Russia must completely transform its economy: not only oil and gas production but also the manufacture of metals, fertilizers, pulp and paper, and so on. The complete transformation of a national economy is a mammoth task and a hyperexpensive enterprise. Moreover, someone still has to engage in dirty production for the benefit of the global economy.

On carbon pricing, the view in Moscow is that there should be different mechanisms for different countries.<sup>359</sup> It would be a huge mistake for Russia to introduce the types of systems that operate in the EU, such as trade in quotas. Russia needs a different form of carbon pricing, for example a replacement for energy taxes. Russia has high energy taxes that are imposed exclusively on companies' excess profits. These taxes could be recalibrated on the basis of how dirty relevant production is, thus stimulating the generation of cleaner energy. Potentially, Russia can greatly raise the energy efficiency of its economy. In the same vein, Moscow should also spur the replacement of coal with natural gas. This is effectively another form of carbon pricing built into the energy system.

## Misplaced European Efforts

In general, developed countries should pay more than developing nations to address climate change. It would also make sense to encourage European companies to carry out green projects in the developing world. Emissions cuts produced in this way should then count toward European countries' commitments to emissions reductions. It is cheaper to cut emissions in Russia—not to mention China and India—than in the EU. Money would buy far more emissions cuts in the developing world than in developed countries.

Yet, the EU seeks to reduce greenhouse gas emissions on its territory to zero, which makes little sense in terms of dealing with climate change. The EU accounted for only 8 percent of global emissions in 2018, and money spent on bringing that figure to zero could be used much more efficiently to reduce emissions in other parts of the world.<sup>360</sup> It is true that reducing emissions in Europe would stimulate the European economy and support European producers, but this has little to do with climate change.

The EU's European Green Deal, a set of policy initiatives that aim to make Europe climate neutral by 2050—in conjunction with similar decarbonization plans announced by China and Japan and the policies of U.S. President Joe Biden—presents Russia with a serious challenge. The EU's introduction of a transborder carbon tax, to be imposed from 2023 on companies that export certain goods to the union, will affect Russia. Transforming the Russian economy in the short term is impossible, so Moscow will immediately try to offset the EU tax by seeking areas where its losses will be compensated, if only partly. However, in the longer term, global trends will push Russia toward structural changes in its economy that make the country less vulnerable to these trends. In the energy field, such changes would include a focus on hydrogen energy.

## Conclusion

The third decade of the twenty-first century could be a decisive period for Russia as it looks for a prominent and influential place in the global system. The multipolar world that Russians long spoke about has, in essence, arrived. The United States is still the preeminent power but no longer the hegemon. China has risen fast and high. Beijing is not merely just another center of power but a formidable challenger to Washington for global primacy. A U.S.-Chinese duopoly is already in place, and it puts Russia and several other countries in an uncomfortable position as they seek to avoid a hard bloc division of the world. Despite its confrontation with the United States and its close relationship with China, which one might call an entente, Russia does not want to become part of a Pax Sinica.

Russia not only has to deal with the two superpowers and try to maintain some sort of equilibrium, if not equidistance, between them. It also has to manage other ambitious powers, such as Turkey; pursue parallel partnerships with the two rival Asian giants, China and India; and work on a modus vivendi with its geographically closest and uniquely complex neighbor, the EU, with which relations have severely deteriorated. For Russia, finding its way in this complicated environment without losing balance will not be easy.

In terms of urgency and scale, Russia's biggest challenge will be to organize an orderly energy transition away from the post-Soviet reliance on hydrocarbons as the biggest source of revenues for the state budget. To meet this challenge, Moscow will have to bring climate- and environment-related issues to the center of its policy agenda; devise and implement a strategy of energy transition, including the transformation of the energy industry; and, last but not least, develop effective climate diplomacy to negotiate with Russia's economic partners, who are way ahead of it in terms of adapting to a carbon-free economy.



It is unlikely that Russia's confrontation with the West will significantly subside soon. The realistic objective there is to manage that confrontation well, so that it does not lead to an inadvertent collision. As Russia's U.S. adversaries will continue to largely control the global financial system, Moscow needs to develop alternatives that permit it to lower its dependence on dollar-denominated transactions. An even bigger challenge is to reduce technological dependence on the West without becoming overly reliant on Russia's big partner, China—as is the case in international finance. Russia cannot meet this challenge without a major effort that requires transitioning from a rent-based economy to one that encourages innovation.

Finally, while doing all of the above, Russia has to avoid the danger of sliding into autarky economically and a besieged fortress politically. Engagement with all other parties in the globalized system, including one's political adversaries, is a must for any player who does not want to be left behind and become irrelevant. The 2020s may well be the time for a major political transition in Russia. The outcome of that transition—and the policies adopted as a result—will probably shape Russia's place and role in the world for much of the twenty-first century.

# Africa: Aspiring to Greater Global Agency

ELIZABETH SIDIROPOULOS

Africa has been integrated into the global economy since colonial times—although at the lower end of value chains and largely as a supplier of raw materials. Africa has also mostly been a taker rather than a maker of the rules in the international system. The hyperglobalization of the last quarter century has highlighted the inherent excesses of a weakly regulated global system.

Multilateral rules are important for Africa, but the current institutions and norms reflect the views of the most powerful, who can steer outcomes to their own political and economic advantage. While developed countries often talk about the need for reform, those same countries are unwilling to cede the rules that have secured their beneficial position.

Africa's agency has grown over the last decade or so, as the institutions that the continent created in the early twenty-first century have become more effective at coordinating Africa's voice in multilateral forums. However, that voice is still marginal—a problem compounded by the fact that the continent's fifty-plus countries do not all share the same interests, making a common voice difficult to achieve or subject to the lowest common denominator.

The urgency to rewire globalization is occurring at a time of heightened geopolitical rivalries. Rewriting the rules that have underpinned globalization invariably becomes caught up in the competing positions of not only the two major powers—the United States and China—but also actors such as the European Union (EU). Reform manifests itself in norm competition and new sites of contestation. Africa must navigate this environment as it pushes for its own concerns to be heard and reflected in global norm shaping.

Globalization has brought many opportunities to African countries, but African economies have not transformed enough away from dependence on raw materials, and thus many remain on the bottom

rungs of global supply chains. This is not only the fault of the global superstructure; it also has to do with the policy choices that many African countries have made, especially in the last thirty years. But attempts over the last two decades to regulate some of the worst excesses of globalization have paid scant attention to the needs and constraints of developing countries. The rise of new challenges, such as climate change and the digital economy, and of frameworks to regulate them sharpens further the difficulties faced by African states.

## The International Trade System

African countries have long decried some of the rules of the World Trade Organization (WTO). Their primary objections relate to unresolved issues from the Doha Development Round of multilateral trade negotiations and perceived inequitable sharing of benefits from tariff liberalization under the WTO. For example, while China's 2001 accession to the organization accelerated the country's economic growth, Africa's share of global trade declined from 4.4 percent in 1970 to 2.7 percent in 2020.<sup>361</sup>

African countries remain committed to operating within the framework set by the WTO and the multilateral, rules-based trading system in general. African states' commitment to this system is evidenced by their resolve to coordinate on common positions in the WTO to give themselves greater power in negotiations.

But there are also growing calls from various African actors for the WTO to work more for the continent. Over the last decade, the African Group at the organization has become much more vocal on WTO matters. In November 2019, the African Union (AU) requested observer status at the WTO; this status would allow the union to formulate common African positions on various policies, as mandated by its member states. At the time of writing, the request was still pending.

African support for the WTO was further buoyed by the February 2021 election of the first African WTO director general, Ngozi Okonjo-Iweala—although her position as the organization's top bureaucrat requires her to seek consensus among member states rather than push for particular positions. This role has not precluded her, however, from calling attention to the plight of developing economies. For example, at the May 2021 Global Health Summit, convened by the European Commission and the Group of Twenty (G20) presidency, Okonjo-Iweala argued for greater equity in the global distribution of vaccines. This could be achieved by lowering supply chain barriers, maximizing existing production capacity, and tackling obstacles over intellectual property, access, and innovation.<sup>362</sup>

## The Doha Round, Regional Agreements, and Plurilaterals

The Doha Development Round, initiated with much fanfare in 2001, was intended to promote development in poorer countries. While the death of the Doha round was finally confirmed in 2016, the issues that came to define it have not been forgotten by the developing world, not least Africa. The Doha round's focus on development carried an aspiration that trade rules should be fashioned to achieve better developmental outcomes—lower poverty and inequality—rather than only for trade's sake.

For developing countries, the Doha work program included two important elements: agriculture and nonagricultural market access. In agriculture, the 2001 Doha Declaration called for “comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.”<sup>363</sup> In the case of nonagricultural market access, many developing countries urged the removal of tariff peaks on individual products on which the developing world was competitive, rather than measures that looked only at average tariff levels. There were also significant tariff escalations for value-added products in developing countries.

***While the Doha Development Round has died, the issues that came to define it have not been forgotten by the developing world.***

None of these issues has been effectively addressed. African economies continue to face supply-side constraints, which have made it difficult for them to convert economic growth into meaningful developmental outcomes. Nevertheless, there is a strong case that global trade rules make it hard for African economies to benefit from their comparative advantages, of which agriculture is one. With the outbreak of the coronavirus pandemic and concerns about food security, the African Group at the WTO issued a statement in June 2020 on the implications of the coronavirus, reiterating the need for reform of the organization’s 1995 Agreement on Agriculture.<sup>364</sup>

As a developmental round, Doha was also expected to enable developing countries to move up the value chains of production. Developing countries require the space to implement policies that help them compete with the industrialized North and use trade as an instrument for industrialization and structural transformation. However, import barriers and the huge escalation in tariffs for finished goods in industrialized countries make this difficult. The WTO’s framework limits the policy space especially of middle-income countries.

In 2018, Africa created the African Continental Free Trade Area (AfCFTA), which became operational on January 1, 2021. While the area is still a work in progress, as states are negotiating agreements on different sectors incrementally, the objective is to deepen trade relations among African countries by building regional value chains. The AfCFTA is an opportunity for African states to exploit continental competitive advantages to try to leapfrog into higher areas of production value chains. Following the launch of the AfCFTA, a next key objective for the area’s secretariat is to create harmonized industrial policies across African countries by focusing on major products, such as agricultural goods, pharmaceuticals, textiles, and clothing.

The emergence of plurilateral agreements as the mode to continue global trade negotiations, given the impasse in the WTO, has had a mixed response from African countries. South Africa has been a vocal proponent of the view that expanding trade negotiations through plurilaterals to new-generation issues is unacceptable while some of the old-generation issues that are of concern to developing countries remain unresolved. South Africa sees the plurilateral approach as undermining the WTO’s principle of single undertaking—the idea that virtually every item in a negotiation is part of an indivisible package and cannot be agreed on separately. Most of South Africa’s interventions in various WTO groupings point out

the need to avoid mission creep at the cost of developing countries, the importance of the organization's consensual decisionmaking, and the need for greater equity to make it easier for African countries to participate.<sup>365</sup>

The African Group at the WTO has echoed South Africa's position, stating that "the challenges facing the WTO will not be addressed if plurilateral work is prioritized over multilateral processes."<sup>366</sup> However, this is not a consensus among African countries, some of which participate in the organization's joint initiatives on e-commerce; investment facilitation for development; domestic regulation; and micro, small, and medium-sized enterprises.

### Special and Differential Treatment

The principle of special and differential treatment (S&DT), which gives the developing world particular rights, is a central element of WTO rules for developing countries. The African Group at the organization has repeatedly reaffirmed this aspect in its communications, arguing that S&DT "shall be an integral part of all WTO agreements" to "enable developing countries, in particular [least developed countries] in Africa, to effectively address their development needs in line with Africa's industrial development priorities."<sup>367</sup>

In its June 2020 statement on the implications of the pandemic, the African Group was unequivocal that "a clear articulation of special and differential treatment across various WTO agreements has to remain an integral part of trade agreements and negotiations." The statement went further, arguing that S&DT provisions should be strengthened in areas that are critical to promoting public health, accelerating industrialization, modernizing manufacturing, promoting technology transfer, and closing the digital divide.<sup>368</sup>

### Intellectual Property Rights

The international rules governing intellectual property have been framed to protect companies' investment in research and development. However, intellectual property rights as they are currently designed place developing countries at a constant disadvantage, especially in areas such as public health.

A long-held core objection of African countries is the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Since the outbreak of the coronavirus pandemic and the subsequent development of vaccines to combat the virus, renewed objections to TRIPS have emerged. South Africa and India petitioned the WTO in October 2020 to temporarily waive all patents, trade secrets, industrial designs, and copyrights on coronavirus-related drugs, vaccines, diagnostics, and other

***Intellectual property rights as they are currently designed place developing countries at a constant disadvantage, especially in areas such as public health.***

medical technologies during the pandemic. South Africa and India argued that this was necessary to ensure that all countries could gain affordable access to critical medical supplies. The two nations maintained that the provisions of TRIPS should not be a barrier to sharing technology royalty free to produce the vaccines, medicines, and medical equipment needed to address the pandemic.<sup>369</sup>

South Africa and India's rationale for proposing the waiver at the WTO was that other mechanisms available under TRIPS were not appropriate. Compulsory licensing would be far too onerous and requires a case-by-case approach. Making use of the flexibilities provided by TRIPS usually engenders much pushback from developed countries, such as the U.S. Special 301 Report, a congressionally mandated annual review of the global state of intellectual property. The South African–Indian proposal was aimed at enabling the building of local production capacity for pharmaceuticals in developing countries.

Another TRIPS-related concern of many African states, which are also least developed countries (LDCs), is article 66.1 of the TRIPS agreement. This initially accorded LDCs a ten-year transition period, which could be extended on request. There have been two extensions since the initial period expired in 2005. In October 2020, the LDC Group at the WTO submitted a request to the TRIPS Council for a further extension of the transition period. The request is for the period to be available to countries until twelve years after they graduate from LDC status.<sup>370</sup>

### The WTO Dispute Settlement Mechanism

Overall, the WTO's dispute settlement mechanism (DSM) has not been useful for African countries because the mechanism's structure is not suited to complaints brought by smaller nations. The DSM's enforcement regime is based on the principle that retaliation rights have to be equivalent to the damage caused. Since a small country's imports from a larger defendant may constitute only a minor share of that defendant's total exports, it is very difficult to make the defendant comply with the mechanism's rulings.

Indeed, African states have been involved in the DSM only as third parties. Their noninvolvement as principal parties is problematic not only because the structure works against them but also because their absence means that they are not involved in the development of jurisprudence and of obligations and interpretations that can support developmental aims.

The African Group at the WTO has been active in the impasse over the organization's Appellate Body (AB). In a June 2019 communication, the group said that it did not support a position that linked reform of the DSM with the broader WTO reform agenda, and that proposals should seek to make it easier for African countries to participate in the dispute settlement system.<sup>371</sup>

In addition, the group made several recommendations regarding the transitional rules for outgoing AB members, the body's terms of office, and the duration of cases. The group proposed that the number of AB members be increased from seven to nine and that the body's composition take into account elements such as regional balance, gender representation, and multilingualism. It also objected to obiter dicta—opinions expressed by judges that are not essential to a decision and therefore not legally binding—as these may affect the rights and obligations of member states. The group stated that “under no circumstance should [the AB] pronounce on issues not raised by any parties to the dispute.”<sup>372</sup>

The existence of a DSM that is not accessible for the WTO's smaller members undermines the mechanism's legitimacy, because it highlights the inequity of a system in which only some have recourse to justice—and those tend to be the more powerful members. As with domestic judicial systems, it is essential that an international DSM is available not only to the bigger players, thus denying justice to the rest.

## Global Governance of Data and Technology

Africa is a victim of the digital divide—the uneven access to, and distribution of, the internet and the digital economy. According to the GSM Association, 45 percent of the population of sub-Saharan Africa subscribed to mobile services in 2019. However, only 26 percent of the region's population had access to a smartphone.<sup>373</sup>

The continent does not compare favorably with the rest of the world in terms of internet penetration. According to the International Telecommunication Union, 29 percent of Africans use the internet, against 51 percent globally.<sup>374</sup> Although fifth-generation (5G) networks were introduced on the continent in 2020, they are currently available only in South Africa and Kenya. Where the internet is available, it is out of reach for many. In 2021, the Alliance for Affordable Internet reported that of the forty-five African countries it tracks, only fourteen met its standard for “affordable Internet.”<sup>375</sup> Africans' lack of connectivity will prevent them from acquiring skills such as digital literacy at a young age and decrease their competitiveness in modern industries.

To address Africa's funding gap in information and communication technology (ICT), as much as \$3 billion a year is needed. Notably, of the \$7.1 billion committed to ICT investments in 2018, well over half—\$4.8 billion—originated in the private sector. National allocations amounted to \$1.1 billion, almost half of which was invested by China.<sup>376</sup> Indeed, China has become an important player in the provision of ICT infrastructure to Africa. Beijing has integrated this role into its Belt and Road Initiative under the heading of the Digital Silk Road. The coronavirus pandemic has accelerated Africa's interest in this initiative, and firms such as Huawei have a growing presence in most African countries. Chinese products and services are competitively priced and have contributed to African ICT solutions; for example, the M-Pesa money transfer system runs on Huawei platforms.

Without significant African companies operating globally in this sphere and without a focus on the infrastructure to take advantage of technology and digitization, African countries have largely concentrated on their domestic contexts. Nevertheless, as the big technology powers begin to tussle in the realm of data governance, Africa is a very attractive partner for the adoption of norms, infrastructure hardware, and access to related markets.

### African Governance Frameworks

The AU adopted its Convention on Cyber Security and Personal Data Protection in 2014. The convention imposed obligations on signatories to establish measures to promote cybersecurity governance and control cyber crime, guiding states toward establishing their own cybersecurity and data protection laws.<sup>377</sup> However, as of June 2020, only eight countries had ratified the convention and another fourteen had signed it, out of fifty-five AU member states. For the agreement to come into force, fifteen states are required to ratify it. The necessary political will to implement the convention is lacking in most African countries.

At the national level, the United Nations Conference on Trade and Development (UNCTAD) lists twenty-eight African countries that have legislation on data protection and privacy, and a further

nine that have draft legislation.<sup>378</sup> However, although legal frameworks may exist, they are not always appropriate in scope and relevance, while enforcement mechanisms are weak.<sup>379</sup> Some laws are used to stifle political dissent rather than protect citizens. Furthermore, policymakers rarely have expertise in the digital economy, resulting in cyber laws that are poorly worded and unfeasible in practice.<sup>380</sup>

The EU's General Data Protection Regulation (GDPR), which came into force in 2018, has been an important norm driver in this space. In many instances, African countries' data protection laws do contain provisions that reflect the major principles and data subject rights covered by the GDPR. However, such laws are not as comprehensive as the European regulation and often exclude the right to data portability and accountability measures.<sup>381</sup>

Africa risks being left behind in both globalization and digitization unless it prioritizes investment in ICT. The continent's significant infrastructure gap and capacity constraints mean that in the broader geopolitical battle among the United States, the EU, and China, Africa may be seen as a useful ally to be recruited by any side to advance its norms in this space. In the meantime, global rules on digital sovereignty, data privacy, cyber crime, and internet freedoms are likely to remain fragmented due to fundamental disagreements between the United States and China—and others, including the EU and Russia. African countries need to adopt a rational, long-term view of this battleground and collaborate with different actors when it makes economic sense to do so but be wary of siding with any one camp.

## The Global Financial System

Africa's limited voice in the Bretton Woods institutions is well noted. In addition, many global financial regulations are made by international bodies in which most African states are not represented because their financial institutions are not systemically important, even though the rules made have an impact on their operations.

The global financial system needs to be able to deliver in the following areas for Africa: financial inclusion, access to development finance to meet infrastructure requirements, a global financial safety net, an international framework for sovereign debt restructuring, and macroprudential regulations that do not unintentionally disadvantage Africans. To make progress on these issues, Africa not only needs a place at the table; it also needs to build influence and support for its positions—not an easy task in the current contested geopolitical environment.

## The Bretton Woods Institutions

States with major decisionmaking power in the Bretton Woods institutions have dictated these bodies' lending and macroeconomic policies and conditionalities. This has translated into loans tied to policy prescriptions that promote deregulation, privatization, and fiscal austerity, among others. Such policies are not always best suited to the development needs of client states, mostly middle- and low-income countries. This approach also disproportionately favors the national interests of key shareholders, for example on procurement policies in the World Bank.



Most discussions of reform of the Bretton Woods institutions center on the quota system that determines members' voting power. However, for African states, the quota issue is less important than for other countries. This is because while the vote shares of low-income developing countries are protected from falling below a certain floor, African voices would not be significantly greater if quota shares were recalculated. More meaningful would be a third seat for sub-Saharan Africa on the board of the International Monetary Fund (IMF). The region currently has two seats and holds 4.59 percent of the fund's voting power. South Africa has long pushed for a third seat for sub-Saharan Africa, but none of the other constituencies of countries on the board has supported this call.<sup>382</sup>

In the case of the World Bank, under considerable pressure from South Africa, the bank's members finally agreed in October 2008 that its board would expand from twenty-four to twenty-five seats. The additional seat was given to sub-Saharan Africa and represents Angola, Nigeria, and South Africa. These three large economies have used their joint seat to focus on strategy and advocacy.

One area that could benefit Africans, especially communities, is greater accountability of the Bretton Woods institutions. The World Bank has an independent accountability mechanism, but this could be strengthened to make its findings binding on the bank. African governments may not consider this move favorably where they have vested interests, in particular in World Bank projects, but it would be crucial for affected communities where their rights have been negatively affected.<sup>383</sup> The IMF, meanwhile, has no such independent accountability mechanism. Like the World Bank, the IMF is moving into areas such as climate change and inequality, which are becoming more intrusive in member states and thus warrant greater accountability from the fund as well as from individual governments.

### Special Drawing Rights

Special drawing rights (SDRs)—an international reserve asset that supplements the official reserves of IMF members—have risen in prominence during the coronavirus pandemic as a way of helping developing countries deal with their liquidity constraints. African countries and institutions such as the United Nations Economic Commission for Africa (UNECA) have called for both an issuance of new SDRs and a more coordinated reallocation of SDRs from countries that do not require them to those in need of liquidity. Such support is necessary not only for low-income developing countries but also for middle-income economies.<sup>384</sup>

In August 2021, the IMF board approved a new SDR allocation of \$650 billion, of which Africa is expected to receive about \$33.6 billion.<sup>385</sup> This is more than the continent would get from a reallocation of SDRs alone or directly from the IMF or multilateral development banks. Furthermore, the fund has indicated that it is exploring viable options for “voluntary channeling of SDRs from wealthier to poorer and more vulnerable member countries to support their pandemic recovery and achieve resilient and sustainable growth.”<sup>386</sup> Most developing economies would prefer any voluntary SDR reallocation to be unconditional.

## Alternative Institutions

South Africa is part of the BRICS group, which also includes Brazil, Russia, India, and China. As such, South Africa participated in the creation of the New Development Bank (NDB), which provided competitive reform pressure on existing international institutions.

Four operational policies and practices set the NDB apart from all other major multilateral development banks: the use of country systems, rather than institutional ones, to manage funds or services; leveraging of local capital markets ahead of international markets; speedy loan-approval processes; and loans in local currencies. While provision is made for countries outside the BRICS group to join the NDB, the capital share of the founding members is not allowed to fall below 55 percent. The share distribution of capital stock in the bank not only signifies the equity of the contributing members but also represents each country's direct representation in the bank's decisionmaking processes.<sup>387</sup> Only developing-country members have access to loans.

By providing developing economies with credible alternative financing, the NDB has put pressure on the World Bank and regional multilateral development banks to reform their governance structures, investment priorities, and operational rules. To date, this pressure has been limited, considering that loans are extended only to the NDB's five member countries. However, in September 2021, the bank approved the admission of three new members: Bangladesh, the United Arab Emirates, and Uruguay.

In 2014, African nations established the African Monetary Fund (AMF), but it is not yet operational, as only twelve countries have signed—and not ratified—the fund's founding treaty, short of the required fifteen ratifications. None of the big African economies, such as Egypt, Nigeria, or South Africa, has signed.<sup>388</sup> The fund's capital subscription will be \$22.6 billion, and countries can take out loans equal to twice their contributions. Some African scholars have argued that with the AfCFTA now in effect, the AMF should receive renewed impetus, as it could enable more regional trade by providing countries with financial support to mitigate balance-of-payment challenges caused by expanded intraregional trade.<sup>389</sup>

## Standard-Setting Bodies

South Africa was a key advocate of incorporating financial inclusion into the G20 agenda and of standard-setting bodies for the financial sector. South Africa is the only African member of the Financial Stability Board (FSB), which monitors and makes recommendations about the global financial system. In 2010, the board established six regional consultative groups to reach out beyond its membership to discuss the vulnerabilities affecting financial systems and ways to address them. Sub-Saharan Africa comprises one such group, which is co-chaired by the governor of the South African Reserve Bank. The bank has leveraged this platform to engage African countries on standard-setting issues. Political buy-in from other African countries has been difficult given the diverse range of issues dealt with by the FSB.

The Basel III regulations on international banking pose one of the biggest challenges to financial inclusion. Studies have found that “tightening prudential regulations could negatively impact access to finance, thereby conflicting with Sub-Saharan African economies' financial inclusion goals.”<sup>390</sup> While several

African countries have adopted or are drafting reforms to comply with Basel III, the problem of financial exclusion remains. Reforms that comply with Basel III could have a negative effect on bank credit supply, simultaneously providing opportunities for nonbank financial institutions. Such bodies enable financial inclusion but come with risks.

## The International Tax Regime

One of the biggest challenges facing African countries is their limited ability to generate domestic revenues. Low industrialization, high informality in the economy, and the dominance of the extractive sector in many countries mean that the tax base is very narrow and reliant on a few major taxpayers. In countries surveyed by the African Tax Outlook, published by the African Tax Administration Forum, on average 6.3 percent of large taxpayers generate 77.7 percent of tax receipts.<sup>391</sup> Large taxpayers generally are or belong to multinational corporations, which are aggressive tax planners, meaning that they can take advantage of tax loopholes to minimize their tax burdens. African states often lack the capacity to deal with aggressive tax planning. But these difficulties should not obscure the fact that the international tax regime disadvantages Africa and developing countries in other regions.

## Stanching Illicit Financial Flows

The prevalence of illicit financial flows (IFFs) compounds this problem. A 2015 UNECA report indicated that Africa was a net creditor to the rest of the world in terms of IFFs. Commercial flows, including tax evasion, trade and services mispricing, and abuses of transfer pricing by multinationals, comprised the largest proportion of IFFs, followed by proceeds from planning criminal activities and corruption.<sup>392</sup> A 2020 UNCTAD report on IFFs estimated that \$88.6 billion—the equivalent of 3.7 percent of Africa's GDP—leaves the continent annually as illicit capital flight. This is compared with official development assistance of \$48 billion and investment flows of \$54 billion, on average, annually between 2013 and 2015.<sup>393</sup>

In 2012, UNECA established a high-level panel on IFFs from Africa. One of the panel's objectives was to mobilize support for putting in place rules and regulations at all levels to tackle illicit outflows from the continent. The panel also sought to impress on the G20 the need for improved transparency and tighter oversight of international banks and offshore financial centers that absorb these flows.<sup>394</sup>

Since 2009, when the G20 called on the Organization for Economic Cooperation and Development (OECD) Global Forum on Transparency and Exchange of Information for Tax Purposes to ensure rapid implementation of the exchange of information on request, the world has made significant progress on tax transparency, which is essential to tackle IFFs. In 2014, the G20 adopted a new automatic exchange of information, which was intended to further bridge the informational asymmetry between taxpayers and tax authorities. These moves were potentially positive developments for African tax jurisdictions because authorities' access to information can play a deterrent role by increasing transparency, thus raising the costs of tax evasion.<sup>395</sup>

However, while these systems have addressed the supply side of the exchange of information, the demand side in Africa remains weak because the standards and processes required are quite onerous to implement. For example, the exchange of information on request requires a legal basis or mechanism in each jurisdiction, and the Global Forum assesses each jurisdiction's framework and implementation in practice. Few African countries have made requests through the exchange, partly because of a lack of domestic capacity or technical expertise and associated costs. African countries were not consulted when the Global Forum developed these standards. In the case of the automatic exchange of information, jurisdictions provide such information on a reciprocal basis.

The OECD and the G20 should adopt a more flexible approach to standards, with reference to the capacities and concerns of African and other developing countries. Critically, to the extent practicable, the provision of information should not apply on a reciprocal basis to countries with limited capacity to collect information from their financial institutions. Waiving full reciprocity in exchanging information, at least for LDCs, would remove the burden from these countries of having to collect and compile financial information before receiving information from other jurisdictions. Without these flexibilities and an openness to acknowledging different levels of capacity among developing countries, such global initiatives do not address the fundamental problems that these countries face in protecting their tax bases.

### The OECD/G20 Inclusive Framework

These developments overlapped with the initiatives of the OECD and the G20 to deal with base erosion and profit shifting (BEPS)—the practice of aggressive tax avoidance—after the 2008 global financial crisis. The stated objective was to create a fairer and more transparent tax environment. While welcome, these international initiatives have been shaped largely by the perspectives and positions of industrialized countries, which are home to most multinational enterprises.

In 2015, the OECD established the Inclusive Framework on BEPS, with the endorsement of the G20. Twenty-seven African states participate in the framework. The initiative's two-pillar program of work on the tax challenges of digitization was initiated in January 2019. African states support the OECD's proposed unified approach to addressing these challenges. However, they have several concerns on the substance, which is made harder by the lack of a proper data set to determine the proposals' impact in terms of additional revenue to African countries. This difficulty is partly associated with weak African legal frameworks, which often do not compel companies to file financial statements and annual reports with company registries. This challenge is compounded by the difficulty of tracking digital transactions.

In October 2021, 136 of the 140 members of the Inclusive Framework announced a global tax agreement on both pillars. However, the new deal will not have a major impact on the tax revenues of developing economies. The agreement on pillar one will result in a poor reallocation of taxing rights to market jurisdictions such as those of African countries. According to Oxfam, the deal will affect only sixty-nine multinationals and only on “super-profits” above 10 percent of revenue. Fifty-two developing countries will receive about 0.025 percent of their collective GDP in additional annual tax revenue.<sup>396</sup> Pillar one excludes extractives and regulated financial services; yet, the extractives sector is especially vulnerable to IFFs from Africa, accounting for more than half of such flows in 2015.<sup>397</sup>

Pillar two provides for a global minimum corporate tax rate of 15 percent. The AU has called previously for this rate to be at least 20 percent. The Independent Commission for the Reform of International Corporate Taxation has argued for the rate to be 25 percent, which would raise about \$17 billion more for the world's thirty-eight poorest countries than the 15 percent rate.<sup>398</sup> Therefore, for Africa, the deal does not go far enough in addressing the historical legacies that place the continent and other developing regions at a disadvantage.

## Climate Change

African countries are the most severely affected by climate change and often unable to deal with the scale of the challenges because of limited resources and capacity.<sup>399</sup> With exceptions such as Nigeria and South Africa, which have high carbon footprints, most of the continent has limited greenhouse gas emissions but still has to deal with the negative effects of climate change. It is for this reason that Africa regards adaptation measures as far more important for its circumstances than mitigation actions.

African countries pay special attention to elements of historical injustice, recognizing that they did little to account for today's cumulative climate change and yet are suffering from many of its impacts. The continent also looks at the climate crisis through a lens that focuses on the disproportionate vulnerabilities of its people, as climate impacts exacerbate inequitable social conditions. During the 2015 negotiations on the Paris Agreement on climate change, reference to Africa's particularly vulnerable status, which had been included in earlier drafts, was removed from the final text of the accord, as there was no consensus on its inclusion. Since then, Africa has been trying to reinstate such recognition.

For Africa, the support of developed economies is essential to help the continent on its pathway to a green transition. Africa's pledges under the Paris Agreement are mostly conditional on financial backing, capacity-building assistance, and technological support. Sub-Saharan Africa will require about \$377 billion in financing for climate-mitigation investments and \$222 billion for climate adaptation to achieve

### ***The support of developed economies is essential to help Africa on its pathway to a green transition.***

its commitments.<sup>400</sup> The African Development Bank has estimated that \$20–\$30 billion a year will be needed for climate change adaptation in Africa to 2030. This figure could increase to \$50 billion by the 2070s, based on projections of a world on track to reach an average global temperature rise of 3.5–4 degrees Celsius from preindustrial levels by 2100.

Africa wants the carbon space to pursue some of its economic development through existing and new fossil fuels. African countries consider it unjust for the international community to place immediate and stringent mitigation barriers on them without compensation and financial assistance. Africa has an abundance of fossil fuels, but the global move away from hydrocarbons may see Africa suffer new setbacks. Some 70 percent of African exports are derived from oil, gas, and minerals, accounting for about half of the continent's GDP. Financial losses from stranded assets could amount to \$2 trillion.<sup>401</sup>

Those African countries that have huge fossil fuel deposits will pay a price as the global economy shifts to greener, more circular energy methods. Such countries need to prioritize the assessment and management of stranded asset risks by planning their resources and economic diversification. Some of these countries are fragile and have limited capacity and will thus require regional and international support.

## African Preoccupations

African countries have three major preoccupations in global discussions of climate change. First, apportioning responsibility must be linked to African states' contributions to global warming. For Africa, the principle of common but differentiated responsibilities and respective capabilities within the United Nations Framework Convention on Climate Change (UNFCCC) is of primary importance, although it has become a highly contentious issue among the convention's members.<sup>402</sup> This is especially critical as some 600 million people across Africa do not have access to electricity.<sup>403</sup>

Second, African countries want negotiators to adopt a global goal on adaptation, which the developed world does not. In general, much less finance is available for adaptation than for mitigation. For example, in 2018, the European Investment Bank's adaptation portfolio amounted to \$432 million, compared with \$5.3 billion for mitigation.<sup>404</sup> But many African countries will need to adopt adaptation measures, such as nature-based solutions to dealing with floods or erosion. Multilateral development banks need to recalibrate their support so that more adaptation financing is available for developing economies. Furthermore, the convention recognizes only small-island and developing states and LDCs as "particularly vulnerable" to climate change. There is a link between this status and the allocation of adaptation finance. This is one reason why the African Group of Negotiators wanted the continent to be considered particularly vulnerable.<sup>405</sup>

Third, climate finance poses major concerns for African states in terms of definition and access. In 2020, the African Group of Negotiators set out their definition of climate finance. Loans and green bonds, which need to be paid back at a higher interest rate than that applied in developed countries, are not considered climate finance as they are revenue-generating instruments. Support from developing countries should also be excluded. Africa considers these voluntary flows, which should be separated from the obligations clearly identified and agreed on in the UNFCCC and the Paris Agreement.<sup>406</sup>

Barriers to access to climate finance include unnecessarily complex requirements in obtaining funds, low levels of institutional support from the UNFCCC in undertaking assessments of climate change needs, and knowledge deficiencies that arise from the complex nature of climate finance.<sup>407</sup> An example of this complexity is that only accredited institutions can access the Green Climate Fund directly. Only thirteen African countries have accredited entities, yet seven of the ten countries most vulnerable to climate change are in Africa, according to the African Development Bank.<sup>408</sup> The accreditation forms require compliance with standards such as fiduciary norms; anti-money laundering structures; environmental, social and gender policies; and complaint mechanisms. Many poorer countries find meeting these standards hard.

These and other concerns all pose critical questions for African countries as they battle to ensure that the climate space works for their economic recoveries while not being caught between geopolitical rivals that see Africa as a possible partner to advance their own climate ambitions.

## Conclusion

For Africa, a rewired globalization is one that has a beneficial developmental impact. Africans have a role to play in this rewiring. Africa has the world's youngest population and by 2050 will have a population of 2.5 billion—a quarter of the global total.<sup>409</sup> These demographic trends will have significant political, economic, and social impacts not only on the continent but also on the world.

Over the last decade, Africa has sought to build up more agency in participating in and influencing global norms and regulations. It has tried to do so by developing a collective continental voice on various issues. However, African states, given their economic and political diversity, do not have a single overarching view of what is required to reengineer globalization. To the extent that continental structures exist to provide coordination or technical capacity, African states may articulate common positions on global platforms. Yet, Africa's limited economic heft means that the continent is often sidelined in critical global debates.

More effective agency to take advantage of Africa's participation in various forums requires boosting technical and policy capacity in individual African states. This is essential if globalization is to incorporate changes that will address some of Africa's developmental deficits. Influencing globalization reform will require African states to use a mix of strategies: pushing for reform within existing institutions while identifying autonomous paths of action where possible. In addition, Africa will need to cultivate cross-regional coalitions where appropriate.

African nations are committed to global multilateral processes but have significant divergence on existing rules and issues. Africa's engagement on trade is an example of both of these approaches: working within the WTO on intellectual property rights and the DSM while driving an ambitious continental free-trade area. The latter came in the wake of paralysis at the WTO, the failure of the Doha Development Round, and the rise of plurilaterals and regional trade agreements.

***More effective agency to take advantage of Africa's participation in various forums requires boosting technical and policy capacity in individual African states.***

In the case of data and technology governance, Africa's key priority is to increase African citizens' connectivity through investment in digital infrastructure while recognizing cybersecurity

challenges and issues of data privacy and digital sovereignty. African states have developed a continental strategy that is intended to foster greater cooperation on cross-border data protection, open standards, and a single digital market but have been less vocal in global forums. If Africa acts on the strategy, the continent should be in a stronger position to influence global debates on topics such as data governance.

The global financial system is one element of globalization where Africa has limited scope to explore other options, given that the continent is very integrated into that system. Its rewiring is crucial. Several African priorities are on the table in various global financial forums, most notably financial inclusion—but also access to development finance for infrastructure, a global financial safety net, an international sovereign debt restructuring framework, and macroprudential regulations.

One of the continent's biggest developmental challenges has been its excessive reliance on external sources of finance because of a limited domestic tax base. It is for this reason that Africa has been a vocal proponent of a global regime that reduces illicit financial flows from the continent and tax avoidance by multinational corporations. To this has been added the challenges presented by the global digital economy. Many African countries are participating in these global deliberations, but their slow pace is tempting some to opt for unilateral measures, such as introducing a digital sales tax.

In the medium term, climate change will have the single largest impact on Africa's developmental trajectory. Adaptation is the crucial factor in dealing with the effects of climate change in Africa, given the continent's relatively small carbon footprint. African states have worked to coordinate in global climate negotiations. Because dealing with this issue involves a strong technological dimension, it has become intertwined with geopolitical rivalries between the West and China. This can be to Africa's advantage in terms of advocating reform of the climate finance architecture and the rules governing it, providing more concessional loans, and increasing development finance for adaptation. In addition, Africa's trump card is that it is home to many of the essential elements necessary for low-carbon technologies.

Revamping globalization will also necessitate a new set of principles. The ethics of globalism have to be attuned to fairness, greater equity, and transparency. Indiscriminate consumption will have to be reduced and replaced by a circular economy. Enormous wealth accumulated by the top 1 percent will have to be tamed. A more equitable distribution of income that addresses globalization's losers must be on the agenda. Multinational corporations' accumulation and policy capture will have to be reined in.

An inability to rewire globalization may mean a world that becomes much more fragmented, less able to manage transnational challenges, and more polarized. It will also be a world where an inability to deal effectively with the scourges of inequality, poverty, and climate change will impact the well-being of the privileged, who have lacked the boldness to recognize that the status quo will not hold forever.

*The author would like to thank Cyril Prinsloo and Yarik Turianskyi, colleagues at the South African Institute of International Affairs, for their assistance with the sections on trade and data and technology governance, and Neuma Grobbelaar for her useful comments on an earlier draft.*





# China: Between Domestic Priorities and Global Rulemaking

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Chinese leaders view globalization through the ideological prism of Marxism as a historical process largely equated with Westernization. Having won the Cold War, the United States and Europe set out to impose their political systems and economic development models on the world, using economic globalization to promote democratization.

Because capital-driven globalization emphasizes production rather than distribution, it is not only leading to growing economic and social inequality within Western countries but also hurting the interests of most developing nations. Some countries that suffer from a scarcity of natural resources and a disadvantageous geopolitical location have long been left on the periphery of global development, and some have even become breeding grounds for extremism and terrorism. What is more, under the influence of neoliberalism, the goals of globalization have come to include the elimination of government regulation and a weakening of the role of the state. The Washington Consensus has led to blind faith in the invisible hand of the market, and many governments have become increasingly dysfunctional.

Since the Eighteenth National Congress of the Chinese Communist Party in 2012, China's leaders have placed an increased emphasis on global governance issues, arguing that China has a responsibility to usher in a rebalancing of globalization. Beijing is concerned about growing populism in the United States and Europe and the surge of far-right political forces that are against globalization, immigration, and multilateralism. The arrival of Donald Trump in the White House was a major event in this development. Some people see China as the enemy and have grouped it together with the globalist elite in the West. In many ways, deglobalization has largely degenerated into “de-Chinaization.”

The Chinese leadership believes that the world needs a new type of globalization that embraces more non-Western elements. China's Belt and Road Initiative (BRI) is an important platform for promoting this

new globalism. By fostering trade and infrastructure as well as financial and cultural interconnections, the BRI is expected to enable more countries to participate more deeply in the globalization process.

However, the emergence of the coronavirus pandemic dealt a serious blow to China's ambition to lead globalization reforms. The outbreak has exposed China to accusations from the United States and other Western countries that it spread the virus. Meanwhile, European nations, Japan, India, and other countries have tried to reduce their dependence on China in their supply chains. Even under the outward-looking administration of U.S. President Joe Biden, the United States continues to push for a managed decoupling to ensure the security of its supply chain, and Biden has stated that he sees China as America's "most serious competitor."<sup>410</sup> This strategic competition between the United States and China is causing Beijing to reexamine the international environment facing it in the coming decades.

Currently, most Chinese strategists believe that continuing to embrace globalization is not only a necessary approach for China to ensure prosperity and stability but also a powerful weapon to counter the pressure of great power competition from the United States. Beijing has adopted a two-pronged strategy of continuing to advocate globalization while putting an increased focus on securing its own development.

The theme of globalization provides a fascinating insight into China's evolving role in international governance. On the one hand, Beijing wants to create norms and rules to regulate the policy space at the domestic level in line with the priorities of the Chinese Communist Party. In that scenario, some measures of domestic governance become totally dissociated from the norms of international governance. On the other hand, as part of its diplomatic campaign to enhance its soft power, China also wants to champion the rights of a range of developing countries interested in shaping existing global norms to their advantage. It is the interplay between these two contradictory objectives that ultimately determines the conduct of Chinese policymakers.

## The Global Trade Agenda

Chinese President Xi Jinping is a proponent of free trade and globalization. In his speech at the 2015 Group of Twenty (G20) summit in Turkey, he remarked,

The trend of the world economy in recent years shows that in the age of economic globalization, no country can prosper in isolation. Coordination and cooperation is the only viable choice. Members of the G20 are all major economies. Together, we represent over 80% of the global economy, and naturally carry greater responsibilities for global growth. Therefore, we must and, in fact, can be more proactive in our actions.<sup>411</sup>

While China supports international trade, the government believes that globalization has not been particularly well managed because of some countries' overreliance on the free market and private enterprise as well as excessive tax cuts. The Chinese government views state intervention as an important mechanism to ensure that globalization can improve the redistribution of wealth.<sup>412</sup> Unfettered market forces tend to monopolize benefits, and if the government does not intervene, serious imbalances will occur. Beijing also

views Western countries' use of tax cuts to spark economic growth skeptically. These two forces have led to backlashes against globalization and free trade in the West, and China is determined to expand global trade while keeping inequality in check.

## China's Vision of Globalization

Chinese leaders are cognizant of the negative aspects of globalization, but they are eager to address the issue by enhancing international cooperation. The Chinese government's 2019 white paper "China and the World in the New Era" stated that problems encountered in globalization can be fixed.<sup>413</sup> Countries should collaborate to learn from their historical experiences, improve governance, and promote a new type of globalization that is open, inclusive, balanced, and beneficial to everyone.

Beijing believes a new era of globalization should continue to uphold the rules of trade liberalization and the multilateral trading system, which have proved effective. The concepts of extensive consultation, joint contributions, and shared benefits should be maintained to build an open world economy, promote global peace and stability, and try to reach common development and prosperity.

China's government is intent on better managing globalization so that it benefits citizens and not just large multinational companies and wealthy people. China believes in the effectiveness of multilateralism and views the future of globalization as a communal project in which all governments can work together to strengthen the supervision of the market and guarantee the fair distribution of income.

Xi outlined this approach at the 2016 G20 business summit in Hangzhou, where he argued that global governance must focus on creating an efficient, fair, and equitable financial governance system, improving multilateral trade structures, and promoting international trade and investment opportunities.<sup>414</sup> Xi implored all countries to work together to improve international governance to implement the United Nations (UN) 2030 Agenda for Sustainable Development.

The Chinese government is also committed to promoting economic integration and building an open global economy. At the same G20 business summit, Xi reiterated the importance of solidifying free trade in the Asia-Pacific region as well as improving the openness and inclusivity of free-trade agreements to protect and expand the multilateral trade system.<sup>415</sup> However, he also explained that governments should play an active role in guiding the direction of globalization to ensure the fair distribution of resources and the sustainability of globalization processes. Through this approach, the global public will come to view globalization favorably, as people will see how their participation in international trade fuels improvements in living standards.

Beijing believes that open regionalism is the correct way to deal with the centrifugal forces caused by globalization. In China's view, since the prospects of concluding negotiations for an open global trading system are slim, plurilateral and regional agreements should play a larger role going forward. China was one of the main drivers of the Regional

***Beijing believes that open regionalism is the correct way to deal with the centrifugal forces caused by globalization.***

Comprehensive Economic Partnership (RCEP), which was concluded in November 2020 among fifteen countries that together make up around 30 percent of global trade and are home to over 2.3 billion people.<sup>416</sup> Beijing views itself as a key country defending the global trade regime and believes that large free-trade agreements such as RCEP will be increasingly important for global prosperity.

China also remains interested in joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a trade pact that was originally designed to exclude Beijing, and is taking the necessary steps to gain admission to the agreement. The government is aware of the need to be careful not to turn these regional organizations into closed groups, because only openness can best promote human progress and communication.

### **Special Treatment, Intellectual Property, and Dispute Settlement**

Since China is still a developing country by most measures, Beijing believes it deserves to maintain this status in the World Trade Organization (WTO) and has pushed back on U.S. demands to reconsider China's status as a developing country. Ideally, China would like to see another clause on emerging economies added to WTO agreements. This clause would ensure that while benefiting from some special treatment, emerging economies commit to gradually reducing their reliance on such treatment over a five- to ten-year transition period.

While China is qualitatively different from many other developing countries in terms of both economic size and complexity, Beijing believes that the best method to guarantee an equitable global trading system is to protect developing countries through the WTO's principle of special and differential treatment (S&DT).<sup>417</sup> Given its commitment to S&DT, China will likely continue to support other developing countries in the WTO on this issue.

The Chinese government believes that protecting intellectual property rights (IPR) is important to spur technological and scientific innovation and promote economic development. Beijing also sees IPR protections as necessary to engage in scientific, technological, economic, and cultural exchanges with other countries. In a speech at the 2019 World Economic Forum in Davos, Xi detailed his commitment to IPR safeguards.<sup>418</sup> The following year, the Chinese government published an IPR white paper that set out Beijing's policies to better protect intellectual property.<sup>419</sup>

While China has been accused of poor IPR regulation in the past, it has enhanced protections by amending its laws. Some analysts have predicted that as Chinese innovation continues to improve, its IPR safeguards—as well as broader support for global IPR regimes—will likely keep pace to ensure that China-based companies realize their due profits.

Finally, China strongly supports the WTO's dispute settlement mechanism, which Beijing believes is critical to ensure the organization's proper functioning. Without an operational, respected dispute resolution system, members would lack incentives to properly implement their obligations. During its WTO membership, China has not questioned the dispute rulings of the organization's panels or Appellate Body. China has lost several cases in the WTO but it has respected the rulings, as Beijing believes the decisions are objective and fair.

## Data and Technology Governance

China's digital economy has grown rapidly in recent years, expanding from 2.6 trillion yuan (\$407 billion) in 2005 to 35.8 trillion yuan (\$5.6 trillion) in 2019, and increasing from 14.2 percent to 36.2 percent of the country's gross domestic product (GDP) over the same period.<sup>420</sup> According to the Fourteenth Five-Year Plan, which charts China's development course for 2021–2025, the digital economy is expected to account for around 10 percent of China's newly added economic output by 2025.<sup>421</sup>

As the key driving factor of this new economy, data require proper governance and mature mechanisms to govern their use and release their value. Despite the rapid development of the digital economy, however, China lagged behind in data governance until the second half of the 2010s.

### Domestic Developments

In contrast to the international community, which began to establish relevant systems to govern the protection of personal information in the 1970s, China first clarified its basic rules on safeguarding electronic personal data in 2012.<sup>422</sup> Beijing accelerated its efforts afterward, including through its 2016 cybersecurity law and 2021 personal information protection law. China's contribution to the rising proportion of the global population whose personal data are protected is undoubtedly significant: that proportion is expected to grow from 10 percent in 2020 to 65 percent in 2023.<sup>423</sup>

As a continuation of earlier legislation, China's 2021 data security law defined more clearly and comprehensively the obligations of entities that carry out data activities. The law's most eye-catching provision is that organizations and individuals outside China that conduct data activities in the country are subject to the law—though the legislation clarifies that this applies only to data activities that may harm China's national security, its public interest, or the rights of Chinese citizens.<sup>424</sup>

Despite advances as a result of these efforts, potential problems at the domestic level are evident. For one, a lack of clear requirements on the quality of public data has led to differing data quality and inconsistent standards across government departments and local administrations. Another issue is that data quality management and assessment mechanisms are not yet mature, which hinders the application, sharing, and development of enterprise data. A further aspect that deserves close observation is the balance China will strike between further stimulating the innovation of internet enterprises and effectively regulating the monopolistic practices of internet giants.

### International Models

At the international level, most Chinese scholars are watching closely the different governance models being developed by the United States and the European Union (EU). The United States, with its leading position in the digital economy, is creating a model that aims to combine market competition with privacy protection. This model is built on a belief in the power of technology and the protection of business interests and encourages the open sharing and free flow of data. The EU, meanwhile, with its focus on privacy as an end in itself, is constructing a governance system based on advanced data protection rules.

This system aims to combine privacy provisions with the free flow of all kinds of data within the EU, so that data protection may serve the bloc's strategy of building its digital market.

The differences between these two systems are closely related to the scales of the two entities' digital economies, their overall development strategies, and their historical and cultural backgrounds. Thus, although China has learned lessons and adopted some practices from the United States and the EU, it will choose a different approach with its own features.

Chinese scholars have also expressed concern about the so-called clubification of cyber governance, which refers to the division of the world into two separate systems, with countries forced to bring their regulations into line with either the U.S.-led Cross-Border Privacy Rules system or the EU's General Data Protection Regulation.<sup>425</sup> Those countries that endeavor to avoid joining either scheme might be excluded from the global data network, although interdependence is supposed to be the inevitable result of data flow and sharing.

The driving force behind this trend, as argued by Shen Yi, a professor at Fudan University, is that some developed countries base their data governance models on the principle of "sovereignty of the first mover," emphasizing hard power and favoring "freedom of action."<sup>426</sup> Given the varying strengths of different countries, the order eventually created, regardless of its form and procedures, will be characterized by hegemonism. In contrast, a model that views the digital domain as the common property of humankind can be more beneficial to most countries, especially those lagging behind, because it emphasizes that a certain share of the new domain should be reserved for all countries. Shen argues that China's 2020 Global Initiative on Data Security is based on the latter approach.

### Further Steps

In terms of concrete measures, Chinese scholars generally emphasize that the UN should lead in promoting the formation of a global data governance platform by carrying out multilateral negotiations, creating consultation mechanisms, and coordinating the data interests of countries and regions. Regional organizations, meanwhile, should work within the UN's overall governance framework and take advantage of close cooperation within their regions to create more refined and concrete implementation plans for data governance.

China continues to launch new data governance initiatives. On the one hand, China has issued two new laws on personal information protection and data security.<sup>427</sup> Together with existing cybersecurity and national security laws, this legislation forms a comprehensive governance framework in the data sector. On the other hand, China is working to promote data-sharing programs at the regional level. These efforts center on signing RCEP and the China-EU investment agreement that the two sides finalized at the end of 2020 and, once this is done, seeking negotiations on joining the CPTPP. Beijing will also work to promote openness and cooperation in the use of data among the countries in the BRI.

It remains to be seen whether China's data governance model can address its inherent deficiencies, whether it can serve as a template for other countries that are lagging behind in digital technologies, and to what

extent it can be replicated through regionalized cooperation. The answers to these questions will have direct and significant impacts on global data governance processes.

## Global Rules on Taxation

During the early stages of China's reform and opening-up period in the late 1970s and early 1980s, Beijing relied primarily on foreign investments to fuel growth, making China a largely capital-importing country. For international taxation purposes, China tended to formulate its tax policies and regulations on cross-border transactions from the perspective of a source country, hoping to maximize revenues from these transactions.

However, after the growth of Chinese investments in other countries, China began to shift its perspective on international taxation and has adjusted its tax laws to reflect its status as a capital-exporting country. In a sign of this shift, China has embraced the UN Model Double Taxation Convention Between Developed and Developing Countries and started to use the taxation model of the Organization for Economic Cooperation and Development (OECD) to revise its tax treaties with other jurisdictions. Beijing has also begun to participate more actively in OECD-led international tax reform. Put simply, as a country that has been both a capital importer and exporter, China has held a neutral, open-minded, and pragmatic attitude toward the international taxation regime.

## No Firm Stance on Digital Taxation

China, like many other countries, is well aware of the disruptive effects of the digital economy on international taxation norms. Given the need to balance its national interests with those of the global taxation regime, the Chinese government continues to follow this issue closely.<sup>428</sup> However, to date, the Chinese government has not stated a clear official stance on international taxation of the digital economy, likely for two reasons.

First, the full impact of the digital economy on international taxation norms is not yet fully understood. The world's major economies, such as the United States and the EU, must further coordinate their approaches to this issue. Because the international community has not yet come to a consensus on important aspects of reforming the international tax regime, China has consistently maintained a cautious attitude and chosen to refrain from publicly taking a solid position.

Second, given the uniqueness and complexity of China's digital economy, the Chinese government is in no rush to make its position known. On the one hand, along with other countries that are attempting to tax the global digital economy, China already has a significant digital marketplace. On the other hand, China is home to many of the world's largest internet companies. However, in contrast to U.S. internet firms, whose share of the European market is relatively large, Chinese companies have a much smaller share of the global market because of language issues, economic security concerns, and other worries. As a result, international taxation of the digital economy is not an urgent preoccupation for Beijing.



## OECD and UN Proposals

At present, the OECD is leading efforts to reform the international tax system. Although developing countries, such as China, participate as observers in some OECD committees and working groups, most of the organization's members are developed countries. If the overall aim of a multilateral platform is to communicate and consult on reform of the international tax system, China would likely view the UN, with its broader membership and greater representation, as a more suitable choice. Compared with the OECD reforms, China believes the UN's proposed amendment to the UN model convention for the taxation of digital services has the advantage of being easier to integrate into the international tax order as it is based on existing rules.<sup>429</sup> However, the disadvantage of the UN proposal is that it is a transitional scheme that applies only to part of the digital economy. It does not cover new types of business, which are included in the OECD plan on base erosion and profit shifting—the practice of exploiting gaps in fiscal rules to avoid paying tax.<sup>430</sup>

The greatest achievement of the OECD proposal is that it puts forward an international taxation framework that gives market countries new taxation rights and establishes a global minimum corporate tax rate. These are major, innovative changes to the existing international tax order. China believes the main shortcomings of the OECD proposal are that it is very broad and aims to change many things. This means that implementing it will require various sets of accompanying administrative rules.

From China's perspective, the most significant obstacle to reaching multilateral taxation agreements is the need to coordinate and balance the interests of countries at different stages of development. For example, on the topic of how to tax the digital economy, the United States and Europe are both highly developed, yet even they are clearly divided on this issue. Meanwhile, as China is both a digital consumer market and a digital exporter, it has to strike a balance between fair taxation and the creation of a competitive market environment. Beijing believes it will be very difficult for developing and developed countries to overcome their different interests to strike multilateral taxation agreements.

## The Global Financial System

The challenges for the international financial system have become more apparent during the coronavirus pandemic. At the same time, the spillover effects of the extremely relaxed monetary policy of the U.S. Federal Reserve have worried Chinese officials and economists. The March 2020 U.S. dollar crunch revealed how the financial systems of many countries, including China, have come to depend on the United States.

## Approaches to Reform

Some Chinese experts have argued for more aggressive and radical reform of the financial system, while others endorse a more gradual approach.<sup>431</sup> Among the former group, some Chinese voices are calling for the establishment of a global central bank through the merger of existing international financial institutions.<sup>432</sup> Any new such bank would have the right to act as lender of last resort to the world and draft unified regulations that all countries would obey. Correspondingly, the creation of a global central

bank would make a unified international currency possible, and the International Monetary Fund's (IMF's) special drawing rights (SDRs)—an international reserve asset that supplements members' official reserves—could be further developed to fulfill this role. Yet, such radical reform, despite its advantages, would be difficult to realize, given the political pressures it would face.

Indeed, China believes its best interest for now is not to radically restructure the whole international financial system, because the political and economic costs would easily outweigh the benefits at this stage. In the foreseeable future, China is likely to continue to increase its influence in the system through more participation in institutions including the IMF and forums like the G20. Beijing can be expected to push some reforms of the existing system in line with its interests. These moves do not require—and will not result in—dramatic change in the powers and responsibilities of the current institutions.

China's actions will likely start with efforts to push for reform of the distribution of voting quotas in the IMF. It is widely recognized that the fund's current quotas do not fairly represent the changing picture of the world's economies, as emerging-market countries have much less power than their rapid economic growth would imply. Beijing believes that larger voting quotas would allow China and other emerging-market countries to better voice their demands.

One of the fundamental problems faced by emerging markets is the spillover effect of the excess liquidity created by the central banks of developed nations. Emerging markets have learned the lessons of their abuses of fiscal policy in the late twentieth century to cope with rising capital inflows by introducing more borrowing discipline and macroprudential measures. In doing so, emerging markets eliminated one source of instability in the international financial system, and today's major instabilities come from developed nations. In a way, the abuse of monetary policy in the developed world is similar to the late-twentieth-century fiscal practices of emerging markets, and the negative spillover impact of such monetary policies is not yet fully understood.

Theoretically, international financial institutions should take responsibility to prevent developed nations from engaging in overexpansionary monetary policies, which create imbalances in the global financial system. However, this is not doable without reform of the quota system, so it is in the interests of China and other emerging markets to continue to push for this reform, which has been delayed for a long time.

### Currency Concerns

China and many other countries view the dominance of the U.S. dollar as a potential danger to the international financial system. In 2020, the danger was alleviated by support from the U.S. Federal Reserve and strengthened coordination among central banks. To cope with the risk of a future dollar crunch and reduce China's reliance on the United States, Beijing can try to empower the IMF so that the institution has more core funding and can shoulder more responsibility when facing dollar liquidity crises. But the IMF is unlikely to become totally independent and is still highly subject to U.S. pressure.

The alternative is to strengthen a regional financial safety net, such as by building a currency swap net to alleviate dollar pressures. China will work to strengthen regional safety nets rather than enable a more

centralized international financial system. Beijing's support for the New Development Bank, established in 2014 by China together with Brazil, Russia, India, and South Africa in the BRICS format, is one such example.<sup>433</sup> These regional arrangements can also help alleviate liquidity pressures when needed and boost China's influence in specific regions. However, given the status of the U.S. dollar and the role of the United States as the ultimate dollar provider, these methods cannot fully eliminate potential dollar pressures. In other words, emerging markets and other countries might be better off in terms of financial safety if the status of the dollar weakens.

This situation will require China to continue to push its renminbi globalization strategy, which it views as an important element of its grand strategy. A global role for the Chinese currency could come with the promotion of SDRs, as the renminbi has been included in the basket of currencies that determine the SDR's value. But China will more likely continue to open up and gradually let the renminbi's attractiveness rise, enticing more investors into holding renminbi or renminbi-denominated assets. Beijing is willing to see the reserve currency system become more diverse, with the renminbi playing a larger, more important role. However, this cannot be done immediately and will take time.

## The Climate Change Agenda

Given the vast size of China's economy, population, and land, the country's climate actions play a decisive role in the international commitment to limit global warming to 1.5 degrees Celsius above preindustrial levels. Although China's per capita emissions are lower than those of many advanced industrializing nations, its cumulative carbon emissions accounted for over one-quarter of the global total in 2019.<sup>434</sup> China's economic rise over the past decades was achieved largely through coal-fired power, but now, the country has risen to become the world's biggest investor in green energy, specifically solar and wind power, having achieved indigenous production capabilities in these technologies.<sup>435</sup>

Since Xi took power in 2013, China has made rigorous pledges to mitigate climate change. Beijing aims to reach peak carbon emissions before 2030 and achieve carbon neutrality by 2060.<sup>436</sup> China's long-expected national emissions-trading scheme (ETS) became formally operational in July 2021, further demonstrating the country's willingness to implement climate policies integrated with market-based mechanisms in transitioning toward carbon neutrality. Overall, Xi's commitment to green development has been pivotal and future oriented, and he has stated that China must "say no to shortsighted approaches of going after near-term development gains at the expense of the environment."<sup>437</sup>

## Ecological Civilization

Former Chinese president Hu Jintao first used the idea of ecological civilization in 2017 to describe China's brand of environmentalism. With the aim to promote "harmonious coexistence between human and nature," the Chinese Communist Party refers to this concept as a new, socialist framework of sustainable development with Chinese characteristics.<sup>438</sup> With Xi's ascent, Beijing has enshrined ecological civilization as a national strategic priority and a philosophical principle that underpins the country's pursuit of green development.<sup>439</sup>

Practically, ecological civilization entails a holistic approach that requires advancing green and low-carbon energy, achieving greener economic and social development, conserving ecological resources, implementing the strictest possible systems for environmental protection, and developing eco-friendly growth models and ways of life. China sees the potential synergy of sustainability and economic growth and recognizes the green transition as pivotal for transforming its growth model. In constructing an ecological civilization, the main economic focus has been on pursuing supply-side structural reform toward an innovation-driven, green economy and mobilizing green finance to spur the development of clean energy industries. Similarly, in China's 2021 white paper on development, green infrastructure and digital technology emerged as strong priorities.<sup>440</sup> In Xi's words, ecological civilization is "vital for sustaining the development of the Chinese Nation."<sup>441</sup>

### ***With Xi's ascent, Beijing has enshrined ecological civilization as a national strategic priority and a philosophical principle.***

Importantly, ecological civilization not only aspires to meet current economic development needs but also recognizes the wants of future generations. Furthermore, the concept stresses the value of climate justice as part of China's commitment to "building a shared future for all life on Earth."<sup>442</sup> The centrality of collective action underlines the Chinese Communist Party's stance on global environmental governance.

China has increasingly espoused the principle of "common but differentiated responsibilities" for developed and developing countries in mitigating and adapting to global warming.<sup>443</sup> As the largest developing economy and a champion of South-South cooperation, China believes that advanced industrialized nations should pay compensation to developing countries for their historical emissions. This perspective aligns with the United Nations Framework Convention on Climate Change and the 2015 Paris Agreement.

Specifically, China identifies rich nations' obligation to support developing countries in overcoming the green transition.<sup>444</sup> Over the past two decades, China has increasingly called on rich countries to pay their debts and show more sincerity in reducing their emissions, extending finance, and allowing flexibility for developing countries to emit in accordance with their needs for green socioeconomic development.<sup>445</sup> Xi's address at the April 2021 Leaders Summit on Climate convened by Biden further accentuated China's stance on the developed world's responsibilities:

Developed countries need to increase climate ambition and action. . . . They need to make concrete efforts to help developing countries strengthen [their] capacity and resilience against climate change, support them in financing, technology, and capacity building, and refrain from creating green trade barriers, so as to help developing countries accelerate the transition to green and low-carbon development.<sup>446</sup>

### **Global Climate Financing**

While calling on the developed world to raise its ambition, China has also taken actions on South-South cooperation to address the gap in global climate financing for adaptation in developing economies. The

Chinese government actively acknowledges the disproportionate impacts of climate change. In offering support to alleviate these impacts, China prioritizes least developed countries, such as African nations and small island states. In 2015, ahead of that year's Paris climate summit, Xi established the China South-South Climate Cooperation Fund to provide 20 billion yuan (\$3.1 billion) to support developing countries in tackling climate change.<sup>447</sup> At the summit, Xi elaborated on his commitment to the 10-100-1,000 initiative, through which China would establish ten low-carbon industrial parks, one hundred climate mitigation and adaptation projects, and 1,000 training opportunities on climate change in thirty-four developing countries.<sup>448</sup>

These commitments came after a series of cooperation projects with Southern countries, such as a three-year 200 million yuan (\$31 million) climate project with small island countries, launched in 2011.<sup>449</sup> Beijing has signed over ten memorandums of understanding with developing countries to deploy energy-saving and low-carbon products and organize capacity-building training.<sup>450</sup>

The coronavirus pandemic, which has intensified a brewing debt crisis in the developing world, has also widened the global climate funding gap. Although China has not put forward concrete actions to address this growing inequity in a post-coronavirus world, Beijing's January 2021 white paper on international development cooperation made numerous mentions of climate change and foreign assistance.<sup>451</sup> The longest chapter of the paper highlighted China's ambitions of green development cooperation through investments in biodiversity protection, climate change mitigation and adaptation, the curbing of desertification, and the conservation of marine and forest resources.<sup>452</sup>

In a series of multilateral forums since the start of the pandemic, Xi has made clear the need for global solidarity on green development in a post-coronavirus world.<sup>453</sup> At the September 2020 UN General Assembly, Xi advocated the collective pursuit of an innovative, coordinated, open, and inclusive green recovery of the world economy.<sup>454</sup>

### **Toward a Green Transition**

China's low-carbon transition acts as a key driver of growth for the country by enabling economic upgrading to help promote industrial transformation, creating employment opportunities in the renewable energy sector, and ensuring energy security while reducing China's dependence on fossil fuels.

Beijing's adoption of an ETS to propel the green transition underscores its confidence in the relative feasibility of market-based mechanisms to urgently reduce carbon emissions. In its current initial phase, China's ETS covers more than 4.5 gigatons of carbon dioxide from 2,225 power companies, which account for approximately 40 percent of the country's carbon emissions.<sup>455</sup> The ETS began by covering only the power sector but is slated to expand to the industry and aviation sectors by 2025. This expansion will make the scheme account for roughly 80 percent of domestic carbon emissions and 12 percent of global carbon emissions.

The Fourteenth Five-Year Plan supports environmental conservation in two ways. First, it increases transfers of payments by the central government to create a market-based system of ecological compensation.

Second, it establishes a system for realizing the value of ecological products by implementing market pricing for environmental protection and restoration.<sup>456</sup>

Climate change poses multifaceted, pressing, and long-term challenges to countries around the world. Global society learned in 2020 that it is capable of changing rapidly when collective survival is at stake. China has declared an understanding of its pivotal role in forging the global transition, given not only its status as the largest developing country and the world's biggest emitter in absolute terms but also its commitment to multilateral, open, and inclusive foreign relations. As such, the pace of China's decarbonization and deployment of renewable technologies has deep implications in managing the outcomes of climate change. In describing the climate crisis, Xi referenced the Chinese axiom "When people pull together, nothing is too heavy to be lifted."<sup>457</sup> It remains to be seen to what extent global actors, including China, can do the heavy lifting needed to meet the climate challenge.

***Climate change poses multifaceted and long-term challenges to countries around the world. China has declared an understanding of its pivotal role in forging the global transition.***

## **Conclusion**

Chinese policymakers' thinking on globalization reform is shaped by two conflicting objectives. The first and clearly more important aim is to establish a legal and regulatory environment that reflects the political priorities of the ruling party. This is demonstrated in the governance of digital technologies and, to a lesser degree, in financial regulation. In such cases, Chinese authorities have shown little interest in the second objective: shaping a regulatory environment that is compatible with international norms. Beijing's involvement in global rules in these areas therefore remains limited.

By contrast, in policy areas where domestic political priorities provide for malleable international diplomacy, China has demonstrated a real willingness to become an influential actor in shaping global norms. In some of these areas, like climate change and reform of the Bretton Woods system, China has discovered the utility of being the lead nation of a political alliance that defends the interests of the developing world against a global system that favors the political, economic, and commercial interests of the West.



# The Limits of Convergence and the Road Ahead

SINAN ÜLGEN

The terms of the debate on globalization have shifted. In many polities, the distributional impacts of globalization have created strong constituencies interested in its reform. Many political and economic analysts have also underlined that given globalization's large-scale consequences for socioeconomic cohesion, failure to address its more rampant dimensions would further increase political instability in democratic societies.<sup>458</sup> This debate is now well entrenched. A major effort is required to reform the rules and institutions of international governance with a view not only to mitigating the negative consequences of globalization but also, possibly, to enhancing its positive externalities.

Depending on their levels of development and competitive advantages, different groups of countries have advanced various options to rewire globalization. And yet, a sizable gap remains between these well-justified demands and the realities of globalization reform. When it comes to the feasibility of reforming globalization, three sets of issues can be discerned according to their level of convergence.

## The First Basket: Significant Convergence

In the first basket are policy areas on which the reform agenda is well advanced. This basket includes the rules on international taxation, among them the 2021 agreement under the aegis of the Organization for Economic Cooperation and Development on a framework to combat base erosion and profit shifting (BEPS)—the practice of aggressive tax avoidance. This framework has two objectives. The first is to reach an understanding on a global minimum corporate tax rate to prevent global companies from seeking establishment in low-tax

***Failure to address globalization's more rampant dimensions would further increase political instability in democratic societies.***



jurisdictions and, essentially, to preempt a race to the bottom for ever-lower corporate taxation. The second objective is to deliberate on the modalities of a digital services tax to be imposed on large digital companies.

The BEPS agreement can be viewed as a major multilateral accomplishment that will help rebalance global tax revenues to the advantage of smaller nations. These countries had been disadvantaged by the prevailing rules, which apportioned tax revenues based on firms' physical places of establishment.

The creation of a global minimum corporate tax rate is also expected to help smaller nations derive more tax revenues from global corporations by discouraging aggressive tax planning. Large taxpayers in those countries are generally the subsidiaries of multinational enterprises, which rely on their intricate knowledge of global tax rules and tax loopholes to minimize their tax burdens. For instance, as Elizabeth Sidiropoulos states in the chapter on Africa, in countries surveyed by the 2019 African Tax Outlook, published by the African Tax Administration Forum, on average 6.3 percent of large taxpayers generated 77.7 percent of tax receipts.

Another area of policy convergence relates to rules on international finance. A global agreement was reached in August 2021 for the distribution of \$650 billion worth of special drawing rights (SDRs)—an international asset held by the International Monetary Fund—to increase global liquidity. The urgency of a proper response to the demand shock induced by the coronavirus pandemic created a conducive environment for this decision. This was the first significant allocation of SDRs since 2009.

An interesting development in this sphere is the establishment of alternative institutions of international finance to work in parallel with the Bretton Woods bodies. Brazil, Russia, India, China, and South Africa (the BRICS countries) have taken the lead on the creation of the New Development Bank (NDB). Sidiropoulos expects this institution to provide competitive reform pressure on existing organizations. She claims that “by providing developing economies with credible alternative financing, the NDB has put pressure on the World Bank and regional multilateral development banks to reform their governance structures, investment priorities, and operational rules.” This pressure is limited considering that loans are extended only to the NDB's five member countries, but the bank will soon expand its membership to three more countries.

From China's perspective, as set out in the chapter by Minghao Zhao, Zhao Wenxiang, Ding Yifan, Lyu Jinghua, Wei He, and Jodi-Ann Wang, the NDB is viewed as a platform that can boost Beijing's influence in the developing world. The authors argue such regional arrangements can also help alleviate liquidity pressures when needed. For Russia, as Dmitri Trenin indicates, the NDB's role is to help with the process of de-dollarization by promoting the use of national currencies in international trade.

## **The Second Basket: Difficult Convergence**

The second basket includes policy areas where convergence has proved arduous. On trade policy reform, for instance, the gap between developed and developing nations remains substantial. The failure of the

Doha Development Round of multilateral trade negotiations was a significant drawback. But it illustrated the discrepancies in the positions of the major negotiating powers. Developing countries continue to push for more equitable trade rules. These nations' priorities are to ascertain the functionality of special and differential treatment, get recognition for their need to maintain policy spaces unencumbered by binding global rules, amend intellectual and industrial property rights to ease their access to technology, and uphold multilateralism. Developing countries also resist the contagion of the trade agenda to environmental and labor issues.

The lack of consensus on these major themes has compelled the large trading nations to chart an alternative path for trade liberalization. This has taken the form of a proliferation of regional and mega trade agreements as well as plurilateral negotiations with a specific focus. In the chapter on Europe, Richard Youngs and I note that as a major trading bloc, the European Union (EU) has completed or launched more preferential trade negotiations in recent years than any other power. The union now has over seventy bilateral trade accords and has opened but not yet concluded many other talks. We refer to the EU's position as an increasing focus on "instrumentalized globalization through political negotiation, as opposed to rules-based market liberalization."

Similarly, Rozlyn C. Engel and Tobin Hansen highlight the United States' burgeoning interest in pursuing sector-specific deals instead of revitalizing truly multilateral efforts. The authors indicate that "for now, bold action on major new trade deals, which have proved time consuming to negotiate and difficult to manage politically, is off the table" and that the U.S. administration will concentrate instead on "more issue-specific agreements that can be framed as solving concrete problems."

The drawback of this direction of travel for developing nations is twofold. First, new rules crafted as part of these initiatives continue to reflect the economic and commercial priorities of the industrialized world. As such, developing countries face the prospect of remaining in the unenviable position of being rule takers. There is a vivid debate about whether preferential trade agreements and plurilaterals can be considered the building blocks of a rules-based global order. But even if some of these rules that were originally crafted for and by regional groups achieve the status of global norms, such a process will fail to satisfy concerns of inclusivity and demands for a more balanced and equitable trade regime. Second, the proliferation of preferential trade agreements creates a more complicated regulatory and compliance environment for smaller countries and their exporters, undermining their international competitiveness.

On reform of the World Trade Organization (WTO), the main dividing line is about the utility and inclusivity of the organization's dispute settlement mechanism. Sidiropoulos maintains that the mechanism has not been useful for African countries because of its underlying design. Retaliation for noncompliance with WTO rules is limited to the economic value of bilateral imports. As a result, small exporters can never credibly threaten large countries because a small nation's imports from a larger defendant may constitute only a minor share of that defendant's total exports.

In addition, the representation of WTO dispute settlement bodies, including its Appellate Body (AB), is due to be improved. The African Group at the WTO has proposed that the number of AB members be increased from seven to nine and that the body's composition take into account elements such as regional

and gender balance and multilingualism. Developing countries' lack of involvement in these mechanisms as arbiters is also problematic because these states are not involved in the development of jurisprudence or in the shaping of obligations and interpretations that can support developmental aims.

### **The Third Basket: Limited Convergence**

The third basket includes policy areas with incomplete convergence. Climate action is a good example. Here, the positive news is the near-universal acknowledgment of this global challenge, as illustrated by the almost 200 countries that have become parties to the 2015 Paris Agreement.<sup>459</sup> Developed and developing nations are united in the challenge of combating climate change. As set out by Suyash Rai and Anirudh Burman in the chapter on India, part of this shift is due to the growing realization in developing nations of their vulnerabilities to climate change.

And yet, below the surface, many important cleavages remain. Of particular significance are equity concerns, which are essentially rooted in the asymmetry between emissions and burdens. On the one hand, most human-driven carbon emissions in the atmosphere originate in economic activities performed in or for affluent countries. On the other hand, large emerging markets have become today's main emitters and economic powerhouses.

This discrepancy is at the core of the divisions over responsibility for mitigating carbon emissions today. Developing countries claim that industrialized nations, because of their outsize historical emissions, should take the lead not only in mitigating those emissions at the global level but also in helping developing nations meet their mitigation and adaptation targets. Yet, global commitments for mitigation are still widely insufficient to meet the needs of poorer nations. Sidiropoulos remarks that \$20–\$30 billion per year will be required just for climate change adaptation in Africa to 2030, according to African Development Bank estimates.

One widespread criticism of global efforts to address climate change is the lack of emphasis on adaptation compared with mitigation. Many developing nations deplore the low funding earmarked for adaptation. Interestingly, China has opted to use climate finance as part of its diplomatic charm offensive, contributing to Beijing's soft power. As indicated in the chapter on China, ahead of the 2015 Paris climate summit, Chinese President Xi Jinping established a China South-South Climate Cooperation Fund to provide \$3.1 billion to support developing countries in tackling climate change. Subsequently, Xi elaborated on his commitment through the 10-100-1,000 initiative, in which China would establish ten low-carbon industrial parks, one hundred climate mitigation and adaptation projects, and 1,000 training opportunities on climate change in thirty-four developing countries.

Meanwhile, the EU has allocated higher funding to help developing countries transition to low-carbon economies. Youngs and I recall that the union now provides nearly half of the world's climate funding, with external climate projects accounting for €23.2 billion (\$26.9 billion) in 2019. But even for the EU, the balance between mitigation and adaptation remains highly skewed. For example, in 2018, the European Investment Bank's adaptation portfolio amounted to \$432 million, compared with \$5.3 billion for mitigation.

The EU has indeed espoused a global leadership role in climate action, including with its ambitious European Green Deal. And yet, this package, which seeks to make Europe climate neutral by 2050, has led to criticism that the union is instrumentalizing the climate transition to protect its commercial interests. As indicated in the chapter on Europe, one of the main links between the EU's climate and globalization policies is the bloc's increasing use of climate-related trade conditionality. Youngs and I observe that

the EU is set to make third countries' respect of the 2015 Paris Agreement on climate change a core precondition in all of its external trade deals. So-called green clauses have become a more prominent part of the union's trade agreements and one of the most tangible ways in which the climate priority has begun to infuse other areas of EU external action.

More importantly, the union's planned measures to combat carbon leakage and, particularly, its Carbon Border Adjustment Mechanism (CBAM) have triggered another important debate. The EU plans to impose tariff-like duties on imports of energy-heavy products, such as steel and aluminum, to prevent carbon leakage by discouraging these industries from moving to jurisdictions that do not have stringent carbon-mitigation measures. But these proposals are widely seen as inimical to the interests of developing nations. Sidiropoulos maintains that these practices, which essentially amount to a cross-border carbon tax, represent an impediment to the development aims of African nations. She states that "Africa wants the carbon space to pursue some of its economic development through existing and new fossil fuels. African countries consider it unjust for the international community to place immediate and stringent mitigation barriers on them without compensation and financial assistance."

A similar concern is shared by Francisco Urdinez in the chapter on Latin America, where he reports that

there is concern in Latin America that some negative externalities produced by developed countries in their efforts to achieve the Paris Agreement goals will fall on the region. Amid the environmental transition, there are real worries that the impacts associated with the extraction of raw materials in the Global South, such as lithium, cobalt, copper, coltan, and green hydrogen, may reduce the carbon footprints of richer countries at the expense of the environments of underdeveloped states.

In the chapter on Russia, Trenin underlines the potential negative implications of a carbon tax for a resource- and commodity-based economy like Russia's.

As a result, the EU's CBAM is likely to trigger not only debates about the mechanism's compatibility with WTO rules but also, possibly, a more insidious divide that pits the interests of developing nations against those of more mature economies. It would therefore be highly useful for EU policymakers to lead on creating an inclusive process for a more holistic analysis of the CBAM's global impact with a focus on the development agenda, which goes beyond the mechanism's first-order trade impact. So far, the analytical focus has been on these measures' compatibility with WTO rules, but the coming acrimonious debate will be on their developmental impact.

A similarly incongruous policy landscape dominates the governance of data and technology. There are no real convergences on the multilateral rules that underpin the regime of intellectual and industrial property rights. For developing economies, it is critical to prevent today's digital divide from setting off a new form of income trap, in which emerging and developing countries become rent payers to developed nations that have secured positions in the digital economy and produce increasingly sophisticated technology. The global intellectual property regime needs a broad review to improve access to technology for developing countries while assuaging the legitimate concerns of developed economies over the security of their innovations.

Since the Doha round, developing countries have asked for better terms for technology transfers, disclosure requirements, compulsory licensing flexibilities, and extensions of transition periods in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Developing states have argued for compulsory licensing measures to be extended to generic products to increase access to essential medicines, especially during national emergencies. However, deliberations have not led to meaningful progress, as the negotiating sides fundamentally disagree on the essence of the ownership of knowledge. The rise of intangibles as a source of value creation in the global economy has stimulated appetites to strengthen the enforcement of the TRIPS agreement, expand the realm of intellectual property, and reinforce the protection of algorithms in ongoing e-commerce negotiations at the WTO.

On data regimes, national regulatory approaches are shaped by the political, economic, and social priorities of individual countries. The EU, for instance, favors an open internet and free data flows as long as a robust personal data protection regime is in place. The union's General Data Protection Regulation (GDPR) is currently the most advanced policy for protecting private data, and it applies globally to all collectors, controllers, and processors of European data. The regulation clearly defines personal data and privacy as fundamental rights of all EU residents and establishes the conditions under which cross-border data exchanges with third countries are allowed.

The United States, by contrast, has a market vision of the internet and promotes data liberalization to foster innovation, growth, and trade. Washington opposes data localization measures that put its tech companies at a disadvantage abroad. The U.S. trade representative underscores that data flow restrictions are key barriers to digital trade. Washington takes a position on innovation that is directly linked to national security. In U.S. domestic debates and political philosophy, data privacy rights are balanced against commercial and national security interests and the freedom of speech.

Meanwhile, China advocates greater recognition of sovereign rights in cyberspace and a more significant role for nation-states in internet governance. Through its 2016 cybersecurity law, Beijing has implemented a series of measures, often dubbed the Great Firewall of China, that restrict transfers of data from mainland China and allow broad scope for government access to vaguely defined types of information. China also has the most comprehensive data localization regulation in the world under the guidance of the country's holistic concept of national security. The Chinese approach to internet and technology governance has provoked strong reactions from U.S. and European tech firms and governments and raised the risk of a bifurcated internet. Even so, parts of Beijing's approach have already appeared in models adopted by other jurisdictions, such as Nigeria and Tanzania.

The data economy offers developing countries, with their large populations not yet online, outstanding leapfrogging opportunities as well as considerable potential to trigger economies of scale and scope. But in reality, as the coronavirus pandemic has exposed, most countries have trouble navigating the challenges of digitization and often lack the enforcement mechanisms, technical capacity, and human resources needed to fully engage in the global data economy. Many states have yet to establish legal protection for personal and public data, while many of those that have done so lack the capacity to enforce existing frameworks. Only a few countries have rules that encourage the mixing of personal and public data for the purposes of efficiency and innovation.

### Successful Western Leadership

There are, nonetheless, two areas in which a degree of policy convergence has emerged as a result of successful regulatory leadership by Western nations. The first is data privacy, where the EU's GDPR has served as a template for many countries. Dozens of nations, including other advanced economies, such as Canada, Israel, and Japan, have opted to create privacy regimes that are aligned with or based on the GDPR. Their aim in doing so is either to preserve their access to the EU market or to benefit from European expertise—or both. In many ways, therefore, the EU has successfully exported its regulatory model for data protection.

The second area relates to the nexus of technology and competition rules. A key consideration in this respect is the potential role of competition policies to counteract the economies of scale enjoyed by many large tech companies and, ultimately, shape more economically advantageous outcomes for citizens. The multifaceted market dominance of U.S. and Chinese platform companies has triggered competition concerns around the world. Many countries have reacted by initiating competition investigations to reduce the negative impact of oligopolistic practices. Thought leadership, coupled with the important jurisprudence of competition authorities on both sides of the Atlantic, can provide a more general blueprint for leveraging competition rules to rebalance economic profits to the advantage of citizens.

### Globalization, Development, and Equity

On a final note, there is a variety of views on how to reform globalization. But debates and recommendations focus unavoidably on policy areas such as trade or global finance that are generally seen to contribute to the dynamics of globalization. As such, the debates suffer from siloization. What is needed is a multidisciplinary effort to broaden discussions to the many policy-driven aspects of globalization, with a focus on equity. Given that the backlash against globalization is fueled by its negative distributional impacts and the perception that it leads to unfairness, the international community needs a comprehensive analysis of globalization's outcomes and recommendations that span many policy fields.

Back in 2006, the Commission on Growth and Development was established with the backing

***What is needed is a multidisciplinary effort to broaden discussions to the many policy-driven aspects of globalization, with a focus on equity.***

of a few national governments, a private foundation, and the World Bank, with the aim to improve understanding about the policies that underpin rapid economic growth. The members of the commission were chosen from developing countries, based on their real-world policy experience. The commission's recommendations were published in 2008 as "The Growth Report: Strategies for Sustained Growth and Inclusive Development."<sup>460</sup>

Today, a similar, high-level analytical task force is needed to resolve the question of how to rewire globalization. As this compilation has shown, there are plenty of sound policy recommendations from various governments at different levels of development. These proposals need to be categorized and streamlined with a focus on how to repair globalization and ensure that its future trajectory is much more closely aligned with the goal of equitable outcomes. That should be the task of a high-level commission on globalization, development, and equity.

# Notes

## Introduction

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## Chapter 1

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## Chapter 4

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## Chapter 8

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