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Abstract:

This paper opens with a short recollection of the Kiel Week Conference of 2002, recorded in a volume edited by Horst Siebert, titled *Global Governance: An Architecture for the World Economy*. Assessments and forecasts made at that time are scored against subsequent developments. Security relations between the great powers are asserted to define the space for global economic governance. Over the next thirty years, the security context is not likely to provide the same inspiration for global economic institutions as the Cold War once did; instead, economic institutions will stand or fall on their own merits in meeting urgent challenges. The paper identifies and evaluates six challenges that are already with us, but which do not impose immediate acute costs on the great powers: climate change, financial crises, the world trading system, oil supplies, immigration, and economic responses to political chaos. A few of these, but not the majority, are seen as good candidates for global governance in the next decade. The paper concludes with speculation on four very low probability challenges that would impose acute costs (or present great opportunities) if they occur: pandemics, terrorism on the high seas, treasures from the deep seabed, and the prospect of a killer asteroid.

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1 Introduction

Our distinguished honoree, Horst Siebert, organized the Kiel Week Conference of 2002 and edited the resulting volume, titled *Global Governance: An Architecture for the World Economy*, which was published in 2003. My reflections in this essay often refer to *Global Governance* in the course of attempting three goals:

- Offer a retrospective of the 2002 conference;
- Score my own assessments and forecasts;
- Comment on new prospects for global governance.

When we met in 2002, anti-globalization forces had already become a media phenomenon. Demonstrations and riots in Seattle and Prague ensured that gatherings of world trade and finance officials would be well attended by TV and press. Since then, the skeptics have extended their reach beyond a loose coalition of fringe NGOs to include established organizations like Oxfam and the Carnegie Endowment. They have also found voices in the academy, including such influential names as Joseph Stiglitz (2002), Alan Blinder (2006), and Dani Rodrik (2007). Most importantly, anti-globalization sentiment has been amplified by public figures: Lou Dobbs of CNN, Senator Barack Obama, former President Jacques Chirac, and India's titular leader, Sonya Gandhi. Populist neo-isolationism has become the dominant political creed in Argentina and Venezuela.

In the opening essay of *Global Governance*, Siebert (2003) penned an eight point rebuttal to the anti-globalization movement. He challenged the notion that poor countries are inevitable losers, and that the division of income necessarily becomes less equal as a consequence of globalization. Empirical work has since reinforced Siebert's insights; among others, I would mention Lindert and Williamson (2001), Bhalla (2002), and Lawrence (2008).

As Siebert argued, *on average*, globalization delivers faster per capita income growth and sharply reduces the number of people mired in absolute poverty – China and India being the exemplars. But globalization creates opportunities, it does not a guarantee success; as Siebert emphasized, local conditions must be receptive. The United Nations (2007) has measured the quality of institutional conditions and the level of development outcomes (to construct its Trade and Development Index) and, as Siebert would have surmised, the rank correlation between conditions and outcomes is quite high – a correlation of 0.69.[1]

Since 2002, the skeptics have raised the bar, insisting that social rights and environmental improvement must be among the visible payoffs or globalization will be found wanting. Correlations of the sort I have just cited, and sophisticated econometric demonstrations of long-term cause and effect, do not suffice to satisfy the naysayers. In terms of income growth and distribution, the globalization skeptics now impose four tests:

- In developed countries, average real wages should rise significantly;
- In developing countries, incomes should converge toward OECD levels;

[1] The World Bank has also put considerable effort into bettering the quality of local governance and measuring the results (www.govindicators.org).

- Income distribution should not worsen, either in rich or poor countries;
- Painful job dislocation should be ameliorated by public policies.

These are demanding tests, and the contribution of globalization to adverse outcomes is hard to distinguish from a host of other forces that are inevitably at play. Authors in *Global Governance* explored whether improved governance might give globalization a more acceptable face. On the whole, their conclusions were cautious. Shogren and Kroll (2003), for example, portrayed the Kyoto Protocol as a "beachhead", but envisaged slow progress in curtailing greenhouse gas (GHG) emissions. Heal (2003) argued that global solutions to shrinking biodiversity are remote. Ostry (2003) threw cold water on the possibility of WTO reform. These and other authors offered fresh recommendations to improve global institutions, but kept their hopes in check. Events of the past six years show that caution was wise.

2 Scoring Assessments and Forecasts

My own paper in *Global Governance*, titled "Looking 30 Years Ahead in Global Governance", was among the most cautious. After scanning the thirty years between 1970 and 2000, I turned to governance themes that might emerge between 2000 and 2030. My core argument was that effective international institutions must spring from daunting problems that elicit widespread popular demand for global solutions. Even then, national jealousies will delay the emergence of effective international institutions – institutions that can both write the rules and enforce them.

My view then and now is that security defines the space for global economic cooperation. The British Navy provided the umbrella for flourishing trade and investment under *Pax Britannica*. Allied victories that concluded the Second World War spawned the Bretton Woods system, and the Cold War nourished the IMF, the World Bank and the GATT institutions for the next forty years.

My essay speculated on the security context of the next thirty years and then identified five global economic problems that would likely compel the greatest attention. Let me briefly recall and critique these themes, starting with the security context.

The early 21st century will echo the Concert of Europe following the Congress of Vienna of 1815 – at least according to my forecast. The great powers of the coming era will be the United States, the European Union (provided it adds foreign policy and military strength to its vast economic powers), China, perhaps Russia and Japan, and possibly India. The great powers will not engage in direct conflict with one another, but they will tolerate wars between secondary powers, even their own proxy states. Great powers will find common ground, I predicted, in dealing with terrorist movements.

How does my view of the security context look after six years? The Concert of Europe model appears to be holding up. Conversely the era of liberal internationalism, anchored by US military strength, seems to be over.[2] An old dictum from the 19th century finds new application today: "Be wary of interfering in the internal affairs of

[2] See Kupchan and Trubowitz (2007).

great powers". Thus American and European enthusiasm for spreading the creed of democracy and human rights finds practical limits at the borders of China and Russia.

My prediction that the great powers would find common ground in combating terrorism seems off the mark. While there is no limit on the supply of suicide martyrs, terrorist groups have not yet succeeded in gaining access to nuclear, chemical or biological weapons. Consequently each great power remains focused on its "own" terrorists. Russia and China worry little over al-Qaeda, and neither the United States nor Europe pays much attention to the strife generated by Uyghur and Chechnya.

Nor has halting nuclear proliferation or blocking genocide become a rallying cry for the great powers. The United States, Britain and France set the pattern when they acquiesced in Israel's program as early as the 1960s, a pattern repeated when the great powers accepted the status of India and Pakistan as nuclear states in 1974 and 1998. True to form, Russian and Chinese cooperation in blocking Iranian aspirations remains tepid. Moreover, rogue states that simply rob and kill their own people – Zimbabwe, Sudan and Congo come to mind – elicit little cooperative response.[3]

Very limited cooperation on security matters among the great powers, even falling below my modest expectations, partly reflects troubles attending the US occupation of Iraq. But it also reflects the fact that the Concert of Great Powers of the 21st century works much the same as the Concert of Europe of the 19th century: each great power looks after its own neighborhood and makes contributions to the global commons for only the most compelling reasons.[4]

While the foreseeable security context does not nourish global economic cooperation as the Cold War once did, the good news is that it does not pose an overriding obstacle. In an era of wary tolerance, effective international institutions must stand or fall on their own merits rather than spring from a high degree of cordiality among the great powers.

3 Scorecard on Five Compelling Issues

3.1 Global Warming

Among the five identified issues, the great powers have made the most progress towards setting the stage for effective international institutions in the realm of global warming. I attribute this qualified success to the "tipping point" identified by Shogren and Kroll (2003). They astutely observed that, when presented with an event with low but uncertain probability (substantial global warming caused by greenhouse emissions) and very high but uncertain costs (droughts, floods, hurricanes), most people find it hard to combine the probable risk and the probable cost into a single estimate that dictates action. Instead, people divide into two groups: those that fixate on the low probability and correspondingly ignore the problem, and those that fixate on the high costs and demand extraordinary sacrifice.

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[3] Events in the Congo illustrate how feeble collective efforts have been. According to a report by the International Rescue Committee, some 5.4 million persons have died in the long running conflict, more than 95 percent of them due to disease and malnutrition. *Washington Post*, January 23, 2008, p. A14.

[4] Scott Barrett (2007) provides a systematic analysis of incentives that shape the supply of global public goods, a term which covers global governance.

Over the past six years, a decisive majority in the developed countries has swung to the "high cost" side of the debate over climate change. So far, to be sure, this shift has resulted in nothing that can be described as "extraordinary sacrifice". In fact, most of the proposed plans are designed to disguise public sacrifice. Instead national and sub-national governments are busy creating a variety of emission standards, biofuel initiatives, and cap-and-trade systems that do not visibly hit to pocketbook of average citizens.

3.2 Poverty

When our Kiel Week Conference was held in 2002, global cooperation in fighting poverty had already suffered two blows. The Cold War argument for foreign assistance was by that time an historic relic. Meanwhile, persuasive evidence was accumulating that traditional aid programs are not effective in accelerating the pace of economic development, a thesis initially advanced by Peter Bauer (1972) and forcefully restated by William Easterly (2001) and Rolf Langhammer (2004).[5] Since 2002, global cooperation in fighting poverty has suffered a new blow: despite abundant contrary evidence, many developing countries now dismiss free trade as an instrument for reducing their own poverty.

This is not to say that poverty has fallen off the global agenda. Indeed, NGOs and Hollywood stars have done a great deal to keep the spotlight on human misery. Bono has made Africa his personal crusade. The Gates Foundation has tackled HIV and malaria. Others could be cited, and all this private activity was foreseen by Florini (2003). Meanwhile, China has stepped up its bilateral aid programs in Africa, usually with a view to exploiting natural resources. On this issue, my forecast was on the mark: poverty certainly appears on the short list of global governance issues, especially now that the poorest countries face a food crisis. Yet "governance" on poverty lacks much coherence.

3.3 Oil Supplies

No where were my forecasts wider of the mark than in oil. I repeated the conventional wisdom that, with improved extraction technology, abundant tar sands and deep sea oil reserves should succeed in maintaining the range of \$20/bbl to \$35/bbl in real terms – interrupted only by spikes. At no point did my account mention the peak oil phenomenon, then a glimmer; nor burgeoning demand from China, India and other emerging countries; nor Russia's implicit cooperation with the OPEC cartel.

Despite these glaring omissions, I stumbled on the right outlook, namely that the Middle East cartel, mixed with radical Islam, might result in unleashing the "oil weapon" for a prolonged period. While other forces are at work – soaring demand in China, the Iraq war, turmoil in Nigeria -- it is right to see the hand of OPEC behind the

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[5] William Easterly's latest book, *The White Man's Burden* (2006) repeats the author's criticisms of official aid, and Alan Krueger's analysis (2007) questions the contribution of personal poverty to the recruitment of individual terrorists. Both scholars implicitly undermine the case for global cooperation, centered on foreign assistance, in the campaign to reduce poverty. For a contrasting view, see Paul Collier, in *The Bottom Billion* (2007).

steady ascent in the price of oil from the $20-$35/bbl range of 2002 to the $90-$140/bbl range of 2008.

3.4 Financial Crises

What I wrote in 2002 bears repeating amidst the turmoil of 2008:

> Talk of a "new financial architecture" has been mostly that – talk…Banks and corporations everywhere have become adept at hiding losses. Financial architecture efforts have yet made little difference in surveillance or enforcement – not in emerging markets, not in the OECD… Since the world economy has acquired no lasting immunity to the viruses that bred financial crises in the 1980s and 1990s, there is every reason to anticipate that they will continue to erupt.

After this diatribe, I presented an optimistic forecast on the role of the IMF as a global financial regulator. I expected that the Fund would begin to certify financial rectitude in emerging countries. The Fund has made some progress, but the distance remaining is far greater than the distance traveled. Countries that are flush with foreign exchange think they have little need for the Fund's advice or expertise. This is unfortunate, because it leaves world financial markets with Standard & Poor's, Moody's and Fitch for rating financial structures in developing countries. The rating agencies have talented people, but the fee-for-service model creates a strong bias to understate risk; and the rating agencies are in no position to advise their clients to strengthen financial discipline.

I was skeptical that the Bank for International Settlements (BIS) would rise to the challenges ahead, but not skeptical enough. The Basle II accord – a document of 347 pages -- was drafted to accommodate large banks in their effort to escape meaningful standards and external surveillance. In this goal it succeeded all too well: the *laissez faire* spirit of Basle II has permeated financial oversight for years, even though the accord only came into force in 2008. National regulators in the United States and Europe placed a blind faith in "market disciplines", oblivious to incentive structures that impelled working bankers to underestimate risk in the quest for fees.[6] Thus, at the same time that many of the largest banks were bragging about their proprietary risk models, they were busy marketing "black box" securities, erected on a base of low-quality debt. I concluded my skeptical evaluation of the BIS with these words:

> But when future financial crises drag down major G-10 banks, mutual funds and pension funds, as I expect will happen under current relaxed oversight practices, the call for anticipatory regulation will escalate.

[6] Even after the crisis of 2008, fostered by his *laisser faire* policies, Alan Greenspan continued to advocate relaxed official regulation, relying instead on private counterparties to discipline reckless practices. See *Financial Times*, March 17, 2008, p. 9. This advocacy forms an essential element of Greenspan's broader defense of his record and reputation.

3.5 Trade and Investment

As Siebert so persuasively argued, liberal trade and investment policies are a sure method, and perhaps the *only* sure method, for spreading the benefits of economic development to poorer regions of the world. Official aid, whether delivered multilaterally or bilaterally, has a questionable record;[7] and the jury is still out on the benefits of global financial integration by way of portfolio transactions. For these reasons in 2002, trade and investment (meaning direct investment) seemed likely candidates for robust global governance.

But as Ostry (2003) observed, the WTO was faltering, and OECD efforts to construct a Multilateral Agreement on Investment (MAI) had already collapsed in 1998. In 2002, I put my bets on "super-RTAs", by which I meant regional trade arrangements organized around the United States, the European Union, and possibly China over the next 30 years.

For the United States, the bet looks to have been a premature. The Free Trade Agreement of the Americas (FTAA) withered, and instead the United States has added to its collection of smaller FTAs, over the increasingly vocal objections of Congressional Democrats. Even so, the world trading system writ large – to include both the WTO and super-RTAs – remains the strongest element of global economic governance.

4 Future Prospects for Global Governance

When the Cold War ended, the pre-eminent global economic institutions began to languish. The underlying causes go deeper than the idiosyncratic qualities of Presidents George W. Bush and Vladimir Putin. The security context permits, but does not require, strong cooperation on economic questions. The context instead favors clubs organized around specific topics and geographies – illustrated by "open skies" in civil aviation, or the Barcelona Process linking the European Union with the Maghreb region. In these clubs, each participant can count immediate gains, much like buyers and sellers in the wholesale fish market. Only in unusual circumstances will the distant costs of non-cooperation lead to global governance on the scale illustrated by the Bretton Woods institutions.

In his new book *Superclass*, David Rothkopf (2008) paints a picture of some 6,000 hugely rich and powerful individuals who exert enormous influence over the better off half of the world's population, some 3 billion souls. Members of the s*uperclass* are tightly connected to one another through overlapping interests and common networks; unlike the rest of us, they can easily meet with prime ministers and presidents. This picture suggests an obvious question: since *superclassmen* share a collective interest in a smooth and prosperous world economy, could they form the nucleus of new systems of global governance? In the absence of external shocks, the answer is probably not: individually each member of the *superclasd* remains intently focused on advancing his own financial interests or enhancing his own political power.

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[7] See Easterly (2001) and (2006).

Let me now turn to a sketch of two sorts of challenges that answer my definition of "unusual circumstances" and consequently hold out prospects for stronger global governance over the next decade: high probability challenges that will *not*, however, impose acute costs in the next 10 years; and low probability challenges that would definitely impose acute costs if they occur.

5 High Probability Challenges

The high probability category covers six challenges already discussed, four of them already discussed. The four familiar topics are climate change, financial crises, the world trading system, and oil supplies. To repeat, these events are at our doorstep and the call for global cooperation will probably grow stronger over the next decade -- perhaps beginning with the US president inaugurated in 2009. But for this collection of challenges, the immediate costs of limited cooperation are modest; hence the willingness to accept robust forms of global governance will be tempered.

5.1 Climate Change

Current public discourse emphasizes "climate change" rather than "global warming" – a shift in terminology that conveys a clear and present danger rather than a marginally acceptable phenomenon. Al Gore's film, *An Inconvenient Truth* (2006) and the *Stern Report* (2007) both convey an apocalyptic vision. Yet on present evidence the costs of climate change over the next decade will be modest. Real damage occurs over a horizon of 30 years or longer. But as climate change "events" become more frequent -- especially drought and hurricanes – emission controls will almost certainly be strengthened – and require genuine public sacrifice. But the causes and effects of climate change differ dramatically between countries and regions.[8] China, the United States, Europe and Japan are big emitters; India and Africa are big losers. This disparity between cause and effect will temper the drive for global governance.

On the other hand, the world has turned the "political page" on climate change; most leaders – both at national and sub-federal levels -- now talk about reducing emissions, and they have stopped denying the problem. This suggests four outcomes from the Copenhagen Summit in 2009: agreed emission targets for both developed countries and the larger developing countries; agreed time paths for meeting the targets; bolstering the Clean Development Mechanism; and agreed surveillance procedures. Surveillance, even limited to a "name and shame" procedure, will entail a considerable measure of global governance.

In anticipation of Copenhagen, or in its wake, national emission control schemes will be adopted. These are likely to collide when governments implement trade measures to avert the competitive consequences of their own controls and when they

[8] This fact was emphasized in the International Monetary Fund's latest *World Economic Outlook* (2008).

forcefully condemn laggards in the greenhouse control campaign.[9] In turn, WTO members might design "rules of the road" for reconciling differing national systems of emissions control with the open and non-discriminatory values of the world trading system. Or they might simply allow the WTO Appellate Body to reconcile systems on a case-by-case basis, drawing on established rules to adjudicate disputes (Hufbauer and Kim, 2008). Either route points to stronger global governance in the realm of climate change.

To summarize, the foreseeable result of all this ferment are global regimes which limit GHG emissions by industrial countries together with China, India and Brazil; define permissible and impermissible trade measures; and establish agreed systems of measurement and surveillance. The Copenhagen Summit in 2009 could launch serious international institutions as early as 2012.

5.2 Financial Oversight

Balance of payments problems were a 20th century problem; financial crises rooted in faulty credits are the 21st century problem, illustrated by the Asian financial crisis of the late 1990s, and the subprime mess that erupted in 2007. Financial markets are increasingly correlated; the ratio of financial assets to GDP is rising everywhere, and financial markets, not trade flows, have increasingly become the transmission mechanism for spreading shocks from one country to another. Market players can hedge their exchange rate risks, at least as between the major currencies; but hedging concealed credit risks has turned out to be extremely difficult.

Given these well known facts, the financial crisis of 2007-08, just like the Asian crisis of the 1990s, has evoked calls for a dramatic overhaul in the external surveillance of major commercial and investment banks and other financial players. Following the Bear Sterns debacle, even Timothy Geithner, president of the Federal Reserve Bank of New York, suggested closer regulatory cooperation on an international basis (*Financial Times,* June 9, 2008, p. 9). Leaving financial institutions to the discipline of self-regulation, when the financial rewards to top managers are tightly linked to rapid balance sheet expansion and risky bets, has proven too costly.

That said, current Washington wisdom holds that effective international regulation remains a long shot. The best efforts of Treasury Secretary Henry Paulson are likely to deliver a mouse.[10] Why? First, US-based financial institutions have tremendous lobbying power, owing both to their liberal donations to politicians of both parties and to their role as past or future employers of officials in the Treasury, Federal Reserve, and key Congressional committees. Financial institutions based in Europe are almost as strong in their political environments, and their counterparts based in Japan are even stronger. Second, the *status quo* is stoutly defended by existing US regulatory agencies at the state and federal level, by Congressional oversight committees, and by most regulatory agencies in Europe and Japan. As a general rule, officials with oversight powers think they are doing a fine job – it was someone else who messed up. Third,

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[9] In the sphere of climate change, we might even see a limited breach of the 19th century dictum, "Be wary of interfering in the internal affairs of great powers", if the European Union and the United States seriously criticize China and India.

[10] For a summary of Paulson's proposals, see *Financial Times,* March 14, 2008, p. 4.

while the Paulson package would redraw the lines around regulatory boxes, it does not begin to attack the underlying incentive structure which skews managerial decisions towards leverage and risk, in search of high returns, using other people's money. Two examples:

- The rating firms (Moody's, etc.) are paid by the sell side of the financial market (i.e., issuing firms), even though the purport to provide guidance to the buy side (pension funds, insurance companies, etc.).
- Wall Street bonuses are typically paid annually and do not contain "clawback" provisions in the event of adverse outcomes next year or the year after. Managers thus discount "black swan" events that occur only once a decade.[11]

In short, the financial crisis of 2007-08 seems unlikely to generate enough turmoil to compel an overhaul of US regulation, much less lead to effective global governance. Most Asian and Latin American countries, not to mention Russia and Middle Eastern oil powers have so far escaped the widening credit crisis; they hardly feel obliged to revamp their own financial regulation in response to reckless practices propagated by New York, London and Frankfurt.

Yet hopeful institutional straws are blowing in the wind: new energy in the IMF, the Basle process, and the Financial Stability Forum. President George W. Bush and Prime Minister Gordon Brown promised to step-up transatlantic cooperation.[12] More fundamentally, as financial magnitudes grow relative to the size of the world economy, the prospects of effective oversight improve, since a given percentage collapse in asset values (say 10 percent) is getting larger relative to underlying flows of household and corporate income and consequently has wider political consequences.

At some point, the "buy side" of financial markets – represented by home owners with mortgage obligations, large pension funds, insurance companies, money managers, and even sovereign wealth funds – might combine to overcome the current dominance of the "sell side" – represented by commercial and investment banks, hedge funds and private equity shops. When that happens, the nascent forums of global financial governance should gain real teeth.[13] My guess is that we are one crisis away from a decisive political coalition that will, in fact, deliver meaningful international regulation of credit origination by large financial institutions.

Unlike some observers, I doubt that global surveillance of exchange rates will soon become more robust.[14] Prior to 2008, the International Monetary Fund had only once criticized a member for manipulating its exchange rate to achieve a trade advantage.

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[11] In 1998, Long Term Capital Management (LTCM), with a 20-to-1 gearing ratio, was the classic failure, but there was no follow-up improvement in the regulation of highly leveraged hedge funds.

[12] *Financial Times*, March 31, 2008, p. 1.

[13] Seven years ago, this same aspiration was voiced in Dobson and Hufbauer (2001). Hopefully we will not have to wait another seven years. In April 2008, under the leadership of Mario Draghi, the Financial Stability Forum (2008) issued calling for vigilant oversight. Draghi is quoted as saying : « Things are going to be implemented. And there is going to be a follow-up process. » *Wall Street Journal*, April 12-13, 2008, p. A3.

[14] Equally, I doubt that the "world currency" model advocated by Stiglitz (2002), and resurrected by Bergsten (2007) in the form of an IMF substitution account, will come on stage. Instead more countries will align their currencies either to the dollar, the euro, the RMB, or the yen as they build up public and private holdings in foreign exchange.

For the most part the Fund confined its exchange rate oversight to small and mid-sized countries with overvalued rates, but Managing Director Dominque Stauss-Kahn somewhat changed course in 2008, and lectured the Chinese authorities on the undervalued RMB. Institutionally, however, the Fund lacks the muscle to adjudicate exchange rate relations between the four big players – the United States, the European Union, Japan and China. Despite the valiant efforts of my colleagues at the Peterson Institute, there is no sign of a consensus between these players on the merits of "target zones" or "reference rates".[15] Exchange rates can move a lot without precipitating a financial crisis, even though individual firms may suffer big losses (case in point: the swing in the dollar/euro value from a low of \$0.85 in 2000 to near \$1.60 in 2008). Moreover, national custodians of the major currencies – the central bankers and finance ministries – clearly want to retain tight control over exchange rate issues and not delegate this authority to IMF officials. Ten years from now, in my estimation, the IMF will not exert more influence over national exchange rate policies than it does today, nor will the world be worse off for leaving these matters in the hands of national authorities.[16]

5.3 The World Trading System

The world trading system is certainly in distress, owing both to self-inflicted wounds from the Doha Round negotiations, and to bilateral and regional trading arrangements (collectively RTAs) which now occupy huge swaths of WTO turf. The faltering rules of world trade have long been a subject of concern to Horst Siebert.

Yet for all its faults, the WTO hosts the best system for adjudicating commercial disputes between nations that the world has ever seen (the WTO Dispute Settlement Mechanism, capped by the Appellate Body). Even if the Doha Round stumbles to an unsatisfactory conclusion in 2010, and even if Doha is the last of the big trade deals,[17] the existing body of agreements will remain intact, subject to effective adjudication when disputes arise. Moreover, the WTO forum will remain open for plurilateral accords on a range of important questions: GHG emission controls and trading rights; liberalized services trade; government procurement; elements of competition policy; and much more. Following the recommendations of Richard Baldwin (2008), the WTO members might even give a multilateral dimension to their regional accords.

At this writing, the US collection of FTAs, now spread across the globe, stands little chance of being knit into a cohesive trading unit. Geography is the major obstacle, but there are policy barriers as well.[18] Nevertheless, within the larger array of FTA partners linked to the United States, a North America-Central America-Caribbean "super-RTA" bloc could emerge, perhaps with the addition of Colombia, Peru and

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[15] For more details, see Williamson (2007).

[16] In terms of monetary governance, my very modest suggestion is allow non-voting observers from countries that have aligned their currencies to the dollar or the euro to occasionally join the deliberations of governors of the Federal Reserve System or the European Central Bank.

[17] On this theme, see for example Tarullo (2006).

[18] The United States has resisted a European-style "diagonal cumulation" rule that would allow its partners to supply inputs to one another on a tariff-free basis. Moreover, the dispute settlement mechanisms within the individual FTAs are weak.

Chile. Bilateral and one-way trade agreements already criss-cross this odd-shaped region. To form a super-RTA, a future US president will need to embrace the Hemispheric vision of Presidents George Bush and William Clinton, probably embellished by a robust program to improve labor standards and combat GHG emissions.

Since 2002, the European Union has made substantially more progress on its super-RTA program than the United States. The Union itself has expanded from 15 to 27 member countries, and the number of countries linked to the European Union through trade agreements has grown from 9 to 12, with 10 more under negotiation. In trade terms, the European Union is well along on the way to forming a geographically connected bloc that encompasses North Africa and Eastern Europe.

China has been busy negotiating bilateral trade deals with its Asian neighbors, but so far these are "soft" agreements (not covering services or investment, and excluding many sensitive products), and China has yet to declare a regional vision. The super-RTA centered on China will likely take form very slowly, following the further growth of supply networks and direct investment rather than leading market forces.

Putting these themes together, the world trading system remains the strongest domain of global economic governance. To be sure, powerful multinational enterprises have transferred much of their erstwhile enthusiasm for the WTO to RTAs, where their objectives can be accomplished more quickly. But if we think as the WTO and the super-RTAs as parts of a single complex system of trading rules, substitutable to some degree, we can be optimistic about governance. In this realm, the costs of breakdown are simply too large, to too many important players, for the Great Powers to allow an unraveling.

5.4 Oil Supplies

OPEC's tactics are no longer drawn from the playbook of confrontation popular in the 1970s. Instead, OPEC members (especially Saudi Arabia) have quietly restrained oil field investment; thereby ensuring that there is little spare capacity to pump additional oil in response to episodic crises or strong Chinese demand. Russia has done much the same, by expropriating Yukos and curtailing BP. The result is that, for decades to come, the foreseeable price of oil will stay well above the marginal cost of extraction and delivery -- which currently does not exceed $50/bbl even for Alberta tar sands.

From an environmental standpoint, high oil prices might be seen as a blessing. After all, high prices curtail demand for petroleum and they stimulate alternative energy sources, some of which – wind, solar, nuclear – impose a very light carbon footprint. But high oil prices also stimulate demand for alternatives that impose a much heavier carbon footprint (notably coal), or make a doubtful contribution to limiting carbon dioxide emissions (ethanol from corn or biofuels from cleared land). In terms of price signals that shift both energy demand and energy sources, the net effect of $140/bbl oil on GHG emissions is mixed, but probably more good than bad. Moreover, oil at $140/bbl certainly concentrates the public mind on the linked complex of energy and climate change issues. That said, the prospects for global governance on the demand side, to match the supply side cartel, are very weak. Here I take some satisfaction in my earlier forecast – namely a fragmented response:

> Put starkly, Japan, China and India will bend their diplomacy to ensure continued oil supplies from… the Middle East and Central Asia. The European Union will look to Russia and secular Middle Eastern states… The United States will seek energy security foremost in the Western Hemisphere…

In a provocative analysis, Daniel Ahn (2007) argues that the major consuming countries – the United States, Europe and Japan, could curb the power of OPEC and its followers to ratchet up oil prices if together they would do two things: hold strategic reserves equal to at least a year of oil consumption, and voice an implied threat to release the reserves and sharply depress prices if oil producers overplay their hand. The analogy between "oil deterrence" and "nuclear deterrence" is clear: the weapon would work best if it is so credible that it never has to be used.

Whatever the merits of Ahn's game theory, the continuation of a fragmented response by the great powers on the demand side of the oil equation looks most likely. China is busy accumulating oil reserves through state-owned companies and strengthening its diplomatic ties with oil-producing nations.[19] US leaders since President Nixon have voiced stirring but empty pledges of "energy independence". The OECD countries will dust off their IEA mechanisms for supply sharing if faced with an abrupt cut-off by Iran or Russia or Saudi Arabia. But like the proverbial frog that remains swimming in a pot of water that is slowly brought to the boil, the OECD countries have demonstrated their inability to act as OPEC and its collaborators have gradually ratcheted up the price of oil.

5.5 Immigration

In 2002, I contended that resistance to ceding domestic sovereignty over immigration issues went far deeper than anti-immigrant voices of that day: Patrick Buchanan, Jean-Marie Le Pen, Joerg Haider, and Pim Fortuyn. This turned out to be correct: as those firebrands left the political scene, they were quickly replaced. To demonstrate my point, President George W. Bush failed to persuade his fellow Republicans to enact a balanced immigration bill that combined an increase in work visas with greater border security, and a reasonable pathway to citizenship (amnesty). Instead, political figures like Congressman Duncan Hunter (R-CA) of San Diego, California, and Sheriff Joe Arpaio of Maricopa County, Arizona, continue to dominate the US debate, advocating high-security fences and a round-up of illegal immigrants.

Europe has had its own battles. Underlying the popular rejection of the EU Constitution in 2005 was the unsettled question of what the Constitution might mean for immigrants from Turkey. Germany, among other EU members, has delayed until the last possible date (2012) free immigration from Poland and other new EU states. The case for a global compact on immigration will get stronger in the years ahead, as demographic aging and the demand for skilled workers become more acute forces.[20] But political resistance will also get stronger. In my view, immigration will remain

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[19] For example, in April 2008, China established a strong foothold in Nigeria with a $50 billion line of export credits. See uk.reuters.com/article/oilRpt/idUKPEK9950620080402.

[20] For more details, see Kirkegaard (2007).

strictly within the domain of national policy, punctuated by occasional bilateral agreements for professional and other skilled workers.

5.6 Economic Response to Political Chaos

Political chaos in its various guises – terrorism, civil war, genocide – is the security challenge of our era. To spark chaos does not require high-tech weaponry or disciplined armies. It only requires an abundant supply of angry young men willing to sacrifice their lives, connected to each other only by ideology, battling the established order with small arms and explosives.[21] In Afghanistan and Iraq, and across the African continent from Rwanda to Sudan, the predominant Western response has been military force. Even discounting Joseph Stiglitz's calculation of $3 trillion for the Iraq war alone,[22] it is apparent that military responses are tremendously expensive, but not necessarily effective. No less an authority than General Anthony Zinni has called for a new strategy: shifting from a predominantly *ex post* military response to a predominantly *ex ante* economic response.[23]

To be effective, *ex ante* economic programs would need to be mounted on a vastly larger scale, using radically different methods, than the current efforts of the World Bank and bilateral aid. Huge elements of external governance would need to be combined with vast sums of money. Still *ex ante* economic responses would cost far less in human and financial terms than *ex post* military interventions. In time, with more episodes of chaos, the failings of the current approach may breathe new life into the World Bank, not only as a paymaster but also as governing body. At this writing, however, it is difficult to detect a willingness of the great powers to mount programs on anything near the requisite scale when they are confronted with the chaos of a failed state.

6 Low Probability Challenges

To repeat what I said at the outset, the four events outlined in this section are very low probability challenges. However, each event is sufficiently threatening that its occurrence would trigger a call for a coordinated global response. Action on a purely national basis would seem inadequate to the challenge. Even so, in at least one of the challenges, the prospect of global governance seems slight.

6.1 Global Pandemics

In the past century, the world has experienced two pandemics, the Spanish influenza epidemic of 1918-19, which killed upwards of 50 million persons before running its

[21] On the amorphous quality of terrorism, see Sageman (2007).

[22] Stiglitz and Bilmes (2008).

[23] Consult Google.com for a list of his recorded interviews, speeches and writings. The author has also heard General Zinni's views at length in off-the-record sessions.

course, and the current HIV epidemic, which may claim 100 million victims by 2025. Neither episode provoked a sustained effort at global governance, although the World Health Organization owes part of its current vitality to fear of another pandemic (aroused by SARS and Avian flu). Why was the governance response not stronger? Can we be more optimistic if and when another pandemic strikes?

To the first question, various reasons can be cited. Spanish influenza erupted during the First World War, and in any event no one knew what to do. In its early phase, HIV was rare and mysterious; then it was associated with sinful conduct; unlike influenza, which kills in days, HIV takes years; and today most of the victims reside far from the centers of global power. As with influenza, and despite years of research, no one has cure for HIV. Put bluntly, it is much harder to marshal a global response to a pandemic than to a tsunami; reconstruction on a local scale is far easier than combating a mysterious killer on a global scale.

Against this backdrop, it can honestly be questioned whether the next pandemic will prompt a governance response. Every communicable illness presents two challenges: (a) sensible measures to arrest the spread; (b) medical treatment aimed at alleviation or cure. Conceivably, if experts can agree, sensible measures will be implemented to arrest the global spread of the next pandemic. But these are likely to be costly (at a minimum, interrupted flights; perhaps quarantines imposed on whole regions), and the question of cost sharing will loom large. Costs are also a major element in offering effective medical treatment; as the HIV epidemic has illustrated, official programs and private foundations will step up, but only after the disease is well established. Only if the disease is sufficiently swift and frightening (rapidly communicated Ebola would be an example), is there a good chance of meaningful global responses at an early stage.

6.2 Terrorism at Sea

Terrorism against major civilian targets is not commonplace, but it is certainly not rare: recall not only 9/11, but also the Riyadh apartment bombings of 2003, the Madrid train bombings of 2004, and the London bus bombings of 2005. These episodes triggered sharp military responses and intelligence cooperation, but so far nothing that resembles global governance. The storyline could be different if terrorists were to succeed in blowing up an oil tanker or container vessel, on the high seas, in the Straits of Malacca, or in a major port. As a natural response, some nations, led by the United States, would shut down a large portion of maritime traffic. In turn, the cascading economic devastation would be huge.

The US Container Security Initiative (CSI) offers the beginnings of an anticipatory global regime to avert this scenario. The CSI has stimulated one element of a global response, namely upgrading all ports so that containers can be inspected even before they are loaded. According to current US legislation, shipments from ports that do not meet the requisite standard will not be accepted in US waters after a deadline around 2012.

A companion element would entail verification and surveillance of all non-military vessels, to preclude the maritime analogy of 9/11 – hijacking a small cargo vessel, loading it with flammable explosives, and ramming an oil tanker close to port. This would require a trusted global oversight regime, since few countries will gladly accept US inspection of maritime vessels or containers that have no contact with US ports.

6.3 Treasures from the Deep

Mining the deep seabed arguably falls within the scope of the UN Law of the Sea Treaty – a treaty concluded in 1982, now signed by 155 countries, supported by President George W. Bush, but yet to be ratified by the US Senate. Likewise, the Antarctic Treaty, signed in 1959 by twelve countries with territorial and scientific claims, arguably establishes a basis for governing commercial claims in the seabed surrounding the Antarctic or under the deep ice.[24] Current technology does not yet enable access to these treasures, but methane resources or carbon dioxide sinks could be among the early harvests. Once commercial accessibility is established, and environmental concerns are answered, there will be considerable interest in a functioning global compact that appropriately shares the wealth. This is a rare instance where global governance might be prompted by hopes of gain rather than fears of loss.

6.4 Killer Asteroids (don't laugh)

Every 100 million years or so, planet Earth gets struck by an asteroid or comet a few kilometers in width that wipes out living creatures.[25] This is the rarest of rare events, but also the most cataclysmic. Telescopic surveys that map and anticipate potential threats are relatively cheap, in the range of hundreds of millions of dollars – but even these are now facing budget cuts. Various "gravity tractors" and "kinetic impactors" that would deflect a threatening object are within the range of today's space technology. But they need a substantial lead time to be effective, they would cost billions of dollars, and cooperation at least among the great powers would be required to "tinker with nature" on such a grand scale.

However, cooperation could have side payoffs. Apart from killer asteroids, much smaller versions regularly explode in the upper atmosphere, generating energy in the one to ten kiloton range. This is enough to resemble a small atomic bomb in space, a worry to major powers that fear destruction of their military satellites. Cooperation against the killer asteroid threat might pave the way for some sharing of military satellite data when unusual events occur in the upper atmosphere. Possibly it could foster a broader compact to reduce great power tension over the military and commercial control of space.[26]

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[24] Whereas Antarctic claims seem suitable for a global compact, Artic claims are likely to be confined to bordering states: the United States (via Alaska), Canada, Denmark (via Greenland), Norway, and Russia.

[25] « Preparing for Doomsday », *Science*, vol. 319, 7 March 2008.

[26] See "The Militarisation of space", *The Economist*, January 19, 2008.

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