Introduction

Rethinking Cooperation in a Multipolar World

Multilateralism just isn't what it used to be. Wherever you look, the big, global international organizations that dominated the postwar economic system appear to be suffering from middle age – and in some instances, irrelevance. The last major multilateral trade agreement was signed over 15 years ago, when 123 countries created the World Trade Organization (WTO) and crafted a new set of rules for international trade. Since then, attempts to conclude another big round of reforms have struggled, and goals for the latest Doha Round of trade negotiations have been watered down in order to salvage a much more limited deal. The United Nations, meanwhile, has played virtually no role in crafting international financial policy in the wake of the most recent crises – a significant departure from the 1970s when members launched radical policy initiatives redefining the very meaning of national economic sovereignty. And the International Monetary Fund (IMF) and World Bank, though retaining important resources for stabilizing the international financial system, have yet to recover from their highly controversial responses to the Asian Financial Crisis of the 1990s, and have been in many ways sidelined in crafting policy responses to the recent Greek, Irish, Portuguese, and Spanish debt crises.

Instead, the "global" multilateralism characterizing the last fifty years of international economic affairs has been supplanted by an array of more modest and seemingly less ambitious joint ventures – from regional clubs like the (shaky) European Union and (rising) Association of Southeast Asian Nations to more geographically diverse and less understood initiatives like the G-20, Basel Committee on Banking Supervision and Financial Stability Board. Like their predecessors, these institutions and forums seek to coordinate diverse sectors of the international economy and export shared policy preferences of member governments.

But unlike the multilateral institutions that have largely defined international cooperation in the wake of World War II, these institutions are markedly different – and less grandiose than their predecessors. More modest in size, formality, and even inclusiveness, they play small ball on the court of international affairs and embrace what can be described as distinctively *mini*lateral strategies of economic statecraft.

As such, today's economic diplomacy seems destined to disappoint the ambitious diplomat or international lawyer. After all, for more than a generation, the grand narrative of globalization has largely been one of ever growing economic cooperation. The story went that as countries, spurred by technology and free trade, allow the free flow of capital, goods, services, and ideas across borders, they also, inevitably, should come to cooperate more. Globalization shortens the distances for business and trade, allows for specialization and for countries to exploit their natural competitive advantages, and in the process makes countries depend on one another to an unprecedented extent. Indeed, many serious historians and economists – and yes, even law professors – presumed that trade wars (and indeed war itself) had become, if not obsolete, then highly unlikely insofar as global capital markets would not permit such disruptive, inefficient disturbances in the global economy. Global multilateralism – taking shape in cross-border institutions, treaties, and maybe even supranational democracies – would become ascendant in an increasingly interconnected world economy. "The end of history," which Francis Fukuyama famously proclaimed in 1989, would eventually arrive in the form of universalized capitalist democracy as both capitalism and democracy spurred others to trade, adapt, and evolve, all presumably for the good of the global economy.

In retrospect, these expectations seem quaint, if not altogether embarrassing in light of the increasing complexity of the global economic system, not to mention the myriad forms of domestic economic governance. Still, the power of globalization's narrative of cooperation and its seeming ineluctability – which has guided the decision making of a generation of CEOs and heads of state alike for more than two decades – provokes serious questions that deserve serious answers. Where exactly did the story of global cooperation go wrong, and what, if anything, did it get right? And, even more important, how should one understand and interpret the new, fractured, and seemingly chaotic economic orders? Can we even begin to describe the direction of global economic diplomacy, and for that matter the global economic system, as "good," "bad," or altogether something else?

Perhaps not surprisingly, pessimists have tended to dominate the punditry in recent years. For Parag Khanna, in today's globalized world, "islands of governance" tend to drive policy, as opposed to cogent global statecraft. Far from being connected, the world is "never more than a hair's length away from the symptoms of medievalism" – a disagreeable disease of "economic chaos, social unrest … and wild expenditures." For Fareed Zakaria, the problem is even more basic, as the rise of emerging markets has made the world so complicated that it is impossible for countries to even articulate "grand strategies," or rules of thumb, for the conduct of their foreign affairs, economic or otherwise. Indeed, the very "doctrinal approach" to foreign policy, in which countries articulate guiding principles of foreign policy, "doesn't make much sense anymore. In today's multipolar, multilayered world, there is no central hinge upon which all … foreign policy rests. *Policymaking looks more varied, and inconsistent*, as regions require approaches that don't necessarily apply elsewhere." International cooperation will thus have to do increasingly without single one-shot proclamations of national interests that explain state behavior. Fukuyama was wrong – we have plenty of history ahead of us.[1]

Inconsistency is, of course, in the eye of the beholder, but Zakaria's basic hunch is correct: ultimately, more varied approaches are not only common but also required in today's post-American world. Yet there are limits to how far the observation holds. Whatever its challenges, the increasing multipolarity of the international system is actually leading to *more*, not less, institution building and cross-border cooperation. But cooperation is arising very differently than it did in the past. Core tenets of postwar multilateralism – from big global forums, to formal rules of the road for economic relations, to U.S. dollar hegemony – are being supplemented, and in some instances replaced, with alternative mediums and diplomatic tools in order to respond to a world of more varied interests, preferences, and power constellations. These changes are not, however, beyond analysis. Indeed, today's tools of economic statecraft can be identified and even generalized. And once recognized, they help lend a good deal of coherence to what might otherwise come across as unbridled economic anarchy.

WHY WE CAN (AND CAN'T) ALL JUST GET ALONG

But before delving into details, let's stick with our puzzle for the moment. How – or perhaps better yet *where* – did so many people get the story of global economic cooperation wrong? Why hasn't globalization culminated in a seamless global (or indeed "world") government?

Part of the answer lies in the very paradoxical nature of globalization itself. Far from comprising a one-sided bailiwick for cooperation, globalization simultaneously makes cooperation more necessary and more difficult. This is because two conflicting dynamics ultimately undergird globalization. On the one hand, globalization generates greater demand for cooperation as countries, firms, and companies become more interdependent. Yet at the same time, as countries become more interdependent, and as influence and power become more dispersed, not only do the potential gains of cooperation increase, but so do the costs associated with achieving it.

Although this argument may seem a bit controversial, it is not an entirely novel one since, like most theories of cooperation, it finds its intellectual origins in the path-breaking work of economist Ronald Coase. In a famous paper entitled "The Problem of Social Cost," the future Nobel Prize–winning economist recognized as early as 1960 that rational actors will, when left to their own devices, engage in mutually beneficial (welfare-enhancing) transactions, so long as the costs of negotiating, monitoring, and enforcing their agreements are low.[2]

To underscore his point, Coase presented the now well-known example of a rancher whose livestock had the bad habit of wandering onto other people's property and destroying their crops. Coase queried under what circumstances a fence would be built to prevent future incursions, and who would pay for it. He concluded that if property laws were sufficiently clear, they would provide an answer, assuming one could put a dollar figure on the damage. If local statutes held that the cattle farmer was legally liable for the damage, he would have to erect a fence, have fewer animals, or negotiate a deal compensating the farmer for his cattle's occasional trespass. If local laws didn't hold the cattle farmer responsible for the actions of his animals, incentives would run in the opposite direction. It would be in the interest of the arable farmer, if he valued his crops highly enough, to pay for the construction of his neighbor's fence. But as long as the law was clear, the two farmers would reach an efficient solution in the sense that it wouldn't be possible to make one of the farmers better off without making the other one worse off.[3]

This observation may seem pretty basic, but it left an indelible imprint on a range of important academic disciplines, including international relations. International relations, a subfield of political science, largely bases its analysis on rational-choice models of state behavior. That is, it is assumed that states seek to maximize their own interests. As such, experts tend to apply the same invisible-hand presumptions about the efficient behavior of people to the behavior of nations and other international actors.[4] Countries are viewed as self-interested players in a chaotic, no-holds-barred world, seeking to maximize their own welfare, and driven by powerful incentives to enter into cooperative arrangements that, though potentially constraining, increase their economic welfare and security.

Applied to international relations, the Coase theorem implies that countries, too, are at least potentially capable of making efficient bargains and deals among themselves in the anarchic "market" for international relations. For such efficient bargaining to arise, the two conditions we see in the domestic context must hold here as well. Property rights would have to be clear as between countries, and the transaction costs associated with reaching an agreement would have to be low.

As between the two factors, property rights have been comparatively easier to establish in international economic relations, especially as they exist between countries. As Columbia law professor Louis Henkin observed, "[e]xcept as limited by international law or treaty, a nation is master in its own territory.[5]" This fundamental principle subordinates property to sovereignty and is problematic usually only when issues like border disputes and disputed territorial claims arise. The trickier problem is that of transaction costs. As Coase himself acknowledges, in the real world, the transaction costs associated with reaching an agreement are never zero. Indeed, they are often quite high. First you have to gather the information necessary to strike a deal. Parties have to identify opportunities for mutual gain and then find the best partner with whom to achieve the desired goal. But because information will rarely be perfect, there will inevitably be trial and error in both regards; people will not always identify good opportunities or good partners, leading at times to unproductive or inefficient outcomes that can prevent parties from achieving fully welfare-enhancing outcomes.[6]

On top of information costs, parties have to hammer out and negotiate an agreement. This means that financial diplomats not only have to figure out the preferences of other governments, but also have to invest time and energy into convincing others to accept a particular course of action. How hard this is depends on a variety of factors. The consequences of any new policy are obviously paramount. If lowering tariff barriers between China and the United States results in Hollywood movies popping up in Beijing theaters and decimating local movie producers, a deal might be tough for China to accept. Or if cross-border proposals for banks force European banks to restructure more than their counterparts in the United States, there will be considerable outcry. So policy decisions have consequences – and can take enormous effort to coordinate. Then again, if one country is bigger or more powerful than the other, it may be able to coerce or incentivize its smaller or less powerful partner to accept its rules and policy preferences, regardless of their fairness. Additionally, if a particular country's cooperation is necessary to achieve a particular goal, this country might be able to "hold out" on actively blessing or participating in any initiative until it has extracted maximum gains and concessions from other parties. But this kind of strategic action is, by definition, costly and can also add to negotiation costs.

Finally, in many circumstances, some enforcement and monitoring of agreements is required – a point acknowledged by Coase and masterfully illustrated by fellow economist Mancur Olson in his book, *The Logic of Collective Action*. In it, Olson shows that where individuals attempt to provide a public good – say, things beneficial for the environment, security, or global financial stability – each member of the group will have incentives to "free ride" on the efforts of others. So if, for example, a group of countries agrees to reduce greenhouse emissions, some countries may decide to allow other countries to adopt the stricter standards (and higher costs) of clean energy and permit local manufacturers to continue polluting in order to gain a competitive advantage over foreign counterparts. Similarly, if countries adopt rules for the regulation of banks, some countries may seek to underregulate or underimplement global regulations in order for their banks to operate with fewer (and less costly) restraints. Where this kind of behavior is tempting, mechanisms must be devised to monitor and potentially discipline those parties that backtrack or defect from their agreements. Without incentives to encourage participation, and disincentives for backtracking or dodging commitments, collective action is unlikely to occur – even where participants share common interests.

THE PROMISE OF INSTITUTIONS

Although transaction costs might stymie cooperation, virtually no one thinks that they are immutable and can't be changed. That is, under the right circumstances, transaction costs can be managed and even reduced in ways that enable cooperation. The secret, scholars have suggested, lies in institution building. Simply put, by wisely structuring repeating interactions of countries, people, and firms, one can enable cooperation by lowering the information costs, bargaining costs, and enforcement costs needed to achieve it.

Take, for example, the problem of information costs. We have seen that international cooperation can be difficult if you don't know where to go to solve a problem, if the preferences of others are unclear, or if you don't know with whom to team up in order to solve a problem. This can be a big challenge in the global economy where issues are complex and often require cooperating with different partners over varying areas and sectors. Institutions like the UN, WTO, and IMF can help lower these costs, however, by creating focal points for continuous interactions between countries. When a country has a particular problem, it does not necessarily have to search the world to find a proper venue or potential partners. Instead, institutional organizations and arrangements can provide go-to forums for resolving particular problems for the international community. And just as important, institutions can collect information about recurring problems and past responses, and in the process standardize basic definitions and understandings about issues of mutual concern when action is required in the future.[7]

Institutions can also lower some of the transaction costs of bargaining. Highly sophisticated organizations might provide administrative or back-office assistance for running meetings when diplomats meet. Or a more bare-bones institution might memorialize a set of rules and procedures for dealing with problems, minimizing the time and headache associated with negotiating basic process issues every time a problem pops up.[8] Furthermore, by bringing a wide array of countries to the table, institutions create at least the possibility that just one agreement in a particular area, whether in trade or monetary affairs, might be reached by signing one omnibus accord. One country need not seek out and ink agreements with all other 191 governments in the world. Institutions also create a kind of institutional knowledge that makes bargaining easier as time goes on. With each new round of bargaining, procedural problems can be resolved for then and for later, reducing in effect the cost of future iterations of negotiation should similar issues arise.

Third, along with helping their members communicate with one another, institutions also help facilitate the monitoring and even punishment of participants. Specifically, institutions help provide information about the "house rules" – and who complies with them. By providing explicit rules and terms of conduct – and optimally a monitoring mechanism and means of punishment for noncompliance – institutions give assurance to the parties taking on membership obligations or duties that the potential gains from cooperation will be realized. Countries know what to expect from their partners, and incentives to defect or backtrack from their commitments are reduced. Furthermore, by providing a focal point or forum for recurring interactions between members, institutions can also create reputations for members, which themselves can carry important consequences. Where a government does not follow through on its commitments, or consistently ignores "house rules," fewer countries will take its commitments seriously or will want to cooperate with it in the future. A chronic backslider can, as a result, find itself without friends or partners in the institution, or even excluded altogether, depriving it of the benefits of cooperation. On the other hand, a country that sticks to its word will have an easier time finding partners in the organization, and can retain its membership in the group.

Finally, depending on how they are structured, institutions can additionally act, in Coasian terms, as a kind of "superfirm" that makes decisions for participating countries in ways that promote efficiency and harmony. Institutions may, for example, play a role adjudicating disputes, such as by assigning property rights or clarifying legal obligations or responsibilities among nations. Or they can arise as supranational organizations where executive bodies or managers make decisions in the place of free-standing negotiations between far-flung and numerous members. But institutional complexes like these are not costless and can involve large administrative staffs operating with few institutional checks and limited accountability. Moreover, they are difficult to get up and running. Countries sometimes have to delegate responsibility to the organization and to bind themselves in advance to any future decisions. This kind of commitment can be hard to swallow for legislatures, which often see their job as protecting their country's rights of economic self-determination. Still, to the extent that such power is relinquished to an international actor, institutions can move the coordination process forward in ways difficult to do otherwise, or fill in important gaps when new decisions have to be made or disputes resolved.

THE HARD KNOCK LIFE ON THE PARETO FRONTIER

Now for the bad news. Institutions hold considerable promise, but they are not fail-safe, even where they bolster information sharing, negotiation, and enforcement. Indeed, they have very real limitations: sometimes parties have perfectly conflicting interests, and in such circumstances institutions will not be able to make countries cooperate. Similarly, even if two parties have overlapping interests, their ultimate policy objectives may be far enough apart that the bargaining required to reach a mutually agreeable solution may be too time consuming or complex to warrant investing the time and effort into hammering out an agreement. Getting to an agreement could involve complex institutional arrangements that are themselves costly to administer and on top of it all may not even work. In such circumstances, countries may be disinclined to even attempt to negotiate an agreement, especially where the prospects for reaching an accord are weak.

Furthermore, even when parties have similar interests (or similar problems), they may disagree as to just how to cooperate. Often, multiple solutions are available to solve any one given problem. So parties still have to agree on which solution is best – a process that itself involves negotiating how the potential "surplus" benefits generated by cooperation should be divided up. But cutting the proverbial pie can be difficult. Some political scientists, especially "realists" preoccupied with security and power, argue that agreements may be particularly difficult to reach where gains from cooperation are distributed in a manner that interferes "with any member's efforts to maintain its relative position within the international distribution of power."[9] According to this view of international relations, articulated most forcefully by the political scientist Joseph Greico, states are not so much concerned with welfare as they are with survival. And under no circumstance are they willing to see their relative position in the world fall. Thus, according to this line of reasoning, the major objective of states in any relationship is not to attain the highest possible individual gain or payoff. Instead, the fundamental goal is to prevent others from achieving advances in their relative capabilities. Indeed, states may even forgo increases in their absolute capabilities if doing so prevents others from achieving even greater gains.

Whether or not such "relative gains" considerations operate so simply in international economic affairs is, however, far from obvious. Unlike during the Cold War, when two countries vied for global supremacy, international economic law often involves negotiations with many countries gathered around the bargaining table. In such circumstances, the ultimate impact of any particular deal on the hierarchy of actors will be less obvious, especially over the long-term. Moreover, in economic contexts like trade- or services liberalization, benefits are diffuse enough that "relative gains" considerations center as much on liberalization's impact on politically connected special interests as they do on the relative power relationships among states.

Still, the intuition behind the theory of relative gains is useful insofar as it helps underscore the difficulty of agreement even where interests are ostensibly aligned. Coase suggested that all cooperative agreements are at least Pareto improvements. In other words, they constitute agreements where at least one party is better off, and no party is worse off. Yet this is often not enough to secure agreements in the world of international economics. Where cooperation entails one party sacrificing more than others, concerns of fairness or balance may preclude agreements from being struck, even where all parties may in fact benefit. Similarly, a country's support may be hard to get if it alone is expected to provide side payments to countries disadvantaged by a cooperative agreement, especially if it is receiving the same gains as everyone else. And, as mentioned before, cooperation can be particularly difficult where the gains can't be harvested exclusively by the cooperating parties, because countries not participating in the agreement may be able to free ride by enjoying the benefits of the public goods generated by the group.

These observations reveal that negotiating global agreements, even where they may produce global welfare-enhancing outcomes, can be tricky, and at times, impossible. Successful bargaining involves, as foreign policy guru Robert Cooper opined, employing diverse strategies of both distribution and production.[10] It is ultimately contingent not only on finding common interests, but also on negotiating an acceptable distribution of gains among participating parties. After all, in a world of steep domestic and international rivalries, even smart, serious actors won't necessarily agree about how to divide the bounties of cooperation, even where they are in constant (low-cost) contact and communication with one another.

POWER AND MULTILATERALISM: A LOVE STORY

How then did we *ever* get to have a multilateral system at all, especially for the vast global economy? The answer for most scholars has been, at least for the last fifty years, as American as apple pie – and, well, as America itself.

To understand why, it's first useful to recognize that today's multilateralism is itself a kind of rare historical fluke. The international system