

# Weakening institutional legitimacy



## Rulemaking and convening power

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The legitimacy of global and domestic governing institutions is weakening, testing the overall stability of the multilateral system. These institutions have had two important functions: rulemaking capabilities – setting, arbitrating, and enforcing standards – and convening. Existing institutions are losing relevance and finding it increasingly difficult to perform either of these functions well. Solutions include either (i) expanding group size, creating the optics of enhancing relevance and influence, or (ii) establishing smaller closer-knit clubs that deliver pragmatic but imperfect fixes. Neither approach is working particularly well, and instead regulations are diverging and rule enforcement more difficult. As institutions falter in addressing crises, expectations on the private sector to step into the gap grow.

## Policy trends

### De- and re-institutionalisation

Many no longer see the post-war era system of global institutions as fit for purpose in their current form, either due to their lack of capacity to tackle new crises or their lack of efficacy. The existential choice for such organisations is to ‘evolve or revolve’ – make satisfactory changes to remain relevant or be replaced. Nations are forming smaller, ‘mini-lateral’ international groupings, often aligning along geographic, geopolitical, or ideological lines. Larger groupings, like BRICS and the G20, are trying to expand, thereby reducing their ability to act decisively. Smaller groups of nations such as ASEAN and the G7 are reaching plurilateral deals and making progress without needing broad international agreement.

### Weakening trust

A broader challenge to the legitimacy of international and domestic institutions is the fraying of the trust that was once their foundation. At the international level, there is: (1) no clear champion of an increased role for the Bretton Woods system, as the Western

economies that brought it into existence are facing their own challenges; (2) a set of rising economies questioning the fairness of these institutions; and (3) a smaller set of countries actively working to undermine it. Domestically, increased polarisation is turning many away from liberal ideals, including strong independent governing institutions. Functioning institutions, that had previously relied on goodwill or voluntary compliance for enforcement are consequently under strain, with their rules and processes increasingly criticised and labelled as unfair or unequal.

### Role of private sector

With the institutions of the official sector losing authority, many are looking to the private sector to fill the gap. Companies can supplement the role of governments and multilateral institutions, but they cannot replace it. They can neither codify standards with any legitimacy nor enforce breaches. Moreover, in a world of competing value sets, the insertion of the private sector into non-economic areas carries reputational risks, as seen by the backlash in recent years against ESG investing and corporate DEI initiatives.



# What can we expect in the next 18 months?

## Reform efforts continue

Efforts to reform the international financial institutions will continue to make incremental progress. While there is some willingness to adapt, as evidenced by the World Bank Group's evolution agenda, the organisational structures of other multi- and supranational organisations will likely prevent meaningful reforms. An inability to reform risks institutional gridlock and further undermining support among international partners.

## Diverging regulation

In the absence of global standards, nations will struggle to adopt uniform standards, including for digital trade and cross-border payments. Therefore, agreements among geopolitical allies are likely. One consequence of diverging rule-sets is an increase in localisation requirements. Moving beyond tech/data onshoring, this is likely to expand to more overt initiatives to localise capital, jobs, and profits.

## Rise of 'mini-laterals'

New institutions will have smaller and more geopolitically aligned memberships, allowing them to reach political and economic consensus more effectively but without the reach of truly global multilateral institutions. Global economic liberalisation will decrease as new institutions compete and friction increases for trading across groupings. Possible precursors to comprehensive new international institutions (such as BRICS) will continue to advance alternative systems, albeit unevenly.

## Asian trade corridors

Many of the new mini-lateral trade groupings – CPTPP, RCEP, IPEF – are being established in the Indo-Pacific. The G7 drive for supply chain resilience and de-risking will lead to increased activity along Asian trade corridors and develop intra-Asian trade linkages, which will require new infrastructure, especially in South and Southeast Asia. The economic weight of Indo-Pacific economies may encourage crowding-in effects, with other nations adopting standards emerging from these groups.

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