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Global–regional realignments using regime complexity

Detail

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Bio

Susanne Lütz is Professor in International Politics and currently Director of the Institute for Political Science at the FernUniversität in Hagen, Germany. Her fields of research are international and regional organisations, European and global financial governance and regulatory politics in finance, intellectual property rights and corporate governance.

Funding

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Research Objectives

Professor Lütz examines the effects of global–regional realignments on global economic governance.

References

Lütz, S. (2021) Global–Regional Realignments in Trade, Finance and Development: Introduction to the Special Issue. *Global Policy*, 12(4), 5–13. doi.org/10.1111/1758-5899.12947

Personal Response

How are you planning to advance your research?

II I am working on a new research project related to the regime complex on sustainable finance. Since the Paris agreement on climate change, lots of actors and institutions on the global, regional and national level (G20, UN, OECD, EU, several countries) have launched efforts to mobilise private capital to finance a green transition of the economy. One precondition for investors, companies and banks to engage in 'sustainable finance' is to harmonise the regulatory framework related to the definition of 'ESG – environmental and social goals' attached to financial flows. The EU in particular attempts to be a forerunner in this process by spreading its own very restrictive interpretation of 'ESG' in global regulatory fora related to banking, insurance, capital market or accounting. Given this highly fragmented institutional setting, the project shall study how the EU as a regional actor uses the regime complex strategically to spread its standards, apparently in competition with the US and UK. II

Global–regional realignments using regime complexity

Professor Susanne Lütz at FernUniversität in Hagen, Germany, examines the effects of global–regional realignments on global economic governance and demonstrates that the toolbox of regime complexity research is applicable to global–regional realignments in trade, finance, and development. The changes on the multilateral order considering the role of regionalism are analysed through the exploration of relationships between actors and focal institutions such as the International Monetary Fund, the World Bank, and the World Trade Organization.

After the end of World War II, multilateral institutions such as the International Monetary Fund (IMF), the World Bank (WB) or the World Trade Organization (WTO), played a pivotal role in the economic order. Despite their liberal ideals that encouraged nations to open their economies, the order has been the target of numerous criticisms over time. Indeed, factors such as the occurrence of financial crises, the persistence of poverty in developing countries, and the shift in power towards China and other emerging powers have contributed to weakening these international institutions, putting into question their liberal values and distribution of power in multilateral institutions.

In the sequence of the 2008–09 global financial crisis, several events contributed to the debate. Emerging countries increased their protests because they considered that they were not adequately

represented in the governing bodies of the IMF and the WB. Furthermore, in order to guarantee support to its member states, Europe has created the European Stability Mechanism (ESM). It is also important to highlight that new multilateral development banks (MDBs) joined the development finance scene, such as the Asian Infrastructure and Investment Bank (AIIB) and the New Development Bank (NDB).

In a new study, Professor Susanne Lütz of FernUniversität in Hagen, Germany, looks at regime complexes in a real-world context, to advance our understanding of the driving forces, institutional patterns, and governance implications of global–regional realignments for trade, finance, and development. Regime complex is a concept that can help us to understand the creation, evolution, implementation, or effectiveness of a particular institution, taking into account its broader institutional environment. Using the regime complexity investigation toolbox, Lütz's research objective is to generate insights related to the evolution of the relationship between global and regional organisations in the pivotal areas of the Bretton Woods system, represented by multilateral institutions such as the IMF, WB, and WTO.

THE REALIGNMENT

With all the aforementioned changes, it is not surprising that a realignment has taken place in the way institutions that historically held a key

role, and the more recent bilateral, plurilateral, and regional institutions in trade, finance, and development, promote their relationships. Despite the different interactions between the two types of institutions, these have not yet been properly examined. To fill this gap, Lütz's study has three main objectives: understanding the circumstances in which actors use regime complexes, examining the relationship between global and regional institutions and, finally, discussing possible implications of global–regional realignments.

TAKING ADVANTAGE OF FOCAL INSTITUTIONS

Regional actors relate to institutions such as the WTO, IMF, or WB in order to obtain benefits concerning their degree of expertise, reputation, or resources. With these partnerships, they aim for competitive advantages and strategic gains. For example, the EU uses the WB to finance large projects, and the regional financial arrangements (RFA) link a large part of their loans to IMF programmes. Global–regional cooperation allowed European creditors to distribute borrowing costs more widely under the financial assistance programmes managed by the troika that included the IMF, the European Commission, and the European Central Bank. This type of partnership is particularly important for developing countries or emerging markets, as they can benefit from institutional competition and decentralised agreements to address asymmetries in local power.

THE COEXISTING BENEFITS

Within the scope of Lütz's study, expressions of intention to replace focal institutions with regional ones were found only on finance. This exception occurs as smaller players aim to have a stronger voice in borrower-dominated regional funds (not determined by a member's

capital contribution), and are able to draw on smaller lending volumes.

In most cases, actors opt for complementarity over substitution when it comes to dealing with focal institutions such as the WTO, WB, or IMF. Both multinational corporations and major powers, such as the US, China, and the EU, have interests at varying levels. To best serve their strategic interests, it is expected that multilateral, plurilateral, regional, and bilateral structures in trade, finance, and development will continue to coexist.

INTEGRATION VERSUS DISINTEGRATION

Despite being often challenged and complemented, global institutions are rarely replaced. The high degree of expertise, reputation, and the resources of these historic institutions at world level are among the main reasons for the continuity of this coexistence.

In the three main research areas of this study, it was demonstrated that integration and disintegration coexist. On the one hand, incentives for integration into a complex of regimes were evidenced through forum-linking (aims to integrate the different fragmented institutions in order to create a more coherent system), cooperation, or dissemination. On the other hand, the existence of fragmentation through forum-shopping (strategy where actors seek out the international venues that are most favourable to their interests) or the creation of competing institutions was demonstrated. Despite being opposite concepts, Lütz argues that the coexistence of integration and disintegration in a complex of regimes is possible.

Integration does not guarantee greater effectiveness as the focal institutions can spread their problems to other participants in the regime complex. Other factors also need to be considered: powerful actors are multilevel players who try to export their preferred templates, which may represent unbearable cost for other countries and regions; and it is necessary to be aware that issues considered normal for the Bretton Woods institutions, such as



World Bank headquarters in Washington.

liberalisation, individual property rights or good governance, are not necessarily shared by smaller actors such as emerging countries.

If weaker actors wish to have a more prominent position in decision-making on regional governance agreements, they must opt for disintegration. Other advantages of this option are the achievement of higher levels of flexibility, experimentation, and innovation.

GOVERNING THE GLOBAL–REGIONAL INTERFACE

Considering the characteristics and applicability of integration and disintegration, Lütz considers that governance in the global–regional

Taking these factors into account, Lütz notes that global–regional interactions in a regime complex require efficient management of positive and negative coordination. While positive coordination develops effective global policies using the contributions of all participants, negative coordination is concerned that actors' initiatives do not have a negative impact on other units.

In the context analysed, which includes trade, finance, and development, positive coordination is carried out by working groups and can crosscut various levels (eg, multilateral, plurilateral, bilateral, and regional). The central institutions assume the role of facilitators in global–regional relations and may

Lütz considers that governance in the global–regional scope should seek to benefit from both centralisation and decentralisation.

scope should seek to benefit from both centralisation and decentralisation. Either solution has advantages for regional actors. On the one hand, members of global institutions can rely on specialised knowledge, capacity, and resources that they would otherwise have difficulty accessing. On the other hand, actors that seek to be more represented and enjoy greater flexibility and experimentation capacity should opt for decentralised or regional institutions.

even contribute to resolving any disputes or divergences. On the other hand, negative coordination should try to prevent the negative externalities of decentralised institutions.

Lütz suggests that rules inspired by the principle of subsidiarity could define possible divisions of labour between centralised and decentralised units of a complex regime, based on expertise and comparative advantage.



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