

What's Next for Global Governance?¹

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I. Reasons for Global Governance Failure

Guo Kai: *In the face of challenges brought by emerging technologies such as artificial intelligence, I believe the world needs a better governance system to cope. However, the current global governance system is undergoing changes and may not necessarily evolve in a better direction. I invite everyone to share your views on global governance.*

Jin Liqun: When talking about how global governance can address global challenges, the "governance" itself may be part of the problem, unable to offer a solution. Therefore, we need to delve deeper into the definition and concept of governance. The term "governance" has become one of the most frequently used words in fields like politics, economy, and social issues, yet few contemplate its true meaning. Different people understand "governance" differently, leading to persistent disagreements in governance issues. As a noun, "governance" originates from the verb "govern," which has multiple interconnected yet distinct meanings and does not point to a single concept.

The Oxford English Dictionary offers three interpretations of "govern" as a verb: first, to rule with

authority, dealing with a country's policies, actions, and affairs constitutionally or autocratically, as well as regulating organizational procedures, such as commanding military operations; second, to control, influence, regulate, or determine the actions or events of oneself or others; third, to guide, direct, or lead a process to achieve a certain goal. The noun "governance" has two interpretations: first, jurisdiction, control, and authority; second, the action, manner, and system of governance.

Summarily, governance encompasses three aspects: one is an institution and its efficacy or authority, two is the organizational structure that enables it to function, and three is the operation methods, procedural norms, and rules of that institution to achieve a certain goal or set of goals. This institution can be defined as a sovereign country, commercial company, social organization, or any group of people who have established an association, society, guild, alliance, club, enterprise, company, foundation, institution, etc.

Institutions established for mutual aid and protection of their members or to achieve certain common goals, such as the United Nations, the World Trade Organization, and most other multilateral banks and international financial institutions, are global institutions for global governance. Their organizational

¹ The transcript was edited by CF40 Secretariat. Remarks by Jin Liqun and Hu Xiaolian were reviewed by the speakers.

structures, functions, and management are based on the consensus of their founders and supporters and the conventions followed. When global issues arise, people usually turn to these institutions for answers and solutions. However, as these institutions increasingly fail to function as expected, people's disappointment with them is becoming more widespread.

Governance is a neutral concept. The Mafia has its own form of governance, as do some secret societies. Their governance may be nefarious, but any nation or public institution could potentially be led astray by its leaders or partners under certain circumstances, causing an originally sound institution to malfunction, and there are countless examples of this.

The quality of an institution depends on each of its members. Not all members have uniform thoughts and actions, as they are often driven by their own interests. Their behavior is influenced and constrained by various factors, such as values, status, power, etc. (this is another meaning of governance).

Climate change, pandemics, demographic issues are all global problems, but the institutions set up to solve these issues sometimes have significant disagreements. Decision-makers often do not agree and are not on the same side. In fact, they are fighting for their own interests, some of which are reasonable and some not. As a result, problems accumulate to an overwhelming extent, with climate change being a typical example.

The fundamental problem with these issues is that the institutions responsible for global challenges lack authority, there are no binding rules to follow, and even if there are, some parties blatantly refuse to comply. The power of sovereign states in the global governance system outweighs that of international organizations, and this is the fundamental issue we need to address.

Hu Xiaolian: The efficiency of global governance is increasingly low, and its effectiveness has not met expectations. Over a decade ago, when the world faced a severe international financial crisis, major economies conducted an effective global governance cooperation, which provides insights for today's improvements. The

2008 international financial crisis severely impacted the global economy. Major global banks faced the risk of collapse; financial markets were in turmoil; financing functions were hindered, and the sovereign credit of some countries were severely damaged. In this context, the G20 played a crucial role, especially after the establishment of the G20 summit cooperation mechanism.

During this crisis, global governance achieved fruitful results: First, a communication, consultation, and coordination mechanism was established among the leaders of major countries, including both developed and developing nations. Second, with the joint efforts of all countries, flaws in the global economic and financial system were rectified, such as the introduction of the "Basel III" to strengthen regulation. Third, major countries took responsibility and played a significant role in response to the crisis. For example, although China was not the origin of the crisis, its financial system was stable, its economic growth strong, and it was not directly impacted by the crisis. And China still actively participated in the response measures, committed the necessary resources, and actively promoted the establishment of the summit consultation. For instance, during the global financial crisis, the small European country Iceland was severely impacted, as its financial system accumulated huge bad debts due to extensive derivative transactions. Despite the great distance between Iceland and China, Iceland sought liquidity support from China through currency swaps. It demonstrated that China is responsible as a major country. Fourth, international financial institutions also played an active role during the crisis, such as the International Monetary Fund (IMF) coordinating resources, and the Bank for International Settlements coordinating the strengthening of banking regulatory systems.

From these experiences, it is evident that to further strengthen and utilize international governance effectively, several measures must be taken: First, there must be a global cooperation consciousness to jointly address significant risks and challenges, not just considering national short-term interests but placing

global interests in a prominent position. Second, major countries need to take on more responsibility. Third, international organizations should play a more active and proactive role. Fourth, efforts should be made to strengthen institution building, such as various financial safety nets established after the financial crisis, including the IMF's global financial safety net and regional financial cooperation mechanism safety nets.

II. What's Next for Global Governance?

Jacob Frenkel: What's the next step for global governance? This question echoes the one posed 80 years ago when the Bretton Woods system was established. At that time, as World War II broke out and the trade system collapsed, people wondered in which direction our world would head. This led to the establishment of the Bretton Woods system, born in a hotel in New Hampshire. Forty years later, in 1984, I attended another meeting at the Bretton Woods hotel, and the theme was "What is the next step for global governance?" We were faced with the same question once again. A few years later, at the end of the 1980s, I became the Director of Research at the International Monetary Fund when the Managing Director Jacques de Larosière had me prepare the first document for the board titled "What is the next step for global governance?"

What role does the International Monetary Fund play? The IMF has been established for 50 years; do we still need to define its role? I predict that when we meet here again in ten years, an important topic will still be "What is the next step for global governance?" Why don't we have an answer after ten years? The answer is that we don't have one because the problem still exists, but the system has undergone tremendous changes, and the answers have changed accordingly. In other words, we should not deceive ourselves into thinking that once we've drawn up a blueprint, it can be left unattended, even if it remains valid after 10 years. The world is in constant change, and we must think about institutional reform from a holistic perspective. This is not something that can be achieved overnight but is

almost an ongoing effort. This means that any reform measures must adapt to an ever-changing world.

The reason we need global governance is that the world is interdependent and there are externalities. For example, one country's policies can affect other countries around the world. Therefore, logically, we need to define a system that internalizes externalities. Only in this way can we ensure that the system functions well. The question is, why complicate this issue? It seems more direct and effective to clearly state how to internalize external effects. However, governments are produced by domestic elections, but the impacts of their policy measures are global and external. To some extent, the automatic tendency and instinct of political systems is "let's worry about our own backyard." Therefore, countries need to establish incentive mechanisms and institutions that consider the rest of the world in their "backyard."

In addition to the International Monetary Fund and the World Bank, in the mid-1980s, the then five major industrial countries (G5) had to establish an incentive mechanism to discuss their exchange rate policies and monetary policies, culminating in what is known as the Plaza Accord at the Plaza Hotel. The Plaza Accord specifically focused on exchange rate issues, and was primarily developed by the finance ministries of the participating countries. But central banks played no role in the drafting process, serving only as the executing bodies of the decisions made.

The discussions for the Louvre Accord took place in a large museum, where the then seven major industrial nations (G7) brought a broader issue to the table, namely that every system needs to address the "5W1H" questions. The 5Ws include: Why there is a need for a global system to explain the externality; When should discussions take place, with two extreme views on "When" – one suggesting that meetings should occur during crises, like the G20 meetings in London, and another advocating for regular, ongoing discussions; What should nations coordinate, involving issues such as exchange rates, fiscal policy, trade policy, health policy, and technology policy. When all relevant bodies

participate, divergences arise due to the multitude of factors to consider, making it critical to determine who coordinates and how coordination is achieved. I believe that before establishing an organization, each country needs to know its own answers to the 5W1H questions.

One of the strengths of the Bretton Woods system is its legitimacy, which includes two aspects: legal, as it is based on treaties; and reputational, meaning if your track record is positive, people will listen to you. For instance, there are no treaties backing the Group of Twenty; dealing with these issues always involves three steps: prevention, management, and resolution. First, there needs to be a crisis prevention system; if prevention fails, a crisis management system is necessary; if management fails, a crisis resolution system is needed. Prevention often lacks political support because, when everything is going well, there is even less motivation to gather together. It's only when a fire breaks out and you're cornered that you think about extinguishing it. When you want to extinguish a fire quickly, you pour a lot of water on everything; the water can be QE or a flood. Extinguishing fires is shortsighted; you don't worry whether the carpet can handle the water, nor do you consider whether the method of extinguishing the fire is appropriate or if it might sow the seeds for the next crisis. We need a mid-term perspective, a need for a global governance system, not just "everyone sitting down together to discuss."

The Plaza discussions were initiated by U.S. Treasury Secretary James Baker, with all pressure on Japan due to its large surpluses, thus the meetings were dubbed "international policy coordination." Germans dislike the term "coordination"; they do not like being directed. Germany's domestic policy has externalities, as the German government is elected domestically, so fiscal policy is determined by Parliament, not by meeting parties. Thus, the Plaza discussions turned into a semantic game; the meetings were not about "coordination" but about "cooperation," the content of which was information sharing. You share your plans with others but do not divulge how to respond, so others understand your patterns and other information, which also requires a high degree of transparency.

Finally, a saying applicable in electrical engineering, physics, and economics: in any system, if you want to press a button here and expect a result there, you can't avoid three parts: transmitter, information, and receiver. If any of these three components are unclear, the entire information system becomes vague, information cannot flow properly, and successful transmission cannot occur. Therefore, we must have the correct communication mechanisms, information definition mechanisms, and transmitters. These are important because when there is noise, you need to raise the volume so others can hear clearly. In silence, even a whisper can be heard distinctly, highlighting the value of central bank credibility.

Zhang Yuyan: What's next for global governance?

First, we must look back and consider how we got to where we are today. Then, we need to examine why we are discussing this issue today.

Today, we are discussing global governance because everyone agrees there is a significant governance deficit. Many problems that should have been resolved have not been adequately addressed, such as climate change, environmental issues, and population concerns. Moreover, there are even more pressing issues, such as AI. Evaluations of AI's impact on both the present and the near future are becoming increasingly diversified, with both positive and negative assessments. The governance of AI has only recently been added to the agenda, and there is a long road ahead.

There are three main reasons for this significant governance deficit:

First, governance is a global public good with non-exclusivity in a sense—everyone can benefit from it. However, this governance is not cost-free but very costly because it involves rule-making. Without a world government to enforce these rules, effectively addressing global issues, particularly those with negative impacts, becomes particularly challenging. This includes problems like free-riding and collective action dilemmas.

Second, governments are elected by their own citizens and are primarily accountable to their own country. Therefore, global issues are often not their priority. This results in what is called a “Global Action Plan” (GAP) deficiency, meaning there is insufficient provision of global public goods, closely related to the phenomenon of free-riding.

Third, the competition among major countries is also a significant factor. Following the 2008 financial crisis, international financial cooperation under the G20 framework was effective. However, we are now in a new era of major power competition. If this competition is categorized, the most ideal is mutually beneficial cooperation; next is zero-sum competition, where one side wins and the other loses; but the current competition is often negative-sum—both sides may suffer, but each tries to inflict greater losses on the other. In such an environment, if major powers use the global governance system to suppress competitors, the governance deficit will only continue to grow.

Facing these three reasons, we need to discuss how to improve global governance and identify the root causes of the governance deficit. First, take measures to address immediate specific issues. The European Union and China established a temporary resolution mechanism following the breakdown of the World Trade Organization’s (WTO) dispute resolution mechanism. However, this is far from meeting our needs. Second, forming a global consensus is crucial. Given the increasing severity of global issues, it might be considered to build a tiered rule system. It starts with a global governance charter at the constitutional level and it’s gradually refined to specific rules in different fields. Cooperation among major powers is indispensable. Even in competition, they should follow commonly accepted rules, like a boxing match where, despite the intent to defeat the opponent, both sides must adhere to the rules and respect the referee’s decisions. Only by doing this can we avoid a lose-lose situation and improve the state of global governance.

Clay Lowery: What is the next step for global governance? Firstly, a clear issue is the difficulty

in achieving a consensus among countries, which significantly hinders any form of stable relationships. One of the core elements of governance is trust, thus fostering trust is essential. Taking the conflict between Russia and Ukraine as an example, this act, viewed from any standpoint, violates international norms. For many trying to construct a global governance framework, this undoubtedly constitutes an affront to international norms. In conversations last night, I learned that some flights from Europe to China have to detour to avoid crossing Russian airspace, as Russia has closed its airspace. Not long ago, we successfully held the Olympics, yet Russian athletes could not participate under their national team’s banner. Despite Russia being one of the most important countries globally with many outstanding athletes, their representation in international competitions is limited, and the international community finds Russia’s actions reprehensible.

Secondly, the dynamic relationships between nations, especially between the US and China, are crucial. It is well known that since 2009, US-China bilateral relations have deteriorated, severely worsening the difficulty of global governance. When the two sides are almost unable to communicate with each other, it becomes necessary to explore how to engage in-depth dialogues on solving global issues, many of which are closely related to disputes between the two. Therefore, attempting to propose global governance solutions for some of these issues is not entirely impossible, but hope is slim.

Third, policy backlashes often occur in policies that are considered more consensual, perhaps even eager to advance some non-consensual policies. I believe that free trade is generally viewed as beneficial by most economists. In the past, free trade was largely beneficial, but there is clearly no longer a consensus on this within the US, nor in other regions, adding to the difficulty of global governance. Currently, there is no consensus within the World Trade Organization on the role of the dispute resolution mechanisms, whether more market access should be sought, or whether more barriers should be set up is still unknown.

Industrial policies are popular, but by their nature, they are prone to create issues among nations. Therefore, an important aspect of global governance goals is to be “people-centered.” While industrial policy is inherently a policy that means shifting troubles onto others, it needs to appear respectable. Last night, during dinner, we participated in a discussion about industrial policy and trade. Some views were opposite to mine, which is normal in discussions. However, when a policy stance essentially harms the economy, it becomes difficult to achieve better governance, and governance dialogues between the two sides become particularly challenging.

Fourth, what I call “failed starts,” when standards are set and plans are made to combine various policies at an international level, but cannot be initiated domestically. This involves political and domestic issues, but we have done many different things in financial regulation, which has been very helpful in creating better capital standards for our banks and insurance companies. However, it is very difficult to implement policies on climate change, environmental, social and corporate governance, and sustainable finance. Since Europe and the US have very different views, we need to establish a governance structure that can adapt to this situation rather than severing it. In the US, we are currently having a major debate on how to handle “the Basel III”; Australia, Japan, or Canada have actually implemented “the Basel III”, but the EU or the UK has only reached some consensus on the rules. But currently, the largest countries are unclear about whether to undertake these actions.

Finally, building on Professor Zhang’s foundation, I would like to further elaborate on how to deal with the technology and digital issues that are changing the overall pattern. One of the biggest bottlenecks where artificial intelligence plays a role is data. Without quality data, artificial intelligence cannot work. No matter how smart scientists and engineers are, it is difficult to function without better data. Countries around the world, including China, are very stringent on this issue, and the US, which was more lenient in the past, has also become stringent, banning data transmission. So global companies cannot transmit data between different jurisdictions under the guise of global

governance. The reasons behind this include national security, industrial policy, and privacy concerns, which may be legitimate, but we encounter great difficulties in dealing with these issues. This fact makes me wonder if the world can find a global governance standard to truly address these issues when we enter more challenging AI issues. Although I want to be optimistic, mentioning technological issues will make our future situation even more difficult.

III. The Impact of The China-US Relation on Future Global Governance

Guo Kai: *We don’t necessarily have to be optimistic, just realistic. There are many topics we need to explore, one of which we can’t avoid is that global governance essentially revolves around the China-U.S. relation. I believe there have been significant changes since 2008. Why were countries able to cooperate so well before 2008, and now there are so many problems? This has a lot to do with the China-U.S. relation. How do you view the impact of the China-U.S. relation on future global governance?*

Clay Lowery: The deterioration in the China-U.S. relation has been ongoing for some time. It accelerated after President Trump took office, but it remains even under President Biden. This isn’t about blaming President Trump or President Biden; it’s simply stating the fact that the China-U.S. relation are continuing to deteriorate. This issue is critical, especially as the U.S. political system is about to undergo changes, with upcoming presidential elections. How President Trump or Vice President Harris, who both could potentially win, will handle China is very important. Almost all American politicians have a disfavor towards China, which isn’t about the Chinese people, the country, or its culture; rather, it’s about American concerns that the policies pursued by the Chinese government are in direct opposition to those of the U.S. When the world’s two largest economies, the two most important countries, can barely talk and discuss issues together, there’s no starting point for addressing global governance issues.

Back in 2008, when we worked for the G20, we used to discuss various issues with China. There were disagreements, but we were able to cooperate. From a governance perspective, this was a positive development, but it's currently impossible to return to that state. Can we really regain some positive momentum?

If former President Trump were to win again, it would be difficult to achieve this. I believe there are two contrasting views in his mind: one, he tends to blame a variety of issues, whatever they may be, on China; and two, he has also expressed a desire to foster a positive relationship with President Xi Jinping. So, the key is how to achieve this goal? How should the dialogue proceed? This explains why some around President Trump advocate for a "decoupling" from China, yet this is hard to achieve. The core issue is not with President Trump himself, but those around him. If Vice President Harris wins, she would emphasize a "de-risking" policy towards China, which means different things to different people. But in my view, unless we start finding ways to resolve the issues between the U.S. and China, the problems in global governance will become even more difficult to address. The trend is not optimistic.

Jacob Frenkel: This is a very pessimistic expectation, and I am quite concerned about it. Henry Kissinger once said that the most important bilateral relationship in the world today is between the U.S. and China, and we cannot just put it aside and let them decouple. What we need to do is ensure that this relationship is normalized. As an economist, I believe that the world cannot sustain growth and reach its potential without China as an indispensable part. We can see the complexity of supply chains, how interconnected the world is during the pandemic. Therefore, I believe that the issue now is not how the U.S. can defend against China or vice versa, but how to normalize the bilateral relationship.

One of my main concerns is that policymakers are very ignorant. I'm not familiar with the situation in China, but I can speak about the leadership in the U.S. It is utterly irresponsible for decision-makers in Congress and anyone making decisions to ignore the importance

of the China-U.S. bilateral relationship. The intent is not to harm oneself; it's just that people do not understand how vital the U.S.-China relationship is to everyone's standard of living.

Guo Kai: Mr. Jin, how do you view the role of the AIIB amidst the current great power competition and the lack of cooperation among countries?

Jin Liqun: Most international institutions' rules, such as those of the United Nations, Bretton Woods institutions, WTO, and its predecessor the GATT, were initially set by a few major countries, while other nations merely sat on the sidelines without any role. At that time, most developing countries had no voice in global political and economic affairs, and many were still colonies of developed countries. However, over the past 70 years, the economic power of emerging economies has steadily increased, significantly changing the global political and economic balance. In this context, redistributing power within international institutions among members has become an important issue. Of course, some countries continuously call for this, while others consistently refuse.

We must address the challenge of developing countries evolving into advanced nations. This aligns with the broad interests of the international community. Changing the rules does not mean that the traditional, major developed countries will suffer losses. Our goal is mutual benefit. In thirty to fifty years, China will become one of the developed countries, and perhaps the current developed countries will, relatively speaking, be less developed; they must prepare for this.

The Asian Infrastructure Investment Bank was established in the 21st century with a new governance model that surpasses the power structures of traditional institutions. Under this governance model, developing countries are major shareholders, while developed countries are, for the first time, minor shareholders in an international institution. Although they are minor shareholders, developed countries are not marginalized; they have ample say and are motivated to participate in this new governance, which is why they

joined the AIIIB. I have visited Dr. Henry Kissinger twice, and he said that the U.S. should join the AIIIB. Visionary people should understand that China does not exclude any country; China is inclusive. Thus, we are striving to establish an institution where China, India, and other countries are major shareholders, and all parties work together in a multilateral institution. We have been leading by example, achieving certain results over the past eight and a half years.

Guo Kai: China has proposed many initiatives of its own, such as the “Belt and Road Initiative,” Global Development Initiative, and Global Security Initiative. What do these initiatives mean for addressing the current global issues or governance deficits?

Hu Xiaolian: Currently, I believe that global governance could head in three directions: First, global governance will be supplemented by more regional governance. I cannot say it will “replace” it, but it will be a significant “supplement.” Second, global governance may be supplemented by governance from the Southern and Northern blocs. Third, global governance might be supplemented by governance formed within smaller groups.

While society describes this situation as the fragmentation of global governance, this is the reality now. I still keep an open attitude towards this new trend. It is not necessarily the most ideal form of global governance, because the most ideal would still be unified global governance. However, it indeed overcomes the current issues of inefficiency and diminished effectiveness in global governance.

Regarding China’s role in global governance, especially its role concerning these new governance trends, I think it can be considered from three aspects:

First, China has proposed the most fundamental concept of global governance, the idea of “a community with a shared future for mankind,” which seeks the greatest inclusivity and consensus in governance. This helps everyone come together to discuss the most pressing and impactful issues, rather

than setting agendas around their own interests to discuss policies and systems.

Second, China has proposed a method or approach to global governance, which is “extensive consultation, joint contribution, and shared benefits.” As Mr. Lowery mentioned, there used to be a time when people could sit together and discuss despite disagreements; now, people are reluctant to sit together in the face of disagreements. However, the method proposed by China is to discuss and consult together. I think this is a very important approach.

Third, China has also proposed the application of its own public goods to global governance, like the “Belt and Road Initiative”, the cooperation mechanism of the BRICS countries, and the Asian Infrastructure Investment Bank, which countries actively participate in under China’s advocacy.

The role China plays in these three aspects of global governance will be well tested over time. We are also confident that it can play a better role in global governance.

Guo Kai: Each panel member has 30 seconds. If you had magical powers to resolve one thing in today’s global governance, what would it be?

Clay Lowery: I would address two things. Firstly, it’s crucial that all parties can engage in dialogue and attempt to solve problems together, especially the U.S. and China, but not just them. Ignoring each other’s viewpoints is detrimental. Secondly, formal institutions need to focus on their areas of expertise and not engage in every issue. For these institutions to be effective and manage their core issues as well as possible, they must make choices. Despite the current noise, people want to get more involved in specific issues. However, it’s essential to maintain discipline and allow institutions to focus on solving issues within a certain scope.

Zhang Yuyan: The most important issue in current global governance is the coordination and

understanding between major powers. There are some misunderstandings or biases about China right now. For example, China now emphasizes the balance between “development” and “security,” which many interpret as “isolationism.” To put it simply, consider a person riding a bicycle, increasingly concerned about whether the brakes are responsive—does he want to ride faster or slower? He cares about the safety of the bike because he actually wants to ride faster. So China’s concern about “security” is actually about greater and more comprehensive openness. Therefore, “understanding” between major powers is crucial.

Jacob Frenkel: Today’s and yesterday’s discussions highlighted a paradox. Trade is a crucial driver of knowledge dissemination and prosperity. The only common ground between today’s Republican and Democratic parties in the U.S. is protectionism. Last night, we tried to understand why this paradox exists. We could achieve win-win outcomes, but the main reason we haven’t is that there’s no such thing as a free lunch. When implementing trade policies and opening markets, those who benefit do not voice out as much, while those who are hurt shout loudly and can legitimately halt progress. Therefore, compensating the losers and steering the whole ship in the right direction is fundamentally a fiscal capability issue—the Beijing Principle of compensation.

This is not just about doing better when possible but about actually needing to establish relevant mechanisms. The current fiscal systems, at least in Western societies, are not performing well. Lastly, “no taxation without representation” is a principle from the U.S. Civil War, earlier proposed in Britain. If China wants to play a significant role in the global economic system, it must adjust quota distributions and be equipped with the appropriate tools and authority. Otherwise, it’s all just talk.

Hu Xiaolian: I believe the most important thing is for international organizations to maintain objectivity and neutrality. Their professional capabilities and functions should not be dominated by geopolitics, ideological, or political factors of some countries, losing their main functions.

Jin Liqun: First, the traditional wealthy and powerful nations should deeply reflect on whether they are truly willing to accept the changes in the global political and economic landscape. Second, they should have a broad mind and consider other stakeholders. Third, they should focus on long-term interests, not short-sightedness. Fourth, remember that harming others often ends up harming oneself. Finally, take care of the most vulnerable groups, borrowing the title from a Hollywood movie, care for those “Children of a Lesser God.” 🙏