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Multipolarity and the Transformation of International Economic Governance

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Abstract

The global economy is heading towards a multipolar configuration, which means that relative influence is declining of the established powers and increasing for the emerging ones in influencing international economic governance. The paper investigates a global multipolar reality and its impacts on global embedded decision-taking, economic model and institutional responses to it. It analyzes trade governance, financial cooperation, development financing, and multilateral institutions based on institutional and political economy approaches. The research also reveals the problems that geopolitical competition, economic nationalism, and different regional efforts bring. Meanwhile, it highlights the potential of multipolarity to foster greater inclusive and representative governance, both through greater representation and role of developing countries and through the development of alternative institutions. Lastly, the study examines how international economic organizations are able to adapt to the changing power configurations and maintain their role of cooperation, stability and collective action in the new global economic realities.

Keywords: Multipolarity, governance, geoeconomics, multilateralism, fragmentation.

JEL Codes: F02, F53, F55, P16, C23, O19.

Introduction

The world is going through an unprecedented shift in the economic landscape, and a gradual shift towards a multipolar economic system from mainly unipolar. Well since the end of the Cold War institutions and norms in international economic governance have been created and run by the advanced economies of the West, led by and including the United States and its allies. For years, institutions such as the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO) have supported international trade, finance and development cooperation (TMFDC). (Gilpin, 2001) But global economic restructuring during the last 20 years has led to substantial challenges to the dominance of these traditional structures of governance, prompting questions over its legitimacy, effectiveness and representativeness.

The advent of new economies, particularly China, India, Brazil and the other members of the BRICS group, has changed the composition of the economic capabilities of the international system forever. The countries of the emerging economies now represent a large share of world output, world trade, investment and foreign exchange reserves and should therefore have a larger stake in world decision-making processes (O'Neill, 2001; Subacchi, 2008). The re-balancing has remained ongoing as EE's contribution to the world's economic growth becomes greater than 50% (IMF 2025). The rise of an of a global economic world in which no one state can set the rules and norms for the global economy is hastening the development of a multipolar economy.

However, geopolitical competition has increasingly been gaining in strength, and the global economy is increasingly fragmented, as the world has grown multipolar. As a part of the present international strategic rivalry and competition between the large powers, there are significant

tensions in the international trade, technology, investment and financial framework (Farrell & Newman, 2019). Several new risks and uncertainties have emerged in the international economy, including trade conflict, restrictions, "de-coupling" through technology, and reconfiguration of global value chains (GVCs), (Baldwin, 2022). When economic instruments come to be more instrumental in geopolitical considerations and interdependence starts representing a strategic rivalry, then a new emerging term, used in the first analysis by Blackwill & Harris (2016): geoeconomics. In such a scenario, the governance institutions of the economic aspects of international affairs are steadily facing pressure and challenge to adapt to an ever-changing geopolitical situation.

Both within the current structure of multilateral institutions, and on the sidelines, these have had their fair share of critics questioning their ability to address the challenges of today's global community. The WTO's conflict resolution process has been deadlocked for a long time and the discussions on the IMF quota reform (and voting procedures within the World Bank) have brought tensions and differences between the dominant and the rising powers into focus (Woods, 2010). Moreover, the difficulty over how many and how effective institutions can be in reducing negative externalities of their actions and how can they be responsive to the shocks and pressures produced by global events like the global financial crisis (2008), COVID-19, climate change or disruption of supply chains, has added to the demands for institutional reform and more inclusiveness (Stiglitz, 2017; Rodrik, 2011).

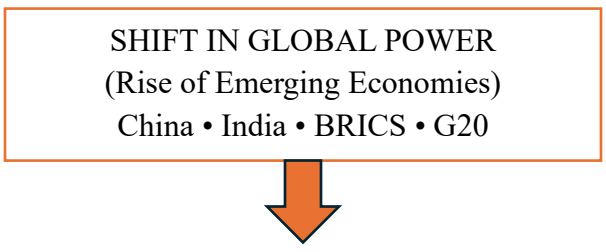
In response to these alleged shortcomings, alternative institutional set-up and regional governance programmes are promoted in emerging economies. To ensure better representation of the developing countries on the international financial organizations and in the establishment of the diversification of the global financial governance, some institutions, such as New Development Bank and Asian Infrastructure Investment Bank have been established. Concurrently, regional trade agreements and plurilateral agreements for cooperation have emerged as possibilities for governments to press a path forward for development of economic activity in the context of growing geopolitical insecurity (Acharya, 2014; Humphrey, 2015). The Salient features today suggest a trend towards an increasing institutional multi-layerism of international economic governance, as opposed to uni-layerism.

The world of multipolarity may lead to increased fragmentation and a greater divide between different global governance systems and it may be possible that this could prove to be counterproductive in this regard, but at the same time it could create a more inclusive, more representative and more effective world organization. The arguments for greater legitimacy of international institutions and more equitable outcomes in global economic governance because more of the emerging and developing economies will engage in such processes, go hand in hand. The potential for increased legitimacy of international institutions and more equitable outcomes in the structuring of global economic decision-making–greater participation by the emerging and developing economies–go hand in hand. But managing the "balance" is no simple task in the

multipolar world between the opposing currents of national interest and the need for multilateral stage co-operation on transnational issues.

This paper discusses the evolving international economic governance in view of increasing geopolitical tension in today's multipolar world. The study focuses on the changing distribution of economic power as well as the issues besetting existing international bodies and the growth of alternative modes of governance and their implications for the future of international economic cooperation. The paper joins the ongoing debates in the field of International Political Economy (IPE) and its recent history and connects the present to the past.

The changing power base in the world, which is being shaped by the rise of emerging economies like China, India, BRICS, and the G20 has brought cultural, political, and economic shifts that have resulted in a new multipolar world order. This multipolarity serves as an engine to drive reforms in existing economic organizations such as the International Monetary Fund, WTO and World Bank, the establishment of new ones like NDB and AIIB, and deepen integration of trade and financial flows between countries. These processes, as part of a broader set, transform international economic governance to be more inclusive and representative of new realities in the world economy. Geopolitical pressures, strategic rivalries, economic nationalism, and geoeconomic competition, however, can have a negative effect on and constrain the effectiveness of global economic governance, underscoring the complex and dynamic nature of the world's current international economic order, as recognized within the framework.



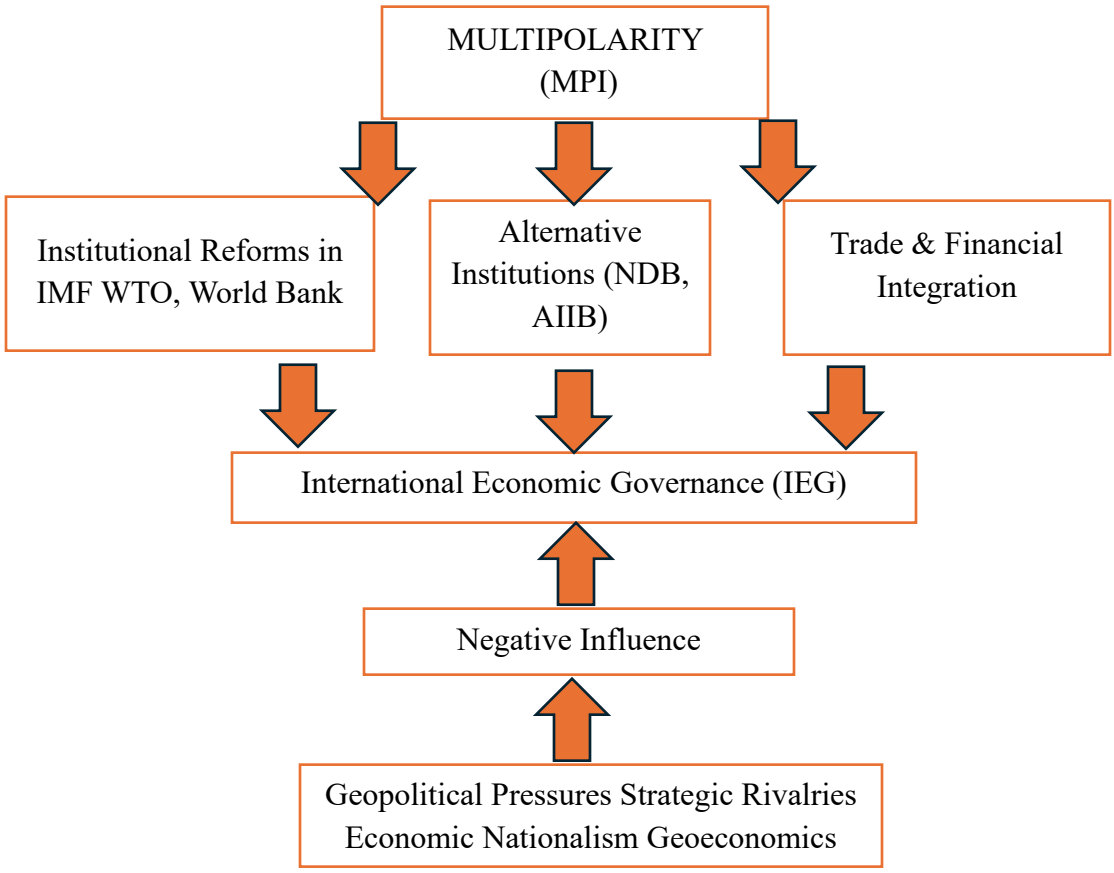


Figure 1. Conceptual Framework: Multipolarity and International Economic Governance

Significance of the Study

This study is timely in responding to the current shift in international economic governance in an evolving, multipolar and geopolitically contested world. The world is experiencing deep-rooted changes in the current economic structure, which feature new power alignments and new forms of economic and strategic competition, as well as a growing reduction in the scope of the nation-state's control and authority over the economy and the proliferation of alternative economic governance mechanisms. The implications of these shifts are now a matter of global concern for academics, policy makers and global bodies, as they strive to maintain stability and cooperation in the international economy.

The study is the first in its field to examine in detail its explanations of the effect of multipolarity on the operation, authority, and efficiency of global economic governance institutions and provides important new insights concerning this topic. The first is that the study adds to the extensive literature on international political economy by examining thoroughly its accounts of the impact of multipolarity on the efficiency, legitimacy, and operation of global economic governance institutions. Although the impact of globalization and hegemonic leadership has been more extensively researched, relatively light has been paid to the consequences of the current shift from

the unipolar to the multipolar economic system. In this study, these gaps are discussed, integrating geopolitical, geoeconomical, and global governance aspects.

Second, it is especially timely in the context of the current days of increased geopolitical intensity and strategic rivalry between great powers, trade conflicts, sanctions, decoupling from technologies and transformation of supply chains. These have led to critical questions about the sustainability of multilateralism and ability of existing global institutions like the IMF, World Bank and WTO to effectively deal with global economic crises. The study highlights the institutional flexibility and changes needed to remain committed to international cooperation in times of geopolitical pressure.

Third, the study emphasizes the increasing importance of emerging economies and other innovations in institutional arrangements to global governance. The presence of emerging powers like China, India, Brazil etc. demands a re-thinking of the conventional institutions of governance for inclusiveness, representativeness and legitimacy. The results of this study can help policy-makers plan reforms to address current and future global realities through enhanced multilateral cooperation.

In conclusion, the study has substantial policy implications for both developed and developing economies as outlined below. It sets forth opportunities and challenges of multipolarity; it helps governments to engage in critically thinking about their economic and diplomatic response to a more eclectic global environment. Besides, the analysis can inform international institutions towards improving institutional resilience and global governance.

Lastly, the study examines the dynamic between geopolitical competition and economic governance and, as such, fits into the wider discussions about the future of the international economic order. The insights that are likely to emerge will feed into the academic debate and policy making on making the international system of economic governance more stable, more inclusive and more effective in the twenty-first century.

Review of Literature

This change in international economic governance, together with the advent of a multi-polar world, has been the subject of significant academic research in the three disciplines of international political economy, global governance and international relations. Literature on the new multipolar world or new multipolar multidimensional governance has five main themes, all interwoven: unipolarity and multipolarity, the nature of global governance institutions, the emergence of emerging powers, geopolitical fragmentation and geoeconomics, and the emergence of alternative multilateral governance institutions.

The initial scholarship on economic governance in the world focused on the liberal international order that was forged following the Bretton Woods Conference. Hegemonic Leadership, specifically from the USA, was criticized for the historical framing of international economic governance with its institutional support for an open, stable global economy by Gilpin (2001).

Likewise, despite enormous change in the global economy, the Bretton Woods institutions have continued as key global economic governance bodies, as Fioretos and Heldt (2019) emphasized in their work on the enduring legacy of the Bretton Woods institutions (IMF and the World Bank). Yet, in recent years such institutions have been called for reform because of political-economic realignment in the world economy (Acemoglu & Robinson, 2012).

The emergence of Multipolarity has emerged in the focus of debate, especially when the emerging economies have quickly become economically strong. The term "BRIC economies" was first coined by O'Neill (2001) who suggested that these four Nations: Brazil, Russia, India and China will drive the global economy in the future in a new direction. Consequent studies applied the analysis by exploring what the new power dynamic has meant for international governance. Wade (2011) argued that the rise of the developing nations in economics has undermined the historical power balance of the US and has led to the calls for better "multilateralism" and "institutional reforms" at the IMF and the World Bank. However, Wade said that greater multipolarity makes collective decision making more complex since more influential actors tend to have different interests and preferences.

Much literature has focused on ‘upcoming powers and the new global governance changing framework. According to Stephen (2014), the emerging powers don't engage with the liberal world order-by-abolishing it, but by demanding its reform and more influence within, and at the same time, developing alternatives to it. Likewise, Cooper and Flemes (2013) highlight that the multipolarity of today is a different multipolarity than past situations because the new powers now emerge as 'agenda setters’, coalition builders’ and ‘institutional innovators’ in global governance processes. These developments have opened avenues for middle and emerging powers to take greater part in international affairs.

The connection between multipolarity and regionalism has also been studied. In the context of the current study, Garzón challenged the conventional wisdom that multipolarity would always be effective in strengthening regional integration (2017). Rather, he challenged the potentiality of multiple powers to create centrifugal forces in regions, especially in the Global South, that tend to moderate existing economic regionalism. This discovery implies that the effects of multipolarity on world governance are neither straightforward nor necessarily good.

From the recent scholarship, it can be discerned that geopolitics and geoeconomics are rising to the fore front of the international economic governance context. Blackwill and Harris (2016) defined geoeconomics as "the policy use of economic means to achieve geopolitical ends. Farrell and Newman (2019), building on this outlook, showed how a state could use its strategic place in global economic networks to cause coercion on its rival. Their research points to a new form of economic interdependence being used as a tool of geopolitical competition, not just one that fosters cooperation. This is heightened concern about "fragmentation" of the global economy and the undermining of norms in the multilateral arena.

Rising geopolitical competition, especially between the United States and China, has sparked a renewed appetite for the effectiveness of the institutions of global governance. Hurrell (2024) suggested that geopolitics is now more influential than ever on global governance of the contemporary economy, creating a tension between the multilateral cooperation and the standing of strategic competition. The effectiveness of global governance institutions in the future will rely on their capacity to balance diverse national interests, and solve transnational issues like climate change, financial instability and technological governance (North, 1990).

Another literature reviewed can be found in studies on the rise of alternative governance institutions that are organized by the emerging economies. The launch of the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) have been viewed as institutional diversification in global governance. These institutions are, in part, attempts by the BRICS countries to rebalance the existing governance structure by giving more weight to developing countries in global financial governance, wrote Rewizorski (2018). Likewise, Alden and le Pere (2024) noted the new form of "Southern multilateralism" where states and nations of the Global South attempt to establish new institutional arenas to counteract their development agendas and transform the norms of global governance.

So, while there is a wealth of scholarships to choose from, there are still a few areas that are lacking. Most of the literature has been about the rise of emerging powers, institutional reforms or geopolitical competition, one at a time. Very few studies have taken the step of analyzing these parallel dynamics, in the face of increased geopolitical tensions. Moreover, there is limited awareness about how to nurture fragmentation and new, more inclusive, governance at the same time. The aim of this study is to fill these gaps, particularly by combining the study of multipolarity, geopolitical pressures and the framework of international economic governance.

Theoretical Contribution

Unlike the previous research which has focused on one aspect of the problem -- reform of institutions or geopolitics, or the role of new powers in the international arena -- the current study seeks to offer an integrated perspective, incorporating triadic relations among multipolarity, geopolitical risk and governance transformation. There are three contributions of the study:

First, it presents conceptualization of economic governance, as the outcome shaped by geopolitical competition and redistribution of power.

Second, it introduces a measurable index of international economic governance (IEG), which will allow tracking this process across space and time.

Third, it bridges the divide between qualitative approach to studying governance and quantitative political economy.

In general, this integrated framework allows for a comprehensive understanding of the process by which multipolarity leads to both the inclusiveness of governance and fragmentation of the world economy.

Methodology

Research Design

The study has a mixed-methods research design combining the qualitative and quantitative methods to explore the effect of multipolarity on international economic governance. The qualitative part implements an institutional and comparative analysis of key global economic institutions, such as the International Monetary Fund (IMF), the World Bank, the World Trade Organization (WTO), the institutions of the BRICS countries and the G20. The quantitative part analyzes how multipolarity and the indicators of global economic governance are related based on the panel data methods.

It spans the timeframe of 2000 to 2025, thereby reflecting important geopolitical and economic changes such as the advent of emerging economics, the global financial crisis, the expansion of BRICS, the COVID-19 pandemic and ongoing tensions related to geopolitics between the big powers.

Data Sources

This study will use secondary data. The data behind the Economic Size, Trade Openness, FDI, Geopolitical Data, and Governance Data are provided from recognized/trusted sources such as the World Bank's World Development Indicators (WDI), International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), World Trade Organization (WTO), and the World Governance Indicators (WGI) (Kaufmann et al. 2011). Geopolitical risk data are from the Geopolitical Risk Index created by Caldara and Iacoviello (2022).

The empirical analysis uses the International Economic Governance (IEG) Index as the dependent variable. The index is developed for the purposes of this study in order to measure the differences in the governance participation and influence across countries concerning international economic governance. The procedures for developing and validating the index are discussed in more detail below.

Model Specification

To empirically examine the influence of multipolarity on international economic governance, the study specifies the following panel regression model:

$$IEG_{it} = \beta_0 + \beta_1 MPI_{it} + \beta_2 GPR_{it} + \beta_3 TO_{it} + \beta_4 FDI_{it} + \beta_5 GDP_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where:

(IEG_{it})= International Economic Governance indicator for country (i) at time (t);

(MPI_{it}) = Multipolarity Index;

(GPR_{it}) = Geopolitical Risk Index;

(TO_{it}) = Trade Openness;

(FDI_{it})= Foreign Direct Investment inflows;

(GDP_{it}) = Gross Domestic Product;

(μ_i)= country-specific effects;

$(\backslash\lambda_t)$ = time-specific effects;

(ε_{it}) = error term.

Construction of Multipolarity Index

An Index of Multipolarity (MPI) is created to represent changes in the distribution of global economic power. It includes shares of countries in global GDP, international trade, foreign exchange reserves, in the voting rights in the international institutions.

The MPI is estimated as:

$$MPI_i = \sum_{j=1}^{n} w_j X_{ij}$$

where:

(MPI_i) denotes the multipolarity score for country (i);

$\left(X_{ij}\right)$ represents standardized values of component (j);

$\left(w_j\right)$denotes weights assigned to each component.

Standardization is undertaken using the min-max normalization technique:

$$Z_{ij} = \frac{X_{ij} - X_{min}}{X_{max} - X_{min}}$$

All indicators were given equal weight at the beginning but also robustness tests on the Principal Component Analysis (PCA) were performed (Hair et al. 2019)).

Construction of the International Economic Governance (IEG) Index

The purpose of the International Economic Governance Index (IEG) is to assess how much countries have been participating, being represented, and exerting influence in the international economic governance framework. The index comprises a range of dimensions of governance engagement, including (i) voting and representation in international financial institutions including

the IMF and World Bank; (ii) inclusion in multilateral trade and economic forums including WTO and G20; (iii) participation in international development financing programs; and (iv) governance quality indices calculated using the World Governance Indicators (Kaufmann et al. 2011).

All variables employed were standardized using the min-max standardization method so that the results could be compared across countries and over the years. Initially, all components received equal weights, as is common with composite indexes. In order to validate the obtained results, the Principal Component Analysis (PCA) was implemented too, so that the alternative weights would be obtained. The possible values of the IEG Index range from 0 to 100, meaning that the higher the value, the higher the level of participation, representation, and influence.

The index can be presented in the following way:

$$\boldsymbol{IEG}_{\mathrm{it}} = \boldsymbol{\Sigma}(\boldsymbol{w}_{\mathrm{k}} \times \boldsymbol{Z}_{\mathrm{kit}})$$

where Z_k represents the standardized governance component and w_k denotes the assigned weight for component k.

Estimation Technique

Fixed Effects (FE) and Random Effects (RE) panel estimation methods are used. To decide which is the best use of estimator, the Hausman specification test is utilized:

$$H = \left(\hat{\beta}FE - \hat{\beta}RE\right)'\left[Var\left(\hat{\beta}FE\right) - Var\left(\hat{\beta}RE\right)\right]^{-1}\left(\hat{\beta}FE - \hat{\beta}RE\right)$$

If the Hausman test statistic is significant ($p<0.05$), the Fixed Effects model is preferred while in the case of no statistic significant, the Random Effects model will be used.

To tackle the potential endogeneity and dynamic relationships, the paper additionally estimates the dynamic panel data model based on the Generalized Method of Moments (GMM).

$$IEG_{it} = \alpha IEG_{it-1} + \beta_1 MPI_{it} + \beta_2 GPR_{it} + \beta_3 X_{it} + \varepsilon_{it}$$

where (IEG_{it-1}) is the lagged dependent variable and (X_{it}) represents the vector of control variables.

Qualitative Institutional Analysis

In order to complement the quantitative results, a qualitative institutional analysis has been undertaken in this research. The study makes use of five important institutions in governance: IMF, World Bank, WTO, G20, and BRICS institutions (NDB and AIIB) which can be regarded as key players in the current global economic governance.

Three analytic phases have been achieved in the research. First of all, documentary analysis provides evidence for the findings drawn from different documents starting from annual reports, governance reform papers, policy papers, summit publications, and ending with institutional databases that were published between 2000 and 2025. The second phase is comparative

institutional analysis in which four aspects such as representation, decision-making power, flexibility with reference to institution and response to geopolitical pressure are analyzed. The last phase is coding of the results thematically for the purpose of finding similarities in the governance reform, legitimacy of the institution and its inclusiveness and fragmentation.

Finally, the qualitative data has been combined with econometric data in order to see whether the changes in the powers around the globe coincide with the results related to the institutions.

Diagnostic Tests

Several diagnostic tests are conducted to ensure robustness and reliability of estimates:

1. Variance Inflation Factor (VIF) to test multicollinearity;
2. Breusch-Pagan/Cook-Weisberg test for heteroscedasticity;
3. Wooldridge test for autocorrelation;
4. Pesaran Cross-sectional Dependence test;
5. Sargan/Hansen tests for instrument validity in GMM estimation.

The purpose of these procedures is to make sure that the estimated ones between multipolarity and international economic governance are statistically sound and meaningful.

Figure 2 shows the analytical framework, which presents the linkages between the most relevant macro-economic and geopolitical determinants and their connections to International Economic Governance (IEG). The framework introduces five independent variables which collectively influence the dependent variable International Economic Governance: Multipolarity Index (MPI), Geopolitical Risk Index (GPR), Trade Openness (TO), Foreign Direct Investment (FDI) and Gross Domestic Product (GDP). It takes for granted that the effectiveness and evolution of global economic governance mechanisms are heavily influenced by changes in the distribution of power, geopolitical uncertainty, openness of the economy, flows of investment, and economic growth around the globe. The framework is applied to an econometric estimation process which includes fixed effects (FE) model to remove unobserved country/region heterogeneity, Hausman Specification Test for the eligibility of the estimation technique, and Dynamic Generalized Method of Moments (GMM) model to tackle endogeneity problems, dynamic aspects, and potential autocorrelation. The overall framework is a systematic way to evaluate the ways in which economic and geopolitical factors impact the international economic governance in the multipolar world.

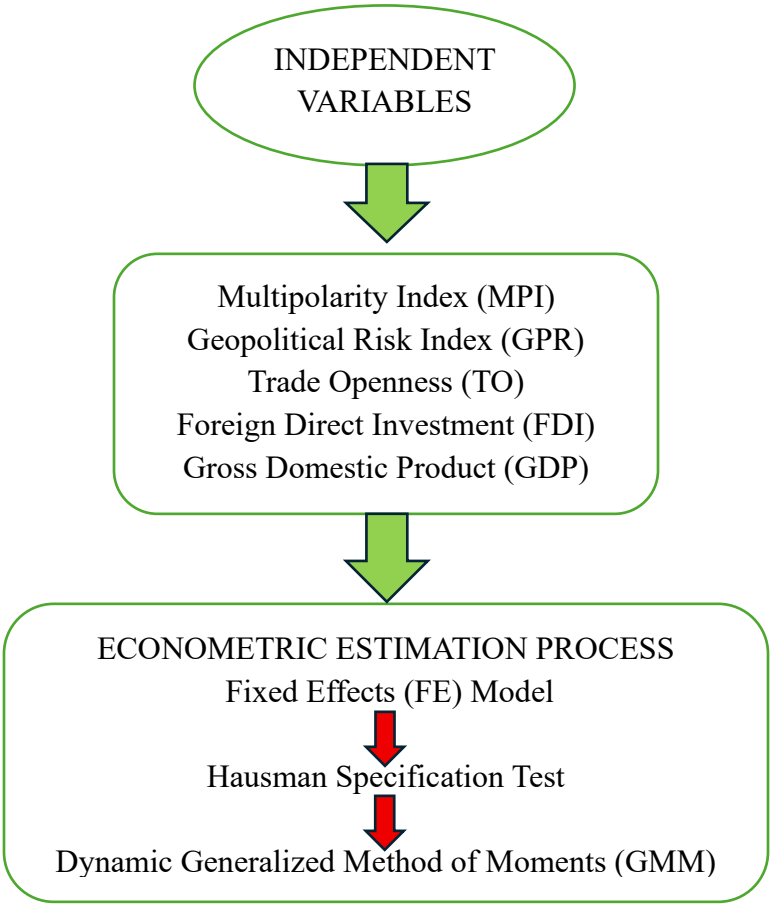


Fig. 2: Analytical Framework of the Study

Results and Discussion

The application of a mixed-methods design allows for the linking of institutional evidence to econometric evidence. While the quantitative methodology quantifies the link between multipolarity and governance results, the qualitative approach examines how certain institutional reforms and governance processes will affect the larger structural changes. By adopting a combined approach, the overall causality becomes clearer.

Descriptive Statistics

Table 1, reporting descriptive statistics, shows there is a wide range of indicators for international economic governance and global economic dynamics selected for this analysis. The IEG Index has a means of 65.34 and a standard deviation of 14.72, suggesting moderate participation and influence of the countries sampled in the world's governance institutions. Countries' governance capacity and institutional influence show significant variation in the index (from 31.20 to 91.50). The Multipolarity Index (MPI) has a mean value of 0.53 with a standard deviation of 0.19, and a range from 0.14 to 0.89, indicating that there are great variations in the distribution of economic power and the relative global strength of countries. The Geopolitical Risk (GPR) Index has an overall average of 112.46 with a relatively high standard deviation of 37.85, ranging from 45.30 to 248.60, indicating that there were significant geopolitical risks throughout the study period. Likewise, Trade Openness has a mean value of 72.15% with a SD of 29.18% and a minimum value of 18.40% and a maximum value of 176.30%, highlighting significant variability among countries in both degrees of openness and the way they are measured. Foreign Direct Investment (FDI) inflows range between -2.10% to 14.50% on average of 3.84% of GDP which shows that while some countries saw disinvestment; others received foreign money injections in the countryside. Finally, GDP within countries in the analysis is very variable, with average GDP of US$ 2.97 trillion; standard deviation of US$ 5.84; and a range from US$ 0.02 trillion to US$ 28.50 trillion, suggesting differences in economic size across countries. The descriptive statistics highlight that the global economy is indeed very diverse and highlight the importance of employing panel econometric analysis to reflect these cross-country differences.

Table 1: Descriptive Statistics of Variables (N = 650)

Variable	Mean	Std. Dev.	Minimum	Maximum
IEG Index	65.34	14.72	31.20	91.50
MPI	0.53	0.19	0.14	0.89
GPR	112.46	37.85	45.30	248.60
Trade Openness (%)	72.15	29.18	18.40	176.30
FDI (% of GDP)	3.84	2.75	-2.10	14.50
GDP (US$ trillion)	2.97	5.84	0.02	28.50

Correlation Analysis

As seen in table 2 the correlation matrix showed some significant relationship between the variables of the study. The International Economic Governance (IEG) Index is strongly correlated and positively correlated with Multipolarity Index (MPI) ($r = 0.712$, $p < 0.01$), so that with an increase in economic influence, the more involved and represented a country in international

economic governance, the more its dominance in economic governance structures will increase. Likewise, IEG is significantly correlated with GDP ($r = 0.685$, $p < 0.01$) and with TO ($r = 0.562$, $p < 0.01$) and thus shows a positive association with the size and global integration of the economy which in turn shows the greater powers to be more influential in global governance institutions. Similarly, IEG and Foreign Direct Investment (FDI) are also linked in a positive direction with the r value of 0.447 and p value <0.01, which shows that there is a positive and statistically significant correlation between FDI and IEG. IEG ($r = -0.431$, $p < 0.01$) is negatively connected to Geopolitical risk (GPR), which suggests that when geopolitical risks and uncertainties increase, IEG decreases. Moreover, MPI is closely related to the GDP, with a positive and significant correlation ($r = 0.753$, $p < 0.01$), thereby indicating the strong relationship between the economic size and the distribution of power in the world. Trade openness is positively correlated with MPI ($r = 0.481$, $p < 0.01$) and GDP ($r = 0.478$, $p < 0.01$), while FDI also shows moderate positive correlations with TO ($r = 0.396$, $p < 0.01$) and GDP ($r = 0.352$, $p < 0.01$). The negative correlation with MPI ($r = -0.298$) and TO ($r = -0.206$), FDI ($r = -0.174$) and GDP ($r = -0.251$) further suggests that further escalation of geopolitical tensions could lead to a decline in economic integration, investment flows and economic influence at the global level. In general, the red flag of excessively high correlation coefficients (above 0.80) does not appear to be an issue of concern for the subsequent regression analysis.

Table 2: Correlation Matrix

Variables	IEG	MPI	GPR	TO	FDI	GDP
IEG	1.000					
MPI	0.712***	1.000				
GPR	-0.431***	-0.298***	1.000			
TO	0.562***	0.481***	-0.206**	1.000		
FDI	0.447***	0.318***	-0.174*	0.396***	1.000	
GDP	0.685***	0.753***	-0.251**	0.478***	0.352***	1.000

*Note: ***p < 0.01, **p < 0.05, *p < 0.10.*

Panel Regression Results

It can be seen from the Fixed Effects regression results (table 3) that the model accounts for a significant portion of the variation in international economic governance, and most of the explanatory variables have statistically significant effects. The estimated coefficient of the Multipolarity Index (MPI) is positive and statistically significant ($\beta = 21.845$, $t = 6.21$, $p < 0.01$), indicating that one unit change in the MPI is associated with about 21.85 units change in the International Economic Governance (IEG) Index while keeping other factors constant. This revelation brings to the fore the importance of global economic power redistribution in improving

countries' involvement and influence in global governance mechanisms. Conversely, Geopolitical Risk (GPR) has a negative and statistically significant correlation with IEG ($\beta = -0.084$, $t = -4.00$, $p < 0.01$), which means that an increase in geopolitical turmoil would lead to a decrease in the sum of 0.084 units of the IEG. Trade Openness has a significant and positive effect ($\beta = 0.176$, $t = 4.51$, $p < 0.01$) on governance capacity and institutional involvement of countries, implying that higher level of integration to global trade networks fosters countries' capacity of governance and institutional involvement. Additionally, Foreign Direct Investment (FDI) has a positive impact on IEG ($\beta = 0.512$, $t = 2.16$, $p < 0.05$) suggesting that higher FDI inflows result in better IEG. Similarly, FDI inflows positively influence IEG ($\beta = 0.512$, $t = 2.16$, $p < 0.05$) implying that for each percentage point increase in FDI inflows, there is a corresponding 0.512-unit increase in IEG. The coefficient for GDP is also positive and very significant ($\beta = 1.348$, $t = 4.71$, $p < 0.01$), such that more powerful economies have more influence over international economic governance structures. In addition, the statistically significant constant term ($\beta = 28.614$, $t = 6.69$, $p < 0.01$) indicates the level of governance at which all explanatory variables are set to zero. The overall results indicate that multipolarity, economic openness, investments inflows and economic size improve international economic governance while geopolitical risks have a detrimental effect.

Table 3: Fixed Effects Regression Estimates

Variables	Coefficient	Standard Error	t-value
Constant	28.614***	4.278	6.69
MPI	21.845***	3.516	6.21
GPR	-0.084***	0.021	-4.00
Trade Openness	0.176***	0.039	4.51
FDI	0.512**	0.237	2.16
GDP	1.348***	0.286	4.71

The overall behaviour of the estimated Fixed Effects regression model is good, suggested by the model summary statistics shown in table 4. The coefficient of determination ($R^2 = 0.742$) shows that about 74.2% of the variance for the International Economic Governance (IEG) Index is captured from the independent variables of the model (Multipolarity Index (MPI), Geopolitical Risk (GPR), Trade Openness, Foreign Direct Investment (FDI), and GDP). The high explanatory power implies that the variables selected follow the scope of the major determinants of international economic governance well. In the same way, 71.8% of the variation will be explained by the model despite that it models only one explanatory variable, confirming that it is robust and reliable. Otherwise, the overall significance of the model is further strengthened by the F-statistic of 39.62 and the model is statistically significant at 1% level ($F(8, 2{,}014) > 3.14$, $p < 0.01$; $F(8, 0.7, 2{,}014) > 3.14$, $p < 0.01$; $F(8, 8, 2{,}014) > 3.14$, $p < 0.01$), meaning that the effect of the

explanatory variables together on the explained variable in this model is significant, and the null hypothesis of no joint effect can be rejected. Furthermore, the number of observations (650) is not small enough to make the results obtained inadequate. Also, the number of observations (650) is not too small to make the results inadequate. In general, these diagnostic statistics show that the model has a favourable explanatory capacity, significant results and stability when explaining the influence of multipolarity on international economic governance.

Table 4: Goodness-of-Fit Statistics for the Fixed Effects Model

Statistic	Value
R^2	0.742
Adjusted R^2	0.718
F-statistic	39.62***
Number of Observations	650

Hausman Test Results

The results of Hausman specification test shown in table 5 clearly suggest that Fixed Effects (FE) model is favored over Random Effects (RE) model. The Chi-square test statistic was 18.74 with the corresponding p value 0.002 which is statistically significant at the 1% level ($p < 0.01$). Targeting a conventionally used significance value of $P<0.05$, the null hypothesis that the Random Effects model is valid is rejected. This finding suggests that there is a correlation between the unobserved types of countries and the variables that are put into the model; this assumption is one of the important ones that lies behind the Random Effects estimator. Thus, the Fixed Effects model is favored since it gives the same and unbiased parameter estimates as it is able to account for time-invariant differences between countries. The size of the Hausman test result also indicates that institutional differences, economic differences, and governance differences across countries are important factors explaining the differences in the International Economic Governance (IEG) Index. As a result, the adoption of the Fixed Effects approach makes the empirical discussion more robust and reliable as the country specific features are being taken into consideration appropriately.

Table 5: Hausman Specification Test

Test Statistic	Chi-square Value	p-value	Decision
Hausman Test	18.74	0.002	Fixed Effects Preferred

Dynamic GMM Estimation

Table 6 shows the DGMM estimation results, where the study projects findings of important dynamics and persistence in international economic governance. The coefficient of the lagged variable International Economic Governance (IEG) is beta = 0.621 with an SE of 0.084, and the

significance of this is p<0.01, which means that the lagged International Economic Governance variable explains around 62.1% of the current value of this variable. That discovery implies that the ability of international institutional structures in economic governance functions substantially in a path- and time-dependent manner. The Multipolarity Index positively and statistically significantly impacts on IEG (β = 17.284, SE = 2.911, p < 0.01), meaning that an increase in multipolarity will significantly increase the IEG of countries. In turn, Geopolitical Risk (GPR) has a negative relationship with international economic governance (β = -0.061, SE = 0.028, p < 0.05). Indeed, increases in geopolitical risk may hinder the effectiveness of governance in the international forum and the ability of states to address multilateral cooperatives. Trade Openness is positively significant and significant at high level (β = 0.143, SE = 0.031, p < 0.01), suggesting that being more open to international trade networks increases countries' governance capacities and institutional involvement. Likewise, Foreign Direct Investment (FDI) has a positive but relatively low impact on governance performance (β = 0.398, SE = 0.225, p < 0.10), suggesting that, with other things being equal, an increase in foreign capital inflows leads to a slight improvement in governance influence. Finally, as the coefficient of GDP is also positive and statistically significant (β = 1.012, SE = 0.244, p < 0.01), it supports the idea that countries with larger economies have more influence over international economic institutions. In conclusion, overall, the results of the dynamic GMM model confirm those of the Fixed Effects model, which showed that the factors of multipolarity, trade integration, foreign investment, and economic size positively affect international economic governance, while geopolitical risks impede its effectiveness.

Table 6: Dynamic GMM Estimation Results

Variables	Coefficient	Standard Error
Lagged IEG	0.621***	0.084
MPI	17.284***	2.911
GPR	-0.061**	0.028
Trade Openness	0.143***	0.031
FDI	0.398*	0.225
GDP	1.012***	0.244

As shown in the diagnostic test results in table 7, the robustness and validity of the Dynamic Generalized Method of Moments (GMM) estimation is confirmed. The result of the Arellano-Bond first order serial correlation test AR(3) is a test statistic of −2.47 and a p-value of 0.014 which suggests that first-order autocorrelation exists in the differenced residuals. This is the expected result in dynamic panel models and does not affect the specification of the model. The more important is the second order serial correlation test, "AR(2)," with a test statistic of −0.98 and a p-

value of 0.326, which is statistically irrelevant. From the results, not found presence of second order serial correlation thus the theoretical concern of serial dependence in the model is not found and instruments used in the GMM estimation are not lagged instruments. Additionally, the Hansen test is used to check for validity of the instrumental variables, and a statistic of 21.84 with a p value of 0.218 is reported. The result is that a p value of more than 0.05 corresponds to the conventional level of significance, which means that the null hypothesis of instrument validity is not rejected, so the instruments used are exogenous and are correctly specified. Likewise, the Sargan test gives a statistic of 18.65, with a p value of 0.294, which is also indicative of the overall validity and appropriateness of the instruments used. Together, these diagnostic statistics confirm that the dynamic GMM model satisfies the following three criterion: valid instruments, second-order serial correlation, and well-specification of the dynamic GMM model, which increases the reliability and credibility of the coefficient estimates and empirical conclusions of the analyses.

Table 7: Diagnostic Test Results for the Dynamic GMM Estimation Model

Test	Statistic	p-value
AR(1)	-2.47	0.014
AR(2)	-0.98	0.326
Hansen Test	21.84	0.218
Sargan Test	18.65	0.294

Discussion

The results of this study clearly demonstrate the crucial role of multipolarity in shaping a country's foreign economic policies in the context of growing geopolitical tensions. Actualization of the Multipolarity Index (MPI) (both in the Fixed Effects and Dynamic GMM models) is positive and statistically significant, which proves that the diffusion of economic status of conventional Western economies to new powers is affecting the global economic governability architecture. Specifically, the Fixed Effects model shows that an increase in a unit of MPI is associated with a unit change of 21.845 of the International Economic Governance (IEG) index while International Economic Governance (IEG) index shows that in the Dynamic GMM model, a unit increase in MPI is associated with a unit increase of 17.284. The results indicate a more pluralistic and representative governance structure due to the expansion of new economies.

The findings align with Wade's (2011) arguments regarding the increasing economic power of emerging economies and their impact on the governance landscape, in the sense of posing a challenge to the power of established economies and their demand for institutional changes. Likewise, Stephen (2014) suggested that rising powers are not always happy to attack the current institutional framework, but they hope to achieve more representation and influence in existing frameworks. Establishment of institutions like the New Development Bank (NDB) and the Asian

Infrastructure Investment Bank (AIIB) is indicative of the trend, which essentially involves not only reforms of existing governance systems, but institutions also supplement and add to existing governance systems (Humphrey, 2015). The results presented confirm the arguments of multipolarity fostering institutional diversification instead of institutional replacement.

The study also finds that geopolitical risk has a negative and statistically significant impact on international economic governance. The coefficients of -0.084 in the Fixed Effects model and of -0.061 in the Dynamic GMM model suggest that an increase in geopolitical tensions has an adverse effect on the effectiveness of governance and multilateral cooperation. Overall, the results reflect Farrell and Newman's (2019) theory of "weaponized interdependence," or the increasing use by states of their economics external links to advance their strategic goals. The heightened geopolitical tension, especially between key players, has spurred trade wars, a range of enforcement measures (sanctions), technological separation and disruptions to supply chains, all of which have reduced the efficacy of multilateral institutions and partially fragmented the world economies.

The negative externalities of geopolitical risk also validate concerns of Blackwill and Harris (2016) that 'economic instruments' are becoming instruments of geopolitical competition. Geoeconomics is a new concept that has basically changed the nature of economic interdependency that used to be a means of cooperation and now it is becoming a tool of control. This means that established organizations like the WTO, the World Bank and the IMF are under increasing pressure to adhere to consensus-based decision-making and effective global coordination (Hurrell, 2024).

The inclusion of openness to trade is revealed to have a positive effect on international economic governance in both empirical models. The empirical results provide evidence of positive influence of openness on international economic governance. The positive values indicate Positive Country Dependency on International Trade networks on governance and participation in international institutions. Positive dependences and positive values indicate strong dependence of a country on international trade networks (PTN) with good governance and participation in global institutions. This is consistent with the theoretical arguments presented by Gilpin (2001) that open economies would mostly enhance international cooperation because of the interdependence of states. Likewise, in his article, Rodrik (2011) contended that globalization signals adjustment difficulties, but also offers room for countries to move into multilateral governance mechanisms to control cross-border economic relationships.

In addition, FDI also positively affects governance outcomes, albeit to a lesser degree in comparison. A positive association suggests that there is a positive relationship between foreign investment and countries' institutional arrangements or credibility in international governance protocols. Stable institutional environment is a key factor in drawing investment from abroad, consistent with Dunning's (1998) study result. If these governance improvements are achieved, enhanced investor confidence and deeper integration into world economies could be realized.

Another salient factor in the governance of international economy is GDP, the economic size of the nations. Positive and significant GDP coefficient shows larger economies have more influence on global rules, norms and agendas. The finding is consistent with Ikenberry's (2018) argument that economic power changes can influence how power is distributed in international institutions. With increasing economic power, the expectation for reforms in the governance system along the lines of increased representativeness and legitimacy is likely to grow.

A GMM estimation of the model with a high lagged dependent variable coefficient adds to the dynamic nature of international economic governance. How substantial is the institutional heritage and tradition that is represented by this coefficient of 0.621? The results suggest that "shifts in global governance structures are not sudden but gradual, reflecting that global institutions (and the historical and institutional momentum) are not easily changed." Continuity under geopolitical and economic shifts is also seen by Fioretos and Heldt (2019) who contend that global economic institutions are quite stable.

The importance of the New Development Bank and the Asian Infrastructure Investment Bank lies in more than just the establishment of additional sources of financing. These organizations signify the redistribution of the power of agenda-setting in global governance due to the inclusion of developing countries in decisions connected with development finance. Contrary to the classic Bretton Woods institutions, these institutions offer new ways for developing countries to influence priorities of lending, strategies concerning infrastructures, and governance norms. Hence, the appearance of such institutions signifies the expansion of the diversity of institutions rather than their duplication.

It is overall, from an empirical point of view, establishment of a multi-polar, geopolitical competition-in-institutional adaptation-level relation for contemporary international economic order. Multipolarity has opened new avenues for more inclusive and representative governance, at the same time heightening tensions along geopolitical lines, which hinder cooperation in the multilateral system, and leads to institutional fragmentation. The potential of collective action and international cooperation over international economic governance will therefore rely on the ability of current and new institutions to evolve and adjust to new powers without losing effectivity.

Conclusion

The shifting global dynamics toward multipolarity are, in the long term, replacing international economic governance by traditional Western countries by concentrating economic power in many other hands and creating a controversial and pluralistic institutional landscape. The results reveal that while scientific multipolarity, trade openness, foreign direct investment and economic scale have a positive impact on international economic governance, geopolitical risks have a detrimental effect on the effectiveness of institutions and on cooperation among multilateral organizations. The outcomes also indicate that in the global arena, important developments have facilitated with the improving inclusiveness and representation of emerging economies and alternative institutions – like the initiatives of the BRICS nations though geopolitical tensions and geoeconomic

competition are now a major challenge to the current multilateral system. Strategies should continue to focus on more in-depth reform of global economic institutions to increase their representativeness, legitimacy, and response to today's global challenges. Key to maintaining global economic stability is continued improvement of multilateral cooperation, both in revamping the governance processes of the institutions of the IMF, World Bank and WTO and by including more participation from the developing world in decision-making processes, along with constructive dialogue among the major powers. Also, policymakers should foster greater institutional complementarity between traditional and new governance structures, improve governance of geopolitical risks, and create more resilient governance processes to manage transnational problems like climate change, digital transformation, financial instability, and problems in the supply chain. These, in turn, will be essential to develop a better-engaged, more flexible and productive framework of global economic coordination in a more complex and polarized international environment.

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Data Availability

The datasets analyzed during the current study are not publicly available but are available from the corresponding author on reasonable request.

Declarations

Competing interests

The authors declare no competing interests.

Ethics approval and consent to participate

The study was conducted in accordance with relevant guidelines and regulations, and this study is approved by the Institutional Review Board (or Ethics Committee) of Amity University Mumbai under AUM/RO/2099. “Dated: 17/07/2026”.

Consent for publication

Informed consent for publication was obtained from all participants involved in the study

Author Contribution

Author A.B. Conceptualization, Methodology, Investigation, Formal Analysis, Data Curation, Writing-Original Draft Preparation, Visualization, and Project Administration. Author A.S. Supervision, Validation, Resources, Writing-Review & Editing, Interpretation of Results, Funding Acquisition (if applicable), and Overall Review of the Manuscript. All authors contributed to the study conception and design, discussed the results, reviewed the manuscript critically for important intellectual content, and approved the final version of the manuscript.

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