



NEW GLOBAL ECONOMIC ARCHITECTURE: AN ASIAN PERSPECTIVE

Policy Brief

April 2016

Edited by
Pradumna B. Rana
Aédán Mordecai

RSiS
Nanyang Technological University

S. RAJARATNAM
SCHOOL OF
INTERNATIONAL
STUDIES

Policy Brief

NEW GLOBAL ECONOMIC ARCHITECTURE

AN ASIAN PERSPECTIVE

Edited by
Pradumna B. Rana and **Aédán Mordecai**
April 2016

TABLE OF CONTENTS

Executive Summary	3
I. Introduction	4
II. Current State of Economic Architecture in Asia	5
III. Policy Implications and Recommendations	7
About The Centre for Multilateralism Studies	8
About The S. Rajaratnam School of International Studies	8

EXECUTIVE SUMMARY

This policy brief will summarise the implications of the changing nature of the Global Economic Architecture (GEA). Recommendations will be made to the various related international institutions in order to create a cohesive environment that could accelerate growth, as well as aid the alleviation of poverty in the Asian region. The policy recommendations have been derived from the book launch of “New Global Economic Architecture: The Asian Perspective” on 6 January 2016 at Mandarin Orchard Singapore. Four different aspects of the GEA are discussed in this policy brief (i) Trade Architecture; (ii) Development Finance Architecture; (iii) Regional Financial Safety Nets; and (iv) Regional Financial Regulation and Supervision.

I. INTRODUCTION

RSIS' Centre for Multilateralism Studies (CMS) organised a seminar and book launch in early 2016 for *New Global Economic Architecture: The Asian Perspective*, edited by Masahiro Kawai, Peter Morgan, and Pradumna B. Rana. The event examined the changing nature of the Global Economic Architecture (GEA), and how Asia should contribute to the new system.

The premise of the topic is based on the fact that the old GEA could not be maintained and has already changed to the point where there is no chance of a return to the old system. It is argued that the GEA comprising the International Monetary Fund (IMF), General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO), and the World Bank established at the historic 1944 Bretton Woods Conference had worked fairly well for several decades. But more recently, for various reasons, this centralised architecture had come under increasing strain and we were witnessing a move towards a more decentralised and fragmented GEA where regional and national institutions were being established in various parts of the world. Global economic governance was, therefore, becoming more complicated.

Therefore, due to the changes occurring within the GEA, there are some key questions and issues that must be addressed:

- (i) Whether reform of present institutions, in the areas of financing and decision-making, could make room for an expanded role of the dynamic emerging economies led by the

BRICS (Brazil, Russia, India, China and South Africa);

- (ii) Whether recent trends toward a fragmented and decentralised GEA would continue;
- (iii) Whether the new institutions established by the dynamic emerging economies would pose a threat and potential substitute to global institutions;
- (iv) How global and regional institutions could cooperate in the areas of policy, institutional, and finance, among others;
- (v) How Asian regional institutions (such as the RCEP¹, CMIM²/AMRO³, AIIB⁴/NDB⁵) might cooperate with their global counterparts (such as the WTO, IMF, the World Bank, and the Financial Stability Board); and
- (vi) What role Asia should play in designing the evolving decentralised architecture?

This policy brief seeks to suggest approaches that could address the above questions, drawing from the contributions and discussions that arose from the book launch-cum-seminar. The main body of this brief will give a background to the current issues revolving around the four key aspects of the GEA: (i) Trade Architecture; (ii) Development Finance Architecture; (iii) Regional Financial Safety Nets; and (iv) Regional Financial Regulation and Supervision. This policy brief concludes with a list of policy implications and recommendations for the international and Asian regional institutions. With a well-organised and structured approach to shaping the future GEA, it is hopeful that development will be boosted and economic crises avoided where possible.

1 Regional Comprehensive Economic Partnership
 2 Chiang Mai Initiative Multilateralisation
 3 ASEAN+3 Macroeconomic Research Office
 4 Asian Infrastructure Investment Bank
 5 National Development Bank

II. CURRENT STATE OF ECONOMIC ARCHITECTURE IN ASIA

Trade architecture

With the stalling of the World Trade Organization's negotiations for more than a decade, global trade architecture has long been in flux. In response to the lack of progress in multilateral agreements to facilitate trade, there has been a proliferation of mega-Free Trade Agreements (FTAs) to attempt to eliminate the spaghetti bowl effect that exists due to the prevalence of numerous overlapping bilateral FTAs. The Trans-Pacific Partnership (TPP), agreed in November, is an attempt to further facilitate trade in the Asia Pacific region. The TPP also introduces rules on "new" topics that are not included in current WTO agreements, such as e-commerce and labour standards.

However, the TPP has not comprehensively replaced the WTO, not even regionally. While it has helped reduce the spaghetti bowl affect, the 6,000 plus page document includes many bilateral concessions regarding tariffs. On new rules, however, the TPP has bested the WTO with success in harmonising rules and regulations that the Doha round is still negotiating. The chances for the new rules multilateralising are minimal as different regions share opposing views on topics such as e-commerce. Asia can benefit from the TPP, and other mega regionals planned such as the RCEP, but the ideal situation would be a successful multilateral trade agreement based on non-discrimination.

Development finance architecture

The Bretton Woods institutions that have dominated development finance are facing a turning point. Internal reform of development finance architecture has been slow, and with the mixed results that the main development banks have experienced, developing countries have been seeking a greater voice in proceedings. The outcome has been the establishment of new banks that now exist alongside the World Bank and Asian Development Bank. The BRICS' NDB has been joined by the Chinese-led AIIB, which will also facilitate the development of the One Belt One Road (OBOR) initiative.

The existence of several development banks simultaneously raises many questions while offering challenges to the prevailing financial architecture. The possibility of a race to fund projects could result in the fragmentation of the system to the detriment of the quality of the infrastructure and the funding processes. The international standards could suffer if areas such as debt management, due diligence and procurement are not given enough importance in the new development banks. On the other hand, there is an opportunity for healthy competition among the institutions, particularly as there is far more demand for infrastructure than there is available resources, meaning the extra finances are welcome. There have been preliminary commitments by all parties that they will attempt to cooperate in order create a new successful development financial architecture that has more input from emerging economies, while also maintaining standards.

Financial safety nets and the IMF

Much like the developmental finance and trade architecture, the IMF has been facing questions about its effectiveness and its ability to react and prevent financial crises. In the Asian region, there has been a desire to be less dependent on the IMF since the Asian Financial Crisis (AFC), where there were significant failings in the diagnosis of the problems causing a more severe period of economic turmoil. The response from Asian countries was the development of a Regional Financial Safety Net (RFSN), which became the CMIM. The Chiang Mai Initiative is a multilateral currency swap arrangement for the members of ASEAN +3, to ease short-term liquidity problems, and maintain certain stability in times of economic uncertainty.

The CMIM is not enough on its own, in its current state, to deal with the sort of economic crises that could potentially occur. Though the funds committed have increased since its inception (now totalling USD240bn), it is still insufficient. Without strengthening the CMIM's companion surveillance unit, the AMRO, it is unlikely that members of CMIM will increase the fund further.

AMRO exists to monitor the members' respective macroeconomic status, while analysing risks, and facilitating regional financial arrangements. AMRO is still a relatively small and undermanned operation, with a questionable amount of independence. Its independence from governments is crucial to making impartial and rational judgements. The CMIM is done in cooperation with the IMF in order to compensate for the lightweight AMRO, as well as boosting the total funds available. The CMIM is still growing however and how its relationship with the IMF should be organised is an important point of discussion.

Financial supervision and regulation in Asia

Another lesson from the AFC was the potential value of financial regionalism, which revolves around regional level cooperation in the area of financial supervision and regulation. Successful cooperation can help dampen shocks and lessen contagion effects, which could lead to capital flight as occurred during the AFC. The regional response in Asia was the development of the Economic Review and Policy Dialogue, which provides a forum for finance

ministers of the ASEAN +3 to discuss the issues regarding financial policy. The AFC also prompted the development of local-currency bond markets, to avoid problems related to double mismatches.

The further strengthening and development of financial regulation is needed, and highlighted by the GFC and the on-going troubles in the Eurozone. These provide examples of how greater financial market integration needs to be accompanied by greater regulation and supervision. This needs to be done at a regional level in the case of Asia as financial regulation that is promoted at the global level is often decided in forums such as the G20 and the Financial Stability Board. The viewpoints of the developed countries dominate these platforms and shape the global regulatory approach. Asia would be wise to promote regionally-determined regulations and approaches to reflect the different environment that exists compared to the global north. The different aspects of regional cooperation that can be addressed are: (i) economic and financial surveillance mechanisms; (ii) financial regulatory harmonisation; and (iii) regional bond market development.

III. POLICY IMPLICATIONS AND RECOMMENDATIONS

With the move from a unipolar to a multipolar world and the changed context of financial globalisation, it was inevitable that the centralised GEA set up at Bretton Woods would evolve towards a more decentralised and fragmented GEA. The evolving GEA would also be less rules-based and would operate more like informal networks in certain areas. World economic governance would therefore continue to be more complicated. There was an urgent need to strengthen the G20, which had lost both “input” and “output” legitimacy, to provide a more effective oversight of the evolving GEA.

- Beyond a certain amount of “healthy” competition between global and regional institutions, the relationship between the two should be “complementary”. The devil is in the detail, however, and global and regional institutions should work together to find a right modality and balance of complementarity, which could range from knowledge and information sharing, regular consultation, to co-financing.
- The December 2015 decision by the U.S. Congress to authorise the 2010 Quota and Governance Reforms of the IMF, after a 5-year delay, is a step in the right direction. But it is perhaps “too little, too late”.
- The so-called conflict between the U.S.-led and China-led architecture in Asia could eventually lead to a win-win situation for all including the U.S. and China.
- Key policies needed within the four architectures:

International trade

Mega-FTAs such as the recently-signed TPP could streamline the spaghetti bowl effect but they could undermine the centrality of the WTO in writing rules for international trade. Asian countries must work to eventually include all

members into trade agreements to make up for the lack of movement in the WTO.

Economic development banks

The establishment of new development banks, such as the AIIB and the NDB, are welcome because the demand for infrastructure capital is substantial. But these institutions are not covered by the existing donor coordination frameworks and oversight bodies such as the Development Assistance Committee and there is therefore the need to define complementary relations with existing institutions of development finance.

Monetary architecture

A more structured form of collaboration between ASEAN +3 financial safety nets and the IMF must be found, as in Europe, to enhance their effectiveness in crisis prevention and crisis management in Asia. AMRO must be strengthened, as well as the relationship between AMRO, CMIM and the IMF, to achieve maximum effectiveness during periods of economic instability. This partnership between regional financial safety nets and the IMF could help pool resources and expertise, while being shaped around the specific needs of the Asian region.

Financial regulation and supervision

The case for coordination of financial regulation and supervision at a regional level is strong in Asia. The case for a regional forum to monitor vulnerabilities and recommend policy actions is also strong. Regulations should be strengthened and harmonised within Asia, which could be achieved through deeper and more frequent cooperation, with the ASEAN Economic Community process being a good model to pursue in this regard.

ABOUT THE CENTRE FOR MULTILATERALISM STUDIES

The Centre for Multilateralism Studies (CMS) is a research entity within the S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University, Singapore. The CMS team conducts cutting-edge research, teaching/training, and networking on cooperative multilateralism in the Asia Pacific region. The Centre aims to contribute to international academic and public discourses on regional architecture and order in Asia Pacific. It aspires to be an international knowledge hub for multilateral and regional cooperation.

The Centre's research agenda includes international and global forms, as well as expressions of cooperative multilateralism:

- **Economic Multilateralism**

Research areas include trade, monetary, and financial integration in ASEAN, ASEAN+3, South Asia, and Central Asia; evolving linkages between various Asian sub-regions and with countries/sub-regions outside the region; and developments in the global economic architecture to ensure complementarity between global and regional initiatives.

- **Diplomatic and Security Multilateralism**

Research areas include inter-governmental and non-official arrangements such as the ASEAN Regional Forum, ASEAN+3, East Asia Summit, Shanghai Cooperation Organisation, Six-Party Talks, the Council for Security Cooperation in the Asia Pacific, and the like. Initiatives in defence diplomacy include the ASEAN Defence Ministers' Meeting (ADMM) and ADMM Plus, the Shangri-La Dialogue, and alliances.

- **International Political Economy**

The programme examines the interactions between politics and economics of particular countries, regions and the world. Drawn from both the fields of economics and politics, an international political economy perspective enhances our understanding of issues in regional and global economy.

- **Temasek Foundation**

Series on Trade & Negotiations With a generous donation from Temasek Foundation, CMS organises two capacity-building programmes; an annual three-day training course for regional members of parliament and In-Country training courses for government officials. These workshops are carefully designed to help develop the human capital necessary to take full advantage of the opportunities unleashed by globalisation and international trade.

For more information about CMS, please visit www.rsis.edu.sg/cms.

ABOUT THE S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES

The S. Rajaratnam School of International Studies (RSIS) is a professional graduate school of international affairs at the Nanyang Technological University, Singapore. RSIS' mission is to develop a community of scholars and policy analysts at the forefront of security studies and international affairs. Its core functions are research, graduate education and networking. It produces cutting-edge research on Asia Pacific Security, Multilateralism and Regionalism, Conflict Studies, Non-Traditional Security, International Political Economy, and Country and Region Studies. RSIS' activities are aimed at assisting policymakers to develop comprehensive approaches to strategic thinking on issues related to security and stability in the Asia Pacific.

For more information about RSIS, please visit www.rsis.edu.sg.

