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GOODBYE OBAMA



Obama. Courtesy of Flickr account of Emmanuel Dunand and used under a creative common license.

FAREWELL TPP?

FEATURED COMMENTARY

The Rise of Trump and Its Global Implications – Trump’s Victory: Future of International Monetary and Financial System

By Kaewkamol Pitakdumrongkit



Donald Trump Campaigning in Council Bluffs, Iowa. Courtesy of Flickr account of Matt A.J and used under a creative common license.

With Trump as the next American president, how will this affect the future of the international financial system? The prospect of future governance looks grim due to the lack of enforcement and leadership at the global level.

Commentary

NOW THAT Donald Trump has won the United States presidential election and will become the 45th American President, questions abound about the future of the international financial system. In the immediate term his victory will lead to sell-offs and stock market instability. Even before his confirmed victory, the markets around the world had reacted negatively. For example, S&P 500 futures plummeted by 4 per cent and the Nikkei Index

plunged by 5 percent.

Stock markets would continue to be volatile amidst the uncertainties about economic policies under the Trump administration. It is largely unknown what his economic team will consist of and who exactly would design the policies.

Risks of Competitive Devaluation and Currency Wars

Unlike trade matters which repeatedly showed up in his campaign rhetoric, the issues of international money and finance was hardly mentioned. Yet, much of the uncertainties and unknowns loom large in this area. Going forward, how would his presidency shape the future of the global monetary and financial system? In terms of governance, what would be its impacts on interna-

tional monetary and financial cooperation?

The consequences are likely to stem from the trade policies the Trump administration would pursue. During his campaign, he pledged to undertake trade protectionism against several countries to protect American jobs and interests by increasing tariffs on products from certain states.

Intensifying American protectionism would worsen the world's economy further. Such action would exacerbate the global trend towards protectionism which could spill over onto the international financial and monetary order. The combination of global sluggish demand and growing US protectionism would concoct a perfect recipe for ex-

change-rates manipulation.

Under such condition, several states would feel more tempted to tinker with exchange rates to boost trade competitiveness and gain an edge in the world's markets. Such manipulation could lead to competitive devaluation. Currency wars could thus result, ruining the global trade, financial, and investment flows.

Can the World be Saved?

Risks of competitive devaluation and currency wars beget a bigger issue of governance. For any system to maintain and function smoothly, governance is required. The stakeholders must cooperate with one another on deciding

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the set of rules which they will abide by. In the Westphalian system, cooperation rarely occurs spontaneously. To achieve collaboration, nation-states need to work together on two main things: making rules and enforcing them.

What is daunting is not the fact that the world lacks rules governing currency manipulation, but the fact that the power to enforce such principles on sovereign nations is limited. There have been efforts by international organisations to tackle competitive devaluation at the global level. For example, Article IV of the International Monetary Fund (IMF) Agreement contends that each member shall “avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members”.

Likewise, the Group of Twenty (G-20) attempted to address the issue. Accord-

ing to the Communique coined at the Hangzhou Summit in September 2016, the leaders pledged to confirm their “previous exchange rate commitments, including . . . [refraining] from competitive devaluations and . . . [using] . . . exchange rates for competitive purposes”.

Would US Lead Again?

As stated earlier, governance cannot be accomplished without the agreed rules being adopted or implemented. Unfortunately, the enforcement power of the IMF and G-20 is limited. The Fund’s power to prevent states from adjusting their exchange rates for trade gains is questionable. Admittedly, the Organisation’s influence tends to stem from the conditionalities it imposes upon its borrowers.

But if countries do not have borrowing ties with the Fund, it does not have the authority to force states to implement the policies it prefers. As for the G-20, its cooperation is largely on a

World Trade Under Trump?

President-elect Trump has stated that one of his first acts of Presidency would be to withdraw from the Transpacific Partnership (TPP). Elsewhere his trade goals are thought to be to reduce the US’s large trade deficit with China, stoking fears of a trade war between the two largest economies. Trump has voiced his opposition to the multilateral trading system in general with many expecting bilateral deals to become preferred under his administration.

voluntary basis and formal enforcement mechanisms are absent. This bloc is at best endowed with the power to persuade, which is different from enforcement.

Who could fill such enforcement void? Enforcement can occur when a particular nation assumes leadership. Leadership happens when one state coerces or cajoles other countries to adopt and implement the agreed rules and principles. History has taught us so. The US leadership largely contributed to the successful construction of the Bretton Woods System after World War II.

Would the Americans take

up this role again? It is difficult or even almost impossible to see Washington take a lead in managing international money and finance when the new administration seems to turn its back on the open system.

What would the future look like for global money and finance? It is not hopeful. The world is likely to experience more market volatilities and the hanging risks of currency manipulation, competitive devaluation, and possible currency wars. Couple these with the absence of enforcement mechanisms and leadership at the global stage, the world will just have to brace itself for the impact. ■

The Trilateral Workshop on the Asia-Pacific Security-Economics Nexus: New Directions and Pressures

The Trilateral Workshop on the Asia-Pacific Security-Economics Nexus: New Directions and Pressures was organized by the Centre for Strategic Studies at Victoria University of Wellington, New Zealand. This workshop brought together nine scholars from three top universities in the Asia-Pacific. A variety of important and topical issues that are broadly related to the economics-security nexus were discussed, in-

cluding economic sanctions and alliances, the South China Sea issue, China’s One Belt One Road strategy, developmental peace in China, and the role of ASEAN.

Assistant Professor Lee Chia-yi of the Centre for Multilateralism Studies presented on the economic integration and competition in the region, focusing on two issue areas: foreign direct investment (FDI) and natural resources. Her ob-



Assistant Professor Lee Chia-yi presenting to the Trilateral Workshop.

servation was that there has been more integration and synergy than competition in FDI flows in Asia. FDI in the natural resource sector, however, may be a

potential source of conflicts, depending on what approach governments adopt: liberalist or nationalist. ■

RSIS Seminar Series on Multilateralism Studies: Singapore as an International Finance Centre



Assistant Professor Woo Jun Jie of HSS presenting at the Keypoint, RSIS

On 15 November, the Centre for Multilateralism Studies (CMS) organised a seminar on 'Singapore as an International Finance Centre' as part of the RSIS Seminar Series on Multilateralism Studies at Nanyang Technological University (NTU). The Seminar was given by As-

stant Professor Woo Jun Jie of the School of Humanities and Social Sciences (HSS), NTU and an alumnus of RSIS.

Assistant Professor Woo described Singapore's current standing as an international financial centre and described how it got to its lofty position. The

most recent GFCI rankings placed Singapore as third in the world only behind London and New York, and also first in Asia before regional rivals Hong Kong and Shanghai.

However, Singapore has come a long way in a short time to occupy this status. The beginnings of Singapore's financial industry come from its position as a trading hub during British colonial times making the city an ideal location for financial firms specialising in insurance, banks and international transfers.

Government policies have allowed Singapore to grow in recent years. Economic and political stability coupled with generous offers to foreign companies have attracted a lot of FDI from

financial firms, who are also swayed by the urban development in the area which complement the industry very well making it not just a good place for firms but also for professionals to live.

Assistant Professor Woo highlighted the fact that it is a very competitive global industry and there will be challenges for Singapore in the future to remain as an attractive location. Financial Technology (FinTech) is constantly evolving, and the ability for Singapore to keep up as well as provide adequate skilled labour supply for the industry's demands will be a key to the future of Singapore as an international financial centre. ■

Professional Fellows On Demand: Building Think Tank Influence and Effectiveness

From 25th September to 15th October, 2016, Dr. Kaewkamol Karen Pitakdumrongkit, Deputy Head and Assistant Professor at the Centre of Multilateralism Studies (CMS), participated in the "Professional Fellows On Demand Building Think Tank Influence and Effectiveness" Exchange Program funded by the Office of Citizen Exchanges, the U.S. Department of State. This three-week Fellowship brings twenty-four fellows from eleven Asia Pacific countries to visit the U.S., with the main goals of exploring the think tank environment in the country and fostering

networks between the U.S. and Asia-Pacific think tanks. The Program commenced with a week of training and field visits to think tanks in Washington D.C. to enhance the fellows' knowledge about think tank management, administration, policymaking, and advocacy work. The second week consisted of individualized fellowships with prestigious American think tanks in major cities. Dr. Karen did her fellowship at the Atlantic Council in Washington D.C. The Program concluded with discussions on electoral politics in Columbus and Cincinnati, Ohio



Assistant Professor Kaewkamol Karen Pitakdumrongkit at the Atlantic Council, Washington DC

as well as a think tank development workshop at the University of Pennsylvania. After leaving the U.S., the fellows helped organize the "Empowering Ideas" Forum from February 8th to 9th, 2017 in Bangkok, Thailand

which further explores think tanks' policy impact, communication, networking, fundraising, and coalition building advocacy. ■

The Future of Free Trade in Asia-Pacific Region



Dr Denis Hew with Professor Ralf Emmers and Dr J. Soedradjad Djiwandono at the Keypoint, RSIS

On 13 December 2016, the Centre for Multilateralism Studies (CMS) held an event as part of RSIS Seminar Series on Multilateralism on “FTAAP and Economic Trends in the Asia-Pacific Region.” The speaker Dr Denis Hew is the Director of the Policy Support Unit (PSU), Asia-Pacific Economic Cooperation (APEC).

Latest economic trends as well as trade and investment developments in the region pose both opportunities and challenges on regional free trade agreements. The Asia-Pacific region has managed to grow steadily amid persistent weakness in the global economy, where private and public consumption remain the key drivers of the region’s growth, according to Dr Hew. The APEC region continued to grow during the second quarter of 2016 at 2.4 percent, which is slightly higher than the previous quarter’s level of 2.3 percent.

However, there are some challenges that the region is facing, which require

policy measures to boost trade. For example, the value of APEC merchandise exports and imports contracted by 6.4 percent and 6.6 percent, respectively, during the period January to August 2016. This contraction is related with the drop in the value of world exports and imports. On the other hand, investor optimism remains strong in the region because of the continued inflows of foreign direct investments (FDIs). Total FDI inflows to the region in 2015 increased by 42.3 percent and has attracted 54.1 percent of the world’s FDI.

However, there are several downside risks that pose challenges to economic growth and sustainability in the region. Such downside risks could emanate from China’s economic re-balancing away from trade and investments and towards a consumption-led economy. Presently, China has a significant representation of overall trade in APEC region, with a total share of 26.8 percent in APEC’s total exports, while

its share in APEC’s total imports reached 19.4 percent.

Larger increase in U.S. interest rates could also lead to capital outflows from emerging and developing economies in the region, which could introduce serious implications on the country’s macroeconomic stability. Another downside risk that could emanate is from Brexit, which has created uncertainty among economic and political fronts worldwide and might put a toll on consumption and investment.

Dr Hew underscored that trade restrictive measures in the region are increasing along with investment-friendly measures, which entails implementation of appropriate policy mix to address growth requirements towards a more sustainable growth trajectory. Hence, skills development in the digital age must be recognised as it plays an indispensable role in propelling global trade. According to Dr Hew, digital technology brings benefits

to households by enabling a higher level of consumption through savings in transaction and also expanding choices of goods and services. It also increases productivity of firms by having more efficient supply chain management.

Dr Hew also underscored the need to address the increasing trend in non-tariff measures (NTMs) in the region, which necessitates improvements in both trade and investment facilitations. And with the rising threat of trade protectionism, it is also necessary for APEC to strengthen its commitments towards trade liberalisation and economic integration.

Both the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) play an important role in promoting inclusive trade through the achievement of a comprehensive and mutually beneficial economic partnership agreement among several economies. However, with the overlapping trade deals of RCEP and TPP, the roadmap to realise the Free Trade Area of the Asia-Pacific (FTAAP) could take place, which represents a total of 59.6% of world’s GDP. The significance of FTAAP has also increased because of a faltering TPP, slowing global trade, and the rising threat of protectionism. ■

Future Events: Trump Era and the Trade Architecture in the Asia-Pacific

On 7 February 2017, CMS will be holding a special conference on the 'Trump Era and the Trade Architecture in the Asia-Pacific' to further explore the potential effect of the upcoming Trump administration on the status of world trade and the existing

trade architecture, particularly the effects on the Asian Pacific Region.

The conference will be featuring speakers from CMS such as Pradumna B. Rana, Lee Su-Hyun and Lee Chia-yi as well as distinguished outside speakers

such as T.J Pempel, University of California, Berkeley, Ikoue Kume, Waseda University, Zha Daojiong, Peking University and Jeffrey Wilson, Murdoch University.

The speakers will be covering the perspective of the

countries or regions that is their specialised area of research. The event will allow an excellent opportunity to gain some insight into the different dynamics at work looking forward. ■

SELECTED PUBLICATIONS

Brexit and its Aftermath: Impacts and Policy Recommendations for Asia

Aédán Mordecai, Pradumna B. Rana & Phidel Marion G. Vineles, *RSIS Policy Reports*
28 December 2016

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Ralf Emmers, *Journal Articles, Institute for East Asian Studies*
28 December 2016

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03 October 2016

The **Centre for Multilateralism Studies (CMS)** is a research entity within the S. Rajaratnam School of International Studies 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 the Asia Pacific. It aspires to be an international knowledge hub for multilateral cooperation and regional integration.

Multilateral Matters is the quarterly publication of the Centre for Multilateralism Studies (CMS), analysing the most recent developments regarding multilateralism by our team. It covers articles on relevant economic and political issues as well as programmes and latest publications from the research centre. The objective of the newsletter is to promote the research being done by our centre, raising awareness of the many events that we hold on a regular basis.