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Evolving Global Economic Architecture: Will We have a New Bretton Woods?

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ABSTRACT

The Asian financial crisis (AFC) of 1997–1998 had led to calls for a “New International Financial Architecture” (NIFA) and discussions had focused on crisis prevention, management and resolution efforts. Similarly, the global economic crisis (GEC) of 2008–2009, which was expected to be the worst crisis since the Great Depression of the 1930s, also led to calls for a “New Bretton Woods” (NBW) system—a wider and a much more comprehensive set of reforms concerning the global governance system and international economic institutions (IEIs), similar to the remarkable 1944 Bretton Woods conference where the World Bank, the IMF and the GATT (the predecessor of the WTO) were established.

Various academics and politicians have joined hands in making the call for an NBW. A large number of proposals to reform the global economic architecture (GEA)—configuration of institutions of global economic governance—were discussed and the G20 finance ministers and central bank governors group was upgraded to the G20 Summit of leaders and the Financial Stability Forum upgraded to the Financial Stability Board by expanding its membership. But could post-GEC reforms of the GEA disappoint, like those discussed under the NIFA? If so, cycles of crises, talk of architecture reform and complacency in reforms could continue without significantly enhancing the resilience of the GEA. How would the future architecture look?

This paper argues that it may be too optimistic to expect an NBW in the future. With faster than expected recovery from the GEC, memories of the crisis have begun to fade and complacency has started to set in the reform agenda. Also as predicted by the Theory of Clubs (see, among others, Kawai, Petri and Sisli-Ciamarra, 2009), IEIs have been inflexible and reform of “Chairs and Shares” of the IEIs to give a greater voice to emerging markets have been slow. The likely scenario is a more benign one: a move to a more decentralised GEA where regional institutions are linked together—and to a “senior” global organisation—by rules and regulation. Such a system would be more flexible in terms of membership, governance, representation and agenda. Large regional countries may also be willing to take a lead role in regional bodies before global bodies. Asia can contribute to the evolving GEA by establishing institutions to enhance regional economic integration and by making sure that regional institutions are complementary to global ones.

With the faster than expected recovery, although industrial countries are still struggling to emerge from the crisis, issues of inclusiveness and legitimacy of the G20 Summit has resurfaced. This paper argues that the adoption of ideas proposed by the Singapore-led Global Governance Group (3G) could help position the G20 as the universal and unquestioned “premier fora for international economic cooperation”. Asian countries could help by being members of the 3G and participating in the discussions.

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Evolving Global Economic Architecture: Will We have a New Bretton Woods?

Introduction

The Asian financial crisis (AFC) of 1997–1998 had led to calls for a “New International Financial Architecture” (NIFA) and discussions had focused on crisis prevention, crisis management and crisis resolution efforts (see Kawai and Rana, (2009) for a discussion and evaluation of these efforts). Similarly, the global economic crisis (GEC) of 2008–2009, which was expected to be the worst crisis since the Great Depression of the 1930s,¹ had also led to calls for a “new Bretton Woods” (NBW) system—a wider and a much more comprehensive set of reforms concerning the global governance system and international economic institutions (IEIs), similar to the remarkable 1944 Bretton Woods conference where the World Bank (WB), the IMF and the GATT the predecessor of the WTO were established.

Academics (e.g., Stiglitz cited in Daniel Bases, 2008) and politicians (e.g., Nicolas Sarkozy and Gordon Brown cited in Kirkup and Waterfield, 2008) joined hands in making the call for a NBW system. So far, a large number of proposals to reform the global economic architecture (GEA)—the configuration of institutions of global economic governance—have been discussed and a number of them implemented including the upgrading of the G20 finance ministers and central bank governors group to the G20 Summit of leaders and designating it as the “premier forum for our economic cooperation” and the upgrading of the Financial Stability Forum (FSF) into the Financial Stability Board (FSB) by expanding membership. But could post-GEC reforms of the GEA disappoint like those discussed under the NIFA? If so, cycles of crises, talk of architecture reform and complacency in reforms could continue without significantly enhancing the resilience of the GEA. How would the future architecture look?

Section II of this paper reviews the pre-GEC G7-led GEA and identifies some of its shortcomings. Section III analyses how some of these shortcomings were addressed in the post-GEC G20-led GEA. It also discusses the weaknesses of the G20 process and presents some thoughts on how the inclusiveness and legitimacy of the G20 can be enhanced. It argues that the G20 has adopted an incremental informal

¹ According to NBER (2010), this was indeed the case in the United States, where the present recession lasted 18 months (from December 2007 to June 2009), compared to 16 months in 1973–1975 and 1981–1982.

network-based approach to governance and not a radical rules-based one as was the case in 1944 in Bretton Woods and as called for by the proponents of the NBW system.

Section IV concludes that, for various reasons, including the firm lack of political will to enhance global policy coordination, it may be too optimistic to expect a NBW system in the future. The likely scenario is a more benign one—a move to a more decentralised GEA where regional institutions are linked together—and to a “senior” global organisation—by rules and regulation. Such a system would be more flexible in terms of membership, governance, representation and agenda. Large regional countries may also be willing to take a lead role in regional bodies before global bodies. We already have such a system in development finance where the four regional developments (in Asia, Africa, Latin America and Europe) are linked to the WB in Washington, D.C. As discussed in the paper, signs of a decentralised architecture are also starting to emerge in the areas of macroeconomic stability, financial stability and the world trading system.

As the Managing Director Dominique Strauss-Kahn (2010) of the IMF remarked recently, “Asia’s time has come to play a leading role in the global economy”. Section V argues that Asia can contribute to the evolving GEA by establishing institutions to enhance regional economic integration and by making sure that regional institutions are complementary to global ones. It also argues that Asian countries can assist in enhancing the inclusiveness of the G20 Summit by being members of the group and participating in its discussions.

Pre-Global Economic Crisis G7-led Global Economic Architecture

A simplified picture of the Pre-GEC architecture is presented in Table 1. This economic architecture is very similar to the one created in Bretton Woods, under which the IMF was to promote macroeconomic stability, the GATT was to ensure an open trading environment globally, and the World Bank and later the regional development banks (e.g. ADB) were to provide development finance for poverty reduction. The G7 was created in the mid-1970s from the G5 to oversee the process of provision of international public goods by various IEIs. Russia joined the group in 1997 to form the G8. In response to the Asian financial crisis, the FSF was established in 1999 with a small staff to help coordinate the development of standards and codes and best practices for policy and transparency, financial sector regulation and

supervision, and market integrity. Another institution established in that same year was the G20 finance ministers and central bankers group, but this body had existed in the shadow of the G7 since its creation. In 1995, the GATT was folded into the WTO with a proper organisational and staffing arrangement.

Table 1: Pre-GEC G7-led Architecture

	G7
Microeconomic stability	IMF
Development finance and poverty reduction	WB and ADB
Open trading system	WTO
Financial stability	FSF

The pre-GEC G7-led GEA had a number of shortcomings. First, its governance system reflected the dominance of the United States and did not reflect the economic rise and political power of emerging markets, particularly those in Asia (China and India) and, therefore, the architecture lacked legitimacy. Emerging markets had no representation at the G7 and also their voice in the IEIs was limited. According to the long-term projections made by Goldman Sachs, emerging markets will continue to grow rapidly over the next 40 years. In 2003, Goldman Sachs (2003) projected that the three largest economies in the world by 2050 would be China, the United States and India. In 2007, Goldman Sachs revised this ranking to China, India and the United States. More recently, the ADB (2009) has projected that the above ranking could be obtained even earlier, within the next 30 years. Despite their economic dynamism, China and India will be very much behind the United States in terms of per capita incomes, poverty and military might.

Kawai, Petri and Sisli-Ciamarra (2009) have examined the evolution of the shares of developing and emerging markets in IMF quotas, and in global trade and GDP (in terms of purchasing power), two rough indicators of their importance in the world economy. They have found that the trade shares of developing and emerging economies have risen more rapidly than their share in IMF quotas. This contrast was even clearer for their share of world GDP. Quotas which also determine voting power at the IMF are especially low for the rapidly growing emerging markets countries, such as Brazil, China and India. Kelkar et al (2005) found that these three countries had 19 per cent fewer votes than Belgium, Italy and Netherlands collectively,

although they had 21 per cent more nominal GDP, 400 per cent more purchasing power GDP, and 2,800 per cent more population in the second group. On the other hand, Europe controls directly or indirectly 10 chairs out of 24 at the IMF Board even though it has common monetary policy and it has 30 per cent of quota and voting rights.

Second, charters, quotas and voting rights of IEIs were designed in the interest of like-minded original core members in 1944 and had placed strict limits on change as membership expanded. In comparison with the 44 countries that participated at the Bretton Woods conference, the membership of the IMF and World Bank now stands at 186. The membership of the WTO is 150 but an additional 30 countries have applied or are in accession negotiation. Kawai, Petri and Sisli-Ciamarra (2009) write: “IEIs are clubs in the sense that they produce goods that are at least partially non-rivalrous (more than one user can consume) and at least partially excludable (users can be denied access to them). Their most important services include order and predictability in international trade and finance. Although these services are generally enjoyed by countries without diminishing their value to others, IEIs also offer services specifically to members that generate demand for membership.” A literature survey by these authors on the application of club theory to IEIs leads to three insights. First, the provision of club goods fills an important gap. Clubs can lead to Pareto-optimal results by supplying public goods under optimising conditions that are similar to those in market production. Second, the expansion of club membership tends to make clubs less effective. Decisions are harder to align as the preferences of members diverge. Third, clubs tend to be relatively inflexible institutions. Club charters are usually designed to maintain firm control in the hands of founding members and those who share their preferences. Expansion of membership and the need to serve the interests of many new members have also led the IEIs to undertake many new activities and to “mission creep”.

Third, the environment in which the IEIs operated has also changed dramatically. While policymakers had been wary of uncontrolled financial flows during the Bretton Woods era and in fact permitted capital controls, in the 1980s and the 1990s under the Washington Consensus they embraced financial liberalisation and deregulation, thereby ushering in an age of highly integrated financial markets and capital flows which have dwarfed the operations of IEIs. As early as the 1960s, the British had been promoting financial globalisation through their support of

deregulated Euromarkets for London. But the momentum accelerated when Thatcher in 1979 and Reagan in 1980 took political office. IMF management even launched an initiative in 1995 to overturn the commitment to capital controls by amending their articles of agreement in order to gain liberalisation mandate with respect to capital movement. It was only recently that this initiative was withdrawn.

Fourth, as argued again by Kawai, Petri and Sisli-Ciamara (2009), IEIs face a “governance trilemma”. There is a broad agreement that IEIs need to become (i) more democratic (ii) more effective in delivering public goods and (iii) universal by accepting all countries that apply for membership. Unfortunately, these requirements add up to a trilemma. Achieving any two makes achieving the other more difficult. For example, the United Nations is democratic and universal, but suffers on effectiveness. Similarly, the IMF and WB are universal and effective but not democratic.

Post-Global Economic Crisis G20-led Global Economic Architecture

The GEC generated a legitimacy crisis for the neo-liberal globalised financial regime that had emerged in the 1980s and 1990s (Heillener, 2010). Actually, questions had been raised against free market finance at the time of the AFC. But at that time “many G7 policymakers, IMF officials and private international financiers blamed the instability not on global financial markets but on policy mistakes within developing countries, where the crisis originated” (p. 628). Accordingly, Asian countries were asked to correct these policy failures by adopting various international standards and codes ranging from transparency to corporate governance based on the Anglo-American model. Asian countries, however, did not share this view and blamed instead speculative financial flows and took actions to unilaterally accumulate reserves and to establish regional self-help mechanisms (such as the CMI). Now the GEC which emanated from the Western world has firmly eroded the legitimacy and relevance of the Anglo-Saxon Washington Consensus and many have questioned the benefits of financial globalisation. Eichengreen (2009) commented recently that “a process of financial deglobalisation has already begun”.

It is not just the legitimacy of the neo-liberal thinking that has been undermined by the GEC but also the legitimacy of U.S. and British leadership. Helleiner (2010) quotes one Chinese official as saying, “We used the United States as our teacher but now we realise that our teacher keeps making mistakes and we’ve

decided to quit the class.” As the crisis unfolded, cash-strapped U.S. institutions sought help from a number of emerging markets (see footnote 2).

After the GEC, dominant powers moved quickly and created the G20 Summit by upgrading the G20 finance and central bank officials’ forum which started since 1999 but was kept under the shadow of the G7. The leaders self-appointed the forum as the “premier forum for our international economic cooperation” and in September 2009 President Obama categorically announced that G20 would replace the G7.² They also upgraded the FSF into the FSB with wider membership. The post-GEC G20-led GEA is depicted in Table 2.

Table 2: Post-GEC G20-led Architecture

	G20:“Premier forum for our international economic cooperation”
Microeconomic stability	Strengthened IMF but legitimacy still questioned
Development finance and poverty reduction	Strengthened World Bank with some enhanced legitimacy
Open trading system	WTO: no changes yet
Financial stability	FSF to FSB

Raising the profile of the G20 to a leaders’ level forum was no doubt enormously significant in signalling the incorporation of systemically important emerging markets into the core of global economic governance. It was a historic event which partially addressed the inclusiveness and legitimacy problem of the Pre-GEC G7-led GEA (Rana, 2010 a and Rana, 2010 b). However, in the aftermath of the global economic crisis, these issues resurfaced once again. The G20 represents 4.2 billion people of the world but not the other 2.6 billion people. How can their views be incorporated and the legitimacy of the G20 enhanced? It is also a self-selected group and so it lacks legitimacy.

The Stiglitz Commission has recommended the involvement of the United Nations. The Commission argues that decisions concerning necessary reforms in global institutional arrangements must be made not by a self-selected group but by all countries in the world or the G192, working in concert. Better representation and democratic legitimacy will not require the presence of all countries in all deliberations. Working committees chosen by a democratic process can be limited to

² The G7 continues to meet, albeit with much less fanfare.

a size that ensures effective decision-making. This proposal certainly merits further consideration but the common view is that the United Nations lacks effectiveness and has a few accomplishments to show on the global economic and financial scene.

A more practical and implementable view is that of the 3G which believes that the G20 and the United Nations can co-exist amicably. The group would like the G20 to be consultative, inclusive and transparent so that its outcomes can be effectively implemented globally. For this to happen, there has to be greater engagement between the G20 and the United Nations, the only global body with universal participation and unquestioned legitimacy. The 3G has been convened by Singapore under the auspices of the United Nations since July 2009 and presently comprises 28 small and medium states (of which 6 are from Asia (Brunei, Malaysia, New Zealand, Philippines, Singapore and Vietnam)).

The 3G has put forward several ideas on how the accountability of the G20 to the general membership of the United Nations could be enhanced (Menon, 2010). First, the G20 should undertake consultations as widely as possible with the non-G20 members before the G20 Summits. The hosts of the G20 summits should also provide the rest of the UN membership with an update after the meeting. Second, the participation of the UN Secretary General and his Sherpa at the G20 Summits and preparatory meetings should be formalised.

Third, participation of Chairs of various regional organisations in G20 Summits should be regularised. In accordance with the G20 practice, this year the Korean Chair has invited the Chairs of the African Union, New partnership of African Development, ASEAN and 3G.³ Chairs of additional regional groups could be brought in as appropriate. Fourth, in some cases, regional groupings alone will not adequately represent the national interests of small and medium-sized states. In such a case, the G20 decision-making process should take on a “variable geometry” configuration to allow non-G20 states to participate in Ministerial and other gatherings and other working groups involving senior officials/experts on specialised issues. This will ensure that deliberations on key issues of global concern engage all relevant parties.

For the first time this year, the Korean Government has invited Singapore, the Chair of the Global Governance Group or the 3G, to participate in the G20 Summit to

³ Heads of 7 IEIs—IMF, World Bank, UN, WTO, FSB, OECD and ILO—have also been invited by Korea.

be held in Seoul on 11–12 November. This is an important recognition by the Korean Chair of this year’s Summit that the 3G can contribute to the G20 process. Asian leadership, together with leaders from other regions, should agree to implement these ideas as it would help position the G20 Summit as the universal and unquestioned “premier fora for international economic cooperation” overseeing global economic governance.

However, enhancing the inclusiveness of the G20 is only a first step. Individual countries can collectively decide on the needed global policy changes but these changes have to be implemented by the relevant IEIs. Thus, an effective global governance system requires additional governance reforms in the IEIs implementing the reforms. This is an area where progress has been slow.

At the 2006 annual meeting of the IMF and WB in Singapore, an agreement was reached to increase the quotas of China, Mexico, Korea and Turkey on an ad hoc basis by small amounts. At that time several other reforms were also proposed (including a new quota formula and the second round of quotas increases) and eventually endorsed in March 2008. Based on these two actions, in April 2008, the IMF’s Board of Governors announced a package as a set of what it called “far-reaching reforms” of the institution aimed at rebuilding its “credibility and legitimacy”. But as Woods (2010) notes, taken together these two packages will affect an overall shift of only 5.4 per cent of voting power in the IMF and they are still in the process of implementation as they require an amendment of the IMF’s Articles of Agreement.⁴ At the Pittsburgh Summit, the leaders pledged to shift another five percentage points of voting power to emerging markets by January 2011 using the 2008 quota formula. But as Truman (2010) argues, the quota formula is flawed and its implementation would lead to a shift of only 2.1 percentage shift from advanced countries to emerging markets. He argues for a more transparent approach.⁵

Even less progress has been made in reforming other aspects of IMF governance. Most observers agree that representation at the IMF is skewed

⁴ Acceptance by three-fifths (112) of the members with 85 per cent of weighted votes is required. More than two years later, as of mid-September 2010, only about three-quarters (85 members) with 78 per cent voting power had accepted the amendment. Interestingly, only 61 per cent of the countries that would receive increased IMF quotas have not taken the necessary action including those in Asia (Truman, 2010).

⁵ The World Bank has been more successful in reallocating 3 percentage points of its quota to developing countries because it uses the old formula.

excessively towards Europe which potentially occupies 10 out of 24 seats⁶ at the IMF Board. Given that Europe has a monetary union, it should have two, at most three, seats (Truman, 2010). But this is a very sensitive issue. The *Financial Times* reported recently (15 September 2010) that the EU was willing to give up seats at the IMF Executive Board only if the United States gave up its veto power. It is understood that an agreement, in principle, has been reached that the selection of the heads at the IMF and World Bank should be merit-based. We have to wait and see if this happens.

Another weakness of the G20-led reforms has been that it is incremental rather than radical. Two key innovations, the FSB and the G20 Summits, have grown out of pre-existing organisations. In addition, neither of the two bodies even comes close to resembling an ambitious inter-governmental institution created at Bretton Woods. They are informal networks facilitating informal cooperation, information-sharing and the development of international “soft law” whose implementation is left to the discretion of national authorities.

Finally, the G20’s mandate is to be a “premier forum for international economic cooperation”. Thus, its potential agenda is huge. Selectivity and prioritisation are required. So far, the focus has been on the stimulus packages which have brought about faster than expected global recovery, coordination of exit strategies and designing a new international financial regulatory framework. Successful conclusion of the Doha Development Round has been mentioned, but no action was taken yet. The Stiglitz Commission and others have urged a wider agenda such as addressing growing inequality within and between countries, global macroeconomic imbalances, the need to transform models of growth in a more environmentally friendly direction, new global reserve currency, an international debt restructuring court, and new international financing mechanism, reform of the United Nations and actions on climate change.

Future Global Economic Architecture: Likely Scenario

After a detailed analysis of the Bretton Woods system and its successor, Helleiner (2010) concludes that the creation of a new GEA is not an outcome of a single event or meeting but a long-drawn-out process involving a legitimacy phase (thinking that old regime needs to be replaced), interregnum phase (the experimental and discussion

⁶ EU countries control six seats directly and are significant or dominant members in four other seats.

phase) and a constitutive phase (formal negotiation phase). In terms of this typology, as discussed in the previous section, it is safe to conclude that the GEC has led to a thinking that the previous G7 architecture needed to be changed and that G20 has successfully implemented some of the changes. We are therefore in the interregnum phase of a new architecture where various ideas for reforms are being discussed. The question is whether we will ever go to the constitutive phase and have a NBW. The answer is, probably not. With faster than expected recovery from the GEC, memories of the crisis have begun to fade and complacency has started to set in the reform agenda. For example, representatives of the finance industry have successfully resisted and diluted the reform agenda (e.g. Basel III). Moreover, questions continue to be raised against the G20 process including its inclusiveness, legitimacy, informal network-based approach and agenda. As predicted by the Theory of Clubs (Section II), IEIs have been inflexible and progress in governance reforms of IEIs to give a greater voice to emerging market has also been slow.⁷

In this context, how could the post-GEC GEA evolve? A likely scenario is a move to a more decentralised GEA where national, bilateral, and regional initiatives work closely with a “senior” global institution. This would mean complementing monolithic IEIs with a multi-layered decision-making structure along the lines of “functional federalism” advocated at the national level. It also means the application of the principle of subsidiarity which means that decisions should be made at the lowest possible administrative level (Kawai, Petri, and Sisli-Ciamarra, 2010). Decentralisation would make international decisions more flexible and accountable, making them more like decisions within countries, which typically involve several layers of government. The value of decentralisation lies in its ability to produce public goods that are important to some, but not for all countries. Regionally decentralised decision-making also has the advantage of inducing large emerging economies to take leadership in providing regional public goods, even before they take leadership of global bodies.

To be sure, decentralised decisions create new challenges. Regional decisions need to be made globally coherent in order to act as “building blocks” of a global

⁷ In the age of the Internet, civil society and media could sensitise issues related to the governance of IEIs and prod governments to take action (Andrew Sheng and Paul Collier at the Singapore Global Dialogue, 2010).

system. This requires paying close attention to connections within a decentralised system to make sure that they complement one another and the global system.

Such a decentralised architecture is not hypothetical. It already exists in some areas and its importance has been growing in the past decade and a half. The World Bank is complemented by four regional development banks and the WTO is paralleled by several regional and bilateral trade agreements. In the area of macroeconomic surveillance there is the Arab Monetary Fund and the Latin American Reserve Fund. Recently, there was also some discussion on establishment of a European Monetary Fund. In the area of financial regulation, the European Systemic Risk Board and three European bodies for banking, insurance and securities market are to be established soon.

At the present level of political will, an incremental and a more decentralised process is what we can envisage in terms of GEA reform. If in the future, however, the incidence of financial crises were to increase and political will among countries strengthened and cooperation strengthened, one could then perhaps see a move towards a more rules-based system. In such a context, as discussed below it is possible that the G20 could be replaced by the Global Economic Coordination Council (GECC) and the FSB by a World Finance Organisation (WFO).

Despite the plethora of IEIs, the Stiglitz Commission (UN, 2009) has recommended the establishment of a globally representative fora to be called the GECC at a level equivalent with the UN General Assembly and the Security Council. The GECC could meet annually at the Heads of State and Government level to assess developments and provide leadership in economic, social and ecologic issues. It would promote development, secure consistency and coherence in the policy goals of the major international organisations and support consensus building among governments on efficient and effective solutions for issues of global economic governance. Such a Council could also promote accountability of all IEIs, identify gaps that need to be filled to ensure the efficient operation of the global economic and financial system and help set the agenda for global economic and financial reforms. Eichengren (2009) has made the case for establishing a World Financial Organisation (WFO) analogous to the already-existing World Trade Organisation (WTO). In the same way that the WTO establishes principles for trade policy without specifying outcomes, the WFO would establish principles for prudential supervision (capital and liquidity requirements, limits on portfolio concentrations and connected lending,

adequacy of risk measurement systems and internal controls) without attempting to prescribe the structure of regulation in detail. The WFO would define obligations for its members. The latter would be obliged to meet international standards for supervision and regulation for their financial markets. Membership would be mandatory for all countries seeking access to foreign markets. The WFO would appoint an independent panel of experts to determine whether countries were in compliance of those obligations failing which the authorities would be able to impose sanctions against countries that fail to comply. Eichengreen reiterated that the WFO would not dictate regulatory conditions on countries.

Future Global Economic Architecture from an Asian Perspective

From an Asian perspective, the future GEA could evolve as shown in Table 3.

Table 3: Decentralised GEA from an Asian Perspective

	G20 (or Global Economic Coordination Council proposed by the Stiglitz Commission)	
	Global	Regional
Macroeconomic stability	IMF	CMIM (\$120 billion crisis fund) to Asian Monetary Fund (under implementation)
Development finance and poverty reduction	World Bank	ADB
Open trading system	WTO	Asia-wide FTA (under implementation)
Financial Stability	FSB (or World Finance Organisation proposed by Eichengreen)	Asian Financial Stability Board (under discussion)

Asia is very much behind Europe in terms of building supra-national institutions. What are the institutions that Asia needs to develop to support such a decentralised architecture? In the area of macroeconomic stability, after the AFC, ASEAN+3 countries had started to develop the CMI as a regional self-help mechanism. Subsequently, the bilateral swaps under the CMI were multilateralised to form the CMI Multilateralisation (CMIM) which became operational in December 2009 and comprised the \$120 billion crisis fund. However, funds available from this regional facility are limited as only 20 per cent is readily available. The rest is linked to an

IMF program being in place. Therefore, in late 2008 when the region was adversely affected by the GEC, countries had to rely on either national reserves or enter into new bilateral swap arrangements with non-regional and regional countries outside of the CMIM. For example, Korea arranged a one-year US\$30 billion swap with the United States in October 2008, and followed up with a three-year currency swap of RMB180 billion (US\$26.3 billion) with China and a two-year US\$20 billion swap with Japan. Singapore signed a US\$30 billion currency swap with the United States in October 2008 and followed up with another swap with Japan. Efforts are, however, ongoing to strengthen the CMIM. The ASEAN+3 Macroeconomic Research Office (AMRO) is to be established in Singapore by early next year to serve as an independent regional surveillance unit.⁸ Once the AMRO is established and is strengthened in terms of its staffing and competencies, the CMIM's link to the IMF could be gradually loosened and the Asian Monetary Fund (AMF), an independent regional financing facility, established.

In the area of development finance, with the recent capital increase, the ADB is an important player. The ADB is regarded as one of the most efficient IEI and its coordination with the World Bank and other regional development banks is very good. The ADB recently introduced a new counter-cyclical instrument—the Counter-Cyclical Support Facility—to provide a budget support of up to \$3 billion to crisis-affected countries in Asia comprising, among others, financing for fiscal expansion, support to social safety nets, trade financing and investment spending.

In the area of international trade, early steps are being taken in establishing an Asia-wide FTA. Two proposals are being discussed including an East Asia Free Trade Area (or EAFTA) among the ASEAN+3 countries and a Comprehensive Economic Partnership for East Asia (or CEPEA) among the 16 members of the East Asia Summit. Economic Research Institute for ASEAN and East Asia (or ERIA) has been established to support the latter effort. With the implementation of the “ASEAN plus one” FTAs between ASEAN and China, Japan, Korea, India, Australia and New Zealand, the concept of an Asia-wide FTA is starting to evolve.

⁸ AMRO will be tasked to (i) monitor, assess and report on the macroeconomic situation and financial soundness of the ASEAN+3 countries, (ii) assess macroeconomic and financial vulnerabilities in any of the ASEAN+3 countries and provide assistance in timely formulation of policy recommendations to mitigate such risks, and (iii) ensure compliance of swap requesting parties with the lending covenants under the CMIM agreement (ASEAN Secretariat website).

In the area of financial stability, less progress has been made. But since the newly established FSB does not include all Asian countries, like in Europe, Asia could consider establishing the proposed AFSD by involving the region's regulators and supervisors. The AFSD would, among others, promote capital market rules and regulations (micro-prudential monitoring) and the stability of the financial system throughout the region through early warning systems (macro-prudential monitoring)

In addition to establishing the institutions above, in an environment of decentralised architecture, Asian countries should make national and regional decisions coherent globally in order to prevent "races to the bottom" and more generally to make national and regional institutions and agreements the building blocks of an efficient global system. Regional institutions should focus on regional public goods and global institutions on truly global public goods. The Seoul Summit is to endorse a global financial safety net comprising (i) a further relaxation of the amounts and terms of Flexible Credit Line (FCL) for countries with very strong fundamentals, (ii) establish Precautionary Credit Line (PCL) for countries with generally sound policies but do not qualify for FCL and (iii) a multilateral lending facility, or global stabilisation mechanism, through which the IMF can lend to a group of countries. These credit lines should complement the CMIM.

Asian countries can also assist in making the G20 more inclusive and legitimate. In order to do this they need to become members of and participate in the discussions of the ideas of the Singapore-led 3G outlined in Section III.

Conclusions

The question that this paper sought to answer was: Will we have a New Bretton Woods system as called for by academics and politicians alike in the post-GEC period? The paper finds that while the establishment of the G20 Summits is encouraging since for the first time systemically important emerging markets have been given a voice in international economic issues, those hoping for a NBW, like those hoping for a NIFA in the post-AFC period will probably be disappointed. We are at an interregnum phase of the NBW system but the constitutive phase could fizzle out. This is for two reasons. First, the recovery from the AFC as well as the recovery from the GEC turned out to be faster-than-expected. Faster-than-expected recovery, in turn, led to complacency in implementing reforms and in some cases dilution of the reform agenda. Second, as predicted by the Theory of Clubs (discussed in Section II),

policies of IEs have been relatively inflexible. In particular, the slow progress in governance reforms of the IEAs or the so-called “Chairs and Shares” (voting rights, management and Board representation) reform to give greater voice to emerging markets particularly those in Asia, China and India, commensurate with their growing economic and political power has led to questions regarding their legitimacy. Initial enthusiasm of emerging markets on the G20 has also dissipated somewhat as questions regarding its inclusiveness, legitimacy and agenda continue to be raised.⁹

It is, therefore, likely that in the future we will not have a NBW system but an architecture that will move incrementally towards a more decentralised system where national, bilateral and regional initiatives will work closely with the existing global IEs. In this context, Asia has an important role to play by building institutions for regional integration (such as the AMRO, Asia-wide FTA and AFSD). Furthermore, Asia has to make sure that national and regional initiatives complement global ones and that there is no duplication. Asia can also take various actions to enhance the legitimacy of the G20 process.

⁹ Initially, the BRICs refused to join G20’s efforts to extend lines of credit to the IMF until more substantive reforms were undertaken in IMF’s governance. Subsequently, a second phase of quota reforms were agreed at the Pittsburgh G20 Summit (Woods, 2010: 56).

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