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Multilateralism and Regionalism in Global Economic Governance: An Asian Perspective

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Masahiro Kawai

1. Introduction

The global economic and financial landscape is undergoing significant changes due to the rise of new economic powers like the BRICs—particularly China and India. In addition to their large populations, their economic size and financial power—measured by GDP, trade volume and foreign exchange reserves held—have grown rapidly over the past decade. The recovery of the global economy from the ongoing crisis requires greater roles and responsibilities of these economies—China and India in particular—which are collectively growing at fast rates amid global recession. It is increasingly urgent to solve key global economic and financial problems by involving these new players.[1]

But their voice in global economic and financial governance—such as the Group of Eight (G8), the Bretton Woods Institutions (International Monetary Fund and the World Bank), and the Bank for International Settlements/Financial Stability Board—is limited. This asymmetry between increasing influences and limited voice requires a fundamental reform of global economic and financial governance. This paper explores the issue of what governance reform, in the areas of macroeconomic stability, trade liberalization, development and finance, is desirable for stability and growth of the global economy. It also examines whether regional arrangements play a positive role to strengthen global governance. An Asian perspective will be provided on the last issue.

2. The Changing Global Economic Landscape and the Voice of New Players

(1) Changing global economic landscape: rise of China and India

With the rise of BRICs—especially China and India—their influence over the world economy and finance has risen significantly in the last decade. In essence management of global economic and financial affairs—in sustaining economic growth and ensuring stable finance—is becoming increasingly difficult without their active participation.

Growing economic size. According to projections made by Goldman Sachs (Wilson and Purushothaman, 2003), the BRIC economies will grow rapidly over the next 40 years. Figure 1A shows that China will grow fast, in GDP, taking over Japan's in around 2015

[1] Another area where emerging economies' roles and responsibilities are rapidly rising is climate change. On this issue, their emissions of greenhouse gasses are expected to rise to a disastrous level if appropriate policy measures are not taken, thereby exacerbating global warming.

and the US in around 2040, thereby emerging as the world's largest economy by the middle of this century.[2] Similarly, India will also grow fast, catching up with Japan in around 2030, and may overtake the US in the latter half of this century. Brazil and Russia may not be as powerful a country as China and India but may overtake Japan after 2050.[3]

These projections may not be realistic as such rapid growth of BRICs would impose a significant stress over the global environment and the availability of energy, food and water, which may act as a major constraint to persistent high growth of the global economy. Nonetheless, they provide some useful guidance as to the future shift in economic power away from the traditionally powerful, advanced economies towards newly emerging players such as China and India. In addition, there are other emerging economies in the world, whose collective economic size could be as large as China or India. For example, the economic size of ASEAN countries is currently larger than India and is also expected to grow.

Growing trade and investment. BRICs economies have enjoyed growing international trade and investment for their economic growth and development. Globalization has clearly and substantially benefited these economies. The largest beneficiary is China and its trade and investment expansion is notable. Figure 2 indicates that China's export grew fast from $250 billion in 2000 to $1,430 billion in 2008, rising as the world's number 2 exporter, following the US. Its import also expanded from $230 to over $1,130 billion over the same period, becoming the world's number 3 importing nation after the US and Germany. While emerging economies have received significant amounts of foreign direct investment (FDI)—particularly China, the Asian newly industrialized economies (NIEs) and Association of Southeast Asian Nations (ASEAN) members—their business firms have, in recent years, also become active as investors of FDI. For example, Hong Kong and Russia are among the world's largest investors measured by outward FDI stocks and China is also increasing its presence as investors.

The rise of BRICs and other emerging economies in international trade and investment has raised their positions in global trade liberalization negotiations under the WTO Doha Development Round. This has complicated the WTO process which used to be dominated by the interest of advanced economies but is now increasingly challenged by BRICs and other large emerging economies. The success of the WTO Doha Round requires agreements not only among advanced economies (mainly between the US and the EU) but also between these advanced economies and emerging economies. Another complication in the trade issue is that, like advanced economies, all the key emerging economies have participated in the bandwagon of forming bilateral, plurilateral and regional free trade

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[2] China is growing faster than projected by Goldman Sachs. Its GDP, measured by the current US-dollar, is likely to exceed Japan's some time between 2009 and 2011.

[3] However, Figure 1B demonstrates that there will remain large gaps between the advanced economies and BRICs in terms of per capita incomes. These gaps may pose a problem in the management of the global economy and finance, as their interest will likely continue to be focused on development issues.

agreements (FTAs), completely outside the WTO process. This bandwagon should be managed in a way to ensure global freer trade, and some new innovative ideas are needed.

Foreign exchange reserves for global financial stability. Most BRIC countries and other emerging economies have experienced large current account surpluses and/or rising capital inflows and have accumulated sizable foreign exchange reserves. This is particularly the case with China, India, other Asian economies and oil producing countries such as Saudi Arabia and Russia (see Figure 3). The ongoing global financial and economic crisis demonstrates once again that holding large foreign exchange reserves can provide countries with breathing space and cushion them in weathering financial turmoil.

Several emerging economies with large foreign reserves—such as China—have established sovereign wealth funds. These sovereign wealth funds were initially expected to play a stabilizing role in the early phase of the ongoing crisis by providing capital to ailing western financial institutions. But many of these funds that invested in US and European financial institutions lost money mainly because of the deepening of the global financial crisis.

Now, countries with large foreign reserves are encouraged to make contributions to the stability of global finance by way of proving part of their reserves for the International Monetary Fund (IMF) or other purposes. The Group of Twenty (G20) leaders agreed in the London meeting to expand the size of IMF facility from the current $250 billion to $750 billion in order to cope with the negative impact of the global financial crisis on emerging and developing economies. Part of this financing will be supported by the contribution made by advanced countries—like $100 billion each from Japan, the EU and the US—as well as by emerging economies with abundant foreign exchange reserves. China and a few other emerging economies have expressed intensions to lend part of their reserves for this purpose, through the purchase of SDR-denominated bonds issued by the IMF.

The role of China and India in global economic recovery. In a more fundamental sense, the role of emerging economies, like China and India, is critical in helping the global economy to recover from the crisis. Figure 4A plots annual real GDP growth rates for advanced economies and emerging and developing economies (solid lines), and their respective trend growth rates (in dotted line). The figure shows that the trend growth for emerging and developing economies was higher than that for advanced economies in the 1970s but the gap narrowed over time and became about the same between 1985 and 1995. Since the second half of the 1990s, the trend growth of emerging and developing economies have begun to rise while that of advanced economies have started to decline. There is a clear "trend decoupling" over the past 10 years in the sense of diverging growth trends between advanced and emerging/developing economies (though there is no "decoupling" in GDP growth cycles as is clear from Figure 4B).

What this suggests is that the relatively healthy growth prospect of several large emerging economies—particularly China, India and ASEAN, which altogether comprise a significant part of the emerging and developing world—will have to play a prominent role in global economic recovery. These economies' growth has supported the global economy in avoiding a total collapse of global demand. They cannot create huge demand that offsets the severe global recession—particularly in the US and Europe—but at least they have been able to maintain adequate growth through expansionary macroeconomic policy in the short run. They are now trying to sustain growth from medium- to long-term perspectives through various structural measures to improve investment climates and encourage consumption on a permanent basis. These measures are expected to provide some stimulus to the world economy and smooth the unwinding process of global payments imbalances.

(2) Need for greater voice of emerging economies in global governance

Limited voice of emerging economies in global governance. Despite rising influences and responsibilities of these new players in the global economy, their voice has not been adequately represented in global forums—such as the G7/G8, Bretton Woods Institutions (BWIs), and the Bank for International Settlements (BIS) including the Financial Stability Forum (FSF). Indeed no emerging market has been a member of the G7 process, and only Russia became a formal member of the G8 at the Birmingham Summit in May 1998. No large emerging economy was an FSF member.

Emerging economies' voting power at the BWIs (IMF and World Bank) has been limited. Table 1 shows that despite the rising economic size of major emerging economies, their shares of voting rights in the BWIs have remained low. Emerging economies with the largest voting rights at IMF are China (number 6 with 3.7%), Saudi Arabia (number 8 with 3.2%), Russia (number 10 with 2.7%), India (number 13 with 1.9%), Mexico (number 16 with 1.45%), Brazil (number 18 with 1.4%), and Korea (number 19 with 1.35%). This contrasts with the Netherlands (number 11 with 2.4%), Belgium (number 12 with 2.1%) and Switzerland (number 14 with 1.6%), whose economies are much smaller in size than any of the emerging economy above—except for Saudi Arabia—but whose voting rights are larger than many emerging economies.

Emergence of the G20 summit. From this perspective, the establishment of the G20 Summit process in November 2008 is a significant step forward as it includes both G7 advanced countries and key emerging economies like BRICs.[4] The G20 process has the potential for legitimacy and effectiveness in attacking the ongoing global financial and economic crisis by including major global players. It covers 78% of global GDP (at market exchange rates), 63% of global population and 61% of global trade, making itself a more

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[4] The Group of Twenty (G20) Finance Ministers and Central Bank Governors was established in December 1999 to bring together systemically important industrialized and developing economies to discuss key issues in the global economy. In November 2008, leaders of the G20 countries met for the first time in Washington, DC and the second time in London in April 2009. G20 membership includes: G7 countries (Canada, France, Germany, Italy, Japan, the UK and the US); BRICs (China, Brazil, India, and Russia); eight additional countries (Argentina, Australia, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, and Turkey); and the European Union.

inclusive forum than narrower G7/G8 groupings.[5]

The two meetings of the G20 process have focused on several urgent as well as institutional issues: (i) need for concerted macroeconomic policy (monetary and fiscal policy) to support global aggregate demand; (ii) need to restore health and soundness of US and European financial systems; (iii) need to provide further international liquidity and funding for affected developing and emerging economies through financially enhanced IFIs (IMF and multilateral development banks); (iv) need to avoid trade protectionism; and (v) reform of the structure of global financial governance. One important achievement was the creation of the Financial Stability Board (FSB), by expanding FSF membership and transforming the FSF into a stronger global financial stability body.

3. Improving the Effectiveness of Global Economic and Financial Governance

In light of their increasingly important global role, the rising new players in the global economy are expected to actively participate in the management of the global economy and finance and the reform of global institutions. Their responsibilities and voice have to be properly reflected in the existing as well as newly established institutions to improve the effectiveness of these institutions—such as the IMF, WB, WTO, and BIS/FSB. This section focuses on trade liberalization, macroeconomic and currency management, development finance, and financial system stability.

Global trade liberalization under the WTO. Under the global framework of GATT/WTO, world trade has expanded rapidly and growing trade has provided growth engines form many emerging and developing economies. Generally speaking, its basic principle of pursuing free, non-discriminatory and multilateral trade has been highly successful. However, with the expanding scope of trade liberalization from tariffs on manufactured products to non-tariff measures, agricultural products, and services, global trade liberalization has become more complex and difficult. This has been compounded by the rising voice of emerging economies which have begun to challenge the interests of advanced economies.

Indeed, eight rounds of trade negotiations were conducted under the GATT/WTO, and each has become longer and more complicated. While the early rounds were completed within 1 year, the fourth lasted 2 years, the fifth 3 years, the sixth 6 years, and the seventh (the Uruguay Round) 9 years to negotiate. The current Doha Development Agenda was launched in 2001 and is in a stalemate at this writing.

Another complexity is the proliferation of various FTAs outside the WTO system. Bilateral and plurilateral FTAs have grown exponentially without involving the WTO, despite the

[5] On the climate issue, there have been meetings among major emitters comprising 16 countries, hence called the G16 or Major Economies' Meeting (MEM)—rather than the original Major Emitters' Meeting—to reduce carbon emissions in a cooperative way.

fact that FTAs must comply with GATT Article XXIV (for goods trade) and GATS Article V (for services trade).[6] The WTO has been completely silent on FTAs, but has potential for playing a key role in making FTAs more multilateral friendly and a stepping stone toward global integration. Baldwin (2006) argues that there are benefits from consolidating regional agreements into a coherent global system, and this is the area where the WTO can be quite useful.

Macroeconomic stability under the IMF. Global macroeconomic and financial stability is essential to sustained growth of world trade, international capital flows and global economic activity. The IMF has a critical role to play in ensuring global macroeconomic and financial stability. To achieve this the IMF has two key instruments—surveillance and crisis lending. Article IV surveillance of individual member countries is a key instrument that enables the IMF to monitor member countries' macroeconomic and financial developments and to provide policy advice for stable economic management and crisis prevention or management. Recently the IMF has begun multilateral consultation on major issues affecting global economic and financial stability, staring with the consultation on global payments imbalances involving the US, Japan, EU, China and Saudi Arabia.

Crisis lending is another key instrument and has been mobilized mainly in emerging economy crises. With financial globalization and rising international capital mobility, many emerging economies have faced capital account crises due to sudden stops and/or reversals of capital flows. However, the IMF has been criticized for formulating excessively harsh, and often irrelevant or even inappropriate, conditionality for crisis countries—especially at the time of the East Asian financial crisis of 1997-98. Responding to such criticisms, the IMF has been streamlining conditionality by focusing on clearly macroeconomic-relevant policy measures and making crisis lending more flexible. For example, in the wake of the global financial crisis, the IMF introduced a Flexible Credit Line to assure pre-qualified member countries of large, flexible, upfront access to liquidity without ex-post conditionality.

Given that the IMF failed to identify macroeconomic and financial risks and implications of the US sub-prime crisis for global finance, trade and capital flows and to urge the US to take necessary policy steps, doubts remain if the IMF can fulfill its mandate. It has now acquired extraordinarily large resources (rising from $250 billion to $750 billion), due to the global financial crisis it did not predict, the IMF faces the challenge of how its effectiveness and credibility can be increased in a substantial way.

Development finance and the World Bank. The objectives of most multilateral development banks (MDBs)—including those of the World Bank—are to help developing countries achieve sustainable economic development and poverty reduction. The MDBs also work on economic construction in post-conflict countries as well as for structural

[6] One of the functions of the WTO is to monitor the world trading system—including trade policy reviews to monitor compliance with WTO obligations.

reform in crisis or non-crisis developing countries.

Each MDB often performs three different, though related, functions, as a money bank, knowledge bank, and public goods bank. As a money bank, or a development finance institution, the MDB primarily provides long-term funds for development of hard infrastructure and institutions to their member countries at rates more favorable than those available in the market. The capital-scarce poor countries are particularly in need of this type of financing, and even some middle-income developing countries need additional financing due to their limited access to international capital markets. It can also provide fiscal support to developing members that need to pursue policy and institutional reforms—often, but not necessarily, as a result of financial and economic crises. It can also come in to fund economic reconstruction after disasters such as wars, conflicts and natural disasters. To streamline the poverty reduction work, the World Bank should consider taking over the IMF's Poverty Reduction and Growth Facility (PRGF) and integrating it with its own Poverty Reduction Support Credit (PRSC).

As a knowledge bank, an MDB provides economic analyses, policy advice and technical assistance by mobilizing their knowledge on good practices (and bad examples and failed attempts as well) on particular issues. The World Bank is best positioned in this area. As a public goods bank, an MDB can provide international public goods—such as containment of communicable diseases; environmental protection; prevention of serious impacts of natural disasters hitting several countries simultaneously; and containment of conflict that has potential to become a cross-border issue. The World Bank is best suited to provide global public goods, while regional MDBs are best suited to provide respective regional public goods.

Global financial supervision and regulation. One of the factors behind the global financial crisis is the lack of an international framework for supervision and regulation, which is capable of regulating, monitoring, and supervising crossborder activities of systemically important financial products, institutions and markets. Ideally, a new global financial regulatory and supervisory body should be created—by including the key emerging economies—to internationally harmonize supervision and regulation to prevent future global financial crises.

Reflecting the results of the G20 meetings, the Basel Committee on Banking Supervision of BIS has expanded membership from 13 to 20 members by including BRICs, Australia, Korea and Mexico.[7] The Financial Stability Board (FSB) has been established as a successor to the FSF with expanded membership from 12 to 25 members.[8] The FSB aims

[7] Thus the current members of the Basel Committee are: Australia, Belgium*, Brazil, Canada*, China, France*, Germany*, India, Italy*, Japan*, Korea, Luxembourg*, Mexico, the Netherlands*, Russia, Spain*, Sweden*, Switzerland*, the United Kingdom* and the United States* (where countries with * are original 13 members).

[8] The FSB has 25 members by adding all G20 members, Spain and the European Union. Thus, membership of the FSB includes: Argentina, Australia*, Canada*, China, Brazil, France*, Germany*, Hong Kong SAR*,

to address financial vulnerabilities and to develop and implement regulatory, supervisory and other policies in the interest of financial stability. It is mandated to collaborate with the IMF to provide early warnings of macroeconomic and financial risks and the actions needed to address them.

This move has been supported by the US decision to address its highly fragmented regulatory and supervisory structures,[9] as well as the European Union's decision to create an EU-wide supervisory framework. European countries in particular agreed to establish the architecture of a European financial supervision system, including a European Systemic Risk Board to oversee the stability of the financial system as a whole, for macro-prudential supervision, and a European System of Financial Supervisors as the region's micro-prudential coordinator. However, for the FSB to perform its expected function, it is essential that the US and Europe—especially the UK—to make full commitments to the substantial upgrading of the regulatory and supervisory policies.

Major emerging economies' participation in global financial supervision is a welcome development as this allows their legitimate voice to be heard and their views to be reflected in the FSB's activities.

Reforming the governance of BWIs. Key emerging economies must contribute to the governance reform of the BWIs—the IMF and the World Bank. Currently many emerging economies (China, Brazil, India, Korea, etc.) are under-represented in the BWIs, while Europe is over-represented, with EU-27 countries having the collective quota of 32% and the euro zone members 23% (see Table 2). Their relative economic size—measured in particular by PPP-based GNI—is much smaller that these shares indicate.[10] The US (with the quota of 17%) is the only country that has a veto power among 186 members of the IMF. In addition, heads of BWIs have been restricted, by convention, to Europeans (for IMF) and Americans (for the World Bank).[11] These imbalances of representation and treatment among member countries need to be corrected.

The governance reform at BWIs, however, involves shifts in power in the organizations away from Europe and the US towards rising emerging economies and, hence, is difficult to implement because of the lack of incentives on the part of Europe and the US. Everyone, including Europe and US, agrees that a fundamental governance reform is needed to regain legitimacy and credibility of the BWIs. But one cannot be over-optimistic about

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India, Indonesia, Italy*, Japan*, Mexico, Netherlands*, Russia, Saudi Arabia, Singapore*, South Africa, Korea, Spain, Switzerland*, Turkey, United Kingdom*, United States*, and the European Union (where countries with * are original 12 members of the FSF).

[9] The US has highly fragmented supervisory systems for commercial banks, a very weak supervisory framework over investment banks and security houses, and state-by-state regulation over insurance companies.

[10] If measured by trade, however, Europe's relative economic size is much larger. But once intra-European trade is netted out, its trade share declines substantially.

[11] See Truman (2006, 2008) for issues related to IMF governance reform.

fundamental changes in the governance structure. A likely outcome is that there will be some marginal shift in voting power and the reconfirmation of the openness of heads of BWIs to all nationals on a merit basis. A more fundamental change is needed to make the BWIs—especially the IMF—truly effective, credible and trustworthy.

4. Regional Governance as a Building Block of Global Governance

(1) Regional governance for regional public goods.

Improvement of global economic and financial governance is essential for efficient management of the global economy and finance. At the same time regional economic governance should also be strengthened to complement global governance. A case can be made for federalism on a global scale, e.g. hierarchies of global and regional institutions in functional areas but with different specializations and ownership structures—such as the World Bank and regional development banks, etc (see Kawai, Petri, and Sisli-Ciamarra, 2009). The public goods relevant to organizations operating on different levels can be supplied and consumed most efficiently by the relevant groups.

This is analogous to the principle of subsidiarity in European governance.[12] This principle argues that there should be proper division of labor among national, regional and global institutions in providing public goods. This implies that national, regional and global matters are best addressed by national, regional and global institutions and resources, respectively. Regional institutions can be considered as providing most appropriate regional public goods for countries participating in the institutions. However, it is important to ensure global coherence, consistency, and at least coordination among these in respective areas of expertise.[13]

(2) Asia's economic and financial institutions and global consistency

In the Asian context, there are a few existing institutions like the Asian Development Bank and the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP). In addition, several new regional institutions can be formed—such as an Asian Monetary Fund, an Asian Financial Stability Dialogue, an Asian Infrastructure Investment Fund, and an East Asia-wide Economic Partnership Agreement.[14] These regional institutions can play complementary, building-block roles of global governance. This implies that global institutions should also clarify their roles in the respective expertise, in relation to regional institutions. Global institutions have a clear role of ensuring global

[12] The "principle of subsidiarity" rests on the notion of "fiscal equivalence," which indicates that the decision-making jurisdiction should coincide with the region of spillovers, so that those affected by the public good determine its provision decision. See Olson (1969).
[13] See Meltzer (2000) for general perspectives of reform of international financial institutions.
[14] See Kawai (2005) and ADB (2008) for details of the recent development of regional economic and financial architecture.

consistency, but this does not mean that they set all the key agendas and regional institutions will simply follow them.

Macroeconomic stability (IMF and AMF). The ongoing multilateralization process of the Chiang Mai Initiative (CMI) in Asia can eventually lead to the creation of an Asian Monetary Fund (AMF) once a strong, independent professional secretariat is set up and the CMI's IMF linkage is removed. The decision by ASEAN+3 finance ministers to set up both a surveillance unit (*de facto* secretariat) for regional economic surveillance and a panel of advisors (*de facto* board of EDs) supports this development. A new AMF would be able to handle effectively regional financial crises given the large stock of the region's foreign exchange reserves.

In addition, a new AMF can encourage many Asian economies to embark on the rebalancing of sources of growth toward domestic and regional demand and correcting payments imbalances. After the Asian financial crisis, many economies in the region started building foreign exchange reserves as self-insurance to avoid currency crises. For them going to the IMF is a political suicide because of the lingering bad memory of the "IMF crisis" in the mind of the public at large. So these economies had every incentive to accumulate reserves by running large current account surpluses or intervening in the currency markets. The region's emerging economies would welcome the rebalancing if an AMF could reduce financial turbulence and act as a lender of last resort.

In return, the IMF should re-establish itself as an effective, credible and trustworthy institution. Otherwise the IMF would not be accepted in Asia as a truly useful partner for the region. IMF needs significant reforms on its operations and governance. On the operational side, the IMF must focus on surveillance of systemically important economies (like the US and EU) and multilateral consultation (like the issue of global payments imbalances) to ensure global macroeconomic and financial stability. The IMF needs to restore its credibility by learning from its failure to identify clear systemic risks in the US financial system and its significant cross-border implications for Europe, Japan and emerging economies, and to urge the US to take corrective policy actions.

On IMF governance reform, three major changes will have to be made, at least from the Asian perspective. They are: Europe's voting power needs to be reduced by 10% points: any single member country—including the US—should be disallowed to have a veto power; and the next managing director should be chosen from Asia. Without such fundamental, Asian members will never have the sense of trust and ownership nor regard the IMF as their partner for Asian macroeconomic and financial stability.

Development finance (WB and ADB). A decentralized structure is well established in the area of development finance, because of the presence of regional development banks. In Asia, the Asian Development Bank (ADB) is gaining increasing importance in providing development-related regional public goods. Having secured its general capital increase by 200%, it is in the position to provide more resources for countries in need of funding for development and fiscal spending, more support for regional bond market development, and a more catalytic role for infrastructure investment in Asia. To complement the global knowledge activity of the World Bank, more efforts are needed on the part of ADB to systemically extract knowledge from regional operations and projects—for example, infrastructure projects—and feedback such knowledge to global institutions.

The World Bank could be more focused in its role by putting more emphasis on poverty and global issues, including Millennium Development Goals, climate change, global health, global knowledge, etc. In so doing, the World Bank may delegate country and regional projects to regional banks such as the ADB. In this context, the World Bank-IMF Financial Stability Assessment Program (FSAP) should be conducted jointly with regional MDBs, like ADB, as it is these MDBs that are expected to play a much greater role in assisting developing countries to strengthen their financial systems and supervisory/regulatory frameworks.

Trade liberalization (WTO and EAFTA/CEPEA). There is a proliferation of bilateral and plurilateral FTAs in Asia. FTAs can create benefits for signatory countries by deepen integration through various types of WTO-plus elements. There is also increasing recognition of the merits in forming a region-wide FTA as a means to consolidate the plethora of bilateral and plurilateral agreements—often dubbed as the Asian “noodle bowl.”

In this context, ASEAN—with the region's oldest FTA—is emerging as an integration hub for FTAs in East Asia. It has implemented the so-called ASEAN+1 FTAs, i.e., with Japan, China, Korea, India and Australia and New Zealand. The policy discussion in Asia is focusing on competing region-wide FTA proposals—an East Asia Free Trade Area (EAFTA) among ASEAN+3 countries and a Comprehensive Economic Partnership for East Asia (CEPEA) among ASEAN+6 countries—that will guide future policy-led integration in the region. It will be easier to form first an EAFTA among the ASEAN+3 countries and then include India, and Australia and New Zealand to come up with a CEPEA. The final stage would be to connect between East Asia and the US and with Europe toward global integration (see Figure 5).[15]

In the integration process within Asia and Asia-US and Asia-Europe, there is huge potential for the WTO to play as a global coordinator of regional FTAs and cross-regional FTAs. The WTO can ensure consistency across bilateral, plurilateral and regional FTAs. It can provide guidance for multilateral-friendly agreements and facilitate consolidation of multiple, overlapping FTAs into a coherent region-wide FTA (like an EAFTA and CEPEA) and linking of such region-wide FTAs into a global agreement.

Financial system stability (FSB and AFSD). For the newly established FSB to be successful, it cannot be an insular organization in Basel and needs to leverage effectively regional- and country-based financial stability organizations. The first layers are national

[15] See Kawai and Wignaraja (2009).

financial stability organizations in all the G20-plus countries. At the national level, creating an organization—called a national systemic risk council—in charge of containing a systemic crisis coordinating actions among national financial authorities (central banks, regulatory and supervisory agencies and finance ministries) will be useful. The second layers are regional financial stability organizations. The European initiative to set up its regional regulatory architecture is a good example. Asians are discussing the possibility of establishing an Asian Financial Stability Dialogue (AFSD)—among the region's financial authorities—whose mandate is to detect and address financial sector vulnerabilities in the region (through monitoring of key financial products, institutions and markets on the ground), harmonize financial market infrastructure, and work on financial system crises once they occur.

As the FSB does not embrace all Asian economies, the AFSD will play an important role to regionalize the global policy direction as well as providing regional inputs into the global FSB process. The AFSD will have to work closely with an AMF to ensure the region's macroeconomic and financial system stability, just as the FSB and the IMF will have to collaborate at the global level.

5. Conclusion

With their increased influence over the global economy and finance, key emerging economies—particularly China and India—need to contribute to the growth, stability and sustainability of the global economy and finance. The rise of their global responsibilities calls for their voice to be reflected in global economic and financial management—through, for example, the G20 process, the Bretton Woods Institutions (BWIs), and a newly created Financial Stability Board (FSB).

Greater effectiveness and resources of the BWIs—especially the International Monetary Fund (IMF)—will require substantial operational and governance reforms. The IMF needs to establish its credibility and trust by focusing on analysis of systemically important economies, institutions and markets—together with the newly established FSB. BWI governance reform should involve shifts in power in these organizations away from the traditional players to the new players and overcome strong resistance from the former. For the FSB to be successful in its supervision and regulation of systemically important financial institutions, instruments and markets, major advanced economies—especially the US and UK—will have to make full commitments to national and global regulatory reform.

In the Asian context, several new regional institutions can be established—such as an Asian Monetary Fund (AMF), an Asian Financial Stability Dialogue (AFSD), and an East Asia-wide Economic Partnership Agreement (EPA). These regional institutions must play complementary roles in global governance by working closely with the global counterparts. At the same time, global institutions must clarify their roles in global governance by adjusting their mandates, functions and governance.

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Figure 1A. GDP Projections for USA, Europe, Japan, China & India, 2000-2050

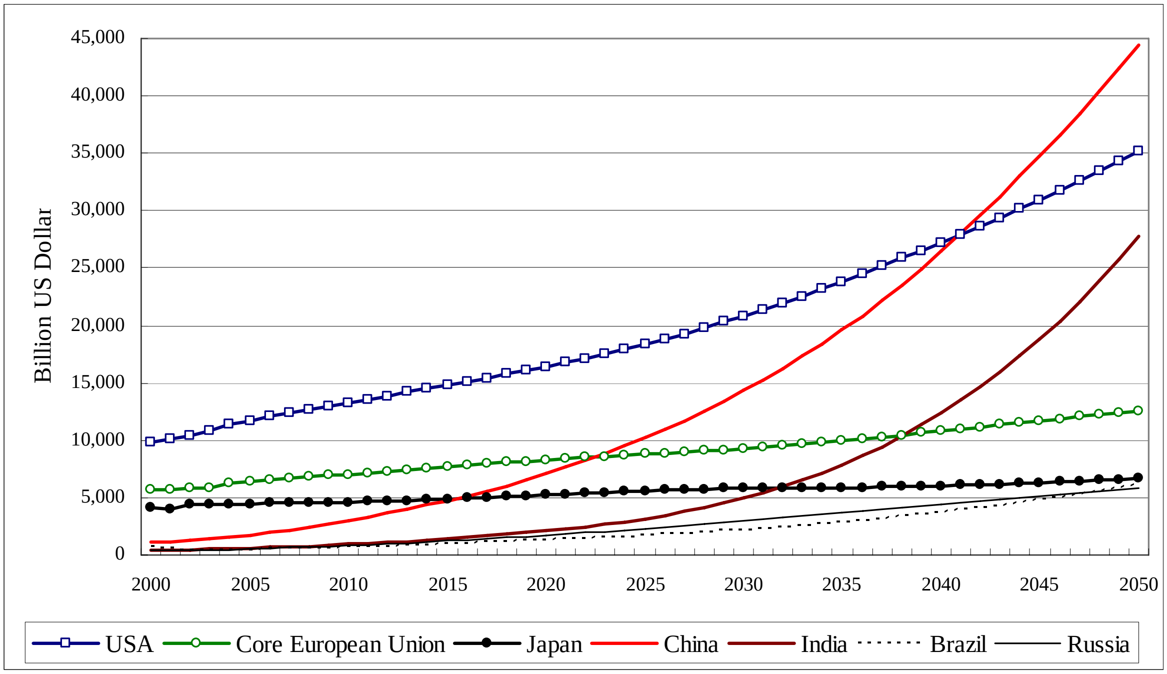
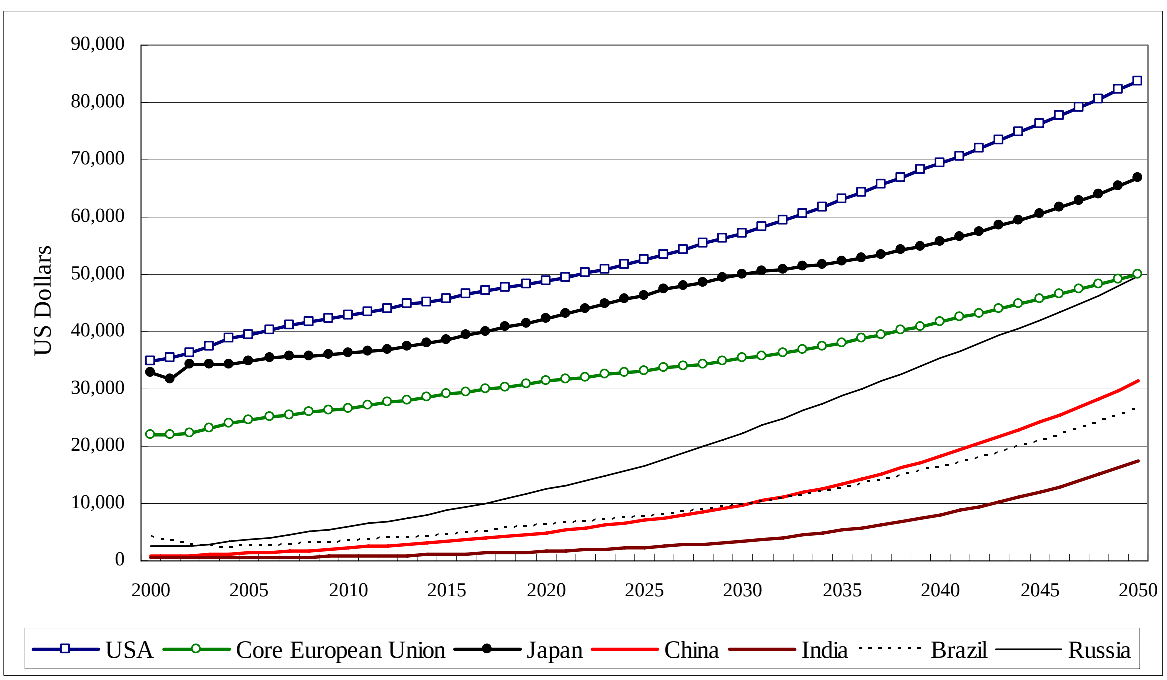
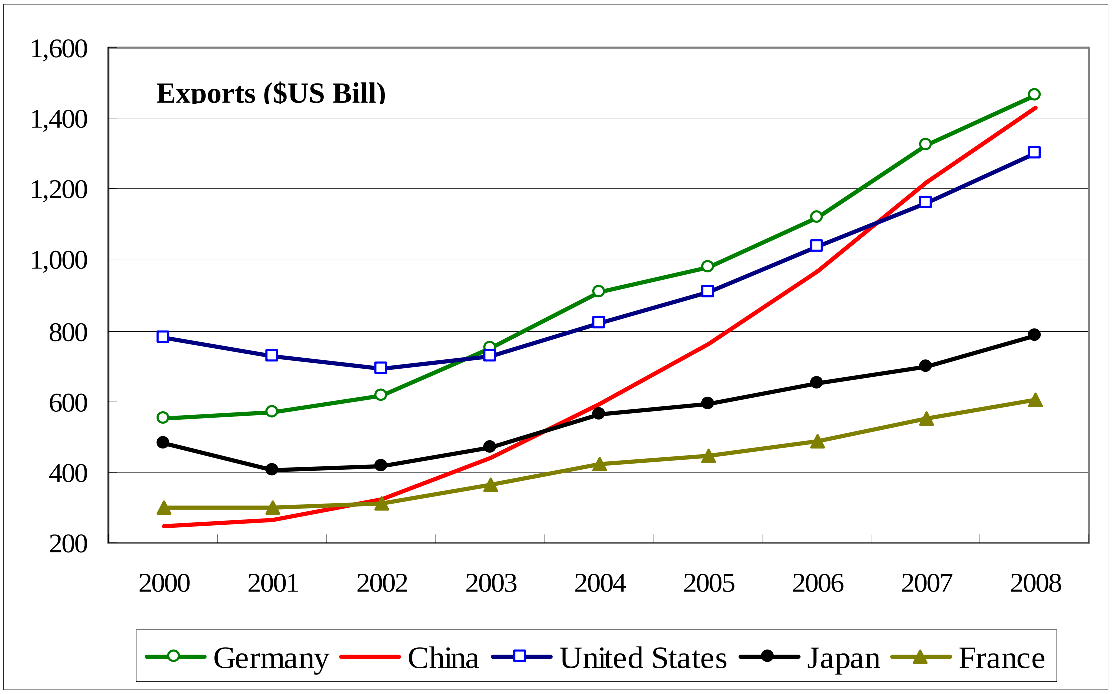


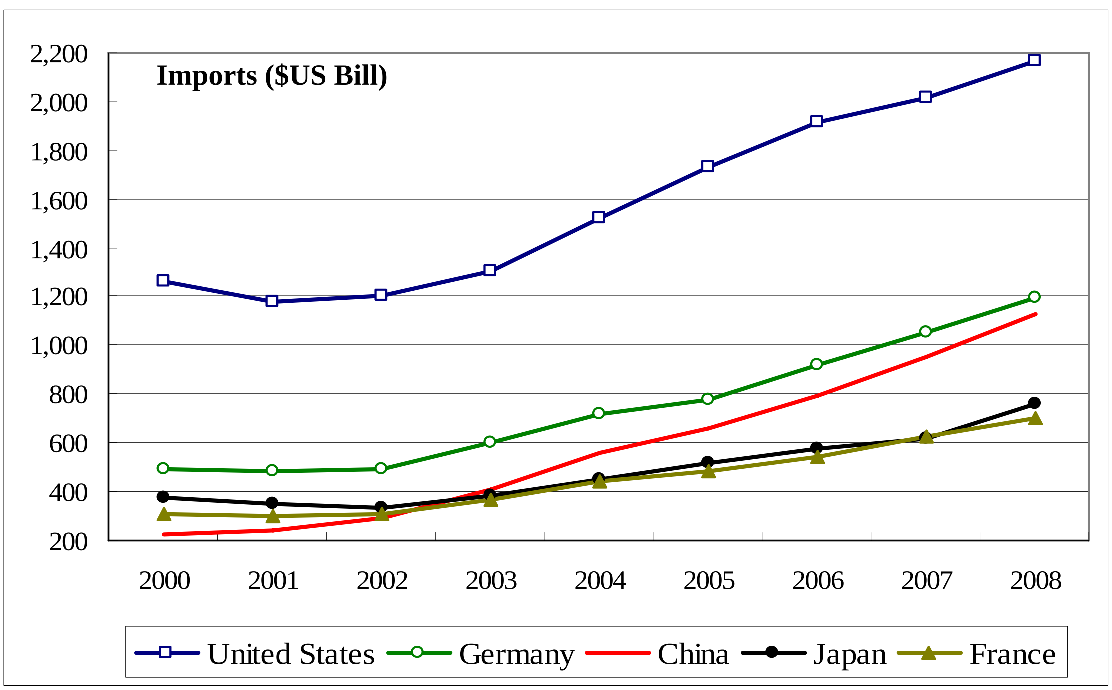
Figure 1B. Per-capita GDP Projections for USA, Europe, Japan, China & India, 2000-2050



Source: Goldman Sachs, “Dreaming with BRICs: The Path to 2050” (October 2003).

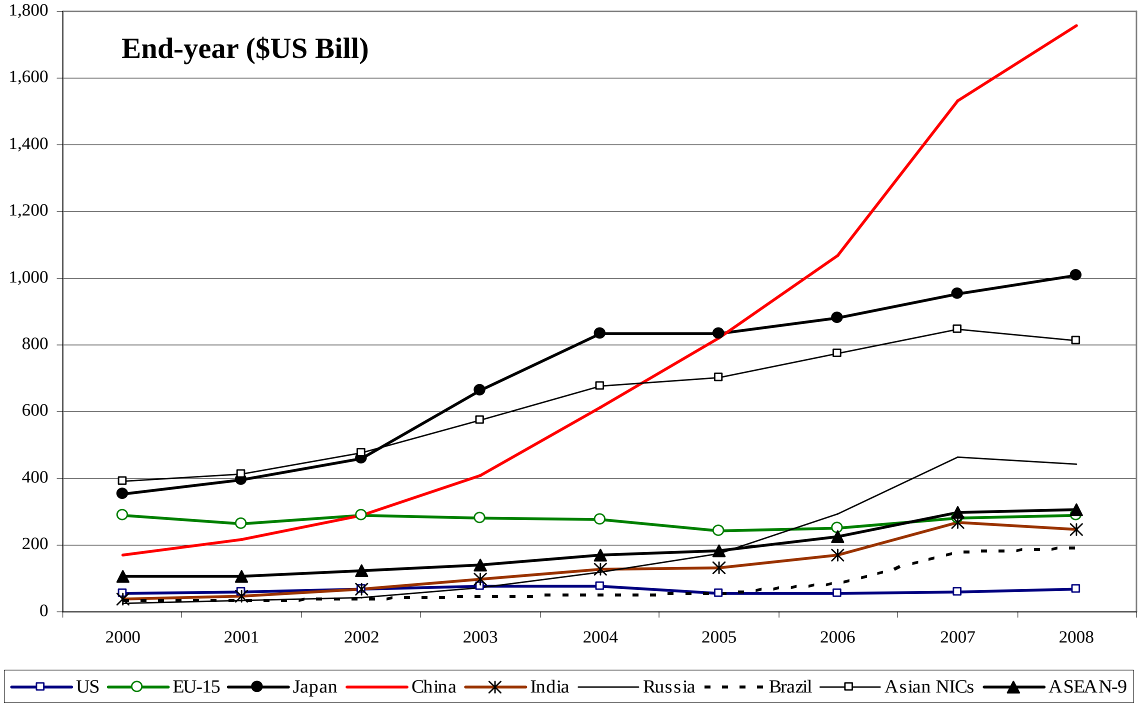
Figure 2. Volume of Trade of Major Trading Countries, 2000-2008





Source: International Monetary Fund, CD-ROM.

Figure 3. Foreign Exchange Reserves, 2000-08



Source: IMF, *International Financial Statistics*, CD-ROM

Figure 5. Consolidating Asian FTAs into a Single FTA and Connecting with the US & EU

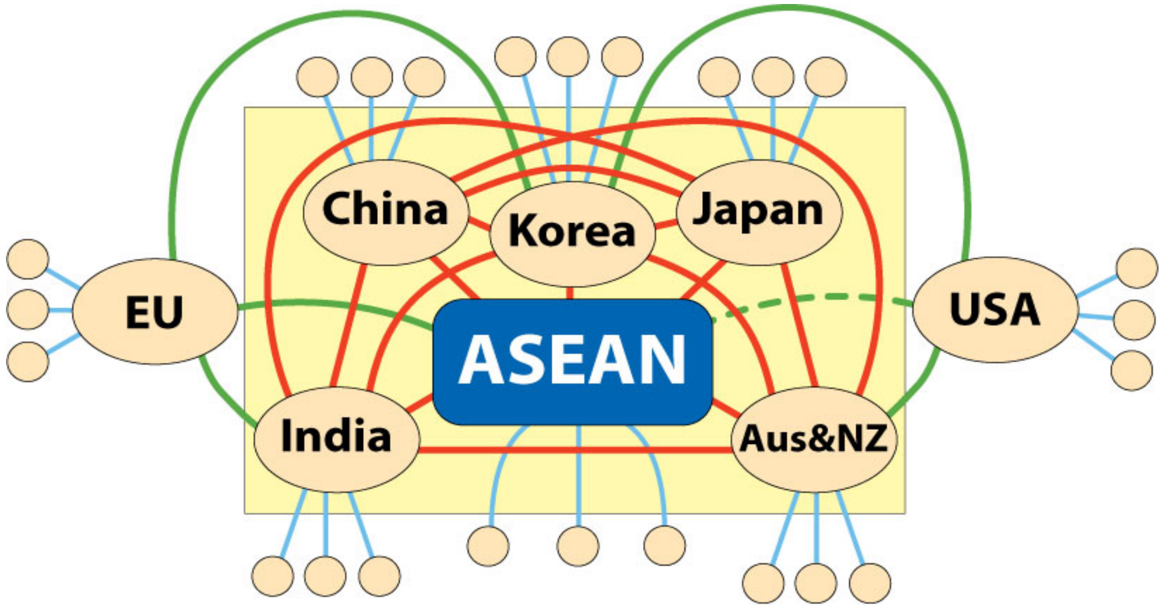


Figure 4A. "Trend Decoupling" in Real GDP Growth, 1970-2010

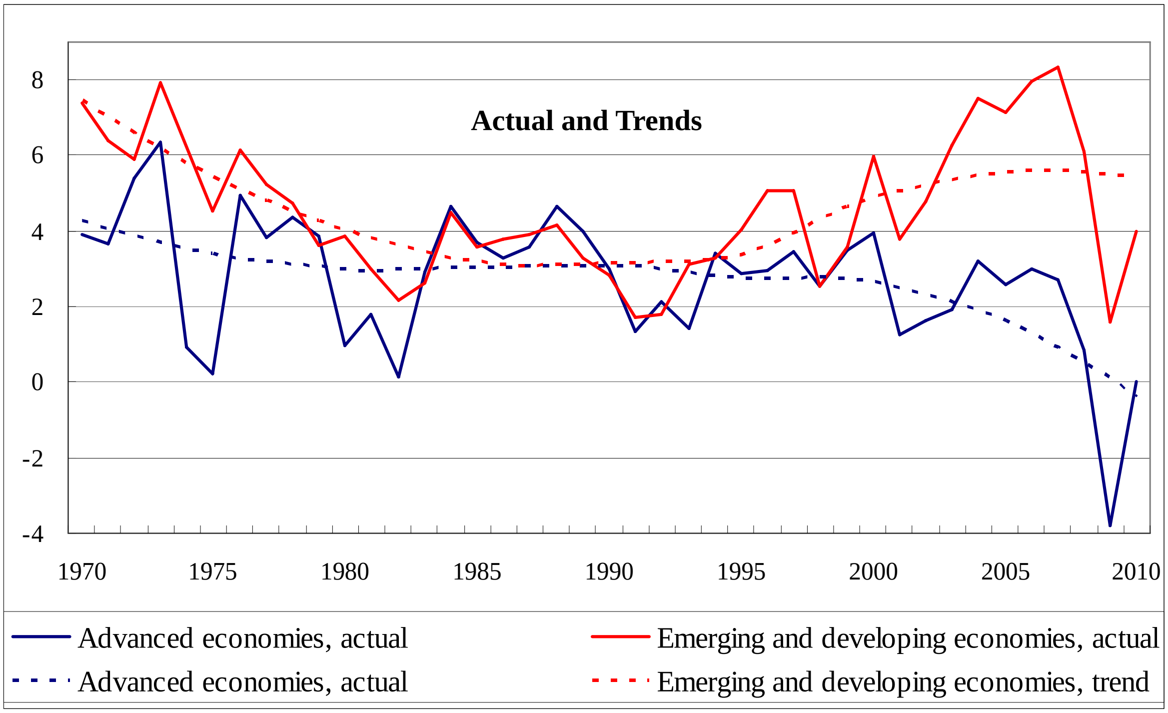
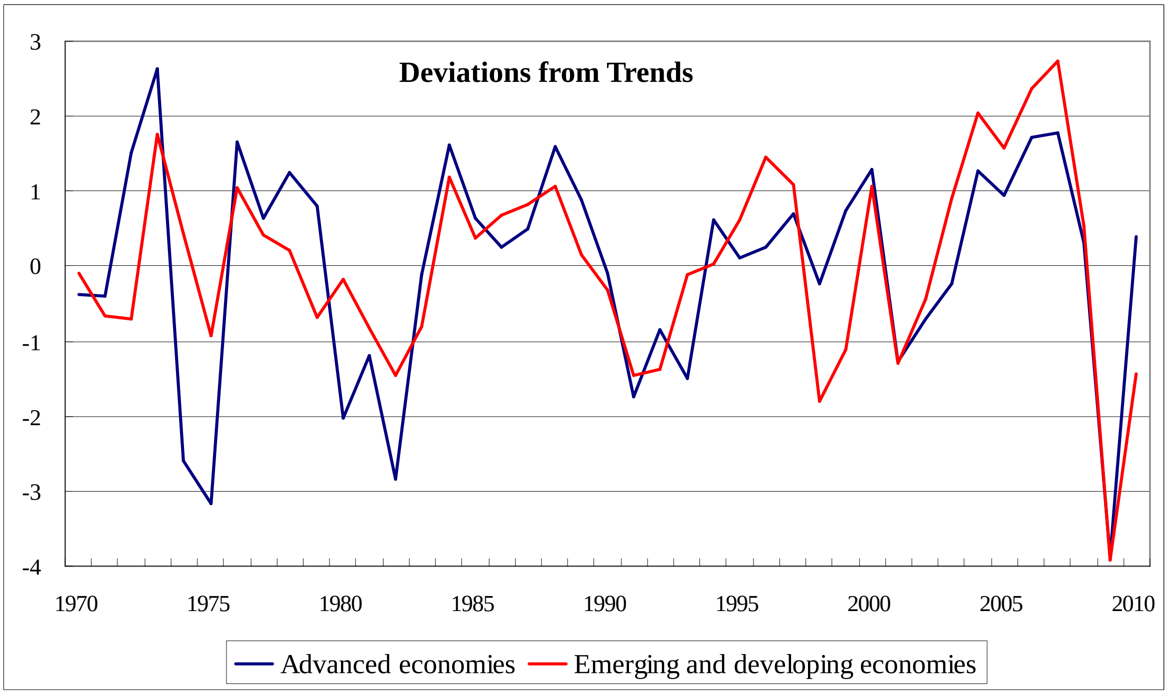


Figure 4B. "No Decoupling" in GDP Growth Cycles 1970-2010



Source: Computed from IMF, *World Economic Outlook* (October 2008) and *WEO Update* (April 2009).

Table 1. Top Shareholders of IMF and WB and their GDP, GNI (PPP) and Trade Shares

	IMF (%)		IBRD (%)		IDA (%)		GDP (%)		GNI at PPP (%)		Trade (%)	
United States	1	17.09	1	16.84	1	12.15	1	25.41	1	21.23	1	11.16
Japan	2	6.13	2	8.07	2	9.64	2	8.05	3	6.79	4	4.48
Germany	3	5.99	3	4.60	3	6.38	3	6.07	5	4.23	2	8.69
China	6	3.72	6	2.85	11	1.91	4	6.04	2	10.87	3	7.60
United Kingdom	5	4.49	4	4.41	4	5.42	5	5.02	7	3.17	6	3.80
France	4	4.94	5	4.41	5	4.09	6	4.71	6	3.18	5	4.10
Italy	7	3.25	7	2.85	9	2.59	7	3.88	10	2.72	7	3.58
Spain	17	1.40	15	1.78	16	0.86	8	2.63	11	2.12	12	2.28
Canada	9	2.93	7	2.85	8	2.72	9	2.44	14	1.79	9	2.93
Brazil	18	1.40	13	2.12	12	1.62	10	2.42	9	2.76	19	1.01
Russia	10	2.74	7	2.85	19	0.32	11	2.38	8	3.13	13	2.07
India	13	1.91	7	2.85	7	3.17	12	2.15	4	4.73	16	1.19
Korea	19	1.35	19	1.01	18	0.63	13	1.78	13	1.84	10	2.61
Mexico	16	1.45	18	1.20	17	0.71	14	1.64	12	2.03	14	1.98
Australia	15	1.49	17	1.55	13	1.24	15	1.51	15	1.08	18	1.08
Netherlands	11	2.38	12	2.26	10	2.04	16	1.39	16	0.99	8	3.09
Belgium	12	2.12	14	1.84	14	1.14	17	0.83	18	0.57	11	2.31
Switzerland	14	1.59	16	1.69	15	1.10	18	0.76	19	0.51	15	1.39
Saudi Arabia	8	3.21	7	2.85	6	3.32	19	0.70	17	0.85	17	1.13

Table 2. Major Groups' Shares of IMF and WB Quotas and their GDP, GNI (PPP) and Trade

	IMF	World Bank		GDP	GNI (PPP)	Trade
Groups	**(%)**	**IBRD (%)**	**IDA (%)**	**(%)**	**(%)**	**(%)**
USA	17.1	16.8	12.2	25.4	21.2	11.2
EU (27)	32.4	29.0	32.6	30.8	22.2	37.3
Euro Zone (16)	23.2	20.3	20.5	22.5	16.1	28.2
ASEAN+3 (13)	14.6	14.7	14.8	18.2	23.3	20.3
ASEAN+6 (16)	18.4	19.5	19.5	22.1	29.3	21.6