ADBI Working Paper Series

From a Centralized to a Decentralized Global Economic Architecture: An Overview

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No. 401
January 2013

Asian Development Bank Institute

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Prepared for the ADBI–RSIS Conference on The Evolving Global Architecture: From a Centralized to a Decentralized System, held in Singapore on 26–27 March 2012.

Suggested citation:

Rana, P.B. 2013. From a Centralized to a Decentralized Global Economic Architecture: An Overview. ADBI Working Paper 401. Tokyo: Asian Development Bank Institute.

Available: http://www.adbi.org/working-paper/2013/01/15/5429.decentralized.global.economic.architecture/

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Abstract

This paper argues that calls for a New Bretton Woods system in the aftermath of the global economic crisis—similar to the remarkable 1944 Bretton Woods conference that led to the establishment of various international economic institutions—are unlikely to be answered. The likely scenario is that the centralized architecture from before the global economic crisis will evolve toward a more decentralized and multilayered global architecture where regional institutions are linked together to a "senior" global organization in a complementary manner by rules and regulations. The paper also highlights the new regional institutions that Asia needs to establish to contribute to this evolving global economic architecture.

JEL Classification: F02, F13, F33, F53

Contents

1. INTRODUCTION

The Asian financial crisis of 1997–1998 led to calls for a new international financial architecture and discussions focused on crisis prevention, crisis management, and crisis resolution efforts (see Kawai and Rana 2009). The global economic crisis (GEC) of 2008–2009, which was initially expected to be the worst crisis since the Great Depression of the 1930s, likewise led to calls for a New Bretton Woods (NBW) system—a wider and much more comprehensive set of reforms of the global governance system and international economic institutions (IEIs), similar to the remarkable 1944 Bretton Woods conference where the World Bank, the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT), the predecessor of the World Trade Organization (WTO), were established.

In the post-global economic crisis (GEC) period, a number of academics and politicians have made calls for an NBW. These include Stiglitz (cited in Bases 2008) and Sarkozy and Brown (cited in Kirup and Waterfield 2008). The central bank governor of the People's Republic of China (PRC), Zhou(2009), has also made a pitch for a new reserve asset; and the World Bank President, Zoellick (2010), has called for a return to a modified gold standard. Supporting the need to return to a modified gold standard, Mohamad (2012) has called for an NBW with poor countries well represented. So far, a number of proposals to reform the global economic architecture (GEA)—the configuration of institutions for global economic governance—have been implemented. These include the upgrading of the Group of Twenty (G20) finance ministers and central bank governors group to the G20 Summit of Leaders and designating it the "premier forum for our economic cooperation," (European Commission 2009) and the upgrading of the Financial Stability Forum to the Financial Stability Board by expanding membership. But could post-GEC reforms of the GEA disappoint like those discussed under the new international financial architecture? If so, cycles of crises, talk of architecture reform, and complacency in reforms could continue without significantly enhancing the resilience of the GEA. How could the global economic architecture evolve?

The objectives of this paper are to answer three questions:

(i) Will we have an NBW in the post-GEC period, as called for by several academics and policymakers?

(ii) How has the GEA evolved and how could it look in the future? Will it be more rules-based or like an informal network? Will it be more centralized or decentralized?

(iii) What is the role of Asia in this new architecture and how can it contribute?

Section 2 of the paper argues that it may be too optimistic to expect an NBW or a radical set of reforms of the GEA in the future. It contends that reforms are expected to be more incremental. Section 3 reviews the pre-GEC architecture, essentially the one established at Bretton Woods, which was led by the G7 and G8, and highlights its shortcomings. Section 4 highlights the post-GEC G20-led architecture. Section 5 focuses on the move to a more decentralized GEA where regional institutions are linked together to a more senior global organization by rules and regulations. Such a system would be more flexible in terms of membership, governance, representation, and agenda. Section 6 argues that Asia can contribute to the evolving GEA by establishing institutions to enhance regional economic integration and by trying to make sure that regional institutions are complementary to global ones.

2. NEW BRETTON WOODS IN THE FUTURE?

Helleiner (2010) has argued 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 the old regime needs to be replaced), interregnum phase (experimental and discussion phase), and a constitutive phase (formal negotiation phase). In this typology, as discussed later in the paper, it is appropriate to conclude that the GEC has led to a view that the pre-GEC architecture needed to be changed and that the 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 an NBW? The answer is, probably not, for two reasons. First, the application of the theory of clubs leads to the conclusion that IEIs are relatively inflexible institutions that are difficult to reform in response to the demands of a rapidly changing world because of the vested interests of the original members of the club (Section III). Second, as is usually the case, with the adverse impacts of the GEC being less serious than expected—instead of the Great Depression II we had the Great Recession—complacency has set in on the reform agenda, and the commitment and urgency to reform IEIs seen during the crisis have been reduced. For example, representatives of the finance industry have successfully resisted and diluted the reform agenda[1] .Only if the euro area were to collapse and the world were to experience the Great Depression II, which it avoided in 2008 and 2009, could we expect the commitment to reform to become urgent once again. This probably is the only chance for those who call for an NBW.

3. PRE-GLOBAL ECONOMIC CRISIS G7 AND G8-LED GLOBAL ECONOMIC ARCHITECTURE

The pre-GEC economic architecture was very similar to the one created in Bretton Woods, under which the IMF was to promote macroeconomic and financial stability,[2] the GATT was to ensure an open trading environment globally, and the World Bank and later the regional development banks (e.g., the Asian Development Bank [ADB]) were to provide development finance for poverty reduction (Table 1). The G7 was created in the mid-1970s from the G5 to oversee the process of provision of international public goods by various IEIs. The Russian Federation joined the group in 1997 to form the G8. In response to the Asian financial crisis, the Financial Stability Forum was established in 1999 with a small number of 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 that year was the G20 finance ministers and central bankers group, comprising both G8 members and systemically important emerging markets; this body had existed in the shadow of the G8 since its creation. In 1995, the GATT was folded into the World Trade Organization (WTO) with a proper organizational and staffing arrangement.

[1] For example, the implementation of Basel III has been adversely affected by the resistance of the industry.

[2] Originally, the IMF's mandate was to promote macroeconomic stability. As the incidence of financial crisis increased with financial globalization it started to focus on crisis prevention and crisis management as well.

Table 1: Pre-Global Economic Crisis G7 and G8-Led Architecture

	G7 and G8
Macroeconomic and financial stability	IMF
Financial stability	FSF
Open trading system	WTO
Development finance and poverty reduction	World Bank, ADB, and other regional development banks

ADB = Asian Development Bank, FSF = Financial Stability Forum, IMF = International Monetary Fund, WTO = World Trade Organization.

Source: Author

While the pre-GEC G7 and G8-led GEA worked well for a number of decades, it had many shortcomings. First, its governance did not reflect the move from a unipolar to a multipolar world. It represented the dominance of the United States (US) and did not reflect the economic rise and political power of emerging markets, particularly those in Asia (the PRC and India), so it lacked legitimacy. Emerging markets had no representation at the G7 and their voice in the IEIs was limited. According to long-term projections made by Goldman Sachs, emerging markets will continue to grow rapidly over the next 40 years. In 2003, the three largest economies in the world by 2050 were predicted to be the PRC, the US, and India (Wilson and Purushothaman 2003). In 2007, the 2003 ranking was revised to the PRC, India, and the US (Poddar and Yi 2007). More recently, it has been projected that the 2007 ranking could be obtained even earlier—within the next 30 years or so (ADB 2009). Despite their economic dynamism, however, the PRC and India will be far behind the US in terms of per capita incomes, poverty reduction, and military power.

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 gross domestic product (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 that also determine voting power at the IMF are especially low for rapidly growing emerging markets such as Brazil, the PRC, and India. Kelkar, Choudhry, Vanduzer-Snow, and Bhaskar (2005) found that these three countries had 19% fewer votes than Belgium, Italy, and the Netherlands collectively, although they had 21% more nominal GDP, 400% more purchasing power GDP, and 2,800% more population. On the other hand, Europe controls directly or indirectly 10 chairs out of 24 on the IMF Executive Board, even though it has a common monetary policy and about 30% of quota and voting rights.

Second, IEIs are relatively inflexible institutions and cannot change even if they wish to. Kawai, Petri, and Sisli-Ciamarra (2009) have applied the theory of clubs to explain this phenomenon. 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. The application of club theory to IEIs leads to the conclusion that IEIs 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.

The charters, quotas, and voting rights of IEIs were designed in the interest of like-minded original core members in 1944 and are inflexible and difficult to change as membership expands. In comparison with the 44 countries that participated in the Bretton Woods conference, membership of the IMF and World Bank now stands at 188.This inflexibility has led to frictions on various occasions. The membership of the WTO is more than 150but an additional 30 countries have applied or are in accession negotiations. At the recent Asia-Pacific Economic Cooperation (APEC) Summit in Honolulu, US President Obama demanded that the PRC “play by the rules” of international trade (Nakamura 2011). The PRC reacted with speed: “First, we have to know whose rules we are talking about…If the rules are made collectively through agreement and China is a part of it, then China will abide by them. If rules are decided by one or even several countries, China does not have the obligation to abide by that” (Eckert 2011).

Third, with globalization, especially financial globalization, the environment in which the IEIs have operated has also changed dramatically and this has reduced their effectiveness. The number and types of global and regional public goods have increased. Policy makers were wary of uncontrolled financial flows during the Bretton Woods era and permitted capital controls. In the 1980s and 1990s, under the Washington Consensus[3], they embraced financial liberalization and deregulation—ushering in an age of highly integrated financial markets and capital flows that have dwarfed the operations of IEIs. As early as the 1960s, the United Kingdom (UK) was promoting financial globalization through its support of deregulated Euromarkets for London. But the momentum accelerated when Thatcher took political office in the UK in 1979 and Reagan in the US in 1980. IMF management even launched an initiative in 1995 to overturn the commitment to capital controls by amending its articles of agreement to gain a liberalization mandate with respect to capital movement. This initiative was only withdrawn after the recent global economic crisis.

With financial globalization, a new type of crisis called a capital account crisis or “generation three” crisis (Dornbusch 2001)—associated with large inflows and sudden reversals of capital flows, the bursting of asset bubbles, and a banking crisis—has started to hit emerging markets. Such a crisis tends to affect an economic entity’s balance sheets and solvency positions. The costs of balance sheet recessions tend to be higher and recovery from such a crisis takes longer. They also tend to be systemic, affecting most or all sectors of the economy, with strong contagion to neighboring countries (which may be innocent bystanders). Based on their experience with the Asian financial crisis, Kawai and Rana (2009) argued that efforts to prevent and manage a capital account crisis required actions at the global, regional, and national levels or a multilayered global financial safety net.

Fourth, IEIs face a “governance trilemma” (Kawai, Petri, and Sisli-Ciamarra 2009: 13). There is 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. These requirements add up to a trilemma; achieving any one two objectives makes achieving the other more difficult. For example, the United Nations (UN) is democratic and universal, but suffers on effectiveness. Similarly, the IMF and World Bank are universal and effective but not democratic.

4. POST-GLOBAL ECONOMIC CRISIS G20-LED GLOBAL ECONOMIC ARCHITECTURE

After the GEC, dominant powers moved quickly and created the G20 Summit by upgrading the G20 finance and central bank officials forum, which started in 1999 but was kept under the shadow of the G7 and G8. The leaders labeled the forum the “premier forum for our international economic cooperation” and in September 2009 President Obama categorically

[3] The prevailing thinking at the time was that governments were the problem and markets the solution.

announced that G20 would replace the G7.[4] The leaders also upgraded the Financial Stability Forum into the Financial Stability Board, with wider membership of all G20 members. The post-GEC G20-led GEA is depicted in Table 2.

Table 2: Post-Global Economic Crisis G20-Led Architecture

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

FSF = Financial Stability Forum, FSB = Financial Stability Board, IMF = International Monetary Fund, WTO = World Trade Organization.

Source: Author

Raising the profile of the G20 to a leaders' level forum was no doubt enormously significant. For the first time, systemically important emerging markets were brought into the core of global economic governance. It was an historic event that partially addressed the inclusiveness and legitimacy problems of the Pre-GEC G7 and G8-led architecture. But problems remain. 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?

The G20's approach of making the grouping more inclusive beyond the 19 member countries and groupings has been to invite representatives of various regional groupings. Initially, this process was ad hoc at the discretion of the host country. For example, the UK invited the Association of Southeast Asian Nations (ASEAN) and the New Partnership for Africa's Development (NEPAD), Canada added the African Union, the Republic of Korea brought in the Global Governance Group (3G), and France brought in the Cooperation Council for the Arab States of the Gulf (GCC) for the November 2011 summit. Since the Seoul Summit however, it has been decided to invite no more than five nonmember invitees, of which at least two are to be from Africa.[5]

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

At the 2006 annual meeting of the IMF and World Bank in Singapore, the members had increased the quotas of the PRC, Mexico, the Republic of 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 quota increases) that was to be completed over a two-

[4] The G7 continues to meet, albeit with much less fanfare. More recently, it has been meeting to try to resolve the euro area crisis.

[5] See Rana (2012) and Rana (2011b) on how the G20's inclusiveness could be enhanced from the Asian perspective.

year period. This resulted in the April 2008 quota and voice reform which was labeled by the IMF Board of Governors as "far-reaching reforms of the institution" (IMF 2008) aimed at rebuilding its credibility and legitimacy. Again in November 2010, as part of the 14th General Review of Quotas, the IMF Management announced what it labeled as the "most fundamental governance overhaul in the Fund's 65-year history" (IMF 2010). This comprised, among others, a proposal to shift 6% of the quota to dynamic emerging markets and developing countries and to reduce European representation at the IMF Board by two chairs. But neither the 2008 reform nor the 2010 one have yet been ratified[6]. Even with their ratification, the shift in quotas to developing countries will be relatively and small misalignments will remain[7].

5. FUTURE GLOBAL ECONOMIC ARCHITECTURE: LIKELY SCENARIO

In this context, how could the post-GEC GEA evolve? A likely scenario is a series of incremental moves to a more decentralized GEA where national, bilateral, and regional initiatives work closely with a senior global institution. This would mean complementing monolithic IEIs with a multilayered decision-making structure along the lines of "functional federalism" advocated at the national level (Kawai, Petri, and Sisli-Ciamarra 2010). It also involves the application of the principle of subsidiarity, which means that decisions should be made at the lowest possible administrative level. Decentralization 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 decentralization lies in its ability to produce public goods that are important to some, but not for all, countries. Regionally decentralized 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.

Decentralized decisions create new challenges: regional decisions need to be made globally coherent to act as building blocks of a global system. This requires paying close attention to connections within a decentralized system to make sure they complement each other and the global system.

Such a decentralized architecture is not hypothetical. It already exists in the development architecture, where the World Bank is complemented by four regional development banks (Figure 1).[8] The decentralization trend is evident in other types of architecture as well. In the trade architecture, the WTO coexists at the global level with the European Free Trade Area (EFTA), the proposed Free Trade of the Americas, and the proposed East Asian FTA (EAFTA) and the proposed Comprehensive Economic Partnership for East Asia (CEPEA) (Figure 2). In the financial architecture, we have the Financial Stability Board at the global level and the European Systemic Risk Board, the three European bodies for banking, insurance, and

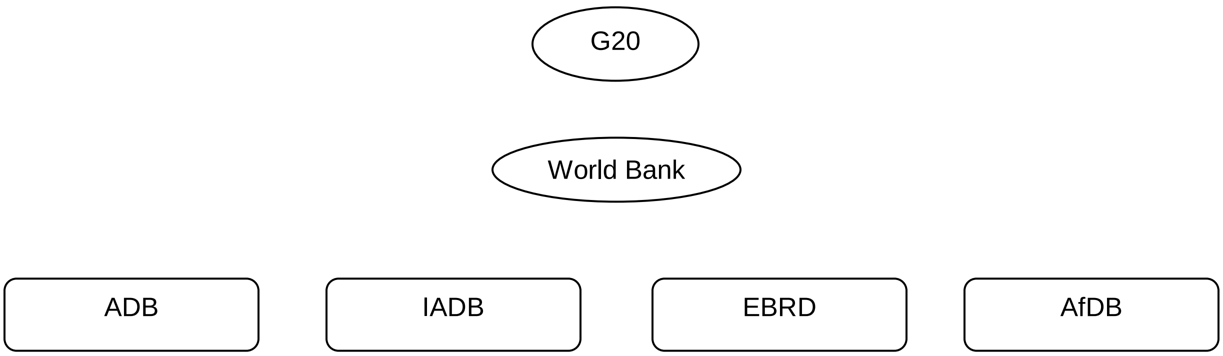
[6] As of 10 September 2012, 124 members having 73.38% of the total quota had ratified the 2010 reform IMF 2012). Although this meets the required threshold for effectiveness (which is the consent of membership accounting for over 70% of the total quota), the quota increase cannot be effective until the Board Reform Amendment – which, among others, proposes that Europeans give up two chairs at the IMF Board - also enters into force. As of 10 September 2012, 105 members having 66.14% of total quota had accepted the latter amendment, well short of the required 85%.

[7] Even with the ratification of the April 2008 quota reform, the quota share of emerging markets and developing countries will increase by only 1.1%. Another 2.8% reallocation will occur when the 2010 agreement is ratified (Virmani and Patra 2011). Quota misalignments will, therefore, remain, but at a lower level.

[8] The development architecture is quite complex, with over 200 multilateral agencies and bilateral and private foundations (Kharas 2007).

securities market, and the proposed Asian Financial Stability Board (AFSB) at the regional level (Figure 3).

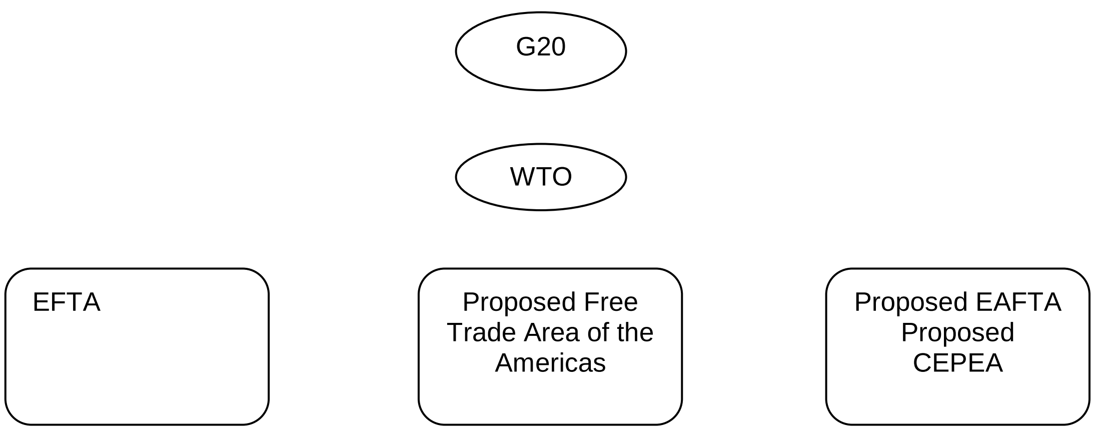
Figure 1: Decentralized Development Architecture



ADB = Asian Development Bank, AfDB = African Development Bank, EBRD = European Bank for Reconstruction and Development, IADB = Inter-American Development Bank,

Source: Author

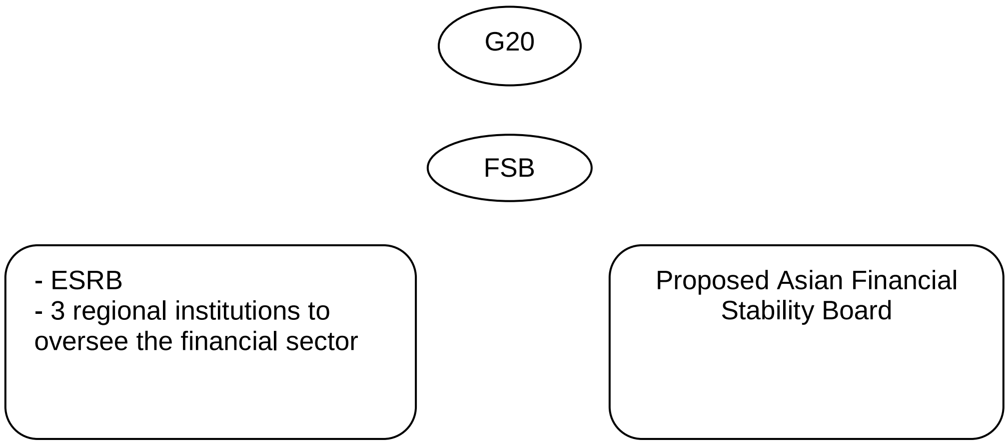
Figure 2: Decentralizing Trade Architecture



CEPEA = Comprehensive Economic Partnership for East Asia, EAFTA = East Asia Free Trade Agreement, EFTA = European Free Trade Association, WTO: World Trade Organization

Source: Author

Figure 3: Decentralizing Financial Architecture

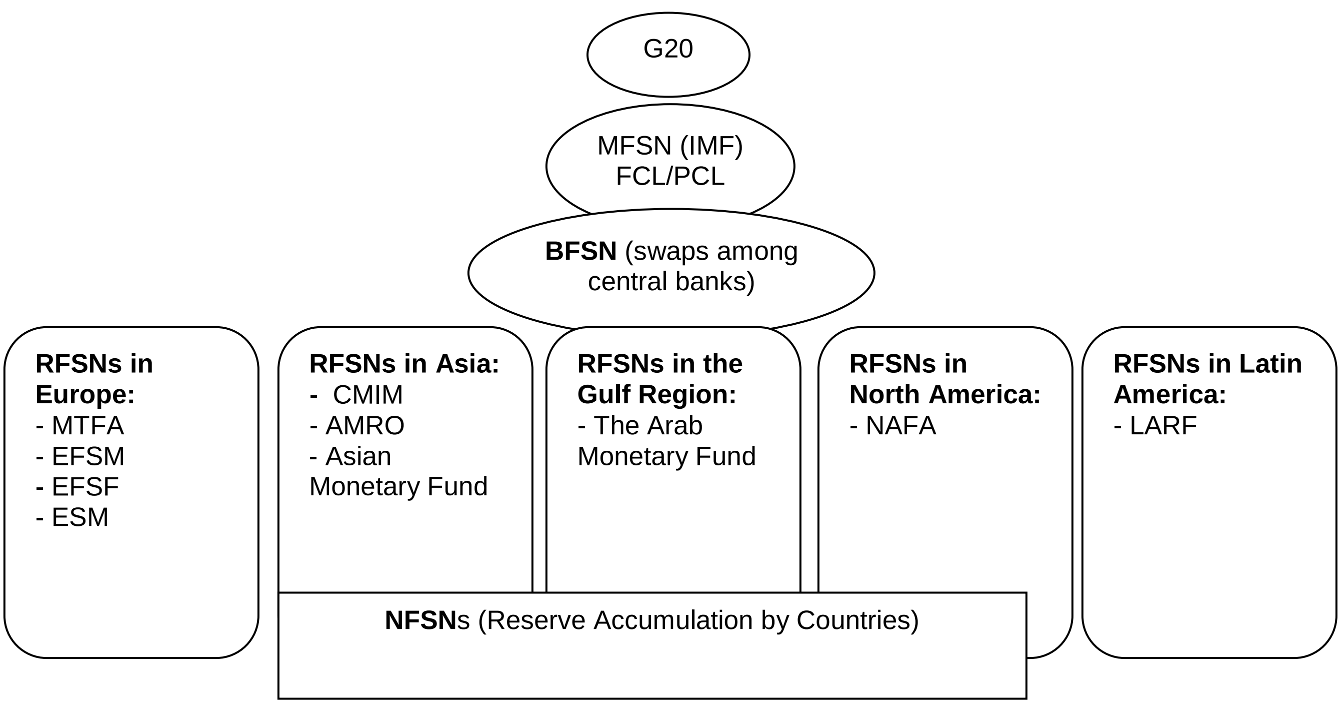


ESRB = European Systemic Risk Board, FSB = Financial Stability Board

Source: Author

The international monetary architecture has a number of layers (Figure 4, Rana 2012). The G20 is at the apex, with various multilateral safety nets at the IMF—the new Flexible Credit Line (FCL) and the Precautionary Credit Line (PCL). Then we have the bilateral safety nets (BFSNs) among central banks that were triggered when Singapore and the Republic of Korea faced liquidity problems in late 2008.

Figure 4: Decentralizing Monetary Architecture



AMRO = ASEAN+3 Macroeconomic Research Office, BFSN = Bilateral Financial Safety Nets, CMIM = Chiang Mai Initiative Multilateralization, EFSF = European Financial Stability Facility, EFSM = European Financial Stabilization Mechanism, ESM = European Stability Mechanism, FCL = Flexible Credit Line (IMF), LARF = Latin American Reserve Fund, MFSN = Multilateral Financial Safety Nets, MTFA = Medium Term Financial Assistance, NAFA = North American Framework Agreement, NFSN = National Financial Safety Nets, PCL = Precautionary Credit Line (IMF), RFSN = Regional Financial Safety Nets

Source: Author

In Asia, about a dozen and a half bilateral swaps were established between central banks of the region under the Chiang Mai Initiative in the aftermath of the Asian financial crisis. In March 2010, these were combined and expanded to become the Chiang Mai Initiative Multilateralization (CMIM) or the $120 billion "self-managed reserve pooling arrangement." All ASEAN+3 members [9](plus Hong Kong, China) contribute to this fund and are eligible to borrow from it in case they face payment problems. Under this arrangement, foreign exchange is earmarked for crisis prevention but held in separate national accounts. The CMIM retains the provision of the Chiang Mai Initiative (CMI) that only 20% of the amounts can be withdrawn without an IMF program in place. In May 2012, the size of the pool was doubled to $240 billion and the 20% limit increased to 30%. The IMF link and the lack of an independent surveillance unit to conduct due diligence inhibited the use of these arrangements during the recent global economic crisis. In April 2011, the ASEAN+3 Macroeconomic Research Office (AMRO), an independent surveillance unit for the CMIM, was established in Singapore. AMRO's mandate is to "monitor and analyze regional economies, which contributes to the early detection of risks, swift implementation of remedial actions, and effective decision-making of the CMIM" (ASEAN+3 Finance Ministers Joint Media Statement 2 May 2010).[10] AMRO became fully operational in October 2011, with 10 staff, and more are being recruited. AMRO is to produce quarterly reports and table them biannually for discussion by the ASEAN+3 finance and central bank deputies. In the event that the CMIM is activated, AMRO would assume the key role of providing an objective assessment of swap requesting countries and make a recommendation to the CMIM parties. If the application is approved, AMRO would then monitor the use and impact of swap funds.

At the present level of political will, an incremental and more decentralized process is what we can envisage in terms of GEA reform. However, if the incidence of financial crises were to increase and political will and cooperation among countries were to strengthen in the future, one could then perhaps see a move toward 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 Financial Stability Board by a World Finance Organization (WFO).

Despite the plethora of IEIs, the Stiglitz Commission (UN 2009) recommended the establishment of a globally representative forum to be called the GECC at a level equivalent to 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 ecological issues. It would promote development, secure consistency and coherence in the policy goals of the major international organizations, and support consensus building among governments on efficient and effective solutions for global economic governance issues. Such a council could also promote the accountability of all IEIs, identify

[9] ASEAN plus the PRC, Japan, and the Republic of Korea.

[10] AMRO's purposes are to (i) conduct macroeconomic and financial surveillance of members, (ii) provide members with policy recommendations to mitigate economic and financial crisis, and (iii) assist members if they are utilizing financial resources of CMIM (The Economist, 10 December, Job Description).

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.

The case for establishing a WFO analogous to the existing WTO has also been made (Eichengreen [2009]). 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, who would be obliged to meet international standards for supervision and regulation of 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 with those obligations, failing which the authorities would be able to impose sanctions against countries that fail to comply. The WFO would not dictate regulatory conditions on countries.

6. THE ROLE OF ASIA

Although the pace of regional integration has picked up considerably after the Asian financial crisis of 1997–1998, Asia is very much behind Europe in terms of building supranational institutions. What are the institutions that Asia needs to develop to support such a decentralized architecture? In the area of macroeconomic stability, as already mentioned, the region has the CMIM and AMRO, the independent surveillance unit for the CMIM. In the medium term, the two institutions should be merged to form the Asian Monetary Fund (AMF). In a recent perception survey of ASEAN+3 opinion makers conducted by a team from Nanyang Technological University (NTU), two-thirds of the respondents felt that the AMF should be established some time during 2016–2020 and that the CMIM and AMRO should be combined to form the AMF (Rana, Chia, and Jinjarak 2012). A similar proportion of opinion leaders expressed the view that the IMF and AMF should complement each other.

In the area of international trade, early steps are being taken to establish an Asia-wide free trade area (FTA). Two proposals are being discussed—the EAFTA and the CEPEA. With the implementation of the ASEAN plus one FTAs between ASEAN and the PRC, Japan, the Republic of Korea, India, Australia, and New Zealand, it is hoped that work on the Asia-wide FTA will begin.

In the area of financial stability, less progress has been made. But since the newly established Financial Stability Board does not include all Asian countries, as in Europe, Asia could consider establishing the proposed Asian Financial Stability Board (AFSB) by involving the region's regulators and supervisors. The AFSB would, among others, promote capital market rules and regulations (micro-prudential monitoring) and promote the stability of the financial system throughout the region through early warning systems (macro-prudential monitoring). It could also coordinate Asia's participation in the Financial Stability Board and represent the region in relevant international fora to ensure that the Asian context is adequately understood in financial policies and regulatory reforms.

In addition to establishing the institutions mentioned above, in an environment of decentralized architecture, Asian countries should strive to 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 complementary or 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 G20 is also in the process of developing best practices to promote complementarity between national, regional, and global institutions.

7. CONCLUSIONS

One of the questions this paper sought to answer was: Will we have an NBW, as called for by academics and politicians, in the post-GEC period? The paper finds that, while the establishment of the G20 Summit is encouraging since for the first time systemically important emerging markets have been given a voice in international economic issues, those hoping for an NBW, like those hoping for a new international financial architecture in the post-Asian financial crisis period, will probably be disappointed. We are at an interregnum phase of the NBW, but the constitutive phase could fizzle out. This is for two reasons. First, as predicted by the theory of clubs (discussed in Section III), policies of IEIs have been relatively inflexible. In particular, the slow progress in governance reforms of the IEIs 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, the PRC and India—commensurate with their growing economic and political power has led to questions regarding their legitimacy. Second, the recovery from the Asian financial crisis as well as the recovery from the GEC turned out to be faster than expected. Faster-than-expected recovery has led to complacency in implementing reforms and in some cases dilution of the reform agenda.

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

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