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US-led vs China-led Institutions: Need for New Bretton Woods
page 1 - 2

CMS Seminar on Greek Crisis: Implications for Europe and Asia
page 2-3

Global Value Chains and China's Exports to High Income Countries
page 3

Joint Training Workshop on Economic Corridor Development for Competitive and Inclusive Asia
page 3

Lecture Series by Visiting Professor Shujiro Urata
page 4

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US-led vs China-led Institutions: Need for New Bretton Woods

By Pradumna Bickram Rana

2014 IMF / World Bank Group Spring Meetings. Courtesy of Flickr account of World Bank Photo Collection and used under a creative commons license. Copyright World Bank Photo Collection .

IN THE three-round match between the United States and China over influence in the Asian regional architecture, Round 2, which was played several months back, went in China's favour. Countries like Britain, Korea, and Australia broke ranks with the US and 57 countries from around the world including Germany, France, Iran, the United Arab Emirates, and Nepal applied to be the founding members of the Asian Infrastructure Investment Bank (AIIB).

Japan has so far stuck to the US but it has indicated that it remains interested in joining the AIIB which is the financing arm of China's new "One Belt, One Road" policy. Initially the US had attempted to dissuade potential applicants by citing poor governance and due diligence capacity at the proposed institutions. But it made a dramatic turnaround in mid-April when US Secretary, Jack Lew visited Beijing.

Humiliation of US

Lew mentioned that while Washington remained concerned about AIIB's governance, there was "enough infrastructure need for the new and existing institutions". He went on to add that the US would be willing to work with the AIIB through existing financial institutions such as the ADB and World Bank. A few days later the World Bank's US-appointed president vowed to find "innovative" ways to work with the AIIB and welcomed it as a "major new player" in the world of development finance. This is Round 2 of the humiliation of the US by China.

Less well-known is Round 1 of China's (and Japan's) humiliation of the US which occurred in the aftermath of the Asian financial crisis of 1997-1998 when the US and US-led IMF had shot down proposals to establish the Asian Monetary Fund (AMF). At that time, IMF surveillance had failed to adequately identify the risks posed by the uneven pace of capital account liberalisation in the region and the extent of banking sector weaknesses.

The IMF had, therefore, initially misdiagnosed the Asian financial crisis and prescribed inappropriate policies which exacerbated the impacts of the crisis and led to a free-fall of currencies, fanned the contagion, and plunged the region

Continued on page 2

Continued from page 1

into a sharp recession. This had led countries in the region to initiate regional "self help" measures to take things under their control.

Although the AMF was stillborn, the region has established a US$240 billion crisis management fund called the Chiang Mai Initiative Multilateralism (CMIM) and the ASEAN+3 Macroeconomic Research Office which is the "independent surveillance unit" for the CMIM. The idea of the AMF has not been forgotten and keeps coming up every now and then.

Round 3 of the China-US game is presently being played out in the area of international trade. We have the US-led Trans-Pacific Partnership (TPP) which locks out China and the ASEAN-led (and China-led) Regional Comprehensive Economic Partnership (RCEP) which locks out the US.

Progress in TPP Negotiations

Hopes were high of a breakthrough in the TPP when the negotiators met in Hawaii end-July, because the US President had been given the fast-track authority to smoothen the way through the legislature for the TPP. Yet after much fanfare and encouraging initial reports the ministers ended their negotiations by releasing a joint statement that merely committed to further talks. The talks reportedly stalled over a range of issues, including auto, dairy and sugar exports, and protection of next-generation drugs.

Round 3, therefore, hangs in the balance. This is because unless the negotiators can conclude a deal soon, it will be impossible to get it ratified by the US Congress this year. By that stage the US presidential election is likely to overshadow trade talks and TPP approval may have to wait until the next presidential term. If TPP disappoints or worse still it is not concluded at all, it will be another major setback for the US in Asia as it is the economic arm of President Obama's "pivot" to Asia.

Although in a game of baseball, three strikes means "out", this is not the case in global and regional diplomacy. It only means that the US' clout in the region will be reduced and the sparring between China and US will continue in the future. China-led institutions in Asia will also not pose a threat to the well-established IMF or the World Bank. They will, however, complicate global economic governance and make it more complex.

Complementarity or a New Bretton Woods?

What should be done? The issue could be resolved if the IMF and the World Bank could work together with China-led institutions in a complementary and seamless manner. A case in point is the troika approach in the eurozone where bailout packages are designed, financed and monitored jointly by the EC, European Commission, and the IMF. But such an approach might not be possible in Asia. This is because while Europe is special to the IMF and World Bank, Asia is not. Europe, occupies 10 out 24 chairs in the IMF and World Bank Board, while Asia is under-represented. The Managing Director of the IMF has always been a European.

It appears that the necessary approval of the US Congress of an agreement to reform the governance of the IMF reached at the G20 Summit in Korea (to give greater voice to China and other emerging markets and make the selection of its head merit-based) may be indefinitely delayed. Last December, Christine Lagarde, the Managing Director of the IMF, announced "As requested by our membership, we will now proceed to discuss alternative options for advancing quota and governance reforms…"

If US-led and China-led institutions cannot take joint decisions and work with each other in a complementary manner, 70 years after the original Bretton Woods agreement, we need a New Bretton Woods led by a select group from the truly "systemically important countries" of the world.■

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CMS Seminar on Greek Crisis: Implications for Europe and Asia

A seminar covering the current Greek economic crisis and its potential wider effects on the rest of Europe and Asia was held on 13 July 2015. Four distinguished speakers shared their views on the situation.

Mr. Joergen Moeller, SMU and CBS, explained how Greece's current woes stem from their political system which has been established over time. This led to a sheltered and non-competitive economy that is heavily indebted resulting in negative effects on the rest of Europe.

The implications for Asia, as Dr. Pradumna B. Rana, RSIS, discussed, could be contained partly because of the lessons learned from the Asian experience during the Asian Financial Crisis. Asia is not overly dependent on the Eurozone and hence, the effects should be manageable. However if the crisis led to the collapse of the eurozone, the damage would be far more significant.

The Government of Singapore also has a vested interest in Greece as the sovereign wealth fund (GIC) has its portfolio invested across the globe. Dr. Ong Li Lian, Vice President of Economics and Investment Strategy at GIC, noted that the portfolio is not heavily exposed to Greece but has 14% of the portfolio invested in the eurozone, so the damage would be

Continued on page 3

Continued from page 2

dependent on how much the contagion effect spreads. However, the risks should still be mitigated and planned for.

Greece has been partaking in a strategy of brinkmanship in their negotiations with the Troika to gain more leverage to achieve better bail-out packages according to Dr. Pascal Vennesson, RSIS. This has created an atmosphere of mistrust among many of the eurozone members, making a future relationship of trust between Greece and the markets unlikely.■

Global Value Chains and China's Exports to High Income Countries

Dr. Yuqing Xing, professor of Economics and the Director of Asian Economic Policy at the National Graduate Institute for Policy Studies, Tokyo, delivered a lecture on global value chains on 21 September 2015. He discussed how China has used global value chains to participate in the global trade market, while also detailing how operations are still predominately located in high-income countries.

Having a comparative advantage when it comes to manufacturing does not fully explain the high level of exports from China. Dr. Xing pointed out that the manufacturing (or assembling) is just one part of a larger production chain which crosses borders and China is able to benefit from a number of spillover effects. Multinational corporations also have more access to high levels of technological innovation which China can use to upgrade their own stock and knowledge base. Also, Chinese firms take advantage of the existing distribution networks of the MNC, allowing the firm to solely concentrate on their own operations, while the MNCs facilitate market access.

Using the example of the iPhone, Dr. Xing illustrated how China benefitted from being part of a GVC despite the increase in wages domestically and appreciating Yuan. Sales and demand for China's role in the manufacturing increased as a result of the high demand generated by branding and technological innovation originating from abroad. China has become the biggest exporter of hi-tech goods in the world despite not having any notable domestic companies. 80% of China's exports are processing (assembling) exports, with 80% of the parts produced by foreign firms. Dr. Xing concluded that China needs to invest more in producing domestic hi-tech goods if it wants to move up the value chain, while also targeting the emerging economies as potential markets for China's products.■

Joint Training Workshop on Economic Corridor Development for Competitive and Inclusive Asia

The Joint Training Program on Economic Corridor Development for Competitive and Inclusive Asia was held on 26-28 August 2015 at Copthorne King's Hotel, Singapore. Organised by the RSIS' Centre for Multilateralism Studies, in collaboration with the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), and the Singapore Cooperation Programme of the Ministry of Foreign Affairs-Singapore, the program saw the attendance of 36 government officials from 14 Asian countries.

It was designed as an intensive training workshop to deepen participants' understanding of issues and challenges in economic corridor development in Asia. It aimed to enhance policy, planning, decision-making capacities in sub regional cooperation and economic corridor development of the participating CAREC, SASEC, GMS, BIMP-EAGA, and IMT-GT civil servants. Adult learning methods, including lectures, role plays and problem solving exercises, were employed to provide them with opportunities to formulate strategies and action plans, and to encourage cross-cultural dialogues.

Participants preparing for a presentation as part of capacity building.

The program focused on the characteristics, concepts, models and drivers of economic corridors, highlighting case studies in Southeast Asia, South Asia and Central Asia.

Distinguished speakers discussed topics such as the operationalisation of economic corridors, participation in production networks, and various sub regional experiences. Particular focus and thought was given on how to best ensure the inclusive effects of economic corridors, which has often been the most challenging aspect of developing successful economic corridors for the benefit of society as a whole. The workshop also explored the efforts to build infrastructure under China's "One Belt, One Road" policy.■

Lecture Series by Visiting Professor Shujiro Urata

On 14th August 2015, Dr. Shujiro Urata, NTUC Professor of Economic International Relations, RSIS; and Professor of Economics, Graduate School of Asia-Pacific Studies, Waseda University, Tokyo, delivered a lecture on the role of global value chains (GVCs) on the economic development of the Asian region as part of RSIS' IPE seminar series. He provided a comprehensive background of the current significance of GVCs in the world economy, before going on to explain how the phenomenon has come to be so important and its possible impacts, as well as the policy implications.

On 18 September 2015, Dr. Urata spoke on "Regional Economic Integration in Asia Pacific and Japan's Revitalization Strategy", during a RSIS Distinguished Public Lecture at the Sheraton Towers, Singapore. He described the challenges that the Japanese economy has been facing with its consistent low growth, typified by deflation and falling levels of savings and investment. He also pointed to a number of structural problems, Japan's ageing population and the increasing level of government debt. Meanwhile, the attempts to reform the economy have been made difficult by certain heavily regulated and protected sectors, including the medical services and agriculture sectors.

Integrating to a greater degree with the Asia-Pacific region is one way to boost the ailing Japanese economy according to Dr. Urata. By participating more in economic integration, a country can benefit from more foreign direct investment and international trade. Much of this integration is being led by institutions driving the expansion of free trade agreements (FTAs). There are two main initiatives being negotiated currently; the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP, ASEAN+6). They cover different but overlapping areas, and overall, their respective effects should be complementary.

Prime Minister Abe has attempted to revitalise the economy with his strategy of Abenomics, exemplified by aggressive monetary policy and flexible fiscal spending. To achieve economic growth, Dr. Urata posited that Japan has to open up its economy, implement the needed structural reforms and play a more active role in the establishment of the mega FTAs. He recommended various measures to mitigate the effect on groups that would be damaged, with temporary social safety nets.■

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