

G

lobal Governance of Economic Policy

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Perception of Current State

Current global governance is based on the postwar balance of power and hence does not reflect the current state of the global economy, particularly the strong growth of emerging economies.

The G-7/G-8 and IMF/World Bank groupings do not reflect the shift in the balance of power and are not regarded as appropriate organizations to deal with financial crises such as the current one.

Meanwhile, it represents a step forward that China, Brazil and other countries were allowed to join the Financial Stability Forum (FSF) during the financial meeting of the Group of 20 (G-20) industrialized and emerging economies last November.

Problems remain unresolved concerning whether the composition of the G-20 is optimal and whether the G-20 is capable of crafting policy coordination plans and effectively implementing them (too many members). As for environmental questions, there are the G-8+5 and Main Economies Meeting forums.

Similar problems remain in management, selection of board members, financial contributions, voting rights and ways of operation regarding the so-called Bretton Woods Institutions (IMF, World Bank and WTO). Those bodies need to be reorganized in order to resolve the current crisis and prevent recurrence of such a crisis.

The G-20 said in a declaration adopted at its meeting Nov. 15, 2008, that the group “shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO’s Doha Development Agenda with an ambitious and balanced outcome.” But the holding of negotiations has been put off.

Under these circumstances, it is regrettable that some countries

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Prime Minister Taro Aso (right) and Finance Minister Kaoru Yosano of Japan attend a Group of 20 summit in London on April 2.

have since September 2008 adopted protectionist trade and investment measures. In responding to the above-mentioned current global economic and political situations as effectively as possible, we need to make a distinction between short-term and long-term responses as described below.

Short-term Response

The G-7/G-8 are not sufficient to discuss global issues. The G-20 should effectively play the role of a command post at least for the time being although the composition of its members is not considered to be optimal. New members of the FSF should be finalized as soon as possible (BRICs – Brazil, Russia, India and China – are seen as prominent candidates).

In dealing with the financial crisis, it is important for the Bretton Woods Institutions to implement as many viable policy measures available now as possible.

- a. The IMF should double its lending ceiling and allocate new special drawing rights (SDRs) to developing nations. It should also scrutinize its member states so that their domestic fiscal and monetary measures will not have “negative externalities” on other states.
- b. The World Bank should expand its assistance to poor nations hard hit by the financial crisis and help facilitate trade financing.
- c. The WTO should prevent its member states from taking new protectionist measures – either excluding a “Buy American” provision from an economic stimulus package or including a waiver provision that takes into account at least public interests, preventing France from taking protectionist bail-out measures for the auto industry in return for boosting domestic production, etc.

It is important to boost liquidity internationally and give emerging economies a greater say. We need the following policies and measures to achieve a new Bretton Woods scheme.

- a. Expanding the IMF’s lending ceiling (at least doubling).
- b. Taking more measures to facilitate trade financing for emerging and developing economies.
- c. Improving transparency of “financial markets, financial assets and market participants.”
- d. Scrutinizing whether or not the implementation of policy measures for financial stability and fiscal policy measures has negative externalities from the standpoint of macroeconomic stability.

In order to restore trust in the WTO’s Doha Round of trade negotiations, I suggest the measures mentioned below be taken as soon as possible.

- a. Concluding a multilateral agreement on trade facilitation and implementing it.

- b. Aiding trade financing for developing nations.
- c. Liberalizing trade in products related to the environment ahead of decontrol over other categories of products.
- d. Industrialized nations should impose no tariffs or quotas on imports from poor nations.
- e. Obligating member states to take no new measures aimed at protecting trade and investment (including hikes in effective tariffs that are currently below concessional rates and other measures allowed under the WTO).
- f. Calling on US President Barack Obama to have Congress approve presidential fast-track authority so that the Doha Round negotiations will be reopened in January 2010.
- g. As plan B, it is suggested that Japan, the United States and European nations consider liberalizing services trade and implementing sector-by-sector liberalization.
- h. To prevent protectionism, it is indispensable to expand domestic job opportunities and make full use of labor policy measures.

Long-term Response

The membership of the G-20 should be reviewed and the group reorganized into a new G-10. The proposed "U.N. Economic Council," broached by German Prime Minister Angela Merkel, should be discussed in association with which countries should be selected as council members. The proposal should also be discussed in connection with creating a scheme to supervise systemically important financial institutions. If the creation of a supervisory scheme is to be prioritized, FSF members may be possible candidates.

Management members of the IMF/World Bank should be selected separately from their nationalities. In selecting IMF board members from Europe, the EU should be allowed to represent European nations. The IMF's financial resources should be doubled, with its voting rights to be reallocated.

The IMF should conclude multilateral swap agreements with central banks to make it easier to play the role of an "international lender of last resort." Such arrangements make it possible to absorb excessively supplied dollar liquidity.

It is necessary to put systemically important financial institutions under complete international scrutiny, set up such a supervisory system, and introduce regulations concerning liquidity risks. Under an "International Financial Stability Charter," global financial institu-



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Leaders of the G-20 major industrialized and emerging economies sit for the second day of their financial summit in London on April 2.

tions should be scrutinized, with the FSF serving as a secretariat.

To address the financial crisis, multilateral swap agreements should be concluded among central banks, with the IMF playing the central role.

The IMF's financial resources should be doubled, with quota subscription rates of its member states to be changed.

The IMF should take charge of implementing macro-prudential policy (including the question of addressing global imbalances and its function as a lender of last resort) while the BIS Basel Committee should take charge of implementing micro-prudential policy.

Bringing the Doha Round to a successful conclusion should be the first priority on the world trade agenda.

Presenting major agenda items for the next round of global trade negotiations such as competition policy, climate change and other environmental issues, food security, financial regulations, etc. would be the next step to forward the multilateral free trade system.

Even if the Doha Round proved unsuccessful, a Japan-US free trade agreement or an APEC free trade agreement should be concluded. Japan and the United States should participate in the Trans-Pacific Strategic Economic Partnership Agreement (TPP) that involves Chile, Brunei, Singapore and New Zealand. The TPP is considered to achieve the highest rate of trade liberalization among the existing free trade agreements (FTAs) and regional trade agreements (RTAs) in the world.

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