The Evolving Institutional Landscape

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Seventy years ago, as World War II was nearing its end, 44 allied nations assembled at the Bretton Woods resort in New Hampshire to begin rebuilding a global economic order that had been reduced to rubble over the previous 30 years. The institutions spawned by that meeting, including the International Monetary Fund (IMF), World Bank, and eventually World Trade Organization (WTO), underpinned a rules-based economic order that produced seven decades of growing prosperity around the world.

Over the past decade, the credibility of these multilateral institutions has been brought into question by two failings: frequent inability to deliver on their mandate, be it stronger growth or freer trade; and outdated governance structures that do not reflect the rise of China or the other emerging economies. Various efforts have been made to fix these problems, from IMF quota reform to WTO ministerial conferences, but most of these efforts have so far failed to deliver.

As a number of developments over the past year brought into sharp focus, some countries—including industrialized economies—are tired of waiting for existing institutions to perform better and have started to pursue workarounds. Some of these initiatives have been consciously designed to bolster and reenergize the multilateral order, while others appear to have been motivated by narrower considerations. But in either case, there is a risk that these new arrangements could damage the existing order if not structured and governed appropriately.

Trade is one area where workarounds are becoming the norm. Frustrated by a decade of unproductive multilateral negotiations under the Doha Development Agenda, Group of 20 (G20) leaders meeting in Cannes in November 2011 called for "fresh, credible approaches" to trade liberalization. This helped spur agreement at Bali in December 2013 on a new multilateral deal on trade facilitation, designed to lower border frictions to trade. Yet within months this agreement had unraveled, as India blocked final consensus.

Meanwhile, various groups of WTO members have been pursuing regional trade arrangements outside the Doha framework. In the Asia-Pacific region, talks are underway along two tracks, the Trans-Pacific Partnership (TPP) and the Regional Comprehensive

Economic Partnership (RCEP). The United States and European Union are negotiating a Transatlantic Trade and Investment Partnership (TTIP). Although all of these negotiations have been slow going, there is a reasonable prospect that one or all of these mega-regional deals will be struck within the next two to three years.

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Along with attempts to negotiate sectoral agreements such as an updated Information Technology Agreement (ITA-II) and a Trade in Services Agreement (TISA), these new plurilateral arrangements could be seen as a threat to the multilateral system. However, provided they remain open to new members and build on existing rules rather than undermining them, these workarounds could lay out an alternative path to a new "21st-century" set of trade rules, after years of failed attempts to reach the multilateral summit directly via the Doha round.

Meanwhile, attempts to reform the original Bretton Woods institutions to align their governance structures with the new global balance of economic power have made little progress. In 2010, the United States championed an agreement in the G20 to reallocate "shares and chairs" in the IMF from the advanced countries of Europe toward large emerging markets. But these reforms have stalled due to failure of the U.S. Congress to ratify an IMF capital increase that underpins the deal. Emerging markets have clearly lost patience with the slow progress on institutional reform and have started to pursue their own workarounds. Meeting with Southeast Asian leaders in late 2013, Chinese President Xi Jinping proposed an Asian Infrastructure Investment Bank (AIIB) to help meet the region's enormous infrastructure needs, estimated at some $1 trillion per annum over the next decade. Then in July 2014, Brazil, Russia, India, China, and South Africa launched a New Development Bank—commonly known as the "BRICS Bank"—that would pool the group's resources to finance development projects in the five countries and possibly beyond.

While many details of the AIIB and BRICS Bank remain to be worked out, these initiatives clearly signal an impulse among their founders—and especially China—for more voice in global economic governance. The real question is whether these new institutions will enhance the rules-based order or detract from it. In an encouraging sign, Beijing has gone out of its way to clarify that the governance structure and operational practices of the AIIB, including environmental and other lending standards, will be transparent and consistent with the practices of the Asian Development Bank and other existing multilateral institutions.

Finally, what of the G20? Established as a leader-level forum in 2008, the G20 was effectively a reversal of an earlier workaround, the G7, which the advanced industrialized democracies had created in the 1970s initially to meet their needs as energy consumers. Expanding the table to include major emerging countries, the G20 generated unprecedented international economic cooperation to combat the global

financial crisis at its first few summits. However, the forum has suffered in recent years from a waning sense of shared purpose and an inability to deliver visible results on its core mission of strong growth, financial stability, and international financial architecture reform. As host in 2014, Australia sought to restore the G20's credibility by seeking concrete outcomes under the themes "growth and resilience," but 2015 host Turkey is likely to have its work cut out in sustaining the G20's role as steering group for the global economy.

For all the questions about the effectiveness and legitimacy of existing multilateral institutions, and for all the recent efforts at workarounds, it is worth remembering that the postwar rules-based economic order has produced unprecedented prosperity over the past seven decades. It is difficult to believe that a fundamentally different set of institutions and rules could have produced better outcomes.

The big question going forward is whether key countries have the necessary combination of willingness and capability to reform and strengthen the existing order. The United States, Europe, and Japan still have the will, but their capacity has been diminished by slow growth, fiscal constraints, and political dysfunction. China, India, and other emerging economies have growing capabilities but have not yet consistently demonstrated a willingness to lead in this area. Thus fluidity is likely to remain the hallmark of global economic governance for the foreseeable future. ►