

# Global Economics Monthly

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## AN ADAPTABLE ORDER: GLOBAL ECONOMIC GOVERNANCE IN 2015

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For 70 years the global economic order conceived at Bretton Woods has proved both valuable and durable. The international institutions and rules set up in the wake of World War II have enabled growth and prosperity to spread across much of the world. In 2015, the old order showed that it is also adaptable, allowing room for new players, new institutions, and new rules. But there were also worrying signs over the past year of erosion of the standards and principles that have underpinned the existing order and made it so successful.

The three institutional pillars of the Bretton Woods order have been remarkably effective over the past seven decades. The International Monetary Fund (IMF) has supported a growing world economy and stable monetary system and has stepped in as lender of last resort when countries faced short-term balance-of-payments crises. The World Bank has contributed to reconstruction of war-torn economies and development of poorer countries by providing multilateral loans where private capital is not available on reasonable terms. And although 50 years late in taking institutional shape as the World Trade Organization (WTO), the liberal international trading order has enabled unprecedented expansion of global trade and resulting prosperity around the world—including for over 1 billion Chinese and Indians so far.

The postwar economic order has been severely tested in the past, most notably in the 1970s by the end of the fixed-exchange-rate system and by the two oil shocks. Yet it proved to be resilient, as a more flexible dollar-based monetary system took hold, and new institutions were created to deal with a changed global economy. The International Energy Agency (IEA) was founded in 1974 to enable oil-consuming countries to cope with supply disruptions. Shortly afterward, the Group of Five (G5) advanced industrialized democracies became the de facto steering committee for the global economy. That group has since evolved into a G7, G8, and now G20, widening the table of global economic governance to include large emerging countries.

To be sure, the existing order is far from perfect. The IMF has long faced criticism for too-strict lending conditions and not-strict-enough surveillance of members' economic policies—and of course for its governance, with Europe having an anachronistic lock on the top management position and disproportionate weight in the board. Multilateral development banks are overburdened with bureaucracy, subject to shifting priorities, and too slow to process loans. The WTO has proved ineffective as a forum for multilateral trade negotiations—to the point that U.S. trade representative (USTR) Michael Froman felt obliged this month to **declare the latest round of talks dead**. And the IEA needs an overhaul to bring in new energy consumers like China and India and improve coordination of strategic reserves.

Most of the criticism of the old order from emerging countries revolves around form rather than substance; the beef is that existing institutions are unfair in their governance rather than ineffective in addressing global economic problems. Yet in 2015, the old order once again proved its adaptability in both form and substance. In particular, it made room for China to play a substantially greater role in global economic governance. For the first time since the yen was added in the 1970s, the basket of currencies in the IMF's Special Drawing Rights (SDR) was expanded to include the Chinese renminbi (RMB). Fifty-seven countries joined China in setting up a new multilateral lending institution, the Asian Infrastructure Investment Bank (AIIB), which Beijing insisted was not designed to replace existing institutions like the World Bank and Asian Development Bank (ADB) but to complement them. At the start of this month, Beijing took over as host of the G20, making China effectively “chairman of the board” of the global economy for the upcoming year. And the U.S. Congress **finally moved** to ratify IMF reforms—championed by the Obama administration in 2010 but languishing since—to give China more “shares and chairs” in the institution.



### Upcoming Events

- **December 15–18:** Tenth WTO Ministerial Conference (Kenya)
- **December 16–18:** Second World Internet Conference (China)
- **December 31:** Implementation of ASEAN Economic Community (AEC)
- **January 12:** Asia Forecast 4.0 (CSIS)

## AN ADAPTABLE ORDER: GLOBAL ECONOMIC GOVERNANCE IN 2015 (*continued*)

Meanwhile, this year saw a major substantive adaptation of the international trading order with completion of the Trans-Pacific Partnership (TPP) agreement in early October. TPP's **stated objective** was to establish new, high-standard global trade rules to reflect the realities of today's supply-chain-based international economy. The deal can also be seen as an example of what USTR Froman calls "pragmatic multilateralism": an attempt to find another path (or series of paths, including other mega-regional and sectoral deals) to the desired multilateral summit, which has proved unreachable via the direct route of the Doha Round.

And in what may be seen by future historians as the most significant adaptation of all, 196 countries agreed in Paris this month on a new international framework for curbing greenhouse gas emissions. It remains to be seen whether the ambitious targets for capping global temperature increases will be met, and what impact the deal will have on the global economy, but the Paris accord clearly fills a significant gap in the existing order. Significantly, the deal was reached through a process involving all countries of the world, not just a privileged few.

Yet there is reason for worry that some of these recent adaptations have come at the cost of eroding the standards that underpin the existing rules-based order. Take the IMF's decision on the SDR. Skeptics such as the Peterson Institute's **Edwin Truman** **argue** that the RMB does not yet conform to one of the key criteria for inclusion in the SDR basket, namely that the currency be "freely usable." This suggests the bar was lowered to satisfy Beijing's desire for immediate entry.

Meanwhile, questions continue to swirl about how well the new AIIB will conform to existing multilateral bank lending standards. China's own opaque official development program has a well-documented record of overlooking established standards of transparency and environmental protection. **Beijing has insisted** that the AIIB will be "lean, clean, and green" but at the same time has vowed to get loans approved and out the door far more quickly than the World Bank and ADB, raising the question of whether corners will be cut on traditional lending standards.

Concerns about erosion of standards also arise in the trade arena, where many countries—developed and developing—have honored WTO principles in the breach. India's intransigence in multilateral negotiations is legendary, and **a report earlier this year** highlighted "the yawning gap between China's WTO commitments and practices." TPP and other regional and sectoral arrangements will deserve criticism if they end up undermining rather than bolstering the rules-based multilateral order.

Some of these challenges to established standards pose more of a threat than others. Again, the postwar economic order has long proved durable. This year, it showed again that it is adaptable. Valuable, durable, and adaptable endeavors are generally worth continuing and improving, not undermining—a thought worth carrying into another likely eventful year for global economic governance in 2016.

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### Simon Says...

While the holiday season always brings with it corporate thoughts of the Dark Side—i.e., ending the year in the black—the late-December release of *Star Wars: The Force Awakens* has generated revenue projections at production company Disney that would make Darth Vader blush. Advance ticket sales for the movie alone **shot past \$100 million**, quadrupling the previous record held by *The Dark Knight*. But this is only a fraction of the Death Star-sized revenue pie: *The Force Awakens* could produce \$9.6 billion in total revenue from ticket sales, merchandise, and home entertainment, **according to Bloomberg**. That would put the latest *Star Wars* episode one place ahead of Tajikistan and just behind Madagascar in the world rankings for nominal **gross domestic product in 2014**. And with Disney planning sequels, spinoffs, and amusement parks, it seems safe to say that the Force will be with Mickey Mouse through the rest of this decade at least. ■

**Happy holidays  
and a healthy, peaceful  
2016 from everyone at  
the CSIS Simon Chair to  
all our supporters!**