

Global Economic Governance in Transition: 転換期の世界経済ガバナンス

A Political Economy Analysis and Questions for Japan
政治経済分析と日本へのクエスチョン

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Objectives Today:

- Presentation of a “big picture” political economy analysis of global governance dilemmas – partial focus on G20 dynamics
- Part of larger project on analysis of politics of global governance with focus on domestic policy formation in China/Japan/EU– funded by SSHRC (Canada)
- Research Plan: Japan (GRIPS), China (Peking U, Fudan), Korea (EAI), EU (Science Po. Asia Centre – G20 br.)



Background:

- Past work on national regulations of finance and corporate governance; balancing of global with national incentives (much time with METI, 1999-2002)
- Past work on climate change politics and the regulations of genetically-engineered food



Context Today

- G20 under French presidency – aiming for big institutional priorities, but uncertain
- Hu Jintao's visit to the US amidst tensions, questioning US\$-centered monetary system
- Climate negotiations – temporary hope in Cancun, but fundamental stalemate
- Trade- Doha round – no breakthrough yet
- Davos starting end January – big questions
- Japan: key movement on TPP, FTA

Economic Context



- 2010-2030: Emerging Markets expected to deliver 68% of global growth, compared to 20% in 1870-1913, or 28% in 1945-1980 (Lyons, Standard Chartered PLC, cited in Bloomberg Jan 17, 2011).



Research Questions:

- What explains the current stalemate in global governance at a critical juncture?
- Does the G20 process matter and does it have the ability to change the behavior of major states and induce them into durable cooperative?
- What are China's preferences and why?
- What are Japan's preferences and role?

Arguments:



- A critical juncture: search for new global order, balance between markets and rules
- Issues are interrelated and there is need for grand bargain, hence centrality of G20
- Today, G20 is dominated by triad: US-China-EU
- Japan has the power and interest to play major role – if it can coordinate policy better among Kantei, MOFA, METI, MOF etc...

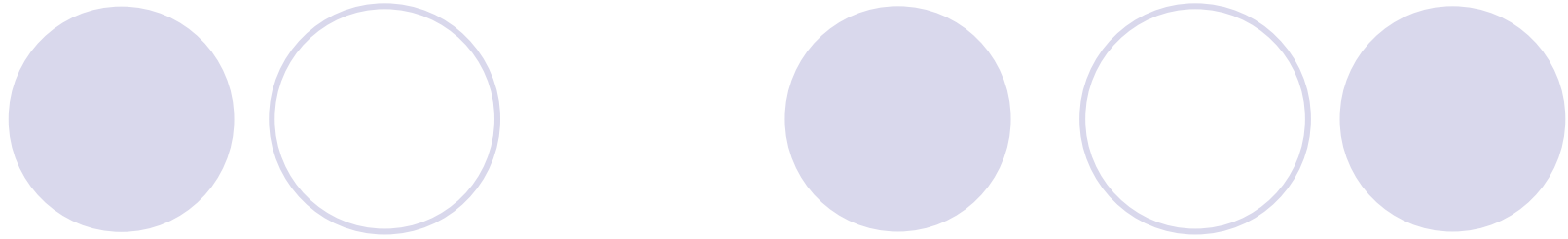
Argument 2 – Three simultaneous concentric circles in the G20 process

- *Level 1: risk management and economic problem solving;*
- *Level 2: global governance and institution-building;*
- *Level 3: managing uneven gains and power transition from OECD countries to emerging powers*



Presentation Outline:

- 1. The Global Governance Dilemma Today
- 2. Empirical Overview- Components of Global Governance in Flux
- 3. The G20 Process: Three Concentric Circles and Emerging Patterns
- 4. Some Thoughts on China's Preferences
- 5. Japan's Role and Preferences



1. Global Governance Dilemmas

Global Markets and Fragmented Governance



- Institutional Economics (North, etc...): Rules of the game and monitoring are essential for functioning markets
- Solving collective action dilemmas and reducing transaction costs (Williamson, Siebert for international level)
- At the global level, markets have globalized, but rule-making remains fragmented (and moving at different speeds).



What is Global Governance?

- Global Governance: collection of international rules, treaties, and institutions that help states coordinate actions at the global level in the context of fragmented sovereignty and the absence of world government.
- Observation: *bric a brac*, haphazard collection of national rules, bilateral agreements, multilateral treaties ,and international institutions (IOs).

The Global Governance Paradox:

- More global governance needed:
 - Accelerating and more complex global markets (finance, trade) – monitoring and rules necessary [balance markets vs institutions]
 - Managing the uneven distributional impact of global markets
 - New complex issues (market failures): climate change, food safety, technological regulation
- More difficult to achieve:
 - Multipolarization / great rebalancing
 - Hegemonic transition toward large emerging powers, particularly China : greater uncertainty

Political Dilemmas of Global Governance



- **Classic collective action dilemma** on a huge scale. Avoiding cheating. Tragedy of the Commons.
- **Distribution dilemma**: uneven gains of trade or finance – everything has distributional consequences
- **National Credible commitment dilemma** for political leaders (particularly democratic leaders) due to leadership instability – negative cycle (eg today, with all G20 countries expecting leadership change by 2012).
- **Global democratic accountability dilemma** (Keohane 2003): unwillingness to commit sovereignty to institutions with low democratic responsiveness.

Global Governance and Global Rebalancing



- The key model of global governance since 1945 has been a hierarchic one, rooted in US hegemony
- This generated the Bretton Woods model and related institutions (IMF, WBk, GATT-WTO)
- Post 2000: multipolarization, rapid relative US decline (emblematic event: 2008 crisis). Paralysis and inaction in IMF and WTO (not adequate). UN umbrella limited.
- Looking ahead: hegemonic transition, rise of China
- Major period of uncertainty and additional cost of coordination

The Big Rebalancing: Shifting Economic Power



- Dadush 2009, International Economic Bulletin (November), predicts that China and the US will reach GDP parity soon after 2030. By 2050, China will be #1 and the US at about 80% of China's side
- Goldman Sachs predicts a larger gap, with China's economy at about twice the size of the US economy in 2050.
- C.H.Kwan (GRIPS presentation, January 2011) predicts China-US parity by 2026.

2. Overview of Global Governance Clusters Today

Issue Area	Type of Global Governance	Locus of Power	Degree of Stability
Global Security	UN; Alliances	US Hegemony, Regional Powers	In flux, Low coordination
Trade	WTO, G8, G20	Quad facing G22 (China, Brazil, India)	Stable basis, in transition, paralysis
Currency	US Hegemony	US, China, Japan, EU	In flux, tensions
Finance	IMF, US-UK, G7, G20	US, UK, Japan, China	In flux, China rising
FDI	Bilateral FTAs	Diffuse	Fragmented
Climate	Kyoto P – UN context, G20	US, China, EU, BASIC group	Under negotiation, paralysis
GMO/Biosafety	UN Biosafety Protocol vs WTO	US vs EU, China and India balancers	Fragmented, disputed



Item 1 – Global Trade Governance

- Robust foundation due to long period since 1945, club process to overcome collective action dilemma, and norms of reciprocity.
- But the system is currently unable to move further ahead (Doha): decision quad not operational, multiple circles and coalitions, complexified networks, domestic pressures in US, Europe, Canada
- Current fall-back: FTA proliferation

Trade Governance- Questions for Japan

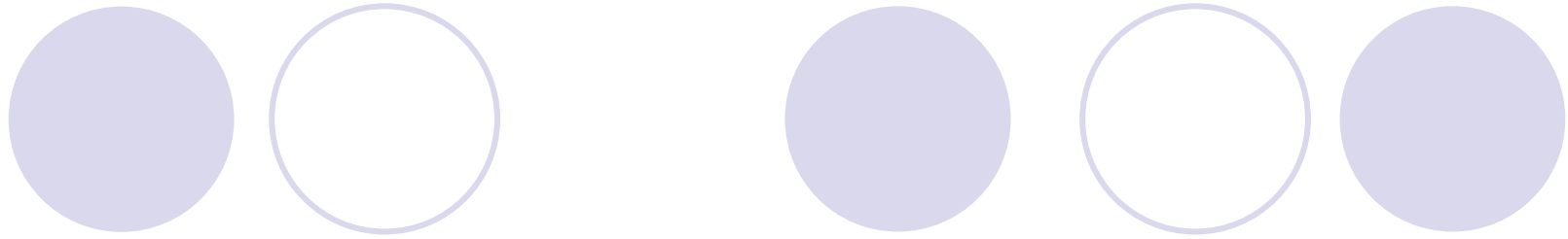
- Japan is moving ahead on the FTA front
- More East Asian integration – Japan as pioneer (and competition with China)
- Current push forward behind TPP/APEC and large domestic debate
- Japan's view on the links between FTA, regionalization, and the global trade regime?
- Links between global trade and global monetary system?

Item 2 – Global Climate Governance

- Copenhagen: Major multilateral stalemate with US and China as primary obstacles
- Cancun: normative progress, but no substantive breakthrough
- Japanese see-saw: major normative push at Copenhagen, hard realism in Cancun
- What is Japan's vision / preferences?
- Integration of preferences between Kantei, DPJ, METI, MOE?

Background: % of Global CO2 Emissions in 2008, IEA data

China	22.3%
USA	19%
EU 27	13.1%
Russia	5.4%
India	4.9%
Japan	3.9%
Canada	1.9%
Brazil	1.4%
Australia	1.4%
KYOTO RATIFIERS	25.7%



3.Framing the G20 Process

G20 within Three Concentric Circles (3 simultaneous games)

- Game 1: Technical coordination to ride out of the global crisis (urgent, visible, yet short-term game) – Saving the System
 - coordinating fiscal policy in time of crisis
 - coordination around resulting debt financing
 - dealing with consequences for LDCs
 - protecting the trading system (vulnerable to beggar-my-neighbor chain reactions)
 - plugging regulatory holes (basic financial regulations)

Game 2: Global Governance / Institution-building



- Big Picture: talk of new “Bretton Woods” system (Beijing system?)
- Redressing the balance between global markets and regulation through major buildup of regulation and governance
- Key areas: banking regulations, capital flow regulations, hedge funds, derivatives, rating agencies, Tobin tax / bank tax
- Other areas: climate change, raw material prices, energy, food crisis..

Game 3: Power Transition and Uneven Gains



- Over the past decade, the acceleration of globalization has had uneven consequences.
- Rising China, India, Brazil
- Global institutions need to adjust to the new power relationships. The institutional game itself affects the process of power rebalancing. Tug of War
- Every decision has distributional consequences



The Triad and Others

- G20 is often presented as a decentralized multipolar arena with a consensual search for public good
- Core Today is Triad: US-EU-China
- The EU-US axis launched the G20 (in hope to embed China)
- The EU-US debate (with buy in from Japan, Canada, Australia, Korea) has dominated the early G20s (except Pittsburg)
- Japan punches under its weight

Core Underlying Trade-Offs

Table 3. Major Fault Lines in the G20

	High Financial Regulations	Low Financial Regulations
Macro-Eco coordination and Current Accounts	Brazil	US, Canada, Japan
Savings and Debt	EU	China



Basic Policy Spectrum in the Triad

- EU = one end of the spectrum of positions
 - with focus on high governance/regulation and tougher approach on debt
- The US defines the other end of the spectrum
- That puts China (but, also, potentially, Japan, Korea, India) in key pivotal positions.

Other Implications



- EU – a weaker pole in the triad – occasional unity (London, to some extent Seoul), but weaker moments
- UK as linchpin within EU
- Uneven coalitions, fluidity overall and per issue area, lots of uncertainty
- Key stake for mediators: keeping the US in (by bringing China in)

Table 2: Positions of Key Countries on Key Dimensions of the G20 Debates

	US	China	EU	Japan	India	Russia	Brazil	Can	Korea
Banking Regulations/ Basel	1	0.2	1	1	0.2	0	0.5	0.5	0.5
Financial Regulations	0.5	0.3	1	0.5	1	0.5	1	0	0.5
Transaction Tax	0	0.5	1	0.5	1	0.5	1	0	0
Macro-Economic Imbalances and RMB	1	0	0.2	0.5	0.5	0	0.5	1	0.5
Revamp Global Currency System, \$ supremacy	0	1	1	0	1	1	1	0	0
Reducing Sovereign Debt / Deficits	0	1	1	0	1	0.5	0.5	1	0.5
Stability of Sovereign Debt financing	1	0	1	0	0	0	1	0.5	0
Trade-anti-protectionism	0.2	1	1	1	1	1	1	1	1
Climate & Energy	0	0.2	1	1	1	0.3	1	0	0.2
G20 Institutionalization	0	0.2	1	0	0.5	0	1	0	0.5
IFI Governance - change	0.5	1	0	0	1	0.5	1	0	1
Development	0	1	0.8	0.3	1	0.2	1	0.2	1



Implications:

- Tenuous buy-in from US
- Intermediate buy-in from China
- Critical path in 2-3 summits ahead
- Dilemma: slow institutionalization process vs urgent large issues that are too large for the G20 at the current stage
- French priorities: institutionalization, monetary system, global commodity prices, development

4. Some Thoughts on China and Global Governance

- What explains the positions of rising powers such as China with respect to global governance?
- Under what conditions, does China choose to go along with the hegemon, protect itself, seek multilateral alternatives, or offer an alternative global path?

Table 2. Policy Choices with Respect to Key Dimensions of Global Governance: Case of China

Behavior	Reactive	Active
Focus		
Multilateral	1. Bandwagoning [FDI Regime, WTO agreement 2002, TRIPS, Foreign Reserves, G20 , Forex 2005-2009]	2. Balancing [Biosafety/GMOs, Biodiversity, partial on Climate Change (CDM) until 2009,]
Unilateral	3. Stonewalling [Capital Account, Energy policy, Internet governance, indigenous innovation, WTO Doha 2008 , global food policy, Copenhagen 2009 , Forex 2010]	4. Innovating [SEZs; “Beijing Consensus” on Development, new ODA approach, Sovereign Wealth Funds , National Champions/SOEs]



Arguments:

- China's response to global economic and environmental issues is the result of domain-specific fragmented governance and is primarily driven by two domestic variables:
- 1. The balance of power between domestic coalitions (affected by the degree of international normative socialization), and
- 2. The degree of public openness and public deliberation involved.
- 3. Wild card: degree of PBSC involvement

Model of Chinese Policy-Making

- Chinese policy-making as fragmented and relatively open to a variety of influences.
- Each policy arena has its own constellation of coalitions and influences- quite autonomous.
- In most recent arenas of global governance, the intervention of political principals, namely the key leaders of the standing committee remains light, given the novelty and technicality of these arenas.

5. Japan's Role and Preferences

- Japan is a major global player and second holder of US debt (20% of foreign-held treasury bonds).
- So far, however, Japan's voice at the G20 and in global governance debates still limited
- Not involved in coalition building or mediation between US, China, EU
- Coordination between Kantei, political leadership, MOFA, MOF, METI?

Conclusion:



- The world is in the midst of a major attempt to rebuild the global regulatory infrastructure that is necessary for global markets to function.
- The G20 game embeds three concentric circles. Trade, monetary system, and climate may be interconnected.
- At the core of the G20 power games lies a US-China-EU triad.
- The key actors in the game are the US and China, because their buy-in is both necessary and partly problematic. The linchpin of the G20 process is China, because Chinese cooperation will deliver US participation.
- Japan can play a key mediating role.