Preface

In the postwar period, the global economic architecture was dominated by the advanced economies in the West. They designed the international monetary system, international development financing frameworks and global trade liberalization schemes. They also dominated the leadership of key global institutions, such as the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO). They were successful in sustaining long-term economic growth through the provision of global public goods to promote international economic and financial stability, economic reconstruction and development, and open, non-discriminatory trade. The so-called Washington consensus was the supporting philosophy behind these efforts.

Today, however, the balance of economic and financial power is shifting toward the emerging economies, especially those in Asia, and both global governance and economic policy thinking are beginning to reflect this shift. One notable example is the move away from the G7 to the G20 as the premier forum for international policy cooperation. Another is the recent recognition by the IMF that free capital flows may not be always desirable for developing and emerging economies, and by the World Bank that the role of the state is essential in facilitating sustainable and inclusive economic development. Perhaps the most striking development was the appeal from European countries for financial assistance from major emerging economies, such as the People's Republic of China (PRC), to help ease the eurozone sovereign debt and banking sector crisis. Another development has been the rise of aid flows from major emerging economies, such as the PRC, Brazil and India, to lower-income developing economies.

In addition to this shift in economic balance, the recent global financial crisis and the eurozone financial crisis have highlighted the shortcomings of the current global economic architecture and international monetary system, and have sparked an international debate about possible remedies for them. Significantly, the global financial crisis began in the United States, which is the largest and most central economy in the world and home to the world's most sophisticated and developed financial system and the most dominant global reserve currency – the dollar. It is still the home of the theories of self-regulating financial markets and free capital flows even though they have fallen into disrepute.

This book addresses the important question of how a regional architecture can induce a supply of regional public goods that can complement and strengthen the global public goods supplied through the global architecture. A related question is how much global and regional public goods Asian emerging economies will be able to provide in order to help maintain global financial stability, open trading regimes, and sustainable economic development. A further question is what and how much intellectual input these economies can offer to influence the global debate on these issues.

The global financial crisis and the eurozone sovereign debt and banking crisis highlighted the risks that emerging economies, including those in Asia, face even if their own macroeconomic and financial fundamentals are sound. The awareness of this risk is stimulating the search for policies and arrangements to reduce these economies' vulnerability to such external shocks. The eurozone crisis also raised important policy questions about regional financial cooperation and architecture. Although Asia is much less integrated than Europe, one important lesson is that regional cooperation can play a critical role in achieving macroeconomic and financial stability. This includes: improving the effectiveness of regional macroeconomic and financial surveillance; creating a macroeconomic and financial policy coordination mechanism; and strengthening regional financial safety nets.

One area of current debate surrounds the issue of how the IMF as a provider of global financial safety nets can work with regional financing arrangements. Several Asian emerging economies, such as the Republic of Korea and Indonesia, faced shortages of US dollar liquidity in the aftermath of the Lehman collapse in the fall of 2008 even though they had pursued sound economic and financial policies. The Republic of Korea and Singapore were able to secure international liquidity from the US Federal Reserve in the form of currency swap arrangements, but not all countries were able to enjoy such a privilege. At the same time, the problem of the so-called IMF "stigma" remains a major barrier to the activation of an IMF safety net in emerging Asia. The Chiang Mai Initiative Multilateralization has emerged as the financial safety net in Asia, but many issues remain in terms of how it can coordinate its activities with those of the IMF.

Other areas covered in this book include the interplay of global and regional financial regulation, the role of the World Trade Organization versus those of bilateral and regional trade agreements, and finally the parts to be played by the World Bank and regional development banks.

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