

NEWSLETTER

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Analysis

East Asia and the new world economic order

Hadi Soesastro and Peter Drysdale *

Now that the dust has begun to settle, it's time to assess British PM, Gordon Brown's claim that the G20 Summit saw the creation of a new world economic order.

This was a remarkable event. In less than a year the leaders of a representative group of twenty the largest or most important economies in the world met for a second time to address the challenges of global economic crisis. They and their advisers have crafted a coherent set of strategies to turn the international economy around and to deal with the structural frailties that sent world markets into free-fall

The crisis bears sobering witness to the interconnectedness of the global economy today. Open trade and open capital markets and the break-neck speed of the flow of ideas and technologies have delivered huge benefits through globalisation and lifted millions of people, especially in Asia, from poverty to relative prosperity on a scale of which there is no historical precedent. But, as we now see more clearly, this was also a global economy fraught with system risk, without institutions and structures of governance that gave proper attention to the global impact

and repercussion of national policy strategies and market failures.

There are three major achievements out of London.

The first is in world leaders' acceptance of the reality that the global economy today is one that can only be managed successfully – with stable markets offering continuing opportunity for human development and growth – if it is managed jointly.

The second is the crafting a coherent set of strategies to address the challenge of the crisis. Doing 'what it takes' in the way of fiscal expansion and monetary policy stimulus may not satisfy everyone but the political energy and will that has surrounded these commitments, and the substantial range of programs that have already been put in place around the world, will be more secure for what has been done in London. By the end of the year the concerted fiscal expansion should amount to US\$ 5 trillion, lift world output by 4 per cent and lead restructuring towards a more sustainable pattern of production.

The dramatic lift in IMF funding, from US\$250 billion to US\$750 billion with extra provision for developing economies, the new SDR allocation of US\$250 billion, an additional US\$250 billion for trade financing, and an extra US\$100 billion for the multilateral development banks, will boost confidence in access to

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liquidity for vulnerable economies and provide all up an additional US\$1.1 trillion to restore the world economy. Commitment to reform the governance of the IMF and the other international financial institutions will better reflect the changes that have taken place in the world economy – including the increased stature and responsibilities of China and the emerging economies. The commitment to strengthening financial supervision and regulation includes domestic action as well as international action through the establishment of a new Financial Stability Board to improve international capital market regulation, including targeting tax havens and extending oversight over credit rating agencies. And there was reaffirmation of the standstill on trade and investment protectionism.

Third, G20 leaders agreed to meet again before the end of the year. Re-convening early is an important statement about both the priority attached to the process and the seriousness of purpose on its substance. Success in engineering a rapid and sustained recovery depends crucially on entrenching the G20 as the theatre for global economic action, building an infrastructure that will help to make its work effective and continuation of a process that must shift the emphasis over time from stabilisation to sustainability and growth.

This course represents a major step forward in reform of global economic governance and the creation of a new world economic order. It is a triumph of initiative and vision over established power and institutional atavism. But it is only the first step. There is a constituency beyond the G20 yet to be engaged.

In Asia, that means bringing along and mobilising the region beyond the Asian G20 participants. In Europe that challenge is even more formidable.

The Asian participants in the G20 emerged as an important and constructive force. China stepped forward on all fronts, with the promise of a significant elevation of its role in the funding and governance of the IMF. Japan made a substantial contribution to the expansion of IMF liquidity. Indonesia pursued an effective agenda on easing the bottleneck in trade credit. Korea was a staunch advocate of the standstill on trade barriers. India pushed the expansion of credit to the developing world. And Australia played a key role in framing the entire strategy and in the diplomacy that won support for it.

Now the real job of implementing the London agreements and the G20 process itself begins. That is a task that must begin at home, in our region, to deliver on the expectation that East Asia can be at the leading edge of global recovery (refer to the following links: Soesastro, Drysdale and Drysdale, for further analysis). And the Asian G6 now have a new role and responsibility in making sure the whole region's weight is brought to bear on making that happen.

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