

Resolving the Global Governance Dilemma: How to Reform the Multilateral System

Prepared Responses by Takehiko Nakao to Questions at Shanghai Bund Summit

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20:00-21:30 p.m. (Online Beijing Time)

Moderator:

LIN Jianhai Former Secretary, IMF

Panelists:

Alexandre TOMBINI Chief Representative of the BIS Office for the Americas

Mari PANGESTU Managing Director of Development Policy and Partnerships, World Bank

YI Xiaozhun Former Deputy Director-General, the World Trade Organization

Jim O' NEILL Former Chairman, Chatham House

Takehiko NAKAO Chairman, Mizuho Research & Technologies, Former President, Asian Development Bank

Martin WOLF Chief Economics Commentator, Financial Times

1. Over the past decades, a lot has happened. In your view, what have been the major long-term changes/forces that are shaping or reshaping the global economic landscape?

1) I observe three major changes; i) impacts from advanced digital technologies including internet, AI, GSP, ii) wider social divide within countries, and iii) continued expansion of Asian developing economies including the rise of China as a global power.

2) These interrelated changes are positive in many regards. That is, they make people's life in the world more convenient and less costly. We cannot imagine anymore the world without smart phones, internet search engines, e-commerce, and on-line access to music, movies and other services. There are findings that consumers benefit from these technologies more than they pay as a price. Large

production of goods by Asian emerging economies has widened the choice of products and lowered the cost of living globally.

3) But these changes also led to widening gaps of income and wealth. In developed countries, factory workers and middle-class workers earn less or lose jobs, while executives and skilled workers within big platform companies, other business related to advanced technologies, and financial industries enjoy huge income and wealth. The widening divide in society harms the very basis of democracy and leads to rising resentment and populism in many countries.

4) In developing countries, absolute poverty has been reduced and average income has increased thanks to globalization and technologies. But income gap calculated as Gini-coefficient has increased in many developing countries. Rich people became even richer due to property ownership, connections, high education and the “fast mover premium”.

5) There are also challenges from concentration of powers by big technology companies. New policies are needed to address i) fair taxation of excess profit arising from intangible assets, ii) monopolistic behavior in the market, iii) concerns about protection of data and privacy, and iv) threat to national security. Such policies must be designed in a way that benefits consumers and does not compromise innovation.

6) China’s rise as an economic power in these 5 decades since the “reform and opening policy” was started in 1978 is, in itself, a remarkable achievement in human history. Today (in 2020), China is the second largest economy in the world with GDP of about \$15 trillion as compared to \$21 trillion of the USA. China is at the center of global value chains, and is the market of the world as well as the factory of the world.

7) But more recently, many people outside China have started to worry about China’s more assertive external and domestic policies as well as stronger state-guidance in the market and upon companies. Many are wondering whether China is trying to change the existing international order and project a different set of standards regarding management of government and economy. As China is such an important partner in trade, investment, finance, and technologies, many hope that China will continue to pursue open market-oriented policies and be a moderate actor both externally and domestically.

2. Looking at the recent history, it seems that global economic or financial crises have happened around every 10 years or so. Particularly noticeable are the Latin American debt crisis in the 1980s, the Asian financial crisis in the late 1990s, the global financial crisis in 2008, and the COVID-19-induced economic crisis in 2020. These crises all happened after the collapse of the so-called Bretton Woods system in the early 1970s. What are the key weaknesses of the current system that have contributed to these crises? What should we do to make future crises less frequent and less destructive?

1) Yes, we are more susceptible to more frequent, more serious financial crises. Under the Bretton Woods system, out of “the trilemma of international finance”, movements of capital between countries were restricted while exchange rates were fixed and monetary policies of countries kept their independence more or less.

2) Since the end of the Bretton Woods system, we gave up the stability of exchange rates and instead obtained the freedom of capital movements between countries. There also came more liberalized financial system within countries as we no longer need to worry about fixing exchange rates, regulating interest rates and restraining financial activities. As a matter of fact, tight financial regulations became impossible even if we want keep them.

3) Large capital movements and active financial activities have been promoted as they are regarded as contributing to more efficient allocation of resources. Indeed, I suppose emerging economies and new companies have benefitted from them and enjoyed higher rates of growth.

4) In a sense, we must live with a higher chance of financial crises. To reduce the chance of crises and to tackle crises better when they happen, we need to do the following: i) sound macroeconomic policies, ii) paying attention to asset prices, capital flows, financial activities in addition to growth, jobs and CPI, iii) robust and proactive financial regulations, iv) macro-prudential policies such as loan-to-value ratio and monitoring foreign borrowing, v) appropriate surveillance and early warning by IMF, vi) enhanced preparedness for crises through sufficient IMF resources, MDBs financing capacity, and regional financial cooperation such as CMIM, and vii) strengthening international cooperation in these areas.

3. COVID-19 has sharpened the focus on many challenges with which the world has long been grappling, including rising inequality, and insufficient access to adequate health care and education. Following up from the previous question, from the global economic governance's point of view, what works well during the current pandemic and what is lacking and needs to improve to allow the international community to more effectively tackle such crises in the future?

1) The pandemic has displayed the importance of international cooperation to i) share information and expertise regarding infections, prevention and treatments, ii) help develop vaccine and medicine, and iii) deliver vaccinations to the populations of the world including in low-income countries. As often mentioned, unless all countries can overcome the disease, no countries can be safe.

2) Governments are also reminded that they must prepare for such pandemic in the future in the context of public health, medical research, and legal frameworks. In addition, they need to pursue better and expanded use of digital technologies which helped commerce, education, finance and remote work during the pandemic. This is a chance to accelerate better and wider use of new technologies.

3) Lastly, governments both in developed and developing countries must strengthen their efforts to address the widening divide in the society. Under Covid-19, inequality became even more serious due to disparities of work conditions, access to vaccination and treatment, and economic impacts. It is nice to see some recent moves by governments to reform taxation, public services and regulations in order to reinforce fairness and inclusiveness of the society.

4. With so many challenges facing the world economy, how have the major international financial institutions such as the World Bank, IMF, WTO, ADB among others, performed in their respective roles? What else should they do to remain relevant and effective, and to better serve their respective membership? (Please describe a few areas that the institution you are most familiar with should do to further improve).

1) I believe that international institutions have been playing important roles to tackle the climate challenge, persisting poverty, and gender inequality. In

addition, they have been essential players to help countries fight Covid-19 infections and support families and businesses hit by the pandemic.

2) For instance, since the beginning of the pandemic at the start of 2020, Asian Development Bank (ADB) has committed \$21 billion to help its developing member countries address the impacts of COVID-19 and address vaccination needs, and has mobilized a further \$16 billion in cofinancing from partners.

3) The international community, developed countries in particular, should continue to support multilateral development banks and other international institutions by contributing to its finance, knowledge and personnel. At the same time, international institutions must make their own efforts to streamline their business by focusing on essential areas and keep their budget and organization lean.

5. Finally, a very big question for all of you: what's your bottom line—please describe a few things that you see most critical in further improving global economic governance and fostering closer international cooperation for the benefit of all. More specifically, if we come back together in 2030, what would the world look like and what do you think the next generation would say about how we managed today's fast-changing global economic landscape?

1) We should learn from history. Over all, many economies in Asia and the world have grown and achieved substantial poverty reduction in these several decades because of i) adopting market-oriented and external-oriented policies, moving away from state planning and import substitution policies, ii) investing in infrastructure and education, iii) maintaining and expanding trade and investment between countries, iv) pursuing sound macroeconomic policies, v) improving governance of public and private sectors, and vi) keeping good relations with other countries. We need to continue good policies in these areas.

2) It is natural that countries pursue their own national interests as governments work for their citizens, voters and taxpayers. But to attain long-term interest of their people in terms of prosperity, safety and sustainability, they need to strengthen international cooperation and ensure multilateral global governance in such areas as pandemic, climate change, ocean health, trade and investment, and physical connectivity.

3) Finally, we must make utmost efforts to maintain friendly and constructive relations among countries. At least, countries must manage to keep reasonable relations with other countries even if there are different ideas about histories, geopolitics and values. By continuing to manage the situation, there can be even further improvements in the future. Peace is the essential foundation of human happiness and prosperity.