Globalisation

We need a new, more co-operative international order

Our biggest risk is complacency in the face of unprecedented challenge

© Daniel Pudles

Tharman Shanmugaratnam YESTERDAY

Jean-Claude Trichet, John B Taylor, Min Zhu, Ngozi Okonjo-Iweala and Takatoshi Ito also contributed to this piece on behalf of the G20 Eminent Persons Group on Global Financial Governance

We are at a critical juncture. The central challenge is to create a new, co-operative international order for a world that has changed irreversibly: one that is more multipolar, more decentralised in decision-making, and yet more interconnected. We otherwise face the prospect of fragmentation, and the steady weakening of our capacity to respond to the national and collective challenges of the future.

There is no going back to the old multilateralism. There is no single conductor. There are already many more orchestras in play. We need a new harmony. A new, co-operative order is crucial to achieving the most fundamental goals of the international monetary and financial system: to enable nations to achieve stronger, more inclusive and more sustainable growth, to avert financial crises, and to tackle the pressing global challenges that affect us all.

Getting national policies right is at the heart of building shared prosperity. There have always been winners and losers in technological progress and trade. But national policies have failed to address these divides in too many countries for too long. They now risk undermining support for an open world order. Most fundamentally, as the digital economy and machine-learning gather pace, we need to reform education and invest in life-long learning to ensure a job-rich rather than jobless future.

However, international initiatives can and must support national efforts in ways that create a stronger future for all. First, we must promote mutually reinforcing policies between countries. National policies to support innovation, investment and financial stability are most effective when they are undertaken widely internationally. Equally, international commitments remain necessary to avoid “beggar-thy-neighbour” strategies that benefit one country at the expense of another. But in today’s highly interconnected financial markets, even policies aimed at achieving domestic objectives can have large international spillovers that constrain the policy options of other countries. A framework is needed to mitigate such spillovers and their effects.

Second, we must take advantage of the unique ability of the international financial institutions (IFIs) — the IMF, World Bank and other multilateral development banks — to multiply development. There is much scope yet for these catalysts, especially in supporting countries’ efforts to strengthen governance capacity, and to develop the full potential of human capital regardless of gender, ethnicity and social status.

Third, international co-ordination is indispensable to avoid major financial crises, and to develop the joint capacity needed to stem escalating environmental vulnerabilities and infectious disease threats which, unaddressed, will push large numbers into poverty and forced migration.

There is no either-or choice between international co-operation and national strategies to sustain growth and stability. An open, competitive and well-co-ordinated international order will improve prospects for all countries. Its weakening will inevitably hurt all as growth and opportunities for new jobs are eroded over time, as financial crises recur, and the global commons become more fragile.

Together with our colleagues on the G20 Eminent Persons Group on Global Financial Governance, we have offered specific proposals to help the international community meet the challenges of a new era and make the critical transition to a new, co-operative international order. We do not need new supranational bodies. The new multilateralism instead requires us to take bold and defined steps to ensure existing institutions — the IFIs and other stakeholders, including the increasingly important regional and bilateral players — work together as a system to achieve greater and more lasting impact on development. We must avoid a future of Balkanised finance.

There is large untapped potential for joint action to mitigate risks within countries and to diversify risks across the system. This collective approach can unlock the significantly greater private investments needed for the future, including new ways of financing infrastructure that will attract institutional investors.

Our biggest risk is complacency in the face of unprecedented challenge in the next decade. More people will reach working age in the developing world than in any past decade. Reforms to strengthen governance, maximise the potential of technologies and markets, and create jobs are needed on every continent. But most crucially, we must succeed in Africa, where the poverty, demographic and environmental challenges are the largest — and so too the opportunities to contribute to a better world. The consequences of failure will not be simply economic.

We also need further reforms to avert another major financial crisis, and to help countries grow without the instabilities that are a recurring feature of today’s banking system. We need stronger domestic financial markets. But we must also make it possible for developing countries to finance sustainable current account deficits, where they are fundamentally needed, without the bouts of volatility that set back growth. Equally, we need a strong and reliable global financial safety net to sustain open markets. A multi-layered structure of global, regional and bilateral financial arrangements has evolved over the past decade. But it is highly uneven across regions, has major components that remain untested in crisis, and lacks co-ordination.

Policy thinking on many of these reforms has often been shaped by where one sits. We need a new collective resolve, shaped by the larger goal that every nation has a vested interest in: building a co-operative international order for an era vastly different from when the Bretton Woods institutions were built 70 years ago, so that we keep the world open for growth.

The writer chairs the G20 Eminent Persons Group on Global Financial Governance and is deputy prime minister of Singapore

Latest on Globalisation