



CSIS Global Dialogue and 25th PECC General Meeting Plenary Session 1: The Need for a New Global Order?

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LONG TERM TENDENCIES TOWARDS NEW GLOBAL BALANCE

- Sustained rapid growth in developing countries and slower growth in developed
- Acceleration in large Asian economies in last quarter of 20th century, lower productivity growth in developed from early 21st century
- Demographic transition earlier in developed countries and China
- Transition from Empires before Second World War, to bipolar system 1950-1990, to unipolar moment in 1990s, to multipolar 21st century
- 21st century tendencies gradual, reflecting economic and demographic changes

LONG TERM TENDENCIES TOWARDS NEW GLOBAL BALANCE: BIG 4

- Gradually emerging balance has four great centres of economic and strategic weight
 - : US
 - : China
 - : Increasingly integrated if geographically diminished European Union led by Germany and France
 - : India
- None dominant, and sustained international action difficult with active opposition of any

LONG TERM TENDENCIES TOWARDS NEW GLOBAL BALANCE: NEXT TIER

- Next tier highly influential in shaping international outcomes
- Successful populous developing countries (Indonesia followed by Brazil and others) increasing weight relative to demographically challenged early developers (Russia, Japan, UK after Brexit)

INDONESIA PARTICULARLY IMPORTANT IN NEXT TIER

- Most populous
- Fastest growing economy, and probably largest within two decades
- Largest Islamic majority country in era of increased Islamic identity
- Essential if reluctant leader of ASEAN
- ASEAN the largest and most influential regional grouping outside EU
- ASEAN potentially a balancing factor for Big 4 powers in Asia (half population of China, India and more than US, EU)
- Indonesia's established (if sometimes less active) regional and global leadership role (ASEAN, APEC in most successful era 1989-1997, G20, WTO, FCCC)

FORCES ACCELERATING SHIFT IN GLOBAL BALANCE

- Failure of Iraq intervention outside UN framework and destabilisation of Middle East
- Slower incomes growth in developed but not developing countries after GFC
- Consequent decline in political support for globalisation in developed democracies
- Slower incomes growth
- Increased self-confidence of China and other authoritarian market economies

GLOBAL LEADERSHIP CHALLENGING IN NEW ERA

- No scope for or much interest in hegemonic power
- Acquiescence by all BIG 4 necessary for positive global action
- US retreat under Trump excludes for the time being formal global agreements
- Scope for active diplomacy of second tier and middle powers.
- Scope for Indonesia leading ASEAN and influencing much of Asia Indo Pacific

IMPLICATIONS FOR POLITICAL CULTURE OF INTERNATIONAL COOPERATION

- Economise on international agreement
- Emphasise subsidiarity
- Provide reasons for countries in their own interest to act in international interest
- International cooperation defining and measuring shared interests and sharing knowledge of compatibility of national and global interests

CONCERTED UNILATERAL COOPERATION NECESSARY IN NEW ERA

- Model for trade cooperation of ASEAN and of APEC 1989-97
- Model for successful international climate cooperation at Paris 2015 following Cancun 2010, after disappointing binding agreement at Kyoto 1997 and Copenhagen 2009
- Applicable now with sound analysis for trade, macro, development, climate

FOUR ECONOMIC AREAS REQUIRING CONCERTED GLOBAL ACTION

- Maintaining open trade
- Maintaining global macro-economic stability.
- Supporting global development
- Mitigating climate change

Corrosion of capital income taxation base a major threat to fiscal stability and globalisation through, but better handled nationally by shifting to rent tax base. International discussion will help

CONCERTED ACTION TO MAINTAIN OPEN TRADE

- Trump protection follows declining legitimacy of open trade in developed countries
- Developed democracies' openness requires recommitment to equity as policy goal
- Lessons of Smoot Hawley 1931: increased US protection damaging; retaliation more; and undermining domestic support for open trade in many countries most (Irwin 2017)
- US protection directly damages all countries but US most of all

CONCERTED ACTION TO MAINTAIN OPEN TRADE

- Costs of US protection to Asia and Indo Pacific minimised by open borders
- Individual countries can choose to be part of concerted unilateral action
- Largest losses to those who do not participate
- Mutually reinforcing expansion of trade and economic activity
- Success increases chances of eventual US recommitment to open trade
- Early reactions to Trump in Western Pacific favourable to this response

CONCERTED ACTION TO MAINTAIN OPEN TRADE

- RCEP natural vehicle for concerted unilateral liberalisation
- ASEAN initiated and central to model of cooperation
- All members commit to holding ground on current openness
- As many as possible go as much further as possible
- Supported by established APEC facilitation agenda
- Welcome new members who share approach

CONCERTED ACTION FOR GLOBAL MACRO-ECONOMIC STABILITY: THE PROBLEM

- Savings exceeding Investment in most developed countries plus China since GFC (but not US with large and now increasing budget deficits)
- A challenge to employment and workers' incomes
- Economically rational solution is capital exports and trade surpluses in developed countries and China, to support full employment at home and development elsewhere
- Economically rational US solution is to tighten budget and ease money to lower real exchange rate and increase net exports
- Trump strategy opposite, causing rising US trade deficits and increasing trade tensions

CONCERTED ACTION FOR GLOBAL MACRO-ECONOMIC STABILITY: THE SOLUTION

- G20 discussion helped recovery expansion after Great Crash of 2008 and could help build new international understanding
- International focus on explaining reality while remaining open to trade whatever US does
- Realistic objective is convergence of perspectives for many minus US
- Until collapse of political support for current US macro strategy
- That may follow macro-economic instability
- An inevitable period of rising trade tensions

CONCERTED ACTION TO MITIGATE CLIMATE CHANGE

- Costs of mitigation introduce free rider problem; In practice not as hard as it looks:
- Energy importers' mitigation improves terms of trade (most developed countries and China)
- Countries with comparative advantage in manufacturing capital goods see industry advantage in moving early (Japan, Germany, Korea, China)
- Densely populated industrialising countries' health externalities (China and India)
- More community support for action everywhere than on any other large policy issue
- Political economy problem in some energy exporters (especially US and Australia)
- Paris concerted unilateral mitigation holding despite Trump, but needs faster pace
- APEC minus US the source of nearly all emissions growth in 21st century, so regional concerted unilateralism important without US reconsideration.
- China world's largest emitter and way ahead of Paris mitigation commitments

CONCERTED ACTION TO PROMOTE GLOBAL DEVELOPMENT

- Successful global development extending through Asia to Africa essential to ending downward pressure on low incomes from globalisation
- Capital outflow from developed countries and China to support development fills capital markets gap for long infrastructure funding
- Capital outflow from developed countries and China meets necessary condition for climate change mitigation in developing countries
- Capital outflow, positive net exports helpful to employment and incomes growth in developed countries and China
- Note Indonesian leadership of infrastructure investment push at G20 and APEC
- Note continued developed country and Chinese participation in UNFCCC global climate fund despite Trump