



7th Asian Monetary Policy Forum

12 June 2020

Keynote Speech by Dr Adam S. Posen Questions & Answers

1. Is there an argument to be made that regional cooperation, rather than global cooperation, can lead to better outcomes in an environment where global organisations have made limited progress in changing their governance structure to adequately meet the needs of other emerging economies? Regional initiatives are facilitating the development of protocols for international travel, in some cases for supply of medical goods, for vaccine development (e.g. Chinese biotech firms engaging both Philippines and Pakistan for clinical trials on Covid-19 vaccine; What position would they be in a queue for US-developed vaccines?) We could also see expanded regional trade agreements (CPTPP) in a bid to revive post-pandemic growth. Do you see room for some optimism here? --by *Ms Johanna Chua, MD of Citigroup Global Markets Asia Limited, HK*

I have drawn on the wisdom of my PII trade specialist colleagues, particularly Marcus Noland, Chad Bown, and Anabel Gonzalez, to reply adequately to this very challenging question of theory and practice.

As a matter of principle, global solutions are to be preferred, but if a global solution is blocked and a regional solution is a close second-best, then going regional may be preferable to doing nothing. An example salient to Asia could be global warming: Asia accounts for most of the world's climate change-inducing carbon emissions. China (29 percent) and India (7 percent) are key due to their size, relatively low per capita income levels, high growth prospects, and carbon-intensive production. The two Asian giants are projected to account for more than half of the growth of global energy use over the next 20 years. The centrality of Asia to this challenge and concerns as to the adequacy of the global, voluntary approach embodied in the Paris Accords begs the question of whether a more binding regional mechanism might be warranted.

The sophisticated counterargument is from the traditional trade literature: the possibility of regional deals can alter the political economy of lobbying (essentially by allowing firms to target easily accessible rents and thereby raising their reservation price for a global deal), leading to suboptimal outcomes. This was the Bhagwati et al critique of NAFTA as damaging prospects for multilateral negotiations. The Uruguay Round concluded 16 months after NAFTA was signed. But not much came out of the WTO since.

So basically, the query for a benevolent policymaker is whether the regional deal is a close approximation for first best, and does its possibility endogenously change global decision-making with regard to international trade in a disadvantageous way?

There are probably some arguments for thinking harder about how "regulatory coherence" chapters in regional trade agreements might play a better role at coordinating national regulatory decisions during a pandemic. Take, for example, definitions of things like "essential workers." One of the things we have seen emerge in North America is that Mexico's lockdown (and differential definition of essential workers, say) has impeded access to inputs that some US companies need on a just-in-time basis.



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Note that we are not making the blanket statement that the US should dictate to Mexico who its essential workers are and when it should open up X, Y or Z. We are only indicating that the lack of coordination (and information) could mean American firms end up sending their workers back to work, under dangerous conditions, even when they are not going to be able to produce anything because they lack critical inputs from Mexico.

We would argue as well that in the context of COVID-19 there is a strong argument to be made for regional regulatory cooperation, in particular on transport, logistics and border-crossing among neighboring countries. UNECE has come up with a website on border crossing status due to the pandemic which reflects the need for regional coordination. This does not mean that regional cooperation can substitute for global cooperation, particularly in the context of global supply chains, but it does have an important role to play to allow trade to flow across neighboring countries.

2. In a world of "G minus 2", what should be the strategy of other countries such as Singapore whose "business model" depends on open, orderly, multilateral flows?

--by **Professor Lutfey Siddiqi, Visiting Practice Professor, London School of Economics, UK**

This is a critically relevant question, for those small open economies which had benefited from the relatively open, relatively stable, multilateral trade and investment system of recent decades. And I do think that a G-2 as [mooted by Arvind Subramanian](#) and others, is the best simple description of the situation they face.

As I mentioned at ABFER (and argued at a little more length in Posen [\[2018, 2019\]](#)), globalization will continue, particularly on trade, but the quality of globalization is declining. Globalization is corroding, becoming less even, more brittle in parts, and with holes emerging in its networks. Along with the dangers for Singapore and those economies which have wanted to emulate its success through international commerce, this process erodes the transfer of technology and human capital through investment, by politicizing and regionalizing it.

So, there is unfortunately no real alternative for Singapore and the like to pursuing highly active economic diplomacy on multiple fronts. The governments of these economies will have to think and act similarly to Metternich on behalf of Austria in the first half of the 19th century, or the Netherlands in the late 16th and 17th centuries. Trying to court both sides of the great divide (now China and U.S.), while not pledging ongoing fealty to either's system. Trying to be even more of an indispensable entrepot – intellectually as well as commercially, more cosmopolitan and engaged – than Singapore already has been. Trying to maximize the number of 'non-aligned' states, and to encourage joint efforts of them in so far as it does not threaten one of the two rival great powers.



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Some of this is already underway, though Singapore has been understandably reluctant to give up on having a real security alliance with the U.S. and its major military allies. The possibility remains that if Trump loses re-election the U.S. will recommit to its Pacific alliances, and perhaps even join CPTPP – there are signs Biden has foreign policy driven sympathies in those directions, and that he appreciated those views during Obama’s Presidency. But it would be imprudent for Singapore and like-positioned economies to count on that. Even a Biden Presidency committed to returning to postwar foreign policy norms would not necessarily carry that through into restoring multilateralism and freer trade and investment on the economic front.

Such measures as those undertaken by sub-groups in the WTO and by the CPTPP countries in response to the pandemic are constructive. I only mentioned them in passing in my ABFER Lecture because their primary benefits fare for the participant economies, even when directed at broader challenges like the debt or medical supplies of the global poor. They are unlikely to nudge let alone significantly influence the U.S. or the Chinese leadership into changing course. But it is realistic for these countries to have the options kept alive and open for the U.S. to come back into the tent of constructive multilateralism.

As exhausting and precarious as that sounds, the existence of a Singapore or the like in this global context is not so bad in prospect. The desire of flows of ideas, human capital, financial capital, and technology to find a relatively free place to go will remain, and Singapore might gain from the arbitrage. The issues will be the risk of inflows (capital, human, etc.) overwhelming the size/capacity of Singapore, and the economy clamping down in response, thus losing its relative attractiveness.