

Governance and the Future of International InstitutionsG20 Japan 

Regional Trade Blocs as Supporting Structures in Global Governance

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What is missing in the current system of global governance is a global coordination mechanism among the largest regional integration arrangements from both the Global North and the Global South. The G20 is probably the best forum to launch discussions on the creation of such a platform. The set of regional alliances within such a platform could include those regional integration blocs in which the respective G20 members are leading economic powers. The resulting grouping that may be designated as R20 ("Regional 20") would bring together some of the largest regional trading blocks in the world economy.

Challenge

The WTO crisis in the past few decades has been associated with the active advance of regionalism. The leading economies increasingly often opt for establishing regional trade blocs that pursue the policy of exclusive trade liberalization for a select group of their members, which reduces the interest of the countries in multilateral liberalization. According to the WTO, regional trade agreements (RTAs) have become increasingly prevalent since the early 1990s and as of 1 May 2018, 287 RTAs were in force. These correspond to 459 notifications from WTO members, counting goods, services and accessions separately. The mounting protectionism and the exacerbation in trade tensions also contribute to the attractiveness of bilateral and regional alliances as an alternative to multilateralism in global organizations. This undermines the efficiency of the WTO, but can also open up new opportunities.

Regionalism is a force that has largely eluded regulation from the multilateral international organizations while at the same time taking on ever greater authority in driving economic integration. There is accordingly a lack of connectivity between the main regional integration blocs and the global organizations such as the WTO, the latter proving to be largely powerless in the face of the expansion in the number of regional arrangements and their growing potency accumulated in part at the expense of global institutions.

Aside from this low degree of vertical connectivity with global institutions, there is also a lack of horizontal coordination among the regional economic blocs, which hampers the implementation of regional/continental integration projects. This concerns the low degree of coordination among the regional development institutions, regional financing arrangements and the trade policies of the largest integration arrangements.

As the centrality of global institutions is weakened and the nation states are reasserting their powers, the in-between layer of global governance (between global institutions and nation states), namely regional integration arrangements, is undergoing massive changes. Apart from the formation of megaregional blocs and the sheer rise in numbers resulting in "disorganization," the regional integration projects along the South-South axis are becoming the focal point of "alternative economic integration" vis-à-vis the well-advanced integration system in the developed world. It is this intermediate layer of global governance that may become a more prominent factor in the economic and political contradictions of the future world economy and the overall instability of the changing global governance system. There is, hence, a

need to devise arrangements that may render greater stability in the global governance framework via coordination among regional institutions and integration arrangements.

Proposal

G20 as a coordination platform for regional trade blocs

1. What is missing in the current system of global governance is a global coordination mechanism among the largest regional integration arrangements from both the Global North and the Global South. Such a framework could be coordinated via global networks, with the G20 probably being the best forum to launch discussions on such a platform. It brings together the largest developing and developed economies that in turn are leading powers in their respective regions/continents, and that frequently head the formation of a regional economic bloc.

2. The set of regional alliances within such a platform could include those regional integration blocs in which the respective G20 members are leading economic powers. The resulting grouping that may be designated as R20 (as in "Regional 20" – analogously to B20 and other such offshoots of G20) would bring together the largest regional heavy-weights in the world economy represented by the following 10 regional blocs:

- EU

- USMCA (US, Mexico, Canada)

- SAFTA/SAARC or BIMSTEC (India)

- ASEAN (Indonesia)

- EAEU (Russia)

- Gulf Cooperation Council (Saudi Arabia)

- the planned Regional comprehensive economic partnership (RCEP – China, Japan, South Korea)

- South African Development Community or South African Customs Union (South Africa)

- Closer Economic Relations (CER) (Australia)

- MERCOSUR (Brazil, Argentina).

There is already a regional grouping that is part of the G20 format, namely the EU – but there is no reason why the EU should end up being the only regional bloc represented in the G20 framework. Moreover, the G20 is already involved in dialogue between regional financing arrangements and a global multilateral institution – in this case, the IMF – with the G20 representatives taking part in the High-Level Regional Financing Arrangement Dialogue (most recently in Bali, Indonesia in October 2018). This format could become part of a broader role for the G20 in the potential interaction between regional trade blocs as well as regional development banks and regional financing arrangements. In effect, within the R20 framework the G20 could perform a coordinating role between the main global institutions and the respective regional arrangements: between the IMF and the main RFAs, between the World Bank and the main regional development banks as well as between the WTO and regional integration arrangements (RTAs).

3. The R20 format could also serve as a basis for G20 outreach activities as the regional neighbors of the respective G20 members may be viewed as natural partners in promoting the global initiatives adopted by the largest economies of the world. In particular, the propagation of G20 initiatives as well as measures to deliver economic stimulus at the global level would be enhanced through a coordinated framework of regional partnerships.

4. The R20 platform may target the coordination of issues pertaining to regional integration, as well as the coordination of regional

integration initiatives with global institutions such as the WTO. It could play a coordination role with the meetings of the representatives of the respective regional blocs taking place each year under the umbrella of the G20 meetings and consultations.

5. Apart from addressing the issues of trade liberalization via RTAs and FTAs there may also be a “connectivity track” within the R20 format, which would bring together such infrastructural connectivity initiatives as the BRI launched by China or the India-Japan connectivity initiatives such as the Asia-Africa Growth Corridor (AAGC). The latter initiatives could then be subject to greater coordination/reconciliation within the R20 framework and hence could address the lack of horizontal coordination among the regional development institutions and integration arrangements.

6. Our key recommendations for initiating the R20 format are:

- Conduct an inaugural meeting of the representatives of the respective regional integration arrangements under the auspices of G20 with the participation of representatives of global institutions such as the WTO
- Compile a roadmap of cooperation among regional integration arrangements, including a separate connectivity track that would target coordination in conducting large-scale infrastructure projects
- Explore the possibility of R20 platforms that target the cooperation not only among the regional trading arrangements, but also the regional development banks and regional financing arrangements where G20 countries are members.

In terms of the possible modalities for R20, one possible approach would involve the formation of an R20 engagement group that would target greater coordination among regional financing and development institutions as well as among regional integration arrangements and multilateral international organizations. This format could further evolve into a full-fledged permanent R20 that is analogous to other G20 formats such as the B20. Another approach may be an outright formation of a permanent R20 format that is employed in improving the connectivity between regional arrangements and international organizations. The first modality has the benefit of gradualism and verification of possible approaches in developing the coordination between regional and global institutions before the format graduates to a permanent status. The second option allows for a speedier resolution of existing gaps in the interaction between global and regional institutions.

Another angle on the mode of the operation of R20 is whether it is to be a plurilateral platform for some of the G20 members or rather a comprehensive multilateral platform for all G20 countries and their integration groupings. Again, the former approach allows for greater flexibility and gradualism in the evolution of the R20 format – among other things, it may take into account the significant differences in the depth and scope of regional integration among G20 members. The downside, however, may be the lack of effectiveness of such a platform when not all members are acting together on important global issues pertaining to the cooperation between regional and global institutions.

The R20 is not meant to be another layer of bureaucracy or regulation that encumbers the operations of the G20 or global governance institutions. On the contrary, it is designed to be a platform that brings together existing resources to act as a supporting structure between the layer of global institutions and regional and national layers of governance via creating additional channels of communication among the disparate segments of the world economy. The mandate of R20 is of course not to challenge or override global institutions, but to fill the voids in coordination among international institutions to the benefit of regional cooperation and the strength of global international institutions.

Inevitably, there may be contradictions amongst the G20 members related to their positioning in regional integration arrangements or participation in regional connectivity projects. The R20 format is precisely the platform for multilateralizing these frictions and contradictions via presenting an open and transparent mode of discussing and resolving potential and existing tensions in the trade and investment sphere. It is precisely the lack of such a platform and the absence of an institutional framework for resolving economic tensions among regional blocs in the world economy that renders the current institutional setup increasingly vulnerable in the face of global economic trends characterized by the emergence of mega-regional blocs and the rising role of regional integration.

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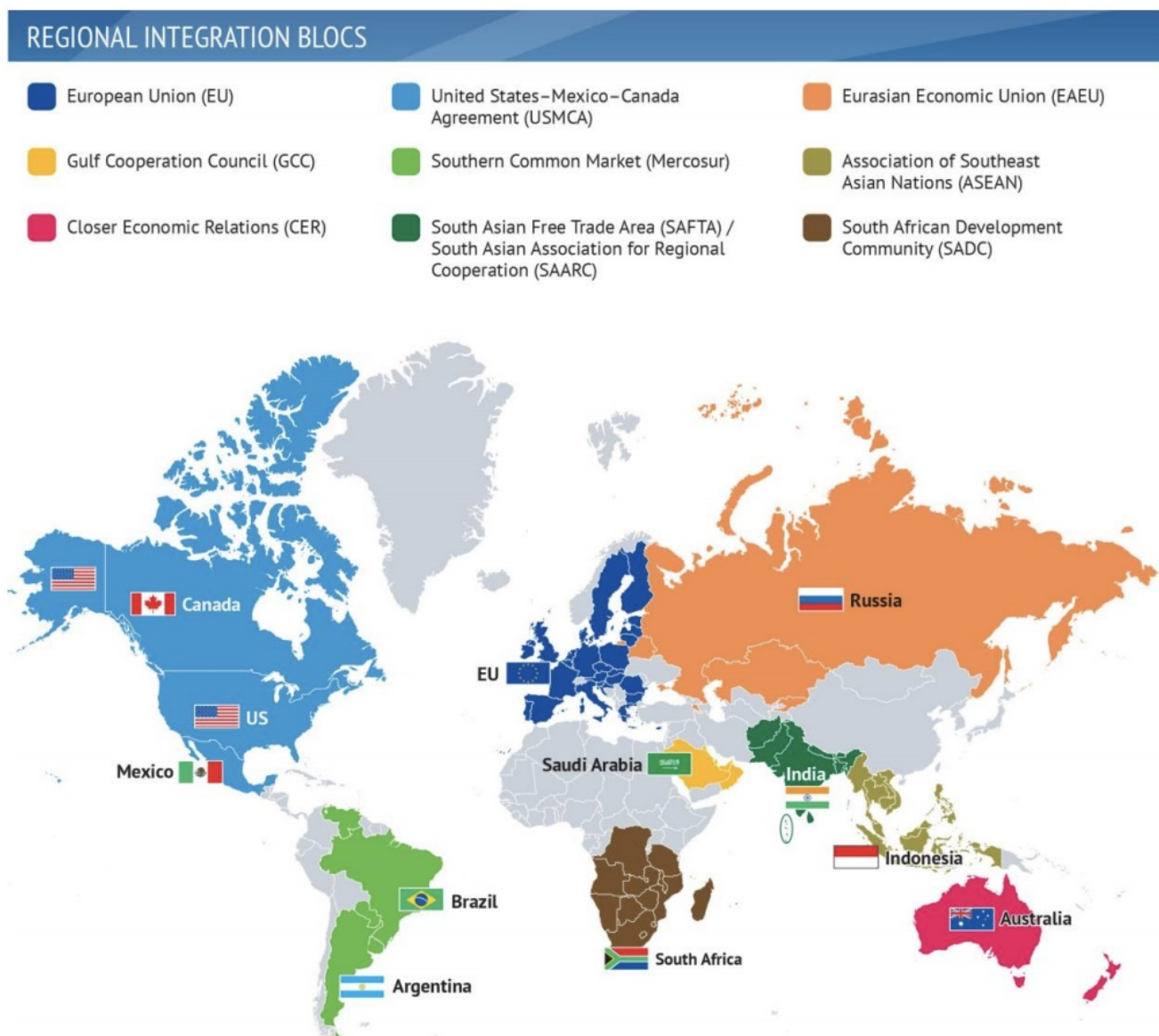
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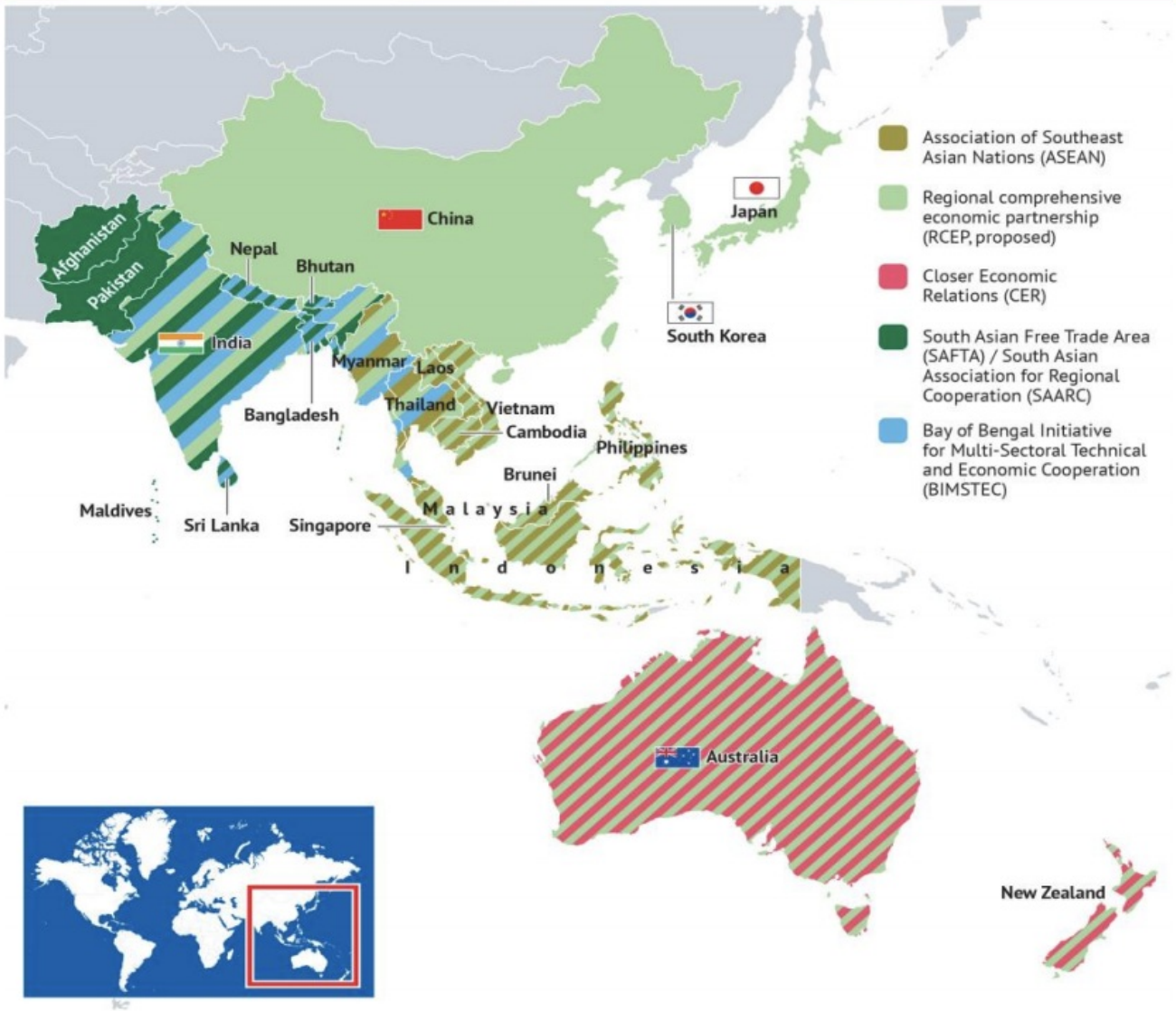
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Appendix: Regional integration blocs



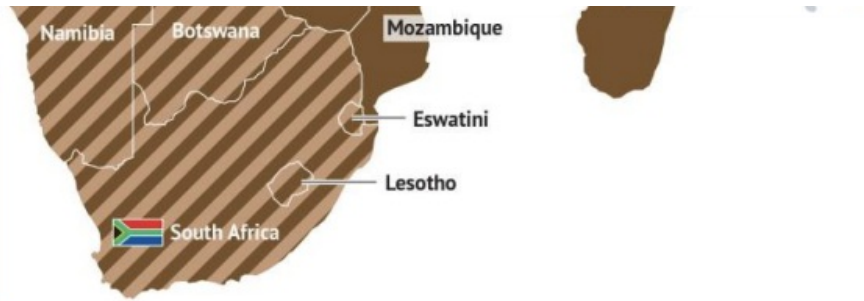
Note: United Kingdom has voted to quit the European Union, while Venezuela's membership in Mercosur is suspended. G20 members are marked by national flags.

INDO-PACIFIC



SOUTH AFRICA





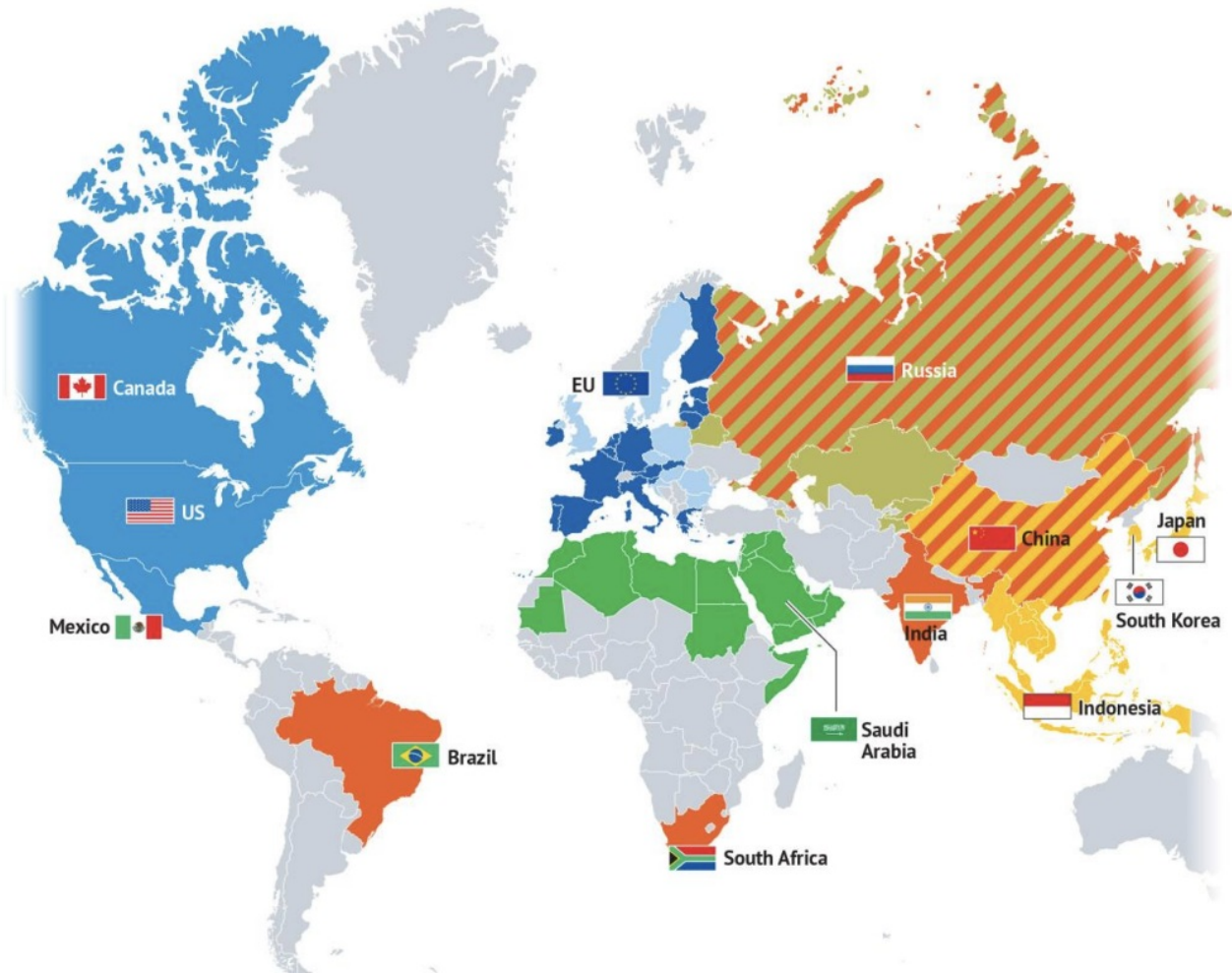
Appendix: Regional financing arrangements

RFAs are mechanisms or agreements through which groups of countries mutually pledge financial support to countries experiencing financial difficulties in their regions.

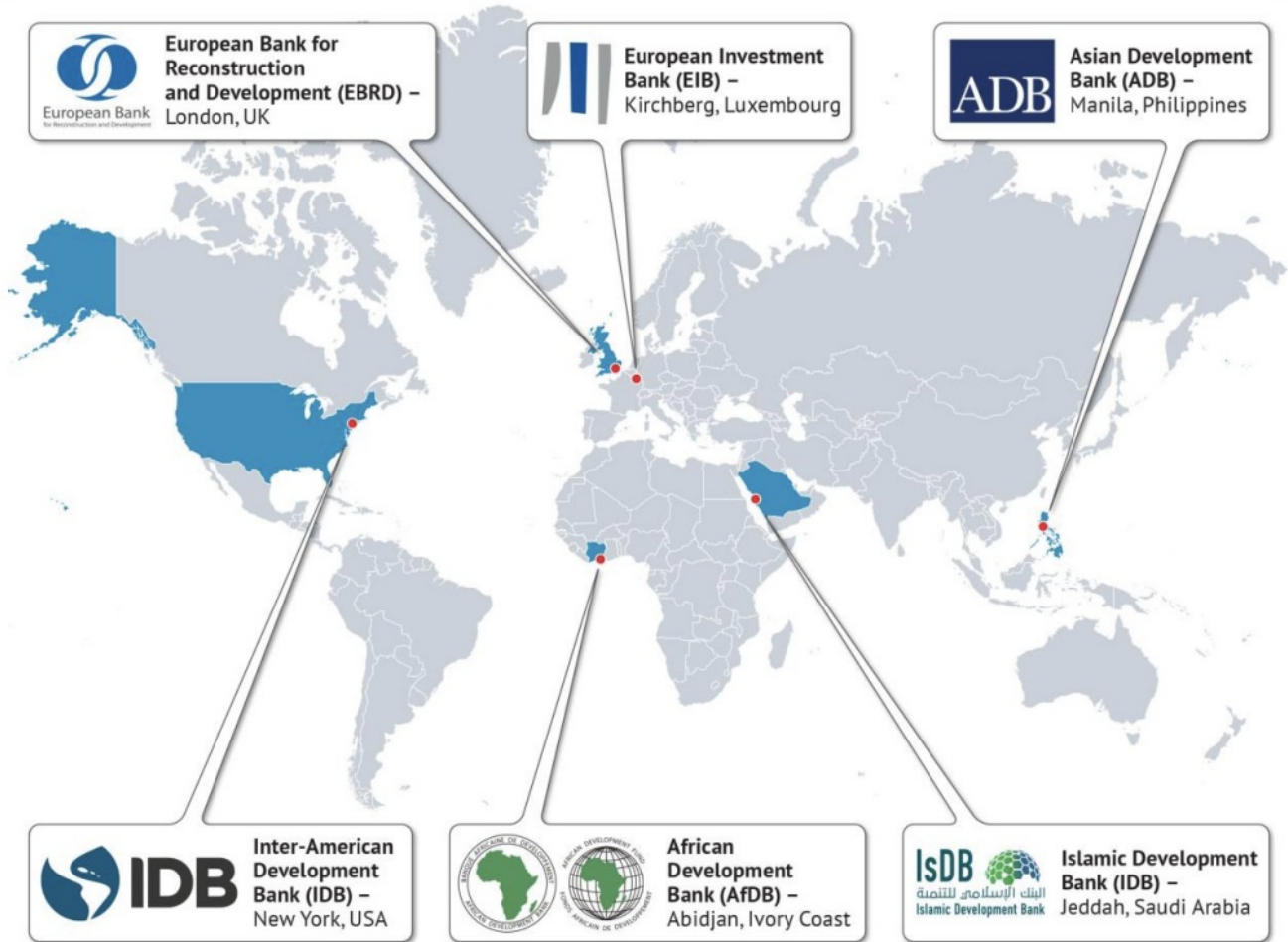
REGIONAL FINANCING ARRANGEMENTS

RFAs are mechanisms or agreements through which groups of countries mutually pledge financial support to countries experiencing financial difficulties in their regions.

- Arab Monetary Fund (AMF)
- North American Financial Agreement (NAFA)
- BRICS Contingent Reserve Arrangement (BRICS CRA)
- Eurasian Fund for Stabilization and Development (EFSD)
- Chiang Mai Initiative Multilateralization (CMIM)
- European Stability Mechanism (ESM)
- EU Balance of Payments Facility



REGIONAL DEVELOPMENT BANKS



Existing Initiatives & Analysis