International Studies Review

International Studies Review (2011) **13**, 109–121

Global Governance in a Multipolar World: The Case for Regional Monetary Funds[1]

Raj M. Desai
The Brookings Institution and Edmund A. Walsh School of Foreign Service, Georgetown University

James Raymond Vreeland
Edmund A. Walsh School of Foreign Service, Georgetown University

The reform of global financial governance is long overdue. Recent changes to the governance of the International Monetary Fund partially address the lack of representation of emerging market countries, but not their loss of confidence in the institution. In the meantime, alternative and perhaps better approaches to the problems of open economics are being proposed at a regional level. We describe these regional monetary funds and discuss their prospects. We conclude that because economic interdependence is strongest at the regional level, regional cooperation seems well-suited to a multipolar world.

The reform of global financial governance is long overdue. Prior to the global financial meltdown of 2008, a number of proposals to correct imbalances in global governance had been advanced. Yet, the rise of the Group of Twenty (G-20) in late 2008 leap-frogged over these reform efforts, and it has become increasingly clear that the global institutions of economic governance are ill-suited to address the political-economic realities of the twenty-first century. The recent agreement to increase voting shares for emerging market countries in the IMF and the World Bank partially addresses the question of representation, but not the loss of confidence in these institutions. In the meantime, alternative and perhaps better approaches to the problems of open economics are being proposed at a regional level.

The 2008 financial crisis underscores a shift in global power that has been taking place. In the 1990s, the United States—and the international institutions where the US voice is strongest—coordinated the responses to financial crises all over the world, notably in Mexico, East Asia, Russia, Brazil, and Argentina. In 2009, the United States and the IMF largely ceded agenda-setting power to the G-20, which, in an ad hoc manner, acquired greater responsibility for coordinating regulatory responses to the crisis, as well as securing commitments to triple IMF resources. Yet most of the developing world continues to shun IMF money, despite the easing of conditionality on lending.

[1]We thank Daniela de Michele, Juan Carlos Holguin, Fernando Lorenzo, and Carla Majdalani for comments, and the *Universidad Nacional de San Martín* (especially Victoria Ballerini) and *Georg-August-Universität Göttingen* for administrative support.

doi: 10.1111/j.1468-2486.2010.01002.x
© 2011 International Studies Association

Moreover, most middle-income (and some lower-income) countries, following the global financial turmoil of the late 1990s, have amassed international reserves rather than ceding economic sovereignty to the IMF. This preventative "self-insurance" has largely replaced global monetary cooperation, at least for countries with sufficient foreign exchange inflows.

Meanwhile, a regional alternative to "global" governance has emerged over the past decade, with regional core powers asserting a larger role and building frameworks for cooperation. Pressures for a new regionalism have been coming from several quarters, but particularly from middle-income countries. Last year, for example, Prime Minister Vladimir Putin called for concerted action to break the stranglehold of the US dollar and create a new global structure of regional powers (see Desai and Vreeland 2010). In East Asia, the Chiang Mai initiative of the Association of Southeast Asian Nations plus China, Japan, and South Korea (ASEAN + 3) may be a precursor to an Asian Monetary Union. Although much newer, the Union of South American Nations (UNASUR)—born from the convergence of MERCOSUR and the Andean Community, as well as President Hugo Chavez's proposed Banco del Sur—are considered by many in the region to be necessary counterweights to the Bretton Woods Institutions. More recently, the African Union has proposed the establishment of an African Monetary Fund.

These pressures will only grow stronger in the coming years as economic ties continue to strengthen at the regional level. Institutionalizing the regional commitments of the world's largest economic powers does not mean that efforts to strengthen the institutions of global governance should be abandoned. But it is increasingly likely that a single set of overarching institutions is inappropriate for a regionally diverse global economy.

The role of intergovernmental organizations in reforming global governance has received much scholarly attention in recent years (e.g., Weiss 2000; Momani 2004; Martinez-Diaz 2010). By contrast, regional organizations have generally been ignored in these reforms (with some notable exceptions, e.g., Hurrel 2007; Katzenstein 2005; Kilby 2006). Yet many of the debates and the analytical tools that have been applied to global organizations also apply to regional organizations. Thus, the scholarly community has a good deal to say to the policymakers who are shaping the trajectories of various regional organizations. This article draws particularly on existing research on the IMF, as well as the emerging literature on regional organizations.

While acknowledging some potential weaknesses of regional organizations, regionally based economic governance can be more effective—in terms of representation, coordination, and crisis-management—than the current Bretton Woods institution–dominated system. However, the fundamental issue confronting IMF lending—namely, the trade-off between providing liquidity and imposing austerity—will remain a central issue for regional monetary funds as well. But because of greater economic integration and increasingly converging interests among countries in common regions, more sustainable resolutions to crises may be reached at the regional level.

At a Crossroads, from Bretton Woods to the G-20

In 2003, for the first time since the nineteenth century, the share of the global economy held by the 21 richest countries fell below 50% (Figure 1). The US share has fallen below 20%. More importantly, while the wealthiest countries' share of global economic growth remained at around 50% between 1960 and 2000, it has fallen to just over 25% in the past decade (Figure 2). Change at the IMF has not kept pace (Buira 2005; Woods 2005). Although the wealthiest countries' voting shares on the IMF's Executive Board are now roughly on par with their economic power (that is about 41%), there are notable imbalances:

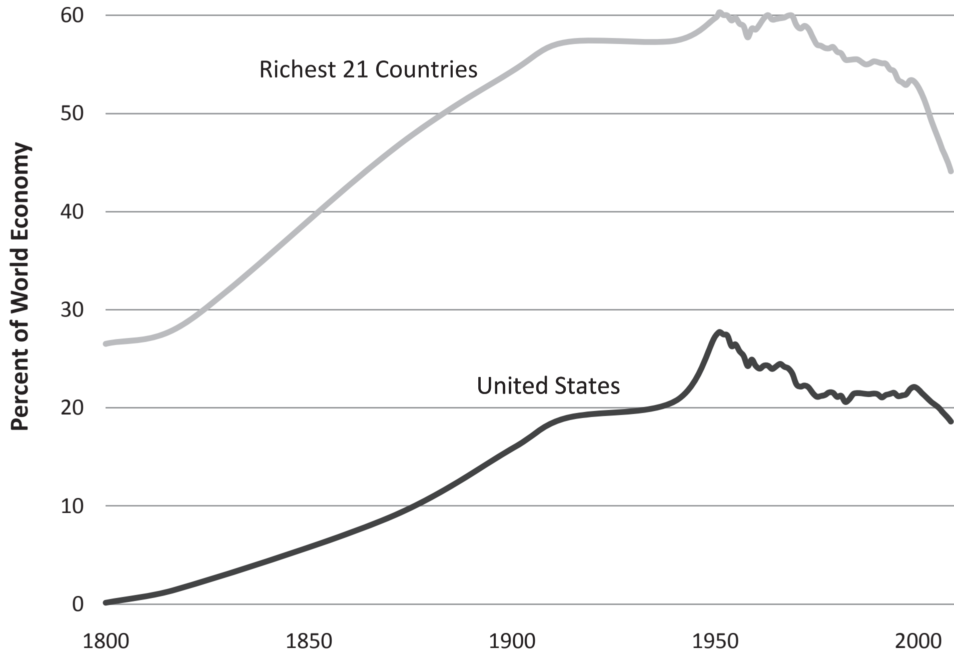

FIG 1. Share of Global GDP Held by the World's Richest Economies, 1800–2008. (*Notes*. Richest economies are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and United States). Maddison, Statistics on World Population, GDP and Per Capita GDP, 1–2008 AD).

in particular, the fastest-growing developing nations with large economies are woefully underrepresented. China has about three quarters the vote shares of France even though China's economy is larger by a factor of four. Belgium has 50% more vote shares than Brazil despite having one-fifth as large of an economy. India's share is slightly more than Switzerland's even though India's economy is tenfold larger (see Vreeland 2010). These vote shares matter because of the perception that the IMF has mainly served the interests of Western Europe and the United States (see Stone 2002; Dreher and Jensen 2007; Dreher, Sturm, and Vreeland 2009; McKeown 2009; Copelovitch 2010).

Yet, the G-20 is not a viable alternative. It is not much more representative than the current Executive Boards of the IMF and the World Bank. In addition to a European Union seat, there are seats for Germany, France, the United Kingdom, Italy, and the next largest economies of Europe, the Netherlands and Spain, have lobbied for de facto representation at G-20 summits. There have also been requests for an additional "Nordic chair" and a seat for the political head of the Eurozone at the G-20 (Bhattacharya, Bradford, and Linn 2010). Moreover, the G-20 has internal squabbles. Fundamental divisions among members have continued to plague the gatherings, potentially limiting the effectiveness of the group as a mechanism for economic coordination.

International monetary cooperation, particularly in times of financial crisis, typically involves providing liquidity in exchange for regulatory and policy reforms. Creditor countries fear that debtor countries will use loans to sustain the very policies that precipitated the need for a loan in the first place. So, in return for a loan, policy conditions are imposed. The central question is always: how much austerity should be required of a borrowing country?

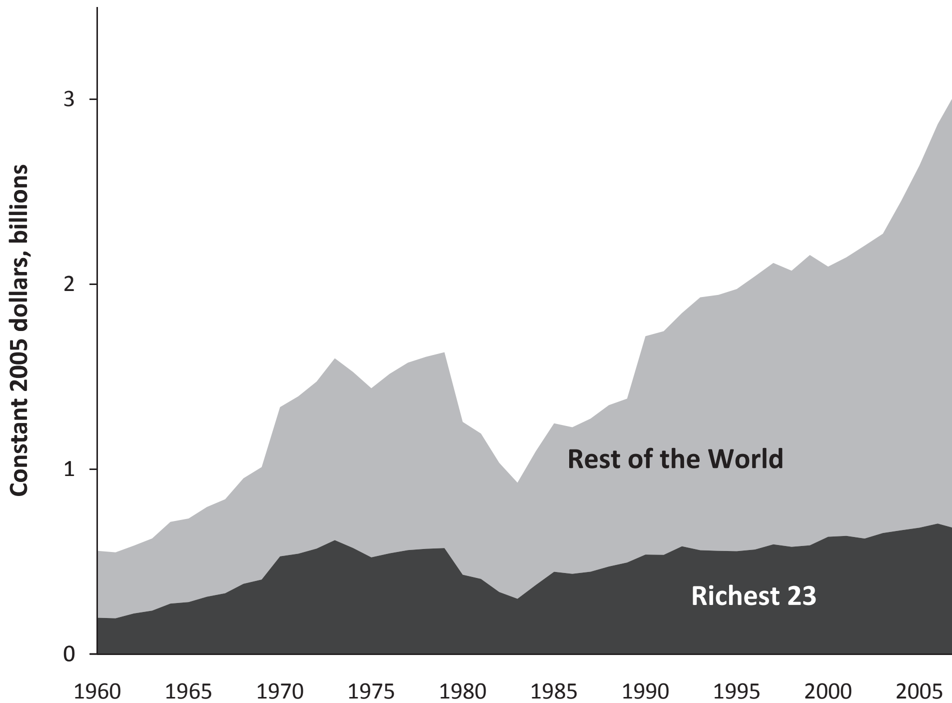

FIG 2. Global Growth, 1960–2008. (*Notes*. Graph shows 10-year moving averages of annual aggregate increases in GDP in constant 2005 dollars. Richest 23 includes the 21 countries from Figure 1 plus Iceland and Luxembourg). Heston, Summers, and Aten (2009).

The IMF answer has varied over time and across borrowers. During the 1980s and 1990s, the major shareholders did not borrow from the IMF, and they advocated harsh austerity programs for the developing countries that did borrow. The return of European borrowers to the IMF portfolio along softer conditionality has led to charges of a pro-European bias. For example, the former finance minister of Japan, Eisuke Sakakibara, has drawn attention to the less stringent conditionality for Greece in 2010 than for Korea in 1997.[2]

Recall that conditionality was also lighter during the Bretton Woods fixed-exchange rate era back in the 1950s and 1960s, when Western European countries regularly turned to the IMF. There were, however, some conditions attached to loans, and Western European governments did not care for even this light "conditionality," which they felt impinged on national sovereignty. Then, in the midst of growing social spending and the Vietnam War, deficits began mounting in the United States. Faced with the unpopular prospect of an American austerity program before an election, President Nixon suspended dollar convertibility to gold and introduced a floating exchange rate in 1971. Within three years, every major industrialized country followed suit (see Eichengreen 1996). Under floating exchange rates, developed countries did not need the IMF (at least not until recently—see Mylonas and Vreeland 2010).

For developing countries, however, rising oil prices and heavy borrowing during the 1970s drove them to IMF programs that, in collective memory, were responsible for severe economic contractions and growing economic inequality

[2]See "South Korea can teach Greece some hard lessons on how to survive a crisis," *Sydney Morning Herald* (May 12, 2010).

(Vreeland 2002; Smith and Vreeland 2006). The tools developed by the IMF to address the debt crisis—price stabilization through devaluation as well as monetary and fiscal contraction, followed by structural adjustment programs that aimed at reducing debt requirements—were essentially unchanged up through the crises of the early 2000s.

To a great extent, these memories, combined with the current mismatch between IMF representation and economic power, have eroded the legitimacy of the IMF, perhaps irrevocably. It is highly unlikely that any East Asian politician who remembers the Asian Crisis of the 1990s will seek money today from the IMF's Standby Facility. In Latin America, IMF lending is associated with policies that prolonged recessions and that contributed to a leftward turn during the 2000s. Since 2007, consequently, the IMF has concentrated the bulk of its lending to European countries in distress. Of the $90 billion in IMF current standby arrangements, over three quarters of the money is committed to six countries: Greece, Hungary, Iceland, Latvia, Romania, and Ukraine.[3]

Most emerging market countries are starting to rely instead on reserve accumulation to ensure the stability of their own currencies (and to permit national consumption smoothing) during recessions. But reserve-hoarding is inefficient and can result in losses (Higgins and Klitgaard 2004; Joyce and Razo-Garcia 2010). Pooling resources to deal with the vagaries of open economies provide benefits in terms of efficiency, but also raises the prospect of moral hazard. When the largest shareholders of the IMF are unsure from one year to the next whether they will be creditor or debtor countries—or when the provision of liquidity to a strategic country may be important for their own economic performance—there is more emphasis on lending, less on austerity. But when the creditor countries control the votes, and there is a lack of common economic interest, harsher conditionality may be attached for countries of some regions than for others. The question of governance is therefore about how to navigate between these costs and benefits by using the leverage of conditionality. Because shared economic interests are strongest at the regional level, regional cooperation may be the most appropriate solution in a multipolar world.

Why Embrace the New Regionalism?

Figure 3 compares the shares of regional GDP held by the largest and second largest economies in South and East Asia and in Sub-Saharan Africa, and by the top three economies in Latin America and the Middle East. What emerges from this picture is a case of hegemons clearly on the rise in the form of India, China, and Brazil, as well as some other economies whose regional economic dominance has been more volatile, such as South Africa and Saudi Arabia. What advantages can this regionalism have over a single global mechanism?

First, an imperative to reduce the risks of financial contagion has given regional governance efforts a boost. History shows that financial crises have common effects among neighbors producing the same products for the same export markets. In East Asia, shrinking export markets in the United States and European Union, for example, have contributed to high manufacturing job losses, and falling industrial capacity utilization. In Latin America, high exposures to commodities mean that both export prices and volumes are receding, and trade balances are moving into negative territory. As global portfolios have shifted to US Treasuries and high-grade debt securities guaranteed by rich countries, capital inflows to Latin America have fallen fast. In Sub-Saharan Africa, the food and fuel price shocks of 2007–2008 that preceded the current global financial crisis weakened the external position of net importers of food and fuel. While there are

[3] For details, see http://www.imf.org.

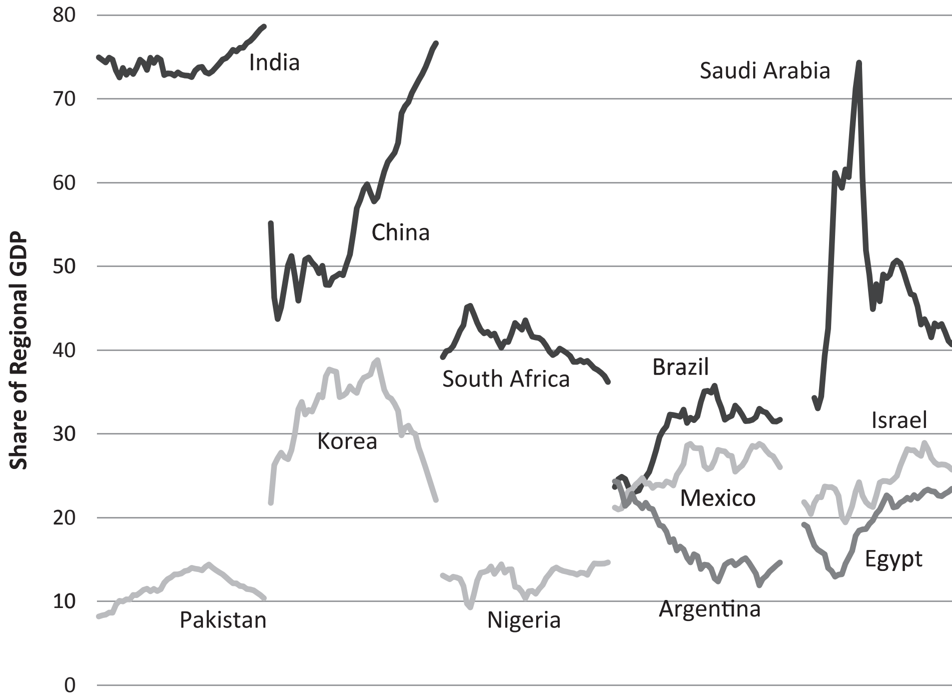

FIG 3. Identifying the Regional Hegemons, 1960–2008. (*Notes.* Lines represent each country's share of regional GDP between 1960 and 2008. Regional GDP figures include all countries from: South Asia, East Asia/Pacific (excluding Japan), Sub-Saharan Africa, Latin America/Caribbean, and Middle East/North Africa). World Bank, World Development Indicators.

exceptions to these regional patterns, the channels by which financial crises are transmitted around the globe tend to be region-specific.

Second, rising intra-regional trade and investment warrants region-specific mechanisms to address trade issues, as well as to harmonize standards and ensure greater cooperation with regional "hubs." While trade-flows in the rest of the world roughly tripled between 1990 and 2006, inter-regional trade in emerging Asia increased by 8½ times,[4] and exports between its economies have risen steadily from about 30% of the total in the late 1980s to over 46% in 2008. In South America, intra-regional exports as a share of the total doubled—from about 10% to 20% in the same period. In Sub-Saharan Africa, the increase was from about 4% to over 9%. The increase in intra-regional trade among some established trade blocs has been even sharper: between 1990 and 2008, within-bloc exports as a percentage of the total has increased over 8% among Southern African Development Community (SADC) members; 7% each among the Caribbean Community and Common Market (CARICOM) and MERCOSUR; 6% among ASEAN; and 3% among the South Asian Association for Regional Cooperation (SAARC).

Third, regional governance mechanisms are often better placed to coordinate economic actions given the greater stakes that nations may have. Nowhere is this clearer than in South America. Although Chavez did not formally withdraw Venezuela from the IMF, he has continued to complain bitterly about IMF

[4]Our data on intra-regional trade and investment come from United Nations Conference on Trade and Development (Various years).

involvement in Latin America. Ecuador had resisted pressure from the Bretton Woods institutions to use gas revenues to pay down its debt; some years later, President Rafael Correa (who was finance minister during the dispute) ejected the World Bank's representative from Ecuador.[5] Bolivia, Nicaragua, and Venezuela have all announced their intention to withdraw from the World Bank-affiliated International Centre for the Settlement of Investment Disputes. These and other Latin American nations have long-viewed global institutions, such as the IMF and World Bank essentially as tools of the United States.

Fourth, as a result, regional institutions may be more effective at helping intransigent countries maintain higher credit ratings. Regional development banks, for example, have typically relied on informal pressure rather than conditionality, thereby encouraging countries, even in difficult times, to continue servicing debts. Between 1999 and 2003, for example, the Andean Development Corporation (CAF) had practically no delinquency in its loan portfolio. When Ecuador faced a financial crisis in the late 1990s, it continued servicing its debt to the CAF but not to other creditors; a similar action that Peruvian President Alan Garcia had performed in the 1980s (Griffith-Jones, Griffith-Jones, and Hertova 2008).

Finally, it is worth noting that there are other, non-economic rationales for regional cooperation. In particular, arguments have been advanced regarding the goal of building "regional" identities, and their effects on regional and global security (Acharya 2009; Weiss, Forsythe, and Coate 2009). Europe is, of course, the most advanced on the question of monetary union, collective security, and identity, and while nationalism is still a powerful force, increasing percentages of country populations identify themselves as "European" (Mayall 1990; Marcussen, Risse, Englemann-Martin, Knopf, and Roscher 1999; Christiansen, Jorgensen, and Wiener 2001; Hay and Rosamund 2002). Regional integration among middle- and lower-income countries based on a framework for regional monetary funds would further this regionalist project in those areas.[6]

A First Step: Regional Monetary Regimes

Financial crises over the last decade show that the unilateral defense of a national currency is a challenging task, but one that can be helped through the collective efforts of countries banding together—indeed, this was the rationale for the creation of the IMF. A natural place to start in fashioning a regionally based system of global governance lies in understanding how a system of regional monetary regimes can be built.

In addition to ending the monopoly status of the traditional institutions of global governance, regional monetary regimes can fulfill another important function: addressing the problem of currency-debt mismatch. For developing countries, the problem of "original sin," as Eichengreen and Hausmann (2005) call it, is that firms and governments find it impossible to borrow long term in their own currencies and are therefore forced to do one of two things: borrow exclusively short-term, or accumulate indebtedness in foreign currency. Both of these increase volatility which, in the presence of a large stock of unhedged, foreign-currency denominated debt, often leads to dramatic declines in the private sector's credit worthiness. Most countries outside the major currency blocs and financial centers of Europe or the United States are tainted by original sin.

Unlike business cycles, which can be mitigated by domestic monetary and fiscal policies, the effects of original sin cannot be limited by domestic macroeconomic

[5]See "Ecuador expels World Bank envoy," *BBC News Americas* (April 26, 2007).

[6]For analyses of the pros and cons of regional frameworks for international security, see Fawcett (1995) and Weiss et al. (2009).

policy. In the medium-term, deepening regional monetary cooperation via liquidity funds, regional exchange-rate mechanisms or currency unions can cushion countries from the impact of economic shocks, such as the one the world has recently experienced. In the long run, it is also possible for regional monetary regimes to minimize a country's exposure to currency and maturity mismatches and the share of foreign-currency denominated debt.

This, of course, depends on the extent to which regionally integrated financial markets with stabilized intra-regional exchange rates can be developed. In addition to a willingness to cooperate, a clear regional "hierarchy" in terms of foreign-currency liabilities must be in place. Regional monetary regimes will not be possible where all regional nations are equally indebted in foreign currency. One or more economies must have limited foreign-currency debt—a low level of "original sin"—to play a strong lender-of-last-resort function, and to have the capacity to intervene in favor of weaker countries during extra-regional shocks. Regional "original-sin" hierarchies, combined with the presence of a regional economic hegemon, are signs of a region well-suited to a regionally based monetary regime.

A two-tiered system for the global financial architecture—an IMF alongside a single or set of monetary fund(s) for developing countries—has been proposed elsewhere (Johnson 2009; Subramanian 2010). Indeed, recent proposals for a European Monetary Fund (EMF) in light of the Greek crisis seem to have embraced this two-tiered strategy; as the German finance minister has insisted.[7]

A proposed EMF would not need to inject liquidity into distressed European banking systems—this is the responsibility of the European Central Bank. But the Eurozone currently lacks institutionalized mechanism to impose austerity on spendthrift governments—hence the role of the IMF in the Greek bailout.[8] An EMF would thus perform a function that the Eurozone lacks, namely, an institution that imposes austerity.

In principle, a number of regional funds could play a first-stop role. These could be institutions where nations in distress could turn before borrowing from the IMF. The current reality is that for middle-income countries in Asia and South America, unlike any potential EMF, regional entities would likely compete with the IMF, not act in a supplementary, "triaging" manner. This, however, is not necessarily a bad thing, because regional monetary funds could form the basis for more effective regional governance.

East Asia

Japan first proposed an Asian Monetary Fund (AMF) in 1997, following the East Asian financial crisis, originally aiming to create a pool of funds to be quickly disbursed as a means of emergency balance of payments support for the crisis-hit economies. As Lipscy (2003) explains, the Japanese finance ministry made three observations: (i) the US-IMF bailout of Mexico in 1995 was vital for the economic health of North America, (ii) the United States did not have the same incentive to bailout the East Asian countries to which the Japanese economy was intimately tied, (iii) while the United States could push the IMF to pursue US policy preferences, Asian governments lacked political influence.

The AMF proposal was enthusiastically welcomed by most East Asian economies. While the bulk of financing would have been from Japan, it reportedly received pledges of contribution from Hong Kong, Taiwan, and Singapore. But US Treasury pressure killed the proposal, seeing an AMF as a threat to US influence in Asia (Wade and Veneroso 1998).

[7]See http://euobserver.com/9/29623.

[8]For the details of the conditions, see Thomsen and Muhleisen (2010).

In early 2000, the idea was revived under the Chiang Mai Initiative (CMI), which began as a series of bilateral currency swap arrangements among the ASEAN + 3 countries. As of March 2010, CMI now encompasses a multilateral agreement for the signatory countries—essentially turning it into a $120 billion regional "reserve" pool. Note that CMI does not obviate the need for the IMF: if a country needs to borrow more than 20% of the available swaps, it must submit to IMF guidelines on economic reform—a de facto "conditionality" intended to deter lax economic policies (see, for example, Woo 2007).

Given the rapid reserve accumulation among its members, the Chiang Mai initiative is ideally suited to form the basis for an eventual AMF. ASEAN finance ministers recently have taken first steps in that direction by establishing a surveillance office to administer the fund (to be headquartered in Singapore), which will monitor economic developments in the region and also make urgent decisions on the activation of a reserve fund to help defend regional currencies in times of financial turmoil. The fact that China and Japan have contributed equally to the reserve fund (32%) is a major difference between the CMI and the previous AMF proposal (which China had avoided because of its secondary role).

Latin America

Progress in financial integration in Latin America has lagged behind Asian efforts. Agreements among Latin American authorities have created a large number of organizations for regional cooperation, but these have not generally been accompanied by a deepening of financial links.

Part of the impetus for a Latin American alternative to the IMF, as suggested above, stems from the withdrawal of the region from the IMF portfolio. Since 2005, the Latin American share of IMF outstanding loans has fallen from 80% to 1% (McElhinny 2007). Against this, Chavez proposed the Banco del Sur ("Bank of the South"), a South American reserve fund with a new unit of account—the SUCRE—based on a basket of currencies, excluding the dollar (Machinea and Titelman 2007; Ortiz and Ugarteche 2008; Malamud 2009; Ocampo and Titelman 2009). Currently, seven South American nations have pooled $20 billion into the Banco del Sur (Romero and Bedoya 2008).

Unlike the Chiang Mai Initiative, the Banco del Sur designers insisted on a "no conditionality" clause, indicating that the Banco del Sur will determine the capacity of its members to borrow and will not place any restrictions on repayment beyond the established terms of the loan (McElhinny 2007). Currently, because no members possess investment-grade credit ratings, the Banco del Sur may not be able to access international credit markets to the same extent as the CMI nations, potentially raising the real cost of loans. Chavez has suggested that the $200 billion in Latin American reserves invested outside of the region could be transferred to the Banco del Sur; the institution would become one of the largest in the world overnight (McElhinny 2007).

Despite these "start-up" concerns—as well as the fact that Banco del Sur funding depends on Venezuela's oil revenues—it is possible for a reformed Banco del Sur to play a vital role in Latin America's economic management. Proposals have been advanced, for example, for the Banco del Sur to take steps toward establishing a monetary union, and to operate as a monetary "circuit breaker" between regional economies and turbulent global financial markets (Marshall and Rochon 2009).

Africa

Regionalization in Sub-Saharan Africa has a long but uneven record. Monetary cooperation along colonial lines is more common in Africa than in other developing regions. Of the world's five monetary unions, for example, two are in

Africa: the Economic and Monetary Community of Central Africa (CEMAC) and the Western African Economic Monetary Union (WAEMU), both of which comprise the CFA Franc Zone. Unfortunately, a feature of regional cooperation in Africa is the existence of overlapping regional integration initiatives, leaving countries subject to multiple monetary regime requirements. For instance, the CFA Franc Zone partially overlaps with the Economic Community Of West African States but has different surveillance criteria (Masson and Pattillo 2004).

Article 19 of the *Constitutive Act of the African Union* calls for the establishment of an African Monetary Fund (AfMF) as one of the necessary financial institutions needed to advance region-wide monetary integration. As with the CMI and the Banco del Sur, much of the push to establish an AfMF comes from disappointments with international financial institutions. In the African case, however, IMF quotas being small, the amount and the type of liquidity provided by the IMF have been largely inadequate for African development-financing needs.

The AfMF proposal is to provide short-term and medium-term loans to member countries to finance balance of payments deficits with countries outside Africa. The AfMF is also to issue guarantees to strengthen the borrowing capabilities of members, as well as coordinate the monetary policies, encourage intra-regional capital movements, and consolidate a framework for surveillance (Mbaru 2005).

To be headquartered in Cameroon,[9] little progress has been made in establishing the AfMF. Although small, fragmented African economies could benefit from region-wide integration, so far, the AfMF has not received uniform support from prospective members, none of whom have officially subscribed to its capital. Unlike the Banco del Sur, the AfMF proposal does not involve a one-state, one-vote arrangement. A wide disparity in the sizes of Sub-Saharan economies is perhaps one of the reasons most of the smaller African economies prefer to remain closely wedded to sub-regional arrangements.

The Middle East

Regional organizations have a checkered past in the Middle East (see Tripp 1995). Yet, a regional monetary regime for the Middle East would be supported by two pillars: the Arab Monetary Fund (ArMF), established in 1976, and the Gulf Cooperation Council (GCC), for whom a currency union has been a chief objective since the early 1980s (Abed, Nuri Erbas, and Guerami 2003; also see Fasano 2003; Abu-Qarn and Abu-Bader 2006). The ArMF was established among unprecedented oil revenues flowing into Gulf States for the purpose of "correcting disequilibria in the balance of payments"—a liquidity-fund function for regional oil importers (Jordan, Egypt, Syria, and Lebanon).[10] Meanwhile, the GCC has forged ahead with monetary integration; GCC countries have unrestricted intra-regional mobility of goods, labor, and capital; regulation of the banking sectors is being harmonized; and in 2008, the countries established a common market. Further, most of the convergence criteria for entry into the monetary union have already been achieved (Khan 2009).

In establishing a monetary union, however, the GCC countries have been at odds over choice of exchange rate regime for the single currency. The countries' use of a US dollar peg as an external anchor for monetary policy has so far served them well, but rising inflation and differing economic cycles from the United States in recent years have raised the question of whether the dollar peg remains the best policy.

Regional economic diversity remains both an impediment as well as an advantage. The obvious dichotomy between oil exporters and importers as well as the

[9]See the African Union Press Release 176/2009, Addis Ababa, Ethiopia.

[10]See Article 1 of the *Articles of Agreement of the Arab Monetary Fund.*

lack of intraregional trade means that business cycles are not well synchronized. On the other hand, the oil boom (2002 to mid-2008) generated a large volume of revenues for the six GCC countries, more than doubling the average of the preceding 5 years (Saif 2009). The GCC foreign-reserves surplus put them in a good position to invest regionally, which they have done in abundance in the past decade. The Middle East, then, may find that a regional monetary regime led by the GCC rather than a single core state is better suited to local economic conditions. This path, however, requires the GCC to settle some Saudi-UAE conflicts that have arisen in recent years over control of regional institutions. In April 2010, for example, GCC currency union plans were postponed after Oman and the UAE withdrew from the proposed monetary union, objecting to the decision to locate the headquarters of the Gulf Monetary Council in Riyadh (Habboush 2009).

Accepting the Inevitable

Regional governance, in varying degrees of formation, is a reality around the world. It is now left to the United States, Western Europe, and Japan—the global economic powers of the last 35 years—to decide whether to hinder, support, or ignore these efforts. They need a policy toward the fast-growing developing world that lowers rather than raises the costs of regulating the global economy. An enhanced role for regionally based governance mechanisms led by regional core powers does precisely that. Strategically, regional governance would also enable the United States to focus attention on key regional hegemons—akin to supporting globally critical "pivotal" states (Chase, Hill, and Kennedy 1996).

More importantly, regional governance can work in tandem with global governance mechanisms. If trends continue, after Europe recovers from the current crisis, the IMF will be back in the situation in which it found itself between 2002 and 2007: few customers and an uncertain future, regionally based competition for liquidity provision may actually have a positive effect on the IMF's relationships with the developing world. The IMF could even coordinate with regional monetary regimes in assisting governments in distress. Nor does regional governance spell the obsolescence of the G-20 or similar global *fora*. Collective action that may simply be unattainable via the G-20 is more likely when the agenda is set by regionally based institutions.

The US-EU-Japan bloc has several ways of supporting the development of well-crafted, functioning regional governance mechanisms. It can start with strategic technical assistance to fledgling regional monetary regimes, efforts to promote intra-regional trade and investment agreements, and helping to coordinate the actions of regional government agencies. In short, the leaders of the institutions of global governance can buttress the viability of regional governance institutions rather than prevent them.

The task will not be easy. Intra-regional disputes and an unwillingness to cede economic sovereignty have plagued regionalization efforts around the world. Some argue that developing regions lack the integrationist tradition and the web of interlocking agreements that encouraged monetary and financial cooperation in Europe. These sentiments, however, ignore the profound intra-European struggles—including two devastating wars—that were left behind on the road to unification. In this regard, developing regions are much more regionally integrated than was Europe at comparable stages of economic development.

Following World War II, who would have expected historic rivals to build an international organization that would one-day acquire quasi-sovereign status? Compared to that starting point, regional commitments outside of Europe are already more advanced. There will be conflicts, but international monetary cooperation is about navigating the elusive balance between the provision of liquidity and the imposition of austerity. For legitimate compromise to be possible, it is

important that the key actors have common interests. As economic interdependence is strongest at the regional level, regional cooperation seems well-suited to a multipolar world.

References

Abed, George, T. S. Nuri Erbas, and Behrouz Guerami. (2003) The GCC Monetary Union: Some Considerations for the Exchange Rate Regime. IMF Working Paper No. 03/66.

Abu-Qarn, Aamer S., and Suleiman Abu-Bader. (2006) On the Optimality of a GCC Monetary Union: Structural VAR, Common Trends and Common Cycles Evidence. Monaster Center for Economic Research Discussion Paper No. 06-11.

Acharya, Amitav. (2009) *Constructing a Security Community in Southeast Asia*. New York: Routledge.

Bhattacharya, Amar, Colin I. Bradford, and Johannes F. Linn. (2010) *Europe's Governance Stalemate Causes Gridlock for Global Governance Reform*. Washington, DC: The Brookings Institution.

Buira, Ariel. (2005) *Reforming the Governance of the IMF and the World Bank*. London: Anthem Press.

Chase, Robert, Emily Hill, and Paul Kennedy. (1996) Pivotal States and US Strategy. *Foreign Affairs* 75 (1): 33–51.

Christiansen, Thomas, Knud Erik Jorgensen, and Antje Wiener. (2001) *The Social Construction of Europe*. London: Sage.

Copelovitch, Mark S. (2010) *The International Monetary Fund in the Global Economy*. New York: Cambridge University Press.

Desai, Raj M., and James Raymond Vreeland. (2010) Are Davos Man's Days Numbered? Up Front Blog, The Brookings Institution. 26 January.

Dreher, Axel, and Nathan M. Jensen. (2007) Independent Actor or Agent? An Empirical Analysis of the Impact of US Interests on IMF Conditions *Journal of Law and Economics* 50 (1): 105–124.

Dreher, Axel, Jan-Egbert Sturm, and James Raymond Vreeland. (2009) Global Horse Trading: IMF loans for votes in the United Nations Security Council. *European Economic Review* 53 (7): 742–757.

Eichengreen, Barry. (1996) *Globalizing Capital*. Princeton, NJ: Princeton University Press.

Eichengreen, Barry, and Ricardo Hausmann. (2005) *Other People's Money*. Chicago, IL: University of Chicago Press.

Fasano, Ugo. (2003) *Monetary Union Among Member Countries of the Gulf Cooperation Council*. IMF Occasional Paper 223. Washington, DC: International Monetary Fund.

Fawcett, Louise. (1995) Regionalism in Historical Perspective. In *Regionalism in World Politics*, edited by Fawcett Louise, and Andrew Hurrell. Oxford: Oxford University Press.

Griffith-Jones, Stephany, David Griffith-Jones, and Dagmar Hertova. (2008) Enhancing the Role of Regional Development Banks. United Nations Conference on Trade and Development, G-24 Discussion Paper Series, No. 50.

Hay, Colin, and Ben Rosamund. (2002) Globalization, European Integration and the Discursive Construction of Economic Imperatives. *Journal of European Public Policy* 9 (2): 147–167.

Heston, Alan, Robert Summers, and Bettina Aten. (2009) *Penn World Tables 6.3*. Philadelphia, PA: University of Pennsylvania.

Higgins, Matthew, and Thomas Klitgaard. (2004) Reserve Accumulation: Implications for Global Capital Flows and Financial Markets. *Current Issues in Economics and Finance* 10 (10): 1–8.

Hurrel, Andrew. (2007) One World? Many Worlds? The Place of Regions in the Study of International Society. *International Affairs* 83 (1): 127–146.

Johnson, Simon. (2009) An IMF Just for Emerging Markets. *Business Week*. October 8. (Accessed at http://www.businessweek.com/magazine/content/09_42/b4151072120155.htm)

Joyce, Joseph, and Raul Razo-Garcia. (2010) *International Reserves and IMF Quotas: Is There A Link?* Paper presented at the Egon Sohmen Memorial Conference. Tubingen, Germany, June 10–13.

Katzenstein, Peter. (2005) *A World of Regions*. Ithaca, NY: Cornell University Press.

Khan, Mohsin. (2009) The GCC Monetary Union: Choice of Exchange Rate Regime. Peterson Institute for International Economics Working Paper No. 09-1.

Kilby, Christopher. (2006) Donor Influence in Multilateral Development Banks: The Case of the Asian Development Bank. *Review of International Organizations* 1 (2): 173–195.

Lipscy, Phillip Y. (2003) Japan's Asian Monetary Fund Proposal. *Stanford Journal of East Asian Affairs* 3 (1): 93–104.

Machinea, José Luis, and Daniel Titelman. (2007) Un crecimiento menos volátil? El papel de las instituciones financieras regionales. *Revista de la CEPAL* 91: 7–21.

Maddison, Angus. (Various years) Statistics on World Population, GDP and Per Capita GDP, 1–2008 AD.

Malamud, Carlos. (2009) La crisis de la integración se juega en casa. *Nueva Sociedad* 219: 97–112.

Marcussen, Martin, Thomas Risse, Daniela Englemann-Martin, Hans-Joachim Knopf, and Klaus Roscher. (1999) Constructing Europe? The Evolution of Nation-State Identities. *Journal of European Public Policy* 6 (4): 614–633.

Marshall, Wesley C., and Louis-Philippe Rochon. (2009) Financing Economic Development in Latin America: The Banco del Sur. *Journal of Post Keynesian Economics* 32 (2): 185–198.

Martinez-Diaz, Leonardo. (2010) Boards of Directors in International Organizations. *Review of International Organizations* 4 (4): 383–406.

Masson, Paul, and Catherine Pattillo. (2004) A Single Currency for Africa? *Finance & Development* 41: 9–15.

Mayall, James. (1990) *Nationalism and International Society*. New York: Cambridge University Press.

Mbaru, Jimnah. (2005) *The Case for an African Monetary Fund*. Presentation to the Baobab Society of Warwick University, Warwick, UK.

McElhinny, Vince. (2007) *A Look into the New BANK of the South, due to Launch in December 2007*. Washington, DC: Bank of the South.

McKeown, Timothy. (2009) How U.S. Decision-makers Assessed their Control of Multilateral Organizations, 1957–1982. *Review of International Organizations* 4 (3): 269–291.

Momani, Bessma. (2004) American Politicization of the International Monetary Fund. *Review of International Political Economy* 11 (5): 880–904.

Mylonas, Harris, and James Raymond Vreeland. (2010) Does the Eurozone Need its Own Monetary Fund? *The National*, Abu Dhabi. 4 April.

Ocampo, José Antonio, and Daniel Titelman. (2009) Subregional Financial Cooperation: The South American Experience. *Journal of Post Keynesian Economics* 32 (2): 249–268.

Ortiz, Isabel, and Oscar Ugarteche. (2008) El Banco del Sur: Avances y Desafíos. Ms.

Romero, María José, and Carlos Alonso Bedoya. (2008) The Bank of the South: The Search for an Alternative to IFIs. Bretton Woods Update No. 62: 7.

Saif, Ibrahim. (2009) *The Oil Boom in the GCC Countries, 2002–2008: Old Challenges, Changing Dynamics, Carnegie Papers 15*. Washington, DC: Carnegie Endowment for International Peace.

Smith, Alastair, and James Raymond Vreeland. (2006) The Survival of Political Leaders and IMF Programs. In *Globalization and the Nation State*, edited by Gustav Ranis, James Raymond Vreeland, and Stephen Kosack. New York: Routledge.

Stone, Randall W. (2002) *Lending Credibility*. Princeton, NJ: Princeton University Press.

Subramanian, Arvind. (2010) Asia, Europe, and the Fund. *Business Standard*. May 26.

Thomsen, Poul M., and Martin Muhleisen. (2010) *Greece: Request for Stand-By Arrangement*. Washington, DC: International Monetary Fund.

Tripp, Charles. (1995) Regional Organizations in the Arab Middle East. In *Regionalism in World Politics*, edited by Fawcett Louise, and Andrew Hurrell. Oxford: Oxford University Press.

United Nations Conference on Trade and Development. (Various years) *Handbook of Statistics*. Geneva: UNCTAD.

Vreeland, James Raymond. (2002) The Effect of IMF Programs on Labor. *World Development* 30 (1): 121–139.

Vreeland, James Raymond. (2010) *Buying Bretton Woods*. Presented at The AidData Conference, University College, Oxford.

Wade, Robert, and Frank Veneroso. (1998) The Asian Crisis: The High Debt Model Versus the Wall Street-Treasury-IMF Complex. *New Left Review*. 1: 228, 3–22. (March–April).

Weiss, Thomas G. (2000) Governance, Good Governance and Global Governance: Conceptual and Actual Challenges. *Third World Quarterly* 21 (5): 795–81.

Weiss, Thomas G., David P. Forsythe, and Roger A. Coate. (2009) *The United Nations and Changing World Politics*. Boulder, CO: Westview Press.

Wigglesworth, Robin, and Andrew England. (2009) Gulf Rift Exposed as UAE Quits Monetary Union. *Financial Times*, May 21, available at http://www.ft.com/cms/s/0/532499e6-459c-11de-b6c8-00144feabdc0.html#axzz1Bs2w5zpC.

Woo, Wing Thye. (2007) What Form Should An Asian Economic Union Take? *Japan Economic Currents* 67: 1–8.

Woods, Ngaire. (2005) Making the IMF and the World Bank More Accountable. In *Reforming the Governance of the IMF and the World Bank*, edited by Ariel Buira. London: Anthem Press.

World Bank. (2010) *World Development Indicators*. Washington, DC: World Bank.