



Regionalism in Global Governance: Exploring New Pathways

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Global coherence demands a permanent strategic cooperation culture at all levels.

Antonio Guterres

We must focus much more on developing countries' own policies and priorities, and increase policy and operational coherence between national, regional, and multilateral actors.

Anna Lindh

In spite of the mounting concerns regarding the rise in protectionism, the role of regionalism in the global economy is increasing in key areas, whether in trade, investment, or development finance. With respect to the regional integration arrangements according to the WTO, regional trade agreements (RTAs) have become increasingly prevalent since the early 1990s. As of May 2018, 287 RTAs were in force, with recent trends in regional integration pointing to the widening scale of such arrangements via the formation of mega-regional blocs. Furthermore, according to the IMF report the size of the regional financing arrangements has overtaken the resources of the International Monetary Fund as part of the Global Financial Safety Net (GFSN).¹

Indeed, the relative role of regionalism as the driver of globalization and economic integration may have increased substantially in recent periods. In the current conditions, regionalism is becoming the key source of liberalization impulses and economic openness in the global economy. This is corroborated by the active creation of new integration platforms by developing countries in all parts of the Global South, whether in Africa, South America or Eurasia.

The rise in regionalism may have further potential to unfold, particularly in the Global South, where many countries exhibit relatively high levels of trade barriers. The scope for regional South-South integration is also sizeable in view of the low base effects in terms of the number of alliances and the relatively high growth rates in key emerging markets, which raises the potential for forging such alliances. The prominence of regionalism in the world economy is further magnified by the emergence of mega-regional and trans-regional projects, such as Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP), and BRICS+ that may be seen in part as an aggregation of the existing regional blocs.

This build-up of the multiple regional and bilateral treaties into larger mega-blocs may become the key trend in economic integration in the coming years as the 'spaghetti bowl' legacy of the past several decades, which is the emergence of hundreds of regional and bilateral

¹ See *Collaboration between regional financing arrangements and the IMF*. IMF, 2017, p. 9

agreements, may be increasingly giving way to a more orderly pattern of pan-continental and trans-continental blocs subsuming the plethora of smaller scale alliances. At the same time, the propagation of regionalism is reaching a scale when mega-regional and trans-regional blocs become the platforms not only of a different international economic architecture, but also of alternative visions and blueprints of globalization that seek to improve on the limitations of the current institutional set-up of the world economy.

Furthermore, the emergence of mega-regionalism raises the costs to countries and regions associated with rising competition among the regional blocs for trade and investment and the possible negative spillover and trade diversion effects. In effect, the challenge facing globalization is the gap between the expansion in the role of regional integration arrangements and the lack of their integration into the framework of global economic architecture. 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.

This Valdai report delineates the possibility set of regional and inter-regional platforms that may serve as key drivers of a revitalized globalization effort and greater coordination among regional integration blocs. It goes on to explore the alternative globalization paradigms that are emerging on the back of the widening circle of regional projects. The discussion concludes with a look at how regionalism could rebalance global governance and the dynamics of globalization towards overcoming the excesses of Realpolitik and prioritizing the inclusion of least developed countries into the globalization process.

New Elements in Global Economic Architecture: Introducing the R20 Initiative

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 regional economic blocs, which hampers the implementation of regional/continental integration projects. This concerns the low degree of coordination among regional development institutions, regional financing arrangements, and the trade policies of the largest integration arrangements.

What is hence 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.

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 heavyweights 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 RCEP (China, Japan, South Korea)
- South African Development Community or South African Customs Union (South Africa)
- Closer Economic Relations (Australia)
- MERCOSUR (Brazil, Argentina).

Earlier this year the Valdai Discussion Club advanced the R20 initiative to strengthen the global governance framework via creating a platform for cooperation among regional integration arrangements, regional development banks, and regional financing arrangements. The main rationale for this idea is the need to promote greater horizontal coordination among the various regional arrangements, while at the same

time improving the cooperative linkages between regional and global multilateral institutions via the G20 framework.²

In fact, the G20 is already involved in dialogue between regional financing arrangements and a global multilateral institution, which is the IMF in this case, 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 a 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).

The R20 format could also serve as a basis for G20 outreach activities as the regional neighbours 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.

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.

The scope of the R20 initiative could also be expanded to cover not only regional integration arrangements and their respective development institutions, but also microregional agreements and alliances among

² See Yaroslav Lissovlik, Anton Bespalov, Andrei Bystritskiy. *Regional Trade Blocs as Supporting Structures in Global Governance*. March 31, 2019. <https://t20japan.org/wp-content/uploads/2019/04/t20-japan-tf6-6-regional-trade-blocs-global-governance.pdf>

subnational constituencies, including national regions as well as the largest cities of G20 countries. The latter may prove to be particularly important for the future of regional cooperation across borders since more than 80% of global GDP is generated in cities according to the World Bank. The Global Metro Monitor 2018 of the Brookings Institution claims that more than a half of the world's population now lives in urban areas with emerging economies accounting for the bulk of growth in cities' economic expansion.

What is hence missing in the current system of global governance is a global coordination mechanism among the largest regional integration arrangements

The R20 tracks could hence include the following trajectories:

- Cross-country regionalism: RTAs, regional development banks, and regional financing arrangements
- City/urban track for cooperation
- Microregional/subnational regional cooperation track
- Connectivity tracks targeting intra-continental infrastructure cooperation

The possible points of action with respect to launching the R20 initiative may include the following steps:

- 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 among not only the regional trading arrangements, but also the regional development banks and regional financing arrangements where G20 countries are members.

In terms of the 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.

Regional Platforms for Globalization: Exploring the ‘Possibility Set’

The R20 initiative is just one of a series of new visions and initiatives that may be employed with the view to reinforcing the fundamentals of economic integration in today’s world economy. In fact in the past several years a number of projects emerged that potentially may represent a sizeable contribution to boosting globalization. In many cases, these projects can be viewed as an aggregation of smaller regional integration projects.

If the next wave of globalization is to be jump-started through greater impulses towards regional integration, then the key platforms/epicentres that may lead the new phase of the globalization process could include the following:

- **Trans-Pacific Partnership** (or its current modification in the form of TPP-11) + Transatlantic Trade and Investment Partnership (TTIP). This platform may be considered as one of the largest mega-regional blocs, in which Western economies, most notably the US and the EU, perform leading roles.
- **BRICS+** (along with its extensions and variations/sub-components such as BRICS++, TRIA, BEAMS). This platform that brings together the largest regional blocs from the Global South may render the globalization process more diverse as it brings into its fore not only the largest, but also some of the smaller and land-locked economies of the developing world.
- **RCEP** (Regional Comprehensive Economic Partnership). The trade bloc that may emerge as the largest mega-regional bloc in the coming years with China playing a leading role in this grouping. It may become a key platform for strengthening China’s regional role in Asia and reaching out to some of the key regional players from the developed world, such as Australia and Japan.
- The **Indo-Pacific platform** may involve the Quad bringing together the key players from the developed world in the Pacific, such as the US, Japan, Australia, and India as well as some of the dynamic regional players and regional groups such as ASEAN. While the Quad thus far is mostly about the strategic dialogue, there may be a graduation of this cooperation towards economic one, given that some of the key players are already coordinating regional trade and connectivity initiatives (India and Japan with respect to the Asia–Africa Growth Corridor).

- The **Grand Eurasia** project that brings together the Eurasian regional blocs such as the EU as well as the Eurasian Economic Union and the integration projects led by China such as the Belt and Road Initiative (BRI). Perhaps the most ambitious and at the same time difficult in terms of advancing integration on a pan-continental scale.
- **APEC** (or the Greater Pacific) – a resuscitation of the APEC integration effort in the very epicentre of growth and economic openness in the world economy. The targets for gradual trade liberalization outlined in previous APEC summits for the economies of the Pacific region did not result in progression towards the formation of a mega-regional bloc between the two key regional heavy-weights, namely the US and China – rather throughout 2019 periodic escalations in the trade dispute erupted.
- **R20** (Regional 20) is perhaps one of the most comprehensive projects (already described above and advanced by the Valdai Discussion Club for the T20 summit in 2019³) that could bring together the largest regional integration groupings where G20 countries are leading members. The regional neighbours of the respective G20 members may be viewed as natural partners in promoting the global initiatives adopted by the largest economies of the world, including with respect to engineering new growth stimuli during periods of economic downturn.

Nearly all of the above platforms for jump-starting the new wave of globalization may be associated with a particular region, with Asia Pacific featuring prominently in many of the above projects (apart from the BRICS+ and the R20 initiatives that may be regarded as sources of diversified stimuli to integration and globalization from different parts of the globe). Furthermore, the advancement along the above trajectories necessitates agreement between the key players in the respective regions: the US and the EU in the case of the Transatlantic partnership; India and China in the case of BRICS+; China and Japan as well as ASEAN in the case of RCEP; India and the US in the case of the Indian-Pacific; Russia, China, and the EU in the case of the Greater Eurasian project; US and China in the case of APEC and agreement among the largest G20 members on the formation of the R20 framework.

In effect, alternative globalization projects may advance the principle of relativity with respect to the speed, the modalities and the scale of integration into the global economy. This, in turn, would run counter to the 'absolutist' version of globalization that envisions a standardized set of prescriptions that

³ See Y. Lissovlik, A. Bespalov, A. Bystritskiy. *Regional Trade Blocs as Supporting Structures in Global Governance*, March 2019.

is to be implemented by countries across the board. This relativity principle in globalization may expand the possibility set of economic policies open to countries that are to be reconciled with their varying political, social, and cultural exigencies.

The above set of regional platforms for globalization suggests that the emerging regional and mega-regional blocs present a major reserve for advancing the globalization process at a time when impulses from other layers of global governance, including global institutions, appear to be waning. An important feature of this regional layer of integration platforms is the optionality that the globalization process may exploit in pursuing the above regional integration projects given the multiplicity of regional formats for jump-starting new waves of globalization. At the same time, the rising role of regionalism in globalization as well as the likely increase in the intensity of competition between the alternative regional projects may necessitate more horizontal coordination across the main centres of regional/mega-regional integration. This coordination becomes all the more important in light of the alternative visions of globalization that are driven by the rising number of regional integration projects along the South-South and North-South axis.

The Clash of Globalizations: Regional Visions of Integration Competing on a Global Scale

The rising role of regionalism in the global economy may alter not only the contours of the global economic architecture, but may also be a source of change with respect to the spirit and the vision of globalization. The activism exhibited by the leading powers of the Global South in expanding their economic presence across the world is exceeding the scale of greater competition between leading powers per se and is starting to approach the point of the crystallization of alternative pathways to globalization. Furthermore, the rise in economic inequality as well as the slowdown in growth rates throughout the globe have given added impetus to a search for alternative visions of economic development and globalization.

These trends are set to further shift the paradigm of international development from the convergence towards one model of globalization to that of competition among the various projects and visions of the globalization process. The emerging model of globalization that is set to compete with the incumbent model has been implemented in the rising number of integration projects forged by the developing economies – in many cases the characteristics of the emerging model of globalization in such projects as the BRICS+ or the BRI appears to differ substantially from its predecessor:

- **Divergence vs convergence.** The emerging paradigm of globalization is likely to be predicated on divergence in economic models rather than efforts to speed up convergence towards one sole model of economic development that is seen as standard and most efficient. The ‘divergence vs convergence’ narrative as expounded by Roberto Unger (most notably in his book ‘What should legal analysis become?’) is likely to be at the very core of the difference in the approaches to globalization.
- **Technology/mechanics of globalization.** The traditional developed economy model predicated on the pre-eminence of free trade agreements is increasingly giving way to accords that place greater emphasis on connectivity and infrastructure development. The use of hybrid economic accords that include not just free trade, but also investment-related matters may soon be complemented by the emergence of ‘digital accords’ as well as the use of ‘integration of integrations’ (integration among regional blocs).
- **Algorithm and sequencing of globalization.** The developing world is likely to pursue bottom-up rather than top-down globalization. The global institutions (formed with majority representation of the developed economies) being the key agents of globalization in the incumbent model the developing economies may opt for a sequential formation of a platform composed of major regional integration groupings that may become an important component in the new construct of global governance that serves as an intermediation layer between the country-level and global institutions.
- **Inclusive vs exclusive globalization.** Rather than the core-periphery paradigm in which countries need to comply with stringent criteria to proceed with greater integration, the new emerging paradigm of integration is likely to emphasize non-discrimination and openness in the approach to globalization that is advanced across all continents – a BRICS-plus paradigm advanced by China in 2017 may be the platform for pursuing such an approach.

- **Sustainable or more equitable globalization.** Instead of a highly unequal distribution of integration impulses that were typically concentrated in the advanced world, a greater emphasis is likely to be placed on 'catch-up globalization' in the Global South with the possible use of the 'integration of integrations' as a way to speed up convergence.

The emergence of alternative globalization projects, including their by-products in the form of alternative reserve currencies and payments systems, will raise the optionality of modernization pathways for developing economies and will provide greater possibilities of employing the economic development strategies that are more attuned with the idiosyncratic features of a particular country. For land-locked economies in Eurasia, for example the paradigm of globalization grounded solely on the basis of free trade is problematic given the geographical barriers to foreign trade (see the Eurasian school of thought, e.g. P. Savitsky's 'Continent-Ocean'). Accordingly, a 'Eurasian model of globalization' may at times prioritize regional economic integration and greater transportation infrastructure connectivity compared to other forms of economic integration such as trade liberalization.

The 'globalization race' accompanied by the advancement of an alternative globalization model may have started in earnest in 2017 with the launching of the BRICS+ initiative and has been taken to a higher level in 2018 with the propagation of regional integration projects undertaken by the Global South. That is the launching of the African Continental FTA and the discussions on the cooperation between the Pacific Alliance and MERCOSUR in Latin America complemented by further progress towards the creation of RCEP in Asia.

The rapidity of the catch-up play on the part of the Global South in forging greater economic integration may be significantly enhanced by the use of the 'integration of integrations' vehicle, namely the cooperation platforms among regional trading arrangements (RTAs). The use of the 'integration of integrations' may prove to be the competitive edge of the Global South, given the lower scope for such integration on the part of the well-structured and conditionality-ridden integration groupings formed by advanced economies. In line with the Gerschenkronian paradigm (A. Gerschenkron, 'Economic backwardness in historical perspective') the Global South may exploit some of the advantages in following the advanced economies that have accumulated a wealth of both positive and negative experience in the sphere of economic integration and globalization.

In the end, given the current state of affairs in the global economy rather than ideology or inter-civilizational stand-offs, the emerging paradigm of global competition may be at least in part about the most appealing and competitive vision of the economic mechanics of globalization. Importantly, in devising the new model of globalization China and its partners in the Global South are not following the seemingly more straightforward, but likely more treacherous path of simplistic imitation of the main characteristics of the globalization model of the advanced world. Instead, the emerging model of economic integration will likely seek to present a different and more inclusive model of globalization.

Conclusion: Taming the Excesses of Realpolitik

A look at the ongoing trends in global regionalism suggests that there is a significant number of possible regional and inter-regional platforms emerging in the world economy that could serve as key drivers of a revitalized economic integration/globalization effort. The rising number of regional projects originating in the Global South points to novel pathways towards economic integration and visions of globalization, with greater emphasis placed on transportation connectivity and greater inclusivity of less developed economies.

The emergence of new visions of globalization is all the more important given that the blueprint of the construction of today's global governance was less predicated on considerations of economic efficiency, inclusivity, or equitable globalism, but was at the outset driven to a notable degree by Realpolitik considerations and the weight of the leading economic powers of the 20th century. A new global governance construct needs to change the balance between national self-interest and international cooperation in the world economy. It also needs to look at the economic efficiency consideration of how the global governance structure is to be formed with due account paid to issues such as inequality across countries in terms of access to economic integration as well as to issues such as externalities and spillover effects across countries and regions.

In particular, the key question is what are the modalities of globalization that benefit the low-income and least developed economies? It has almost always been taken for granted that globalization was driven by the largest and the most dynamic players of the world economy, with the laggards mostly relegated to receiving allocations in the form of official development assistance or bilateral and multilateral loans. A key aspect with respect to such a rebalancing of the globalization process is that not all countries at this stage have been covered by regional trading arrangements, which concerns particularly the least developed economies.⁴ One notable area on the world map that is sorely lacking regional integration arrangements is the Middle east, while all of the continents of the developing world, namely South America, Africa and Eurasia, are in need of greater 'connectivity integration' through infrastructure development.

This in turn raises the issue of 'incomplete regionalism' and more broadly 'incomplete integration', whereby regions and countries in the world economy need to be given the possibility to become an integral part of the world economy. At the level of regional cooperation, there is a need to emphasize greater inclusion of least developed economies into 'connectivity integration' tracks, with regional integration arrangements being predicated on the principles of openness (something that accords with the international norms of the GATT/WTO, article XXIV) and inclusivity (UN Development Goals). At the global level, the WTO needs to make a greater effort to incorporate the remaining observers into its ranks without excessive politicization of the accession process. There is also a need for the WTO to work more closely with regional integration groupings in assisting developing countries to reap the benefits of the synergy between regional and multilateral liberalization.

Apart from the issues governing trade and investment, there is also sizeable potential in using regional cooperation for rebalancing the globalization tracks related to such important areas for developing economies as labour migration and technology transfer. These areas will necessitate closer cooperation between regional integration blocs, their development institutions as well as a number of multilateral international organizations such as the WTO, IOM, ILO, IMF among others. The resulting key priorities in the design of a new phase of globalization that is more attuned with the development needs of low-income countries may include the following:

⁴ See Y. Lissovlik. 'On the paradox of global economic integration', Valdai Discussion Club, 2017.

- Prioritize regional and bilateral integration for the least developed economies via connectivity;
- Simplify WTO entry rules for the least developed economies;
- Simplify the rules and procedures governing technology transfer for least developed economies;
- Strengthen coordination among regional integration arrangements in the area of remittances and labour mobility;
- Provide technical assistance in building regional and bilateral alliances;
- Creating a comprehensive platform that is inclusive for developing nations and that represents a move away from the core-periphery paradigm.

Finally, regionalism as a reconstruction force in the global economy may play a major role in transforming the ‘value code’ of globalization away from narrow national self-interest. Indeed, a key challenge faced by the world economy in progressing towards a more balanced structure is that today’s international scene is dominated by Realpolitik – national interest reigns supreme not just at the country level, but is also strongly felt at the level of regional and global institutions. A revamping of the global governance system needs to target a rebalancing of the policy of self-interest with greater responsibility of countries (particularly the largest economies) for securing global welfare, stability, and international cooperation.

According to existing cross-country research, the values of individualism appear to have become more prevalent across the globe, something that is registered at the country, regional, and global levels. In particular, Henri C. Santos et al examine 51 years of data on individualistic practices and values across 77 countries. What they find is that

Individualism is indeed rising in most of societies we tested. Despite dramatic shifts towards greater individualism around the world, cultural differences remain sizeable. Moreover, cultural differences are primarily linked to changes in socioeconomic development... Supplemental regional and country-specific analyses indicated that individualism rose in all the regions and most of the countries we examined.⁵

The emerging paradigm of global competition may be at least in part about the most appealing and competitive vision of the economic mechanics of globalization

⁵ Henri C. Santos, Michael E. W. Varnum, Igor Grossmann. *Global Increases in Individualism*. In *Psychological Science* 28(9), July 2017.

What is the construct of the global institutions that would render global governance less susceptible to the dominance of narrow self-interest? Such a rebalancing of the national self-interest with incentives for international cooperation could in part be attained through building a regional layer of global governance and a greater integration of regional arrangements with global institutions. Within such a global construct the self-interest motives of countries would be partly counterbalanced by the greater prevalence of various forms of cross-border and transnational cooperation.

An important element in a reconstruction of global governance involving greater prominence of regionalism also has to do with the need for economic policy rules over discretionary policy-making. In particular, there may be a case for a greater element of policy rules (that are typically associated with regional and global institutions) compared to the more discretionary and ad hoc pattern of policy-making at the country level. This in turn is particularly important in the midst of trade disputes and the propagation of protectionism, with regional integration becoming the key provider of economic openness and liberalization.

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