Robert Triffin International

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«80 years after Bretton Woods, Relaunching Multilateralism through Regional Monetary Unions»

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SYNTHESIS

Deterioration of the geopolitical context + Financial instability

⇒ Trend towards monetary regionalism

⇒ Trend towards a weakening of multilateral order

- For EEs & LDCs = a potential opportunity for their regional integration and for contributing to a reform of the IMS
- But high risks: monetary fragmentation and protectionism

Regional monetarism is positive as far as it would **be a lever** for monetary cooperation & regional integration .

What are the **conditions to meet? Method** is most important

Any international cooperation supposes to break the "Prisoner Dilemma (PD)" (i.e. distrust among partners when uncertainty)

IMS reforms are blocked by PD, Regional Integration (RI) also

Successful RI is based on building trust

HOW? Drawing lessons of experiences in the EU, Africa, Latin America: universal recipes (not economic but human contacts)

The emergence of Regional Monetary arrangements (RMA)

Causes: combination of 3 factors:

- global financial instability and weakening/inadequate multilateralism
- reaction to US$ spillovers (Fed policies) and to geopolitical dependency (weaponization of the $),
- new technologies applied to payments (blockchain & RTP)

Present trend to monetary regionalism = security driven to lessen dependence on the $

Up to now = **2 relevant facts**: increasing trend of use of local currencies for cross-border payments + a strategy of internalization of the Chinese RMB as reserve and invoicing currency.

Does it mean a de-dollarization of the IMS? **NO**

Is the de-dollarization ineluctable: **YES** but not with substitution for other national key-currencies !

De-dollarization as a multi-currency IMS = to reproduce the flaw in the present IMS and to make it worse

The emergence of Regional Monetary arrangements (RMA)

A multi-key-currency system would be highly unstable (history shows it, unicity of an operational standard, indeterminacy of exchange-rate equilibrium).

Multi-polar IMS by multiplying key-currencies cannot resolve the Triffin Dilemma because it does not ensure stable safe-assets

WHY? to be a key-currency = capacity to issue safe-assets = to become the borrower/consumer of last resort

To compete with the $ as key-currency means to try to be a larger debtor than the US

The objective of the reform of the IMS is to issue safe-assets which are not the debt of an economy but the liability of the multilateral system as counterpart of national liquid assets

Impossible to issue sufficient stable safe-assets with national currencies.

How could Regional Monetary arrangements (RMA) become a game-changer for the IMS?

2 main steps:

1) eases Regional Integration

2) eases inter-regional cooperation (speak with one voice)

STEP 1: RMA as a catalyzer of Regional Integration (RI)

- RMAs = proof that cooperation is easier among like-minded partners than at multilateral level + external defense
- How RMA could spur RI? By obliging technicians to meet and to work together => communicating = escaping Prisoner Dilemma => stimulating economic cooperation & policy coordination => triggering a virtuous circle of better governance and higher growth: from exchange-rate issues => mutual monitoring of national policies
- Why is it so easy? Not economics, merely human beings facing technical issues under common threat, they cooperate

STEP 1: RMA as a catalyzer of Regional Integration (RI)

- RMA enforces decisions giving more power to technicians
- RECIPE 1: first give free mandate to technicians to work among themselves closed doors, on their own responsibility, not for taking decisions, but for analyzing alternatives and make proposals to decision-makers communication among national authorities
- first on RMA & exchange-rates => implies monitoring of national policy-mix => improve mutual knowledge => build trust => create common interests => awareness that national interests converge to regional interests
- Coordination has to be perceived as the self-interest of each participant by reaching common objective (escape from $) spillovers or dependence from the $ does help to create consensus

STEP 1: RMA as a catalyzer of Regional Integration (RI)

Empirical proofs?

The forgotten link: European successful integration started thanks to a regional monetary arrangement: the European Payment Unit (EPU), 1949, and with Robert Triffin inspiring role

The main purpose was to reestablish convertibility in order to reduce intra-European protectionism, after failure of £ and insufficiency of multilateral (IMF) resources

EPU had also a longer-term purpose: to create a common currency in order to bargain with the US$ a move to a multilateral reserve. But it fails because BW was so successful at the beginning for European reconstruction

LESSONS FROM EUROPEAN CASE: Conditions for RMA to be game-changer

The method was based upon **2 key-components**: **1)** a regular collegial technical committee working closed doors **2)** a conditional carrot with the US $ granted by Marshall Plan (= to create a conditional Regional Fund)

2 key-lessons: **1)** to reverse the conventional order of international negotiations: priority given to confidential technical analysis before diplomatic bargaining for decisions

2) To monitor collegially at regional level national policy-mix explaining exchange-rate evolution and financing gaps

2 key-results: 1) personal contacts => mutual trust (>PD); **2)** => emulation among participants improving governance => generating cumulative process of benefits => national interests converge towards regional ones => dynamic RI process

3 Cases-study

1) **The EU convergence process towards the €:** Monetary Committee technical monitoring + ERM => collegial consensus on national policies
2) **The CFA organization of a regional surveillance** of national policies (WAEMU/UEMOA Treaty & CEMAC Treaty): from a monetary union to an economic one
3) **The REDIMA experiment by ECLAC/CEPAL** from 2000 to 2006: organization of Macroeconomic Monitoring Groups in the 3 sub-regions of integration (Mercosur + Chile, CAN/ANC, Center-America+ Dominican Republic)

Proposals drawing on these experiences

1) **To organize in all regions "Monetary Committees"** not taking decisions, gathering 2 macroeconomists (CB + Treasury) on a continuous form (regular and same persons), closed doors, not representing their Minister but speaking informally on their own (Chatham rule), reporting collegially to Minister Councils (legitimate decision-making)
2) **Monitoring exchange-rate and RMA** to allow to debate national policies (closed doors) and cross-border payments systems with regional clearing houses => proposing to move to CBDCs for applying toekenization in SDR with almost no cost of transactions: personal contacts => mutual trust + perception of national benefits from regional level

Proposals drawing on these experiences

3. **Creation of Regional Monetary Funds in SDR** with % of national reserves + multilateral resources, with conditionalities, access submitted to technical proposition from Monetary Committees to Councils
4. **General toekenization (CBDCs)** promotes generalization of development of private SDRs for financing national debts
5. **Regions speaking with one voice** discuss proposals to reform IMS => consensual view on common interests => coalition for changing IMF statuses, supported by pressures for merging private SDR and official SDR (interventions of CB in SDR)
6. **Hegemon will see that sharing its power is beneficial for him**

What would be a sound monetary regionalism?

- ***Drawing upon the regional monetary arrangements for using the SDR as vehicle currency inside each region***
- ***Creating regional monetary funds (RMF) as a decentralization of some IMF missions***
- ***Using these RMF as a lever for implementing macroeconomic dialogues both inside each region and with other regions as well as with the IMF (joint-conditionalities)***

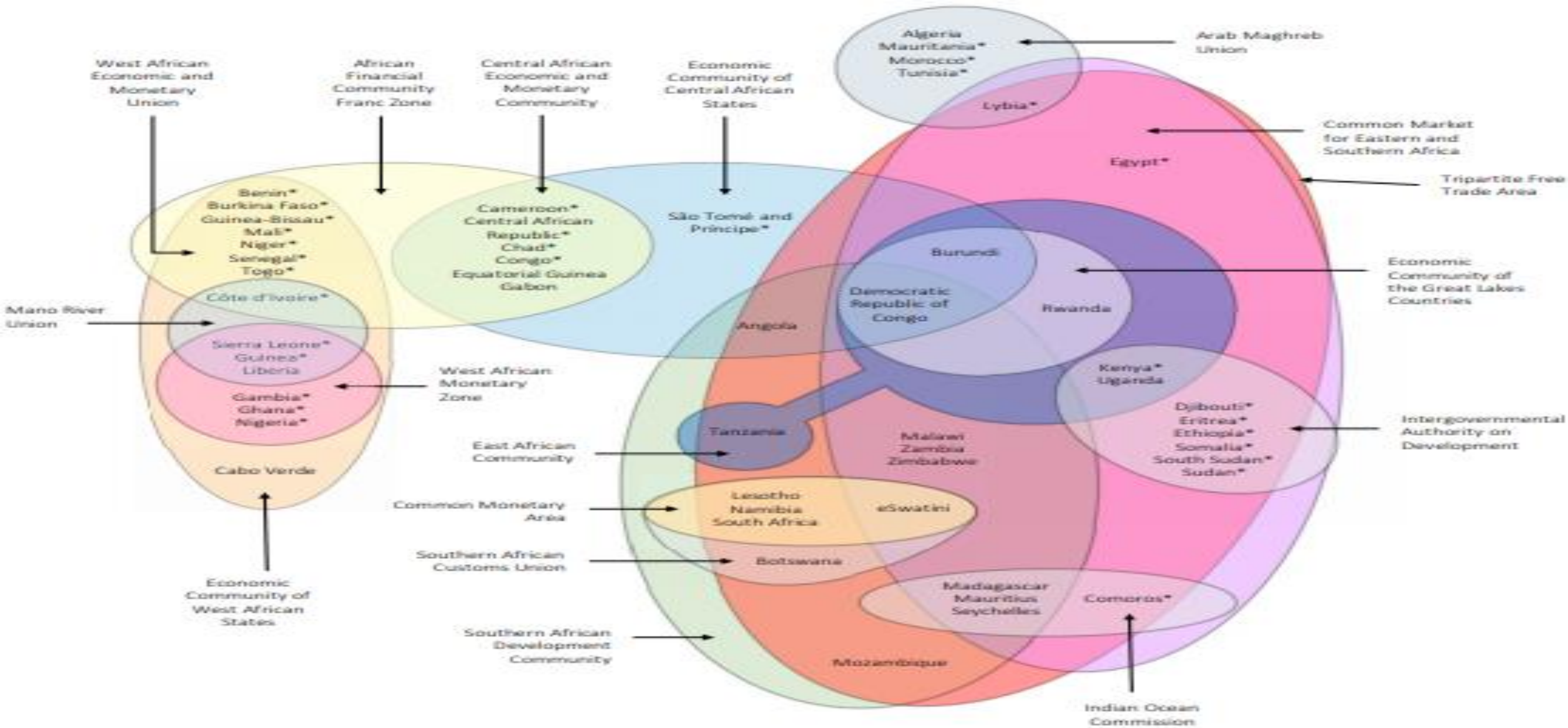
The purpose = IMF as a global federal LOLR

Each region would bargain with IMF specific mandates against creation of SDR complementary multilateral resources, with control according to the results

Is it realistic? It is a less unrealistic proposal than trying to reach directly a multilateral agreement now because:

- Regional cohesion rises under external pressures
- Easier to agree among like-minded countries
- Next crisis will show the need for a multilateral LOLR in SDR

RTAs= 8 official RECs + 7 Communities



8 African RECs (Abuja)

Table 1: Ambition and implementation timelines of RECs

RECs	Date of Establishment	FTA	Customs Union	Common Market	Monetary Union	Politican Federation
AMU	1989					
CED-SAD	1998					
COMESA	1994					
EAC	2000[a]					
ECCAS	1983					
ECOWAS	1975					
IGAD	1998					
SADC	1992					

Source: AfDB (2014)
Notes: Achieved (green), in progress (orange), planned (blue), and not planned (white).
a EAC was first established in 1967, disbanded in 1977 due to internal conflicts among the member countries and reformed in 2000.

Map of ratification January 2021