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Global Economic Governance in East Asia

Through the Looking Glass of the European Sovereign Debt Crisis

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Jochen Prantl and Petr Blizkovsky

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Introduction: Global Economic Governance in East Asia – Through the Looking Glass of the European Sovereign Debt Crisis

JOCHEN PRANTL AND PETR BLIZKOVSKY[1]

The purpose of this special issue is to understand better the short-term and long-term repercussions of the European Sovereign Debt Crisis for global governance – understood here as "the processes and institutions, both formal and informal, that guide and restrain the collective activities of a group" (Keohane & Nye, 2000: 12) – and regional economic integration in Asia. As the IMF recently stressed, China's economic growth will be cut almost in half if Europe's crisis worsens. The crisis raises fundamental questions about the fabric of global governance, e.g. whether there is a Post-Washington Consensus emerging on how to achieve better global and regional economic policy coordination; whether 'liberal democracy' is the best form of state government to provide global public goods such as financial stability; the interests and strategies of emerging powers such as China in securing global financial stability; the question of leadership (or the lack thereof).

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Regional cooperation has been flourishing over the past decade and has received increasingly attention as a source of change for global order (Fawcett & Hurrell, 1995; Mansfield & Milner, 1997; Breslin et al., 2002). While there have been recent efforts to engage in comparisons of regional international institutions, which generated important insights into why different forms of institutionalization exist in different parts of the world and whether variation in institutional design leads to variation in the nature of cooperation (Acharya & Johnston, 2007), such an approach is marked by three limitations. First, the focus on institutions and institutional design provides a relatively static view on cooperation and obscures the shift of power that is currently occurring. Secondly, it obfuscates the dynamic processes of collective action problem-solving that often evolve simultaneously at multiple levels, bilaterally and multilaterally. And thirdly, existing studies of regional international institutions do not grasp global-regional and, indeed, regional-regional dynamics that are key for the understanding of cooperation.

In a nutshell, this special issue aims at making the following two major contributions: first, it narrows the focus of the excessively broad global governance discourse by examining the impact of a specific collective action problem, that is, the European Sovereign Debt Crisis, on regional economic governance in Asia; secondly, it exposes and explains the global-regional and regional-regional nexi driving the mechanisms and processes of collective action in the Asian regional context.

Relevance

The potential and limits of collective action to avert catastrophe, when either financial institutions or sovereign debtors fail, have been highlighted by the recent international financial and economic crisis, marking the end of the so-called Washington Consensus and raising questions about the underlying principles of future global governance. The IMF exists in part to perform this function, and is currently seeking to reinforce the idea that countries should use the institution to pool their reserves internationally. However, at the same time, many countries are seeking to use regional and sub-regional arrangements. These parallel arrangements have yet fully to be studied comparatively in a way which illuminates the strategic choices about cooperation being made by governments in different regions (including the relationship between regional and international funds), and the implications for global cooperation. Many predict a shift of power towards the East, and argue that the Western liberal order has lost its legitimacy. With the rise of China, India, and Brazil, new centres of gravity are emerging. The capacity to shape outcomes will be more dispersed in a global multipolar order.

The European Sovereign Debt Crisis epitomizes the paradox underlying 21st century global governance: we increasingly rely on state government and regional and global institutions at a time when their authority to deliver is severely eroded. While regional integration in post-World War II Europe has demonstrated the potential of state sovereignty pooling in order to lower transaction costs and maximize Pareto-benefits, the European Sovereign Debt crisis in the early years of the 21st century illustrates the limits of collective action problem-solving amongst like-minded democracies. Although the debt crisis can be considered a regional problem of the European Union, the repercussions are global, given the complex interdependence of our international economy. There is a high risk that European problems will spillover into Asia. The stark juxtaposition of East Asian regionalism against both globalism and European regionalism is not helpful. Economic regionalisation in East Asia has been remarkably open. There is therefore an urgent demand to study the global-regional and regional-regional dynamics that drive collection action in East Asia.

For example, the recent establishment of the Chiang Mai Initiative Multilateralization (CMIM) aims at providing an effective regional mechanism for emergency liquidity to ASEAN+3 economies in case of currency crises through formal reserve pooling arrangements, a weighted voting system for disbursement of funds, and enhanced surveillance capabilities. However, the regional CMIM is clearly nested within global institutions such as the IMF. Avoiding regional surveillance and enforcement mechanisms begs the question of whether the global-regional nexus of international institutions is a more promising way of achieving financial stability.

In Asia, China has been especially concerned about the perceived perils and pitfalls of complex EU decisionmaking. One prominent Chinese economist at the Development Research Center of the State Council recently noted that EU leaders appeared more nationalistic than ever, which stood in stark contrast to the vision of European integration that leaders of the older generation had been devoted to.[2] According to the same observer, this was compounded by the

2 Statement by a high-level Chinese representative at the Asia-Europe International Conference, *Global Economic Governance in Asia: Through the Looking Glass of the European Sovereign Debt Crisis*, held at the Lee Kuan Yew School of Public Policy in Singapore on 19-20 November 2012.

mixed messages Beijing received in bilateral talks with representatives from different European capitals – such as Berlin, London and Paris – with detrimental effect. The perception of a disunited Europe would foster a tendency among Chinese policy makers to exploit the differences among EU member states. In a nutshell, what is at stake is the ability of the EU to provide coordinated solutions to issues of collective concern on common grounds.

In Europe, the prevailing perception is that the EU has now reached a fork in the road. There is a clear understanding that the real economy needs a continuation in structural changes. Public finances need to be put under control in countries that are breaching the public debt threshold of 60 per cent of GDP. Better governance is still needed in the banking, fiscal and economic areas. The EU is currently making progress in all these areas and is focusing on implementation. Consequently, the debt crisis can also be seen as a healthy catalyst for improving economic governance in Europe. Throughout history, crisis has been the engine of progress in European integration.

Yet, the debt crisis comes with a heavy price tag, because it is consuming too much of the EU's energy. As a result, the EU has become predominantly inward-looking. There is a lesson here Europe may want to learn from Asia. After the Asian financial crisis of 1997-98, ASEAN took a different approach by opening its doors to wider and deeper cooperation in the Pacific Rim. The EU has a unique opportunity to be a catalyst of democratic transition processes in its strategic neighbourhood such as the Balkans, the 'newly independent states' of the former Soviet Union, or the countries that recently went through the 'Arab Spring'. The EU is a unique project in history. With its normative approach based on clear rules of the game and shared sovereignty, the EU can serve as a laboratory at the global scale. This, however, does not mean it should serve as a model. Rather, the EU can offer its experience on how to overcome the narrow, national and sectoral interests and the procedures needed to make progress.

Aims and Objectives

This special issue aims at engaging in a cross-regional comparison of global economic governance, with particular focus on Asia and Europe. Taking the European Sovereign Debt Crisis as its point of departure, the special issue addresses fundamental questions about the fabric of global governance, which can be organized around three major themes:

Order:

a. Is regional integration in itself a contribution to global economic order? What is the nexus between regionalisation and regionalism?
b. What are the global-regional, what are the inter- and intra-regional dynamics?
c. Is the EU a reference point for good (or bad) governance?

Stakeholders:

a. Who are the stakeholders, public and private, in securing global and regional economic order? What are the interests and strategies of the European Union and ASEAN+? What are the interests and strategies of emerging powers such as China? Where does leadership come from?
b. What mechanisms do stakeholders use to get voice in and influence over public policy-making?
c. Is there a Post-Washington consensus emerging amongst stakeholders on principles of how to achieve better global and regional economic policy coordination? Do we have any alternative politico-economic model to address, in Joseph Stiglitz' words, 'the ideological crisis of Western capitalism'?

Governance and Learning:

a. How do we innovate processes and mechanisms of governance in times of change?
b. What constitutes governance 'success' and 'failure'?
c. How can we apply lessons from past successes and failures?

Outline

The first contribution, written by *Evelyn Goh*, addresses issues related to financial regionalism in East Asia and the renegotiation of global economic order. It highlights the limited prospects for the 'closed' East Asian regionalism project, which has been in fact outward-looking and open. Consequently, there is a strong nexus between the renegotiation of economic order at the regional and global levels. While the United States remains the key global provider of financial public goods, since the 1980s, there has been a gradual shift in burden-sharing, for example, regarding the terms and conditions of contributions to and disbursement of capital liquidity. Goh emphasizes that East Asian economic powers may use regionalism as a vehicle for voice and representation in global economic order.

The following three contributions investigate the challenges of global economic governance in East Asia from a stakeholder perspective, that is, China, ASEAN Plus Three (APT),[3] and the European Union. *Takashi Terada* examines the extent to which China has challenged the architecture of Western liberal economic order. He finds that, while China has not directly challenged Western liberal institutions, it has used East Asian regionalism and its commitment to build a BRICS development bank to increase its voice and influence in the IMF. Despite the extremely compelling narrative of East Asia benefitting from a single currency – as the most thriving region in global economy –, Sino-Japanese tensions make a unified currency system extremely unlikely to achieve. *Helen Nesadurai* ponders the important question of whether East Asian states actually may want more governance and greater responsibility in the global economic order. In addressing this question she examines the responses by APT member states to challenges raised by the global and European financial crises. In particular, Nesadurai focuses on two more longer-term, structural issues – rebalancing and sovereign wealth funds (SWFs) – which have received much less attention thus far in the study of East Asian crisis responses. She highlights that East Asian countries used both the APT framework and the G20 to achieve the short-term policy goals of stabilizing currencies and financial systems rather than the longer-term structural reforms towards recalibrating growth models. Furthermore, despite the potential negative repercussions of the European crisis for the region, East Asia may not necessarily wish to assume greater collective responsibility for key problems in the global financial system. East Asian countries may want more global governance to stabilize the international economy and address risks in the euro zone. But, at the same time, these countries also want less global governance if that comes in the form of stricter or more intrusive regulation in areas like current account imbalances and SWFs, which go to the heart of domestic political economies. Finally, given the scarcity of funding sources, the global and European crises have highlighted the critical role of SWFs in rebalancing growth and long-term development financing. In a nutshell, the crises have re-

[3] ASEAN Plus Three comprises the ten ASEAN countries – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam – joined by China, Japan, and South Korea.

asserted the state as a market actor in East Asian economic governance. *Petr Blizkovsky* examines the challenges of global and regional economic governance from a European perspective. He stresses that the European Union is both an actor in and a recipient of global governance. However, the division of labor between the European Union and its member states renders EU participation in global economic governance extremely complex. Blizkovsky argues that the European Union can well be regarded as a laboratory in addressing key issues of regional economic governance. Analyzing success and failure in European problem-solving may therefore serve as an inspiration for other regions. At the same time, especially in the area of financial assistance and financial stability, EU governance has been inspired by policies crafted at the global level. Global governance fora such as the IMF, the G20, and the Financial Stability Board are of particular importance here.

The two concluding contributions address the relationship between governance and learning from a *historico-philosophical* and an *International Relations* perspective. *Alexander Chumakov* takes a more long-term perspective and seeks to draw some lessons from the history of globalization. He reminds us that globalization before the 20^{th} century was not a global but rather a fragmented process. This has changed however. The contemporary international system is characterized by a high degree of interdependence and interconnectedness, as the global and European crises amply illustrate. While globalization confronts us with urgent collective action problems there is no system of global governance to address these issues. Chumakov distinguishes governance from mere regulation, which seems to be the preferred mode of managing the global and European financial crises on a more ad-hoc basis. True governance mechanisms however, unlike regulation, cannot emerge spontaneously but need to be carefully crafted, accommodating other demands such as justice and the rule of law. Reforming existing and developing new principles of global governance should therefore stand at the top of the policy agendas of national governments. *Wolfgang Reinicke and Thorsten Benner* take a step back and outline a broader framework for thinking about innovation in global governance. They put a question mark behind the narrative about the adaptive expansion of the Greater West that would provide rising powers such as Brazil, China, and India with pre-assigned seats as so-called responsible stakeholders. Since large-scale innovation only seems possible in the aftermath of major crises – such as World War II – they advocate the establishment of conditions that would allow for small-scale innovations triggering the evolution rather than revolution of Western liberal order. This needs to be accompanied by some substantial investment in the learning capacity of governance institutions.

Conclusions

In sum, it is high time to start a frank discussion on global economic governance that will engage Asia and Europe on a more equal footing. The European debt crisis illustrates that the Western liberal model is deeply contested in the absence of any alternative. However, there is no Beijing consensus emerging on how to steer the global economy; there is also no consensus on the do's and don'ts of Asian financial and economic integration. While Europe needs to listen harder and learn from the Asian experience, Asia needs to develop a better understanding of the *political* dimension underlying the Eurozone crisis. As former German Chancellor Helmut Kohl once put it when pressing the case for monetary union: adopting the Euro is ultimately a question of war and peace in Europe.

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East Asian Financial Regionalism and the Renegotiation of Global Economic Order

Evelyn Goh[1]

From 2008, when the challenges to the western-led global economic order came to a head in the global financial and European sovereign debt crises, many observers have sought alternatives, inspiration and even culpability in regional forms of economic cooperation and governance. Given its economic dynamism, East Asia is a natural focus in such efforts. This paper explores the relationship between intensifying economic regionalism in East Asia and ongoing alterations and renegotiations of global economic governance. To help set the context for the larger project promoting a dialogue between East Asian and European perspectives on contemporary economic governance, this paper tackles three issues. First, what is the nature of regional economic cooperation in East Asia? What is the connection between regionalisation and regionalism here? Second, what are the intra-regional dynamics that help to explain the nature of financial regionalism in East Asia? Finally, what effects does East Asian financial regionalism have on the changing global economic order? Do developing forms of economic governance at this regional level contribute to global governance, or do the former pose a challenge to undermine the latter?

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Economic Regionalisation in East Asia

East Asia since the end of the Cold War has been enmeshed in a growing web of regionalisation and regionalism. On the one hand, the volume of intra-regional interactions has increased markedly, especially in terms of trans-border flows of people, money and goods, driven by advances in communications, technology and other aspects of globalisation. This 'bottom-up' process of functional *regionalisation* has been gradually supplemented by more 'top-down' state-driven projects of *regionalism*, manifested in various forms of regional cooperation and institutionalisation (Pempel, 2005).

In East Asia, economic regionalisation is best understood as the spread of production networks spanning and knitting together the region, rather than the quantitative accumulation of intra-regional trade and investment flows. Intra-East Asian trade is asymmetrical (dominated by imports rather than exports) because of component trading – separate parts of a particular product are produced in different country locations, and then sold onto a final assembly point within the region before being exported (Athurokala & Hill, 2010). Regionalisation in East Asia turns on this pattern of production, by which firms operating across national economies incorporate them within trans-border production networks. These networks were pioneered by Japanese corporations from the 1970s, but have evolved into more complex networks involving Chinese, American and other East Asian firms and contractors (Hatch & Yamamura, 1996; Borrus, Ernst & Haggard, 2000). The past four decades of such regional production sharing highlight three characteristics of the East Asian economic order. First, it contains hierarchies of dependency. While the hierarchy based on Japanese techno-nationalism has been diluted, the often competitive positions of Japan and China within regional production networks adversely affect the potential for substantive cooperative regional leadership, especially in the realm of trade-based integration. Second, both Japan and China's regional economic leadership positions are based on production rather than consumption – until China especially can develop a significant consumer base, the regional economy must remain dependent upon external markets, technology and standard-setting. This seriously limits the possibility of 'closed' forms of economic regionalism or exclusive structures of regional governance. Third, competing cross-border production and financial networks undermine notions of a neat 'regional' category, further weakening assumptions that East Asian regionalism may pose a coherent alternative to global economic governance.

East Asian Financial Regionalism: Intra-Regional Dynamics

East Asian economic regionalism has two aspects, both politically driven: trade-based regionalism, seen in the proliferation of FTAs; and financial regionalism, reflected in the active process of regional financial cooperation and governance-building since 1997. This paper focuses on financial regionalism because of the more substantive advances made in this arena.[2] The following analysis highlights that the political feat of creating East Asian regionalism has been dogged by two fractious questions: regional leadership, and the extent to which the region should remain be tied into, or resist, the changing global order.

In the recent history of East Asia, Japan has been crucial in driving regionalism, be it through the Co-Prosperity Sphere that it attempted to forge by force in the 1940s, the regionalisation of its developmental model in the 1980s, or its regional economic cooperation initiatives after the Cold War and the 1997 Asian Financial Crisis (AFC). The AFC marked a watershed for Japan, which moved towards deliberate activism in regional financial leadership and a political agenda of regionalism. Japan's picking up of this mantle seemed to be a harbinger of regional self-help and resistance to global financial orthodoxy and institutions. Yet, China's dramatic entry into the capitalist world economy engenders growing competition for Japan in leading the ongoing renegotiation of East Asian order.

The Asian Monetary Fund

At the height of the AFC when the region faced a rapidly spreading 'contagion' of currency crises, Tokyo proposed a $100 billion Asian Monetary Fund (AMF). To be financed, run and aimed at East Asian countries, it would provide emergency short-term financing for the crisis-hit Asian economies without the conditionalities imposed by the international financial institutions (IFI). Japan would contribute half of the reserves, with the remaining half coming from other major regional economies such as Hong Kong, Singapore, China and Taiwan. Given the severity of the crisis and regional perceptions

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[2] Trade-based regionalism is arguably less well-developed, with many of the major multilateral free trade agreements either still under negotiation (e.g. the Trans-Pacific Partnership, the East Asia FTA or the Regional Comprehensive Economic Partnership), or very new (e.g. the ASEAN-China FTA).

that the IMF's conditional bailouts were slow, inadequate and wrong, Tokyo's proposal seemed a timely self-help mechanism led by East Asia's strongest economy. The exclusive and self-sufficient East Asian focus of the AMF, moreover, suggested an alternative to the western-led global neoliberal financial regime.

The widely-felt leadership vacuum in East Asia during the financial meltdown was defined as much ideologically as materially. East Asian states held divergent interpretations of the causes of the AFC compared to the U.S., the 'west' and IFI. The U.S. Treasury and the IMF worked broadly out of the existing neoliberal orthodoxy, diagnosing the 1997 crash as an insolvency crisis. Critics charged that the IMF's previous bailouts of debtor countries without sufficient conditionality had encouraged risky lending and created 'moral hazard', exacerbated by 'crony capitalism' and poorly regulated banking systems in Asia (Wade, 1998). Thus, the solution to such a crisis would be a bailout, but with stricter conditionalities. In contrast, the Japanese diagnosis was of a currency crisis caused by excessive capital liberalisation – developing countries had opened up their capital accounts too much and too quickly, allowing unmanageable flows of capital that disrupted their exchange rates and monetary policies. This was thus a liquidity crisis that required rapid and short-term injection of large amounts of money (Hayashi, 2006:66-70). The proposed AMF would provide a large pool of reserves to the countries that needed it.

The AMF idea failed because of U.S. and Chinese opposition. Washington regarded a Japan-financed AMF as challenging both the authority of the IMF and U.S. hegemony in the Asia-Pacific (Johnstone 1999; Higgott 1998). Until the mid-1990s, China was reticent regarding regional multilateral cooperation, worried about its weak potential bargaining position in such settings, and suspicious of Japan's desire for regional leadership (Johnston 2004). Yet, Tokyo gave up neither its proactive search for East Asian financial mechanisms nor its material and normative leadership in regional financial governance. In 1998, Japan introduced the New Miyazawa Initiative, committing $30 billion in loans to East Asian crisis economies. Japan also developed regional financial mechanisms, channelling some of the Miyazawa Initiative money through the Asian Development Bank's [ADB] Asian Currency Crisis Support Facility, and setting up the ADB Institute for research into alternative monetary policies. Regional finance ministers also continued to discuss the notion of an AMF-type arrangement after 1997, and subsequent cooperative financial mechanisms in the ASEAN Plus Three (APT)[3] have laid the foundations for a future AMF.

The Chiang Mai Initiative

In spite of the divergences in 1997, the AFC provided a critical impetus for East Asian states to push for greater regional cooperation and self-help in preventing and managing financial crises. In the years following the crisis, China came round to support Japan's push for a regional currency crisis mechanism, and East Asian leaders agreed at the 1999 APT summit to establish such a mechanism. The Chiang Mai Initiative (CMI) was unveiled the following year, consisting of two components. First, a monitoring system of economic review and policy dialogue among a network of 'contact persons' to facilitate regional multilateral surveillance, which was unusual, given the potential of intrusion into member states' domestic financial policies. The second component was a regional system of bilateral currency swap arrangements that would inject liquidity in times of crisis. At the outset, these swap arrangements were limited and cautious. Starting out at $38 billion in 2000, the total pool was remarkably small compared to the massive foreign reserve holdings of Japan and China. The largest available reserve pools for Indonesia and South Korea only amounted to $13 billion each. This pot was subsequently doubled to $80 billion in 2005. Further, access to these pools contained a crucial IMF link: members wishing to draw more than 20% of their available CMI funds were obliged to apply to the IMF and thus be subject to IMF conditionality. The bilateral nature of these swaps also translated into variations in the parties involved, currencies denominated, and directions of swapping; thus, the CMI was not a truly 'regional' arrangement in the sense of being multilateral and institutionalised.

Moreover, the CMI was found severely wanting when tested in the global financial crisis in 2008/9. When the South Korean *won* came under speculative attack, creating precisely the type of condition that the CMI swaps were designed to help dampen, Seoul chose instead to negotiate a $50 billion bilateral swap with the U.S. Federal Reserve and subsequently augmented its pre-existing bilateral swap lines with the central banks of Japan and China (Grimes, 2009b: 47). Acting as the fast lender of first resort in the 2008/9

3 A regional forum consisting of the ten Southeast Asian nations, plus China, Japan and South Korea.

crisis – in contrast to the Treasury's reaction in 1997 – the Fed also offered Singapore a similar arrangement. The CMI was ineffective because it did not offer a significant alternative to East Asian states still allergic to the IMF after 1997. The 20% rule meant that in such a major crisis, APT members would have to deal not only with IMF conditionality but also the domestic political fallouts of going cap in hand to the Fund again – and for amounts that did not come close to what the Fed could offer (Emmers & Ravenhill, 2011: 141).

To address these drawbacks, the APT pushed to multilateralise the CMI in May 2009, creating a $120 billion reserve pool, with Japan and China co-leading the contributions at 32% each, South Korea contributing 16%, and ASEAN 20%. Each country is eligible for drawing on an amount that is a ratio of their contribution, with the northeast Asian countries able to draw up to $19.2 billion and Indonesia, Thailand, Malaysia and Singapore up to $11.9 billion. These amounts remain relatively limited, while the critical disbursement issue remained, even though the 20% IMF rule was raised to 30% in 2012.[4] Additionally, the reserve pool is not a centralised fund, but rather a collection of 'self-managed' reserve assets remaining under the care of the committing countries until called upon. The question of financial monitoring mechanisms becomes more urgent as the CMIM reserve pool grows, but the APT Macroeconomic and Research Office (AMRO) launched in May 2011 is still a long way from discharging its twin responsibilities of providing macroeconomic surveillance and central implementation of the CMIM.[5]

The politics of the CMI shed light on the shifting dynamics of resistance, deference and contestation between Japan, the U.S. and China. As already noted, Japan has been the key 'mover and shaker' in the East Asian financial realm. In spite of the failure of its initial AMF proposal, Tokyo was able to develop important credit lines to its needy neighbours and to spearhead the growth of a regional liquidity facility. The CMI succeeded where the AMF failed because China supported and the U.S. did not oppose it. Importantly, the major reason for U.S. acquiescence to the CMI was Japan's decision not to confront the U.S. and IFI with an independent alternative regional financial regime. Instead, the CMI was created explicitly as a regional subsidiary and

4 "The case for an Asian Monetary Fund." 2002. *Asia Times*. 12 July; "ASEAN's AMRO may 'replace' IMF financial role." 2011. *Jakarta Post*. 8 April.

5 "ASEAN+3 countries deepen financial cooperation." 2011. *People's Daily*. 6 May. At their May 2011 meeting, APT finance ministers also initiated studies on strengthening the legal status of AMRO and creating a crisis prevention facility, and agreed that central bank governors would participate in subsequent meetings.

complement to the existing global regime through the 20% link to the IMF, and also through the implicit reliance on IMF standards of financial surveillance. Tokyo's revised approach suggests significant limits to its willingness (if not its capacity) seriously to challenge U.S. hegemony and the neoliberal economic order.

Indeed, Japan's apparent resistance was tempered by pragmatic caution. With its significant expenditures to support regional financial stability through the Miyazawa Initiative, Tokyo began to re-appreciate the dangers of moral hazard in a region slow to commit to serious financial regulatory reforms. Thus, Japan sought ways to limit its exposure, both financial and political.[6] Financially, Tokyo had no desire to carry the entire burden of being the lender of first resort for all of East Asia. Politically, Japanese leaders faced the classic problem of how to reconcile Japanese regional leadership with its neighbours' sensitivities. The CMI helped to ease Japan's discomfort because it allowed Tokyo to subcontract a large proportion of liquidity reserve provision, decision-making about disbursement, as well as monitoring and certification to a third party, the IMF. Tokyo was willing to give up what could have been a direct challenge to the U.S. and turn instead to boosting the IMF and the existing global financial regime also because of changes to the Fund after 1997. Part of Washington's campaign to kill the AMF proposal had included increased quotas for some East Asian states, including Japan, within the IMF. Also, partly in response to the AFC, the AMF proposal and Japanese activism in the IMF, other key quota-holders began to reconsider the strict conditionality and austerity requirements tied to its crisis rescue packages (Grimes, 2009b:48).

Some authors suggest that the CMIM provides the institutional basis for a more credible potential challenge to the IMF through regional crisis insulation and the credible threat of East Asia's (at least partial) exit from the global regime. The CMIM at least places East Asia in a better position to apply pressure for IMF reforms. Implicitly, this is a potential regional challenge that would be led by Japan. Yet, the prospect of this happening is unclear. Tokyo's serious reservations about under-writing the region are amply reflected in the official characterisation of the CMIM as a "complementary liquidity funding mechanism within the framework of the IMF" (Katada 2009). Sino-Japanese rivalry further limits the CMI mechanisms' potential challenge. The agreement

6 This reluctance to contribute to a regional mechanism without conditions is shared among the region's creditor states that would be the additional sources of reserve financing, particularly China and Singapore.

between China and Japan about the CMI helped to raise the costs of U.S. objection in 2000, but to suggest that the CMI captures their "joint leadership" of regional financial cooperation takes it too far (e.g. Chey 2009: 455). After all, Tokyo's aim with the CMI-IMF link is partly to avoid having to cooperate more concretely with China to manage regional financial stability (Grimes 2009a: 81-2). Both sides also retain a strong competitive streak in spite of their joint largest contributions to the reserve pool: Japanese observers frequently point out that Japan is the largest single contributor since China's portion includes a significant input from Hong Kong; while Chinese observers argue that Beijing's contribution should be raised to reflect the country's elevation to the world's second largest economy.

For its part, China supported the CMI because of its "flexible and symbolic" nature, with no binding obligations or central decision-making function – indeed, Beijing had favoured a 100% linkage of CMI funds to IMF conditionality (Jiang 2010: 611; Amyx 2008). China's aim was to try to help mediate its own and the region's exposure to the excesses of the global economic system, while retaining freedom of action without committing to high regulatory costs. Moreover, supporting the continuation of IMF conditionality helped Beijing to signal its non-revolutionary approach to IFI reforms, and to leverage on its regional clout in its search for a greater voice in global economic governance. Supporting the CMI would lend credence to its claim of being a responsible regional power. Financial regionalism helped Beijing to demonstrate reassurance towards its neighbours and its co-leadership position with Japan in CMIM helped it to project regional leadership to counter perceived U.S. hegemony. But China's status gains belie continued limitations to its technical and financial capacity and transparency, which set its interests apart from Japan's. For instance, as the APT develops a regional financial surveillance mechanism, the degree to which Beijing will be able to participate in more intensive regulatory regionalism is in doubt, given the sensitivities of Chinese officials to sharing detailed information about their domestic financial system (Jiang 2010: 614). Beijing's participation in deeper regional financial and monetary cooperation (which require relatively free financial flows) will be limited by the high level of state control over exchange rates and capital account.

Thus divergent Japanese and Chinese priorities and motivations for promoting and leading regionalism pose serious limits to East Asian regionalism, even in the financial realm that has seen so much apparent cooperative action and progress. As the next section suggests, these limitations are exacerbated by the enduring porous and dependent nature of the regional in relation to the global economic order.

Global-Regional Dynamics: East Asian Regionalism and the Changing Neoliberal Economic Order

How does the East Asian regionalist enterprise interact with the western-led neoliberal global economic order? Can regionalism provide for an alternative normative structure that resists the global orthodoxy? Or, does the regional structure support the global, and for what ends?

The region is a mediating level of international life, in between national and global structures, and regionalist enterprises can act as "filter[s] for globalisation" (Wallace, 2002: 149). However, in East Asia, the boundaries between the putative regional community and the global economic order are notably fluid (e.g. Bowles, 1997; Nesadurai, 2003). Even if regionalism connotes community-building or integration as a form of implicit resistance to the global order, East Asian economic regionalism continues to be hampered by the region's close inter-linkages with the global economy. In spite of the 'decoupling' thesis that was prominent in Asian policy-making circles in the 2000s, broader East Asian regionalism since 1997 has been aimed mainly at mediating the adverse effects of globalisation, rather than undermining or replacing the global economic order. East Asia is indelibly tied into the global economic order because of the external orientation of its regional economic production structures.

Even though regionalism in East Asia could pose a challenge to the global economic order, this has either not been at the top of the agenda for the key drivers of regionalism, or only sporadically and indeterminately. As the previous section made clear, successful post-1997 attempts to strengthen financial ties across the region did not pose any direct challenges to existing global arrangements. Instead, regionalism developed more as an insurance policy against the possible failure of the global system. Moreover, as shown in the CMI case, regional alternatives are very much a fall-back option, since leading East Asian economies are unwilling to bear the risks of providing regional club goods with the region's limited regulatory capacity. Japan and China are also global economic players who have the additional option of increasing their leverage within global financial regimes, or of implementing international currency policies, in order to manage the uncertainties of the existing global economic order. They do not necessarily have to seek the regionalism-as-resistance option. Beijing and Tokyo also harbour status and gains ambitions globally, which at times take precedence over their regional aims.

Global Imbalances and the 'Regions Gap'

East Asian states have been building the road to economic regionalism across a rapidly-evolving global landscape. Over the last two decades, global economic power has diffused away from the core of the U.S., Western Europe and Japan with the dramatic shift in global manufacturing capacity and capital accumulation towards emerging economies, especially China. The hegemon is now the world's largest debtor: for instance, U.S. external borrowing rose steadily from below 2% to a peak of 6% of GDP by 2005-6, driven by high inflows of capital from the post-crisis Asian economies and commodities exporters experiencing improving terms of trade, and low external savings rates. Meanwhile, China and Japan, major buyers of U.S. debt, are the world's largest holders of foreign exchange reserves.[7] The GFC exacerbated global imbalances, as emerging markets took advantage of the U.S. government financial bailout and stimulus plans to step up their purchases of U.S. debt. China became the largest holder of U.S. debt: its holdings of official U.S. debt stood at 46% in 2008, and peaked at $1.175 trillion in October 2010.[8] China also edged out the World Bank as the largest lender to developing countries in 2009-10.[9] The developments seem to suggest that the global economic order is evolving into one with multiple 'poles' possessing exceptional capability to control significant capital flows (Subacchi, 2008). Even as they have explored the outlines of new, subsidiary regional structures of financial governance, leading East Asian states have been increasingly involved in this ongoing re-negotiation of the global economic order.

While the GFC discourse has been dominated by the U.S. deficit vis-à-vis China and currency valuation, global imbalances are not just a U.S.-China issue. In the post-GFC negotiations, on the one hand, are those who treat the

7 China's foreign reserves holding hit $3 trillion in March 2011, nearly triple that of second-placed Japan ($1.1 trillion), and dwarfing that of Russia, India and Brazil (also ranked among the top ten), which have between $3-5 billion each – "China should cap forex reserves at 1.3 trillion." 2011. *Xinhua*. 23 April; "Taiwan's foreign reserves 4th largest in the world." 2011. *The China Post*. 4 June.

8 "China's move to reduce US debt holdings normal." 2011. *People's Daily*. 21 March; "China trimmed holdings of US debt again." 2011. *China Daily*. 18 May. As the second largest holder of US debt, Japan held $900 billion as of April 2011.

9 "China's lending hits new heights." 2011. *Financial Times*. 17 January.

issue primarily as one of reformulating financial regulation and creating economic stimulus for growth. On the other hand, others argue for a more radical re-negotiation of the "global compact" to tackle imbalances and re-assess the ways in which multiple economies can seek macroeconomic 'adjustment with growth' (Brown, 2010). Regional financial regimes play potentially important roles for both schools of thought. In terms of currency regulation, regional coordination on exchange rate policies may be helpful. For instance, given China's role in the regional production network, its current account surplus is in fact a 'regional' trade surplus with the U.S. and Europe, and regional economies share an interest in intra-regional exchange rate stability while allowing more flexibility against other currencies. Thus, coordinated currency appreciation among China, Japan and South Korea, for example, would help to maintain their relative competitiveness to each other at least (Volz, 2010). Ongoing debates about strengthening regulatory regimes also privilege regional-global cooperation. The UN Stiglitz Commission suggests that the reformed global financial architecture might be made up of a network of regional monetary funds, working in tandem with a scaled-down IMF (United Nations, 2009). In East Asia, others have pushed for cooperation between CMIM and the IMF to avoid duplication and to enhance a division of labour – for instance, AMRO can add more frequent surveillance of East Asian economies to the IMF's annual cycle; while the IMF can provide technical advice and involve AMRO in IMF surveillance missions (Henning, 2010).

Creating cooperation between global and regional regimes is a way to manage potential resistance and challenges posed by regional frameworks. However, in the medium term, structural reforms are needed in key economies like China and Germany to move towards a more domestic demand-led growth model – a point acknowledged by G20 finance ministers in February 2011, when they agreed on indicators of evaluating imbalances that place exchange rates in the wider context of global trade balance and investment flows (G20, 2011). Thus, on key issues ranging from trade negotiations to regulatory and institutional reform, East Asia is expected to deliver. Yet, there is a gap – in terms of agenda, aspiration, and connection – between evolving financial regionalism and East Asian states' relative lack of activism within changing global economic governance structures that give them a greater role. The reasons for this disconnect may be technical, political, or related to a time-lag.

Co-optation in Global Governance

Ideologically, East Asian financial regionalism has at times been framed within the search for alternatives to the neoliberal orthodoxy, by building on the statist 'Asian model' of development. Neoliberal economic ideology is often understood as the so-called 'Washington consensus' around a monetarist neoliberal model stressing market forces while 'rolling back' the state, which characterised the 1980s 'counter-revolution' against Keynesian economics (Williamson, 1999; Toye, 1987). And yet, by the time of the AFC, the Washington consensus was already being reformulated. In the 1990s, Washington itself rediscovered an interest in state regulation: multinationalisation and globalisation necessitated trans-national coordination in managing labour, banking and investment flows, the implementation of which devolved to individual states and entailed augmenting states' regulatory capacities (Best, 2003). Further, criticisms of the neoliberal model's social costs led IFIs to address issues of good governance: poverty reduction, social safety nets, consultation with civil society (Thirkell-White, 2005; Pincus & Winters, 1999). Thus, by the 2000s, there was no longer a Washington consensus as such if by that we mean the categorical free market neoliberalism that flourished briefly in the 1980s. Indeed, the AFC and its initial mishandling by the IFIs added to the momentum of re-negotiating the neoliberal economic model.

Yet, even though the Washington consensus has been internally and externally challenged and the tensions between socio-political authority and market forces are being re-negotiated at different levels, there is not a wholesale rejection of the macroeconomic focus at its core. This is clearly seen in the process of negotiating reform of the global economic governance structures, especially in the IMF and the creation of the G20.

The G20 has seen some progress so far in terms of economic cooperation and reform, such as its peer review system of members' macroeconomic and financial policies, the first such exercise to include both developed and developing economies. BRIC and G20 finance ministers also succeeded in expanding membership of the G7's Financial Stability Board for cooperation in market supervision and surveillance to include G20 countries in 2009. G20 states have exerted pressure on the IMF to increase emergency lending to emerging economies and developing countries, and important changes have occurred: the expansion of the New Arrangements to Borrow for crisis-hit economies, as well as the establishment of the Flexible Credit Line and Precautionary Credit

Line to help vulnerable economies prevent crisis. The G20 also successfully lobbied the World Bank to support counter-cyclical lending to developing economies, and the IMF to devolve to regional development banks some of the new resources for rapid crisis assistance – the ADB, for instance, was able to introduce a counter-cyclical support facility to disburse up to $3 billion to crisis-affected developing economies in Asia (Chin 2010: 708).

G20 members also reportedly linked significant increases in their IMF contributions during the GFC to voting reform.[10] At the 2009 London summit, the G20 countries trebled the resources available to the IMF to $750 billion – with Japan committing an additional $100 billion and China pledging $40 billion– and agreed to a variety of additional trade finance and concessional lending to the tune of $350 billion (G20, 2009). In return, they agreed on the FSB expansion and implementation of IMF voting shares reforms by January 2011. In November 2010, the IMF board agreed a shift of 6% of quota shares to emerging and developing economies, bringing all the BRIC countries into the Fund's group of ten most powerful members by 2012. This 'rebalancing' will also affect the composition of the Fund's Executive Board, which will see two European members replaced by two emerging countries, as well as the introduction of elections for all Executive Directors.[11]

In July 2011, China gained representation at the top of the Fund's hierarchy, when Zhu Min was appointed to a newly created post of deputy managing director, and Beijing expects its voting share within the Fund to rise further.[12] In March 2009, the governor of the Bank of China proposed that the IMF's international reserve asset, the Special Drawing Right, be strengthened to act as an alternative reserve asset option over the long term.[13] While some observers see this as part of the agenda to undermine Washington's central role, it could also be read as defensive diversification by a country in a weak position because of over-dependence upon the U.S. (Kirshner, 2008). Beijing's willingness to push for more serious alterations to the existing global financial order or alternatives to it, is constrained by its reluctance to appear radical on the global stage, but also fundamentally by the risk that trying to shifting rapidly

[10] "BRIC nations say no IMF cash without representation." 2009. *Reuters*. 14 March.
[11] "China C. Bank adviser says US should cut IMF voting share." 2011. *Reuters*. 24 May.
[12] "China urges Lagarde to deepen IMF reforms." 2011. *China Daily*. 29 June.
[13] "China eyes SDR as global currency." 2009. *China Daily*. 23 March; "China's subtle moves ahead of G-20 summit." 2009. *The Nation*. 30 March.

out of its own deep dependence on the U.S. dollar as its key reserve currency would diminish the value of remaining dollar assets.[14]

Thus, in many respects China and Japan have acted to reform but boost the existing order. Even Beijing seems to have few delusions about alternatives to U.S. leadership in the global economy. China's Vice-Foreign Minister publicly acknowledged "the reality" that the dollar is "the most important major international reserve currency of the day, and for years to come".[15] In the recent financial crises, Japan and China showed themselves willing to play the role of back-up lenders of last resort, both in Asia and in Europe. When the GFC hit in 2008, Chinese leaders initially focused on looking after China first but by 2009, they not only joined the G7 in helping the IMF to increase credit to crisis-hit countries, but also ensured that industrial economies with large export sectors could rely on emerging market demand to recover. Over 70% of China's trade surplus with the U.S. in 2003-9 was accounted for by Chinese purchases of American Treasury Bonds (Holslag, 2011: 82). During the 'Euro-panic' in the spring of 2011, China and other major holders of reserve currencies turned the tide by declaring their interest in Euro holdings. Subsequently, China bought EU government bonds and assets on official buying missions in Europe, including bond purchases in the troubled economies of Greece, Spain and Portugal, and billion-dollar business contracts with the larger economies, Germany and the UK.[16] Beijing has acted out of self-interest – whether in search of bargain-basement-priced assets or to expand access to key European markets – but such measures reaffirm neoliberal economic ideology and do not present alternative ideas for more radical change.

At the institutional level, the expanded structures of governance are even more pronounced in boosting the traditional hegemonic role of the IFIs. The G20, for instance, has not departed significantly from the agenda of the G7: the emphasis remains macroeconomic imbalances and exchange rates, and the IMF has not undergone significant governance reform (such as a significant increase in Asian shares of quotas, or the removal of the Executive Board from day-to-day operations to try to de-politicise the Fund's decision-making). In its key

14 The Chinese government did not press the suggestion at subsequent summits and denied that it was government position to replace the dollar – "China reassures on dollar debate before G8." 2009. *China Daily.* 6 July.

15 "Vice FM: US should maintain stability of dollar." 2009. *China Daily.* 6 July.

16 "Enter the dragon to save the euro." 2011. *The Telegraph.* 30 June; "Wen Jiabao goes shopping and vows to help the euro." 2011. *Spiegel Online International.* 28 June; "China pledges continued support for European debt." 2011. *Wall Street Journal.* 26 June.

"recession buster" role, the G20 has neither challenged the Bretton Woods institutions nor US global economic dominance (Zhu, 2011), but rather bolstered the IFIs by generating new resources for the IMF, the World Bank, and regional development banks. The G20 has also bolstered the IMF's monitoring role by adopting the FSB in its core action plan for macroeconomic and financial monitoring (Cooper, 2010: 741). The group has also declared high-level support for the WTO's free trade agenda (G20, 2009).

As the leading East Asian economic powers, China and Japan come under frequent scrutiny for potentially challenging the existing order. Yet, for Beijing, the priority has been to increase China's voice and representation while gradually altering undesirable elements of the existing global order from within. Beijing does complain about aspects of it but these are voiced "from within the system and matched by a desire to protect and reform it" (Glosny, 2010: 118). Chinese analysts are reluctant to call for the outright replacement of the existing order. Rather, the aim is to seek some sort of "power-sharing" with the U.S. and other 'responsible stakeholders'.[17] Japan works from the different position of being part of the established set of great powers within the existing global economic order: it is essentially conformist and pro-status quo. Thus, while engaging actively in the G20 process, Tokyo has resisted supplanting and diluting the G7/8 as the core group of leading states. MOFA officials have reiterated the lasting importance of the G8 as a steering committee determining the agenda for the G20, while liberal Japanese policy thinkers advocate retaining the G7 as a "core caucus" of leading democracies and market economies working efficiently within the G20 to "support global order" (Dobson, 2010: 40). Even though China and Japan have different priorities, they do converge on the need to advance their positions at the global level and to maintain and strengthen the existing order. The establishment of the G20, BRICs and other emerging power groupings are primarily means by which the latter seek to expand the membership of the elite group of global great powers that manage global order – the aim is to share power, and by sharing, increase the authority of this group; it is not to resist or replace the ideological or structural foundations of this order.

The overall picture at the global level, therefore, suggests that emerging powers like China have been co-opted into an adaptable order with prospects of power-sharing, while incumbent economic leaders like Japan concentrate on

[17] Author interview with Chinese economic analyst, Beijing, May 2011.

retaining as much leverage as possible within existing governance structures. In this context, modes of financial regionalism in East Asia are more a means of bolstering the existing global economic order than challenging or replacing it. It is also important to note that this state of affairs does not arise from the structural imposition by global forces, but rather from active choices made by the key East Asian great powers.

Conclusion

The foregoing analysis leads us to three conclusions. First, the stark juxtaposition of regionalism against globalism is unhelpful in East Asia, where economic regionalisation has been remarkably open and externally-oriented. This functional characteristic fundamentally limits the prospects for the 'closed' regionalism project. It also means that the regional re-negotiation of economic order is deeply interwoven with that at the global level. Second, the realm of macro-economic and financial governance has undergone dynamic change and renegotiation since the 1980s. At the global level, the provision of the financial public goods that has long been regarded as a hegemonic imperative does remain dominated by the U.S. and its allies – for example, it continues to provide the world's reserve currency – but there has been gradual burden-sharing in terms of contributions to and disbursement of capital liquidity, for instance. These ongoing global renegotiations impact on the major East Asian economic powers. Japan and China are both unwilling or unable to monopolise the supply of regional financial public goods, not just because of capacity considerations, but also because they have multiple aims at the global level – to limit exposure to different types of risk commensurate with their financial profiles, to block each other's potential gains in status, and to preserve certain beneficial aspects of the existing order while reforming less desirable aspects. Finally, therefore, the point is not that the western-led global liberal ideology and institutions cannot be challenged by regionalist impulses in East Asia and elsewhere, but rather that these existing global institutions are extremely costly to replace. Thus, it is more likely that regional economic powers will use regionalism as leverage to seek inclusion in the core group of global economic leaders, rather than to alter the nature of global economic order and its constitutive norms.

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China in Global Financial Governance: Implications from Regional Leadership Challenge in East Asia

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The Lehman Shock, triggered by bad mortgage-related securities and other devalued assets held by US financial institutions in 2008, and the subsequent European debt crisis represent both the eroding international influence of Western powers, especially the United States and the growing international role of China. The transatlantic crisis has made urgent calls for financial cooperation at both regional and global levels in which emerging economies have stressed the need to reform the existing regulatory regimes cultivated by Western capitalism through the delivery of their own preferences into it. Achieving a double-digit economic growth especially after participation in WTO in 2001 and accumulating huge trade surpluses due mainly to exports to the United States as well as Europe, China has most vocally asserted the need to move towards the establishment of the balanced global financial governance with more voices from emerging economies.

Global governance can be viewed as necessary mechanisms to pursue solutions universally to prevent the occurrence of or to cope with large scale crises. According to Whitman (2009: 14-15), global governance has recently taken a more politically controversial function which concerns "the distribution of power and the construction and maintenance of orders that plainly advantage

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certain states, organizations and peoples at the expense of others". This definition of global governance seems to be built on the development and function of chief global economic institutions such as the International Monetary Fund (IMF), which have been managed by Western-oriented governance principles, named the Washington Consensus (Williamson, 2009; Marangos, 2009).

In the debate surrounding the Washington Consensus-driven model of global governance versus the Asian developmental archetypes, observing that the success of Asia, East and South highlights the shortcomings of the Washington Consensus, Buckley (2011: 80) asserts that China and India, two representatives from Asia "have far outperformed those implementing Washington Consensus policies". While featuring the different approaches taken by the Beijing Consensus, this paper examines what structural or architectural components of global economic governance the emerging Asian economies, especially China, have challenged, and what outcomes or implications it has brought about for global and regional financial cooperation. China has been motivated to change the existing IMF structure to realise its national goal of supporting the whole population and stabilising the domestic political environment. The paper identifies two coalition-building measures China has utilised to gain more influence in the global financial institutions, the BRICS framework including Brazil, Russia, India, China and South America, and East Asian regionalism in the form of ASEAN+3. Financial cooperation as embodied in the BRICS Bank and the Chiang Mai Initiative (CMI) respectively became the first and foremost agenda in both institutions in which China has exercised a predominant influence. The paper especially highlights the development of financial cooperation in East Asian regionalism, since the cooperative development has been attributed to the competition between Japan and China, a manner which might be recurred at the global level between China and the United States in the IMF.

Entering an Era of Beijing Consensus?

One of the recent diplomatic strategies China has promoted to achieve its own prosperity and stability is to rely on its soft power with the objective of attracting more friendly states. China has demonstrated a path for other nations, especially developing countries, aspiring to comprehend "how to fit into the international order in a way that allows them to be truly independent, to protect their way of life and political choices in a world with a single massively powerful centre of gravity" (Ramo, 2004: 3). However, while hoping to "control, localize and administer their own global future", China has encountered "the kind of mail-order prescriptions of the Washington Consensus", forcing Beijing to be "determined to find its own route" (Ramo, 2004: 33). So, the simple but most significant question is whether or not China succeeded in getting the developing economies to buy into the development model it has proposed as a basis for expanding its global influence. The transatlantic crisis can thus be seen as a vindication of the Beijing Consensus in many ways. For example, the anti-thesis against state intervention in the markets, as promoted by the Washington Consensus school of thought, has lost some footing in the wake of Obama Administration's strong push to overhaul the American banking sector by placing its banks and financial markets under stricter government supervision and financial control. In effect, the proposed banking bill empowers the US government to "constrain the activities of big banks, including forcing them to divest certain operations" and expands "the regulatory reach of Washington's major agencies" (*Wall Street Journal*, 27 June 2010).

On the other hand, the pragmatic ideas of economic development espoused by the Beijing Consensus camp have harnessed greater support in the crisis. Beijing's quick decisive injection of a four trillion-renminbi package in November 2008 to boost the Chinese economy through ten domestic measures, ranging from improving its transportation network, supporting its agricultural sector to developing its health and education infrastructure, is widely touted as a crucial state intervention which lifted China out of the global economic doldrums in double time (Central Government China, 2008). Just slightly over two years into the crisis and the implementation of its massive domestic stimulus package, the Beijing government announced in July 2010 that the country had achieved a growth of 9.1 percent in 2009 (National Bureau Statistics of China, 2010).

The development and implementation of these stimulus measures revealed two major differences, compared with the economic and political practices the Washington Consensus established. The execution of the above-mentioned four trillion renminbi stimulus package, designed to respond to a plunge in exports, was unique in that it was swiftly decided at a speed in which many democracies find it difficult to emulate. The second uniqueness was that the package created strong demands for outmoded state-owned companies and they played a bigger role in many projects, which many market economies find difficult to follow. Yet, the economic growth backed by the stimulus package created allowed the government to be obsessed with the economic growth measures, while delaying the democratic reform process. The state-owned companies that became wealthier also became the hotbeds of corruption, according to He Weifang, a Peking University law professor (*Asahi Shimbun*, 7 November 2012). It thus can be true that the transatlantic crisis contributed to the China's development model being more popular and gaining more supporters, challenging the democracy and market economy as valuable political and economic systems.

Yet Breslin (2011) argues that the China model is yet to shape intersubjective meanings, indicating that there is no agreed understanding about the actual components and implications of the China model, and he also casts a doubt on the uniqueness of the China model. For instance, although India tends to be viewed as a strong member of the emerging economy camp, Indian governance is more similar to that of the Washington Consensus than China's. The role of the state has been much smaller in the Indian economy, compared to China's, and the market is the chief allocator of financial and other resources in India, much less so in China. To many developing counties, an important point is that China has so far outperformed India, and "given the increased investment in its human capital which China's economic growth has made possible, it is likely to continue to outperform India in the foreseeable future" (Buckley, 2011: 80). Such views advance and reinforce the idea of a developmental model that is uniquely found in the Chinese governance.

One of the unique traits in the Chinese model can be traced back to the time when the Asian financial crisis hit the region, which provided China with valuable lessons. China analysed the mechanisms of international finance and currency process, and tried to establish a distinctive system, which combined national security with currency policy on the basis of the crisis investigation, which stressed the need to contain speculative funds through strict regulations on capital transactions (*Nikkei*, 31 July 2012). China has thus been cautious about the deregulation on the currency system and this approach is also attributed to the justification that state intervention in the currency market is necessary to keep the renminbi depreciated, serving as a driving force for China's exports, which is essential for the economic growth. This observation resonates with the calls by many Chinese scholars for US-led institutions to give greater recognition and respect for national or domestic considerations of developing economies like China when carrying out their global duties. For example, Yu (2006: 519) cautions that the "IMF should not be presumptuous and assume that it knows local institutions better than the local economists and local governments", criticizing the IMF, which is not "accountable for the fortunes of its member countries". This kind of view represents a basis for China's challenge to US-led global financial governance.

Challenging the Dollar-Centred Global Financial Order

Premier Wen Jinbao (2009) attributed the genesis of the transatlantic crisis to the failure of the American regulation system, which had helped financial institutions to excessively expand and to lack self-discipline "in a blind pursuit of profits", representing China's discomfort with the United States for damaging the world economy and its exporting markets. This can be viewed as a counterargument to the US criticisms against China, expressed by then US Treasury Secretary Timothy Geithner, who believed it was China's currency manipulation that caused US trade deficits to grow (BBC News, 29 January 2009). Yet, China's concern stemmed partly from its bad experiences during the 1997 Asian financial crisis: China's export advantages in price were damaged as the currencies of Indonesia, Thailand and other Asian manufacturing export competitors were sharply devaluated as a consequence of the crisis. China's Ministry of State Security and the military officials came to view that "the crisis was engineered by the West to topple the Communist Party" (*Nikkei Weekly*, 8 October 2012), growing a suspicion against the US-led IMF responsible for the prescription of the Asian financial crisis.

As the second-largest economy in the world, China's keener interest in the IMF reform and efforts to reduce its reliance on the US dollar would lead to the possible formation of a new currency and financial order. China's major motivation behind the challenge to the existing financial and currency rules including less reliance on the US dollar stemmed from its efforts to achieve a national goal: to support the 1.2 billion population and maintain 8% economic growth. After the transatlantic crisis, China viewed the current global financial architecture, based on the US dollar as the key currency, as "a thing of the past", as mentioned by President Hu Jintao (*Wall Street Journal*, 17 January 2011), indicating a view that the architecture was not favourable to that national goal. If the current reform in the IMF, with a view to increase voting rights of emerging economies through reallocation of quotas and the number of board members, were implemented, China would be the third-largest contributor slightly after Japan in the IMF. The United States, however, would maintain more than 15% of the voting rights even after the reform (17.41%), meaning that the United States would remain as the only veto power in the IMF. The US Congress is still opposed to the approval of the reform plan and a majority of the board members are also critical of China's market intervention to control the exchange rate between renminbi and US dollar to give an advantage to its exporters. Mutual discontent between China and the status quo powers of IMF would continue to exist, as far as China maintains the government intervention practice in the foreign exchange market.

Ironically, the transatlantic financial crisis revealed the unprecedented level of mutual economic interdependence between China and the United States despite their dissimilar political and economic systems. The United States needs China to continue to purchase US bonds to secure the necessary funds for tackling financial crisis at home and to achieve economic growth by increasing domestic demands through fiscal expansion packages. China also needs the United States to endeavour to keep the value of the US dollar, so that it would not suffer from losses imposed by the corresponding losses of the bonds, given that China's foreign exchange reserves have kept three trillion dollars, and 70 percents of the funds were once held in US dollar-denominated assets (*Nikkei*, 23 July 2009). China's proposal to eventually replace the US dollar as the main reserve currency with IMF's Special Drawing Rights (SDR), which was explicated by Zhou Xiaochuan, Governor of the People's Bank of China (PBOC), can be understood in this context. China needs to reduce risk by diversifying its holdings into other currencies, and finds it difficult to maintain a large amount of US dollars in currency markets as this act would surely cause the very decline of US dollar's value that China wishes to avoid. These mutually dependent circumstances between the two world largest economies appear to prove the inevitability of the G2 meeting to govern global financial politics bilaterally, while their competing views on the desirable global financial order continue to evolve, bypassing other major players such as the EU and Japan.

While demanding the United States to maintain the value of US dollar and the IMF to reflect the views and preferences of emerging economies on the decision-making process, China has also endeavoured to reduce its heavy reliance on the US dollar. For instance, since establishing a currency swap agreement with South Korea in December 2008, China has expanded its currency swap networks with its major trading partners (the latest is one with Australia as the 17th agreement reached in March 2012). China then agreed with Japan to implement the direct trading system between renminbi and yen in June 2012, making it possible for companies not to settle their transactions with US dollars and avoid paying double the foreign exchange charges. Less reliance on the US dollar is a key shared concern among many economies and a robust evidence of the declining American economic power, and China has taken advantage of it to build a coalition with like-minded states.

BRICS

One of the approaches China and other emerging economies have utilised to increase their influence on global economic governance is to use mini-lateral frameworks in which a smaller number of like-minded states come together to promote cooperation to realise common interests or establish their favourite rules and norms. China has at least two mini-lateral forums in this aim: the BRICS and East Asian regionalism.

The BRICS states organised the first summit meeting in 2009 (South Africa joined in December 2010) and four leaders including Chinese President, Hu Jintao participated. As discussed by Ban and Blyth (2013), the importance of the BRICS framework has evolved around the relationship between the emerging powers and the existing international order characterised by the Washington Consensus. One of the chief purposes behind the BRICS formation is thus to represent the voices of emerging economies and to increase their influence in global economic governance through expanding mutual currency swap arrangements, establishing its own development bank, and possibly appointing representatives from emerging economies to the top position of international organisations such as the World Bank, all of which respond to China's interest.

The BRICS cooperation has placed the highest priority on finance. For instance, the BRICS countries set up the currency swap agreements among each other, a development similar to the Chiang Mai Initiative (CMI), an East Asian network of bilateral currency swap agreements designed to serve as crisis management by providing short-term liquidity. So far, there has been only one established congenial arrangement signed between China and Brazil among the BRICS countries. Nevertheless, the Director-General of People's Bank of China's International Department, He Jianxiong revealed that the proposal to develop a multilateral currency swap arrangement was "in the early stages of consideration" by the BRICS countries (cited in *Wall Street Journal,* 18 June 2012), and the multilateralisation appears a matter of time, following the case of CMI in East Asia where a consensus was gradually formed to establish a central pulling system, called the CMI Multilateralisation (CMIM), as discussed later. In fact, according to the Durban Declaration of the fifth BRICS summit meeting held in March 2013, the leaders agreed to create the "contingent reserve arrangement" with an initial size of 100 billion US dollar that has been under the consideration since June 2012 (CFR, 2013).

Looked at from the Chinese perspective, these swap arrangements not only provide short-term liquidity, but also possibly promote the use of renminbi in overseas markets and in bilateral trade and investment. For instance, as Chey (2013: 349) argues, China has permitted foreign central banks that have currency swaps with China and overseas banks involved in cross-border trade settlements in renminbi to invest in the Chinese interbank bond markets. Also as China's previous bilateral swap arrangements are composed of local currencies, including renminbi, the currency swap arrangements are expected to increase the bilateral trade in local currencies, bypassing US dollars.

The BRICS leaders also announced the establishment of a BRICS Bank to finance by using their own currencies, not US dollars. The Delhi Declaration, issued at the 2012 BRICS summit, declared the new development bank's aim was "mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, to supplement the existing efforts of multilateral and regional financial institutions for global growth and development" (CFR, 2012). At the 2013 BRICS Summit, South African President Jacob Zuma announced "formal negotiations to establish a BRICS-led development bank" which would begin to match "the considerable infrastructure needs that amount to around 4.5 trillion U.S. dollars over the next five years" (*Xinhua*, 27 March 2013). An Indian government official elaborated on the reasons behind the birth of the BRICS bank from Indian viewpoint: the insufficient resources and function of the World Bank. The official mentioned: the World Bank's annual lending is about $15-$20 billion globally, and India's maximum share is around $3 billion, which could be used to partially cover a small size infrastructure project. This dissatisfaction on the Indian part was amplified after the addition of almost $500 billion in IMF's resources to cope with the European debt crisis and prevent a possible spread of the financial contagion to the other regions was agreed upon while leaving sluggish the same agenda for the World Bank (*Mint*, 15 October 2012).

BRICS countries have also indicated their discomfort with the current global governance system, continuously calling for reform of the World Bank and the IMF. The Delhi Declaration especially highlights the Western dominance in the governance and proclaims: "We welcome candidatures from the developing world for the position of the President of the World Bank. We reiterate that the Heads of the IMF and the World Bank be selected through an open and merit-based process" (CFR, 2012). However, a traditional practice that Americans have always been appointed to the World Bank Governors and the IMF has always been run by Europeans, has never been broken (see appendix 1). While Europeans and Americans continue to struggle to recover from their crisis-ridden domestic economies, the demand on the change of this practice from the BRICS members appears to be stronger. The BRICS members have not formed any single bilateral FTA among themselves and shown no interest in establishing a single trading bloc, proving a lack of coherence as an economic unit, as evident in the Doha Round negotiations. This observation, however, highlights their profounder shared interest in the financial fields, concentrating their political leverage for IMF reform. China's views on the desperate need on the reform of global financial mechanisms have been clearly indicated by President Xi Jinping who states that "global economic governance system must reflect the profound changes in the global economic landscape, and the representation and voice of emerging markets and developing countries should be increased" (Ministry of Foreign Affairs, 2013). China's interest in the BRICS framework as a venue to consolidate the voices of influential emerging economies for global financial governance reform is rather straightforward.

Rise of East Asia's Financial Regionalism

A crisis occasionally serves as a powerful stimulus for regional and international cooperation, and the three financial crises, occurred in 1997 in Asia, in 2008 in the United States, and in 2010 in Europe, have triggered China's serious commitment to regional financial cooperation in East Asia. The 1997 Asian Financial Crisis was the first case which provided the chief motivation towards greater financial cooperation. East Asian nations, most of which accumulated foreign reserves in US dollars as a lesson learnt from their horrific experiences during the 1997 Asian Financial Crisis, have taken collective action to save troubled nations in the region. Utilising the ASEAN+3 framework, an institutional body for regional integration in East Asia, the ten

ASEAN members together with China, Japan and South Korea beefed up the existing financial cooperation framework, especially the CMI. To better address the needs of regional financial cooperation, ASEAN+3 countries have gradually strengthened the move towards the multilateralisation of the CMI arrangement, exercising pressure to reform US-backed rules of global governance.

This is evident in the inaugural statement made by Wei Benhua, the first director of the ASEAN Macroeconomic Research Office (AMRO) in Singapore which aims to provide financial surveillance and monitoring systems: "the IMF has to get used to emerging Asian countries wanting more say in economic reform plans...This is the new reality. The IMF has to accept this even if it not so happy... A regional agency can understand the needs of neighbouring nations more clearly than the IMF can do" (cited in *Australia Financial Review*, 30 March 2012). The global acknowledgement of the significance of East Asia has been mainly attributed to the rise of China. Put simply, the rise of China has meant that a traditional political power now emerges as a superpower, whose political influence is now also backed by continuous high economic growth, influencing both political and economic spheres on a global scale. This assessment has bolstered the above message by Wei, former senior official of PBOC, who stressed that inevitably the IMF would be growingly challenged by regional financial bodies, especially the ones in East Asia that are backed by a rising China.

The view that East Asian financial mechanisms have been useful to shape a collective voice or increase the influence in global settings such as the IMF was then revealed by Premier Wen Jiabao in October 2011: "China is ready to work closely with ASEAN ... to gradually put in place a stable and mature regional capital market and enhance the region's ability to resist international financial risks" (cited in *Xinhua*, 21 October 2011). By playing up the importance of strengthening regional organization in response to a transatlantic financial crisis, East Asia formed a consensus that the financial cooperation such as CMI could serve as a way of boosting East Asian "leverage in seeking additional IMF votes and capital shares" (Ciorciari, 2011: 947), as ASEAN+3 finance ministers had already "called for an urgent review of the quota of the Asian countries in the IMF to properly reflect the current realities and their relative positions in the world economy" (ASEAN Secretariat, 2005).

In East Asia, it was not China, but Japan who initially challenged the IMF and proposed in 1997 the establishment of the Asian Monetary Fund

(AMF) as an Asian financing facility with an initial capitalization of 100 billion dollars, excluding the United States and the IMF. Although the United States became staunchly opposed to it on the grounds that it would erode the significance of the US-dominated IMF and cause a moral hazard problem for the borrowers, Japan's abortive AMF idea highlighted the growing impact arising from the rise of China in terms of financial cooperation in East Asia. China emerged as a leader in regional financial cooperation, a position that used to be predominantly occupied by Japan. Japan's competition with China over the leading role in regional financial cooperation can be seen as an additional case of patterned competition in East Asian cooperation as seen in the proliferation of Free Trade Agreements (FTAs) (Terada, 2009). A significant implication of China's leadership challenge to the existing leader at the regional level is that it can be patterned and exercised at the global level as well.

In 1997, China's pledge not to devalue the renminbi was an important initial intention to work together with its East Asian states and the approach was then hailed by regional countries, as seen in then Thai Foreign Minister Surin's remarks: "the Chinese are bearing the burden for their past aloofness" (*Straits Times*, 16 December 1998). China became the first nation to offer aid of 1 billion dollars when Thailand's currency collapsed. Such a friendly gesture contrasted with the United States, who "castigated the Thai Government for poor economic management" (Vatikiotis, 2003: 69). The financial crisis brought China and ASEAN closer; as one official close to the Chinese foreign minister commented that "it was around that time that China 'began advocating all countries involved should put aside disputes and develop the region'" (*Asian Times*, 10 February 2004). Moreover, the crisis made it clear that China, which had been thought to be going its own way, rather than contributing to regional affairs, started to engage in East Asian cooperation as a fully-fledged regional player (Terada, 2003).

The need for Asian collective action in the wake of the transatlantic crisis was initially articulated in the ASEAN+3 Finance Ministers' Meeting in Bali in May 2009 in which the members agreed to expand the total amount of CMI to 120 billion from 84 billion dollars and agreed on the contribution amount for all member states including Hong Kong. The decision was also made to establish financial surveillance and monitoring systems, independent from the IMF, and to multi-lateralise bilateral swap arrangements, called the CMIM, thereby encouraging a move towards the de facto realisation of the AMF, which the

United States refuted during the 1997 crisis. Through the CMIM, for instance, the amount of funding could be increased, and negotiations could be consolidated; thereby the CMI could serve as a regional lender that would be capable of responding with multi-lateral assistance in the event of financial crisis. One serious problem in the CMI is the link with the IMF through the 20 percent conditionality which made it difficult for East Asian countries to use CMI. This IMF conditionality means that only 20 percent of the total facilities of CMI can be utilised without linkages to the IMF programs. Thailand, Indonesia, and Korea strongly wished to avoid using the CMI. All countries had traumatic experiences in securing IMF-led rescue packages during the 1997 Asian financial crisis which had included calls for hasty deregulation and privatization, as articulated in the Washington Consensus. In 2008, Korea borrowed directly from the United States by extending the bilateral swap agreement (30 billion dollars) and increased the amount of reserves in its arrangements with Japan and China to avoid relying on the IMF and the CMI[2]. Korn, the then Thai Finance Minister, stated that there was a widespread perception in East Asia that it was an act of suicide to rely on the IMF in light of domestic politics (*Asahi Shimbun*, 27 February 2009). Most importantly, as the previous ASEAN+3 Finance Ministers had already indicated in February 2009, East Asian nations agreed that "after the surveillance mechanism becomes fully effective in its function, the *IMF de-linked portion* may be increased from 20 percent." IMF conditionality was introduced with the premise that "a financing arrangement that could lend too generously with too little conditionality might create moral hazard for the government at the receiving end" (Kawai & Houser, 2007: 19). Yet, as Sussangkarn (2009), former Thai Finance Minister, declared, "it would indeed be doubly hypocritical for those in the West or in the IMF to use this argument to try to block the establishment of such an organization again", given that concerns about the moral hazard problem did not prevent American programs from bailing out large American financial institutions and automobile companies. Subsequently, Sussangkarn (2011: 6-7), who also served as Chair of AMRO Advisory Panel, asserts that "the IMF link needs to be modified, otherwise countries are likely

2 The inaugural Trilateral Summit, held in Fukuoka, Japan in December 2008 with leaders from China, Japan and Korea, saw financial cooperation as the most urgent issue, given that the Korean financial market suffered from a substantial US dollar shortage due to foreign investors pulling a massive amount of US dollars to cope with losses in their home countries and won was as a result devaluated against US dollars to the lowest level since 1997-8. China and Japan agreed to expand credit lines in their respective bilateral swap agreements to help Korea manage the currency crisis (Terada, 2012).

to bypass CMIM like they bypassed CMI during the global financial crisis…it would be best to design the CMIM to be workable given the IMF stigma".

Observing Europe's struggle to surmount the crisis stalemate, ASEAN+3 leaders have taken more steps to bolster the CMIM agreement so as to inject into the region greater operational leeway and independence from the IMF prescribed policies in the event of future financial uncertainties. The ASEAN+3 Finance Ministers' meeting in Manila in May 2012 reached the agreement to strengthen the CMIM by raising "the IMF de-linked portion to 30% in 2012 with a view to increasing it to 40% in 2014" (AMRO, 2012: 2). More importantly, the leaders also endorsed the proposal to "accelerate the preparation to institutionalise AMRO as an international organization" (AMRO, 2012: 3). These developments represent East Asian willingness to be more independent from the IMF rule and mirror China's strategic intention to use regionalism in gaining more influence in the global settings such as IMF. East Asia also reached the agreement to introduce the CMIM Precautionary Line as a crisis-prevention tool, in addition to CMIM's existing crisis-resolution mechanism. So, East Asia's willingness to strengthen its financial cooperation mechanism with more independence from the IMF lays the foundation to gain a more influential position within IMF, especially if China becomes more willing to do so.

Chinese Way of Challenging the Existing Order

The United States will never allow any country to take over the largest contributor's position in the IMF, as it would surely put an end to US financial hegemony. So, if China's economic rise continues and if it subsequently challenges the rules of the existing order, it would be logical to think about how the struggle between China and the United States over influence in global financial governance will develop. It seems useful to examine the case of East Asian financial regionalism where China has already challenged Japan's financial leadership.

The competition between China and Japan over "which country pays more" was also seen in the multi-lateralisation of CMI in May 2009 until the eventual agreement to provide equal contributions of 38.4 billion dollars for the settlement after prolonged negotiations. However, the Chinese share includes the contribution by Hong Kong. In the end, the total amount of 120 billion dollars was broken down with 32 percent by China and Japan each, 16 percent by Korea and 20 percent by 10 ASEAN countries. Japan's status as the largest contributor was again matched by China, but within an international financial institution for the first time. One reason why the size of contributions is so contested between China and Japan exists in the tendency for nations to consider their contributions as voting power in the new arrangements, culminating in prolonged negotiations. In fact, the distribution of contributions can be seen as reflection of East Asian power politics, as a senior MOF official confessed. Accordingly, Japan's position that the contribution by each member in the multi-lateralisation of CMI should be proportionally allocated was consistent with its national interest. The total loans Japan can provide in bilateral swap agreements within the existing CMI exceeded 40 billion dollars, which more than doubled China's total amount in the same arrangement (*Asahi Shimbun*, 2 August 2009). Therefore, Japan tended to stress the fact that it provided a much larger contribution than China to international financial organisations such as IMF and ADB as the second largest economy in the world; Japan's quotas in IMF and ADB are 6.227 and 12.932 percent, respectively, while China's contributions are 3.807 and 5.53 percent. Yet, Japan did not push its claim strongly because it thought the equal amount of contribution by both nations would serve to put an end to the battle over "which country pays more". In any case, Japan would find it difficult to win this battle, given China's continued economic growth and its growing foreign exchange reserves (*Asahi Shimbun*, 2 August 2009). This view indicated Japan's hope that the equal contribution would be perpetually kept in the regional financial architecture to maintain Japan's influence. Eventually, China, Japan, and ASEAN came to acquire voting shares of approximately 28 percent each, while Korea was provided a 14 percent voting share, making it impossible for any single economy to have decisive power in the CMI system. This sort of competition between China and Japan can provide a lesson for the United States which may see a similar kind of leadership challenge at the global level. If China's economic rise continues and China becomes more motivated to challenge US-led IMF rules, it would be wise to give China the equally largest contributor's position as a way of preventing it from taking over the most influential nation in IMF decision-making.

China's leadership challenge to Japan at the regional level has been extended to efforts to encourage other Asian nations to utilize their currencies, and this can be useful way, as mentioned earlier, to reduce the reliance on the US dollar. In February 2009, a currency swap agreement between China and

Malaysia was concluded under which China would provide up to 80 billion renminbi to Malaysia in case of financial crisis, and similar types of swap agreements were subsequently signed with Indonesia as well. Furthermore, in April 2009, the Chinese State Council also announced that the renminbi could be used in overseas trade settlement in five Chinese cities following a trial run with Hong Kong, Macau and ASEAN in December 2008 (*China Daily*, 20 April 2009). The Japanese Ministry of Finance saw these arrangements as an attempt to increase the presence of China's currency in the payment of trades and investments in East Asia and responded to China's challenge by deciding to offer swap arrangements in yen (60 billion US dollar equivalent) with ASEAN members which were separate from CMI. Furthermore, it guaranteed $5 billion in yen-denominated government bonds (Samurai Bonds) issued by ASEAN members in the Japanese market. The Japanese swap arrangements occurred in direct response to the Chinese initiative, which was obvious even to an official from the Korean finance ministry who observed that "Japan took a very aggressive move to curb the increase in the Chinese influence on the Asian market" (*JoongAng Daily*, 13 May 2009). China's interest have become more evident since 1 July 2009 after announcing the renminbi-denominated settlement of trade between a limited number of Chinese cities such as Shanghai and some ASEAN nations. According to *China Daily* (7 July 2009), after the first successful completion of cross-border trade deals by three Shanghai companies amounting to 14.38 million renminbi, companies in Singapore, Indonesia and Malaysia have shown great interest to switch to using the renminbi in their trade. The China-Japan competition over the usage of their currencies in East Asia became intense, but it should be noted that the competition also represents their common interest in creating a stable business environment to avoid the risk of currency exchanges in the region, laying the foundation for the bilateral financial cooperation in the future.

Conclusion

This paper illustrates that China, as the representative of the emerging economies, has displayed a keener interest in gaining more voice in global financial governance and in increasing collective influence within the IMF through its commitment to the BRICS development bank and East Asian financial regionalism. Yet China is a substantially different state with regard to its financial policy implementation and domestic governance system, compared with the

Western status-quo powers such as the United States. The exchange of the renminbi with other currencies, a key policy tool to reduce the reliance on the US dollar, is still strictly controlled by the Chinese financial authority. So it is doubtful that foreign companies are motivated to utilise the renminbi in their trade and investment transactions. Given that the total GDP of ASEAN+3 nations is expected to surpass that of the United States and eventually that of the EU in the near future, Masahiro Kawai, ADBI President, comments, "it's disturbing that the most vigorous economic bloc in the world does not have its own currency system and relies on another currency" (*Nikkei,* 6 July 2009). Such a regional ambition would obviously have an impact on global financial governance. However, the crux of the argument rests on which currency East Asia will need to rely on within the regional financial architecture, yen or renminbi. The answer depends on whether China will carry out the internationalisation of the renminbi by making it float on the international currency market.

One of the obstacles to China's effective leadership role in financial governance in East Asia and IMF lies in the political tensions with Japan. China's decision not to dispatch the finance minister and the central bank governor to the 2012 IMF and World Bank Annual Meeting held in Tokyo was viewed as putting less priority on reform in global financial governance. A major reason behind the decision was to put the blame on Japan because of the dispute over the Senkaku Islands. China appeared to succeed in gathering international attention to the Islands over which Japan keeps effective control and claims that there is no territorial dispute over the Islands. This means that China did not follow the policy of separating economics from politics and therefore lost a precious opportunity to press the need for IMF reforms together with other emerging economies. Furthermore, some experts such as Ted Truman, a former Obama administration official, argued that the absence of Zhou Xiaochuan, BOPC Governor, from the IMF annual meeting "diminished his international standing by highlighting how the People's Bank of China, unlike most major central banks, lacks political independence" (*Wall Street Journal*, 15 October 2012), highlighting that China's market intervention policy, which many Western countries have criticised, will possibly continue.

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Appendix I

IMF Executive Directors	World Bank Governors
Camille Gutt (Belgium) 1946-51 Ivar Rooth (Sweden) 1951-56 Per Jacobsson (Sweden) 1965-63 Pierre-Paul Schweitzer (France) 1963-73 Johannes Witteveen (Netherlands) 1973-78 Jacques de Larosière (France) 1978-87 Michel Camdessus (France) 1987-2000 Horst Köhler (Germany) 2000-04 Rodrigo Rato (Spain) 2004-07 Dominique Strauss-Kahn (France) 2007-11 Christine Lagarde (France) 2011-	Eugene Meyer (USA) 1946 John McCloy (USA) 1947-49 Eugene Black (USA) 1949-63 George Woods (USA) 1963-68 Robert McNamara (USA) 1968-81 Alden Clausen (USA) 1981-86 Barber Conable (USA)1986-91 Lewis Preston (USA) 1991-95 James Wolfensohn (USA) 1995-2005 Paul Wolfowitz (USA) 2005-07 Robert Zoellick (USA) 2007-12 Jim Yong Kim (USA) 2012-

ASEAN/East Asia and Global Economic Governance: Reasserting the State as Market Actor

Helen E S Nesadurai[1]

The 1997-98 Asian financial crisis sparked a flurry of regional activity as ASEAN member states acted collectively with their Northeast Asian counterparts of China, Japan and South Korea to institutionalize ASEAN Plus Three (APT) as a new East Asian collaborative framework and initiate under its auspices a series of financial cooperation measures to secure the region from future financial crisis.[2] Ten years on, East Asia faced another crisis, or series of crises, beginning with the US subprime housing mortgage crisis, the collapse in 2008 of investment banks Bear Sterns and Lehman Brothers as well as Iceland's banking system and the Eurozone sovereign debt crisis. These crises, collectively termed the global and European crises in this article, prompted the APT states once again to collectively respond through stepping up regional financial cooperation while a number of APT states (China, Japan, South Korea, and Indonesia) participated in *global* crisis response efforts as part of the newly invigorated G20 (Henning & Khan, 2011; Chin, 2012). However, observers have noted that conflicting interests and rivalries between these states have limited the degree to which they have been able to develop a coordinated East Asian position on global economic governance at the G-20 (Henning &

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2 The ten-member ASEAN groups together Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Cambodia, Laos, Myanmar and Vietnam. These states are joined by China, Japan and South Korea to form APT.

Khan, 2011; Lai & Ravenhill, 2011). Different from the conflicting interests argument is the suggestion by Cho (2011: 18) in an Asian Development Bank working paper that East Asian states, while relishing their collective recognition as important players in the global economy and in global governance, "*may not want more global governance*" (emphasis in the original) nor wish to assume greater collective responsibility for some of the key problems in the global economic system revealed by these crises. However, Cho did not elaborate further on this point beyond broadly calling on East Asian states to develop their intellectual leadership in global economic issues.

This paper takes Cho's (2011) proposition as its point of departure and explores the ways in which APT member states have responded to key issues raised by the global and European crises in order to understand the kinds of global governance arrangements APT countries are willing to accept and in what areas less global governance is preferred and why. A logical starting point for the paper is, therefore, with the crises and what these reveal about the problems inherent in the contemporary global economic system and the gaps in its governance. There is already a considerable literature on the various responses from APT states to the crises in terms of global, regional and national actions.[3] Rather than cover the same ground, this paper will focus instead on two issues related to the crises that have received less attention by those studying East Asia's crises responses, namely that of rebalancing and sovereign wealth funds (SWFs). Exploring the dynamics around these two longer-term, structural issues will reveal the kind of global governance East Asian states prefer and how East Asian actions are shaping the global economic order.

The Global and European Crises: The Limitations of Global Economic Governance

Compared to the Asian financial crisis, the proximate cause of the global and European crises lies in events external to East Asia while the effects of these crises on the region have been far less severe (Chin, 2012). If one probes the deeper roots of the crises, however, then East Asia has been implicated in these developments as a result of the persistent global imbalances between deficit and surplus countries that emerged following the Asian financial crisis.

3 See, for instance, Lai & Ravenhill (2011), Henning & Khan (2011), Breslin (2011), (Cho, 2011) and Chin (2012).

The East Asian Growth Model, Persistent Global Imbalances and Reserve Accumulation

Earlier pronouncements that East Asia had become less reliant on traditional markets in the US and Europe and 'decoupled' from the business cycles of the North Atlantic region were overturned when East Asia itself suffered growth contractions transmitted through trade and the real economy (Athukorala, 2010; Nicolas, 2011). There is no doubt that East Asia has become more tightly integrated through regional production networks and trade in intermediate goods destined for these networks with their final assembly point in China. However, final consumer markets for products manufactured through these networks are still located in the US and Europe (Paprzycki & Ito, 2011).

Global imbalances have, therefore, been linked to the East Asian growth model. A key regional stakeholder, the Asian Development Bank (ADB) used the global and European crises to emphasize both the short-run dislocations of the East Asian 'high-savings and export-led' growth model and its longer-run unsustainability, noting that the crises break "the delusion that there are no limits to external demand and hence to export-led growth" (ADB, 2009: 63). In its 2009 regional outlook report based on the theme of rebalancing growth in Asia, the ADB called on regional states to shift economic strategies away from an over-reliance on exports, enhance domestic and regional demand and channel domestic savings to the many development needs in the region. This meant adopting deeper, structural reforms beyond the stimulus packages and financial market regulation that had dominated responses to the crises (ADB, 2009; Dunaway, 2009).

Additionally, these persistent imbalances, linked to the export-dominant growth model, are also reflected in the growing foreign exchange reserves seen in the region since 1990. Reserve growth before the Asian crisis was dominated by "the mercantilist motivation" of regional governments opting for weak currencies in order to promote exports (Aizenman & Lee, 2008: 593). The 1997 Asian financial crisis, however, led to an acceleration in reserve accumulation, resulting in the East Asian reserve pool growing by more than twice the rate in the rest of the world (Park & Estrada, 2009: 60-61).[4] Although the mercantilist logic continues to operate, the precautionary motive for reserve accumulation had also become important for these countries (Park & Estrada, 2009: 59-

4 These reserves have traditionally been invested in very liquid instruments like US Treasury bills.

60). Policymakers had learnt from that crisis that they needed to maintain a sufficient pool of liquidity if they are to cope with future crises and maintain as much policy autonomy as possible. This meant developing a capacity to withstand currency and financial crises without having to depend on global bodies like the International Monetary Fund (IMF) and its conditionalities, a bitter lesson learnt from IMF mismanagement of the Asian crisis. Reserve accumulation also facilitated East Asian financial regionalism through the Chiang Mai Initiative (CMI) that was aimed at developing a collective capacity to respond to future attacks on currencies in the region.

Reserve Accumulation and Sovereign Wealth Funds: A Global Solution or Problem?

Excess reserves were also channelled through specific funds that could be invested domestically and globally in order to earn higher returns (Das, 2009: 88). To date, East Asia boasts at least 14 of these sovereign wealth funds (SWFs), defined as "state-owned institutions that use reserves to pursue commercial profits", many of which began operations only after the Asian financial crisis and especially from 2005 (Table 1) (Park & Estrada, 2009: 58). SWFs became contentious when they began to make several controversial high-profile acquisitions internationally, particularly in the advanced industrial states where there were attractive investment opportunities. Fears of "financial protectionism" emerged as western governments started erecting regulatory barriers to SWF investment on grounds of national security (Park & Estrada, 2009: 76).

International sentiment became less hostile to SWFs during the 2008 global crisis when they injected capital into troubled banks and financial institutions in the US and Western Europe (Li, 2011: 405). The more high profile of these 'rescues' involved China's CIC, South Korea's KIC, and Singapore's Temasek and GIC investing in Blackstone, Morgan Stanley, Merrill Lynch, Standard Chartered, Barclays, and Citigroup (Park & Estrada, 2009: 78-79). Consequently, *East Asian states*, through their SWFs, have become key financial players in the global financial system, and even as lenders of last resort, such that Deutsche Bank has described this phenomenon as a "paradigmatic shift" in the world economy just ten years after the Asian financial crisis (see Das, 2009: 92).[5] But, despite their growing role as lenders in the global finan-

5 This phenomenon is distinct from central banks using reserves to buy liquid foreign assets like US Treasury bills.

Table 1: Sovereign Wealth Funds in East Asia

Country	Fund (date established)
Brunei	Brunei Investment Agency
China	China-Africa Development Fund (2007)
China	China Investment Corporation (CIC) (2007)
China	SAFE (State Administration of Foreign Exchange) Investment Company (1997)
China	National Social Security Fund (NSSF) (2000)
Hong Kong	Hong Kong Monetary Authority Investment Portfolio(1993)
Indonesia	Government Investment Unit of Indonesia/Pusat Investisasi Pemerintah (PIP) (2006)
Korea	Korea Investment Corporation (KIC) (2005)
Malaysia	Khazanah Nasional (1993)
Singapore	Government Investment Corporation (GIC) (1981)
Singapore	Temasek Holdings (1974)
Timor Leste	Timor Leste Petroleum Fund (2005)
Vietnam	State Capital Investment Corporation (SCIC) (2005)
Taiwan	National Stabilization Fund*

Sources: SWF Institute (nd);
* Taiwan information from Park and Estrada (2009: 66)

cial system, there is lingering suspicion of SWFs in parts of the developed world, particularly when these funds are linked to authoritarian governments that end up owning substantial private and public assets in developed countries (Wei, 2012). Even some developing countries have grown wary of funds that act as channels through which foreign governments come to own key assets in the domestic economy. Consequently, SWFs remain in a grey zone.

East Asian Collective Responses to the Crises: Emphasising Financial Stabilization

East Asian responses to the global and European crises took place collectively through the APT while China, Japan, South Korea, and Indonesia are also involved in global crisis response efforts through the G20. Three types of responses have been evident. One type of response is directed at stabilizing currencies and preventing the collapse of banking and financial systems through the provision of emergency financing. This has been the usual stabilization function of the IMF and the goal of the CMI. A second category of response is aimed at facilitating countries' immediate or short-term access to funds to support counter-cyclical activity, essentially a Keynesian-inspired measure to help governments stimulate the economy through spending programmes. A third type of response emphasizes financing to meet the longer-term development needs of poor countries.

East Asia and the G20

Specific programmes in the first two categories were initiated through various G20 Leaders Summits held since the first in Washington DC in 2008. These included tripling the IMF's emergency lending capacity to USD750 billion, with individual East Asian states pledging substantial contributions (Japan, USD100 billion; China, up to USD50 billion; South Korea, USD10 billion; Singapore, USD1.5 billion) while the central banks of Malaysia, Philippines, and Thailand agreed to join the Fund's New Arrangements to Borrow (IMF, 2012; Lagarde, 2012). An Indonesian initiative also at the G20 proposed allowing regional development banks like the ADB to draw on a portion of these additional IMF resources to support a variety of counter-cyclical activities such as fiscal expansion, social safety net support, trade financing as well as investing in infrastructure development (Cho, 2011: 6; Chin, 2012: 4-5). The resulting Countercyclical Support Facility, which was emulated by other regional development banks in the developing world, added a temporary and short-term financing function to the ADB's usual longer-term development assistance role (Chin, 2012: 5). Thus, the G20 brought together emerging economies and development banks into a crisis response governance framework, the latter through counter-cyclical activities in their respective regions.

These crises thrust the G20 as the world's preeminent forum for global economic governance, reflecting recognition on the part of the G8 that global problems could only be meaningfully addressed with the inclusion of big, emerging economies like China, India, Indonesia, South Korea, Turkey, Brazil, Argentina and South Africa. The G20's elevation, it was claimed, could also permit *Asian* countries to collectively influence the agenda of global economic governance (Drysdale and Young, 2010; Henning and Khan, 2011). However, divergent interests amongst the Asian members seemed to prevent the articulation of a coherent governance framework that would take serious note of Asian approaches to economic management. For instance, even though the G20's emerging market members eventually closed ranks against developed countries challenging China's exchange rate policy, Brazil and India had criticized China on this very same point (Dunaway, 2011). Countries outside the G20 have also questioned the lack of consultation between the G20 and non-members on G20 pronouncements and decisions that closely affect them (Henning and Khan, 2011).

East Asia Responds through the APT

Regional efforts have essentially been directed through the APT framework and have taken two forms. Support for longer term financing saw the establishment, jointly with the ADB, of the Credit Guarantee and Investment Fund (CGIF). By providing credit guarantees to investors of local currency bonds issued by firms or governments in the region, the CGIF not only supports long-term lending for infrastructure and other development projects it also complements the APT's post-Asian crisis project to develop local currency-denominated regional bond markets (Chin, 2012: 7). The second measure is aimed at enhancing the existing capacity of the region to provide emergency funding to support currencies and financial systems at risk. Although APT members had already recognized the need to improve the design and workings of the Chiang Mai Initiative (CMI) before the global and European crises, the latter accelerated the reform effort, especially with various APT states experiencing portfolio capital outflows, falling currencies, and stressed banking and financial systems. In view of the urgency of enhancing the CMI, China and Japan overcame their rivalry to reach agreement on their relative contributions to the facility, and thus, their respective status in the region.

The reformed CMI – the Chiang Mai Initiative Multilateralization (CMIM) – which became operational in March 2010 increased the funding pool from USD90 billion to USD120 billion, adopted a concerted mobilization of emergency swaps decided by a two-thirds majority vote, and established a dedicated regional surveillance office in Singapore called the APT Macroeconomic Research Office (AMRO). ASEAN countries that had been previously excluded from the CMI – Brunei, Cambodia, Laos and Vietnam – also became full members of the CMIM (Katada, 2011: 282). The 20% IMF link was retained, however (Henning & Khan, 2011). Two years later in May 2012, APT finance officials doubled the CMIM funding pool to USD240 billion, increased to 30% the portion of funds that could be released without an IMF agreement, and pledged to raise this portion to 40% in 2014. Importantly, they also established a new mechanism – CMIM Precautionary Credit Line or CMIM-PL – so that emergency funds can easily be disbursed to prevent a crisis (Chin, 2012).

Although these efforts signal a willingness by East Asia to act collectively during troubling times, three points should be noted. One, acting collectively did not involve actions that were politically difficult domestically. Most important, East Asian countries did not touch on the thorny issue of currency cooperation. Two, how responsive member governments will be to regional surveillance assessments remains to be seen. Three, it is not clear whether even a reinvigorated CMIM will be able to overcome members' reluctance to activate it because of the continued IMF link. Even during the global and European crises, Indonesia and South Korea, which faced financial problems, preferred to go elsewhere for assistance – the former to a World Bank-led consortium of creditors and the latter to the US Federal Reserve and the central banks of Japan and China (Henning & Khan, 2010: 14).

But, even as APT members slowly increase the amounts that can be borrowed without IMF involvement, the IMF remains important for the CMIM. The CMIM-PL is to be closely aligned to the IMF's Precautionary Credit Line. In addition, decisions on activating the CMIM-PL will use IMF analysis in conjunction with reports produced by AMRO and the ADB (Saputro, 2012). Moreover, the CMIM will probably have to draw on additional funding from outside bodies like the IMF depending on the magnitude of emergency financing required, particularly if a crisis simultaneously affects a number of CMIM members. The continuation of links between the CMIM and the IMF may, therefore, limit the willingness of CMIM members to use the facility, especially if alternative financing is available as Indonesia and South Korea discovered in 2008. The fact that APT members have continued to maintain a link between the CMIM and the IMF suggests that even if regional states are uncomfortable with the IMF's neoliberal approach to economic governance, the IMF cannot be realistically excluded from regional financial governance. The European experience confirms that crisis stabilization requires deep pockets. But, the IMF apology to Greece issued in June 2013 acknowledging that the austerity measures imposed as part of the joint EU-IMF bailout package were too harsh[6] also confirms that East Asian states are right to be wary of IMF rescue packages.

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6 See Papadimas & Maltezou (2013).

Limits of the East Asian Collective Response

One of the revelations of the European and global crises was the danger of relying on the US dollar, which was in danger of losing its role as a store of value as the dollar tumbled. Many influential policy analysts in China, having identified the US dollar-centred international monetary system as the root cause of global imbalances, support internationalizing the Chinese currency as part of a competitive multi-currency reserve system where a range of currencies compete to act as reserve currency for the global financial system (Wang, 2012). An Asian currency unit has also been viewed in sympathetic terms by China (Chin, 2012: 10-13). Likewise, Japan signaled its desire for a regional, Asian currency (Katada, 2011: 281). However, the rest of the region is historically averse to closer cooperation on exchange rate matters, with ASEAN states once again rejecting an Asian common or single currency at the June 2013 World Economic Forum on East Asia held in Myanmar (*Bangkok Post*, 7 June 2013). While these governments are unwilling to have their hands tied on domestic fiscal and monetary policy in return for a single currency, an aversion justified by the Euro experience, the region's long-standing unwillingness to proceed on other, less intrusive forms of monetary cooperation or currency coordination is also due to the political importance of export interests in the region's growth model (Hamilton-Hart, 2011: 19-20).

Structural Issues and Global Economic Governance: Less is More for East Asia?

East Asian countries have managed to act collectively when they find their interests threatened but only to the extent that acting collectively does not intrude into important areas of domestic policy. It is for this reason that stabilization and counter-cyclical responses have been the more common responses to the crises. Even if G20 Leaders have committed themselves to restoring financial stability, overcoming medium-term structural issues such as global imbalances and enhancing long-term development and sustainability (G20, 2012), it is unclear to what extent structural reforms towards rebalancing will actually materialize, especially given entrenched interests in both deficit and surplus countries. In fact, as this section argues, countries in East Asia do not want more global governance in the form of stricter or more intrusive regulations on global imbalances and SWFs, two issues that are linked to the East

Asian growth model traditionally centred on FDI, exports and now surplus reserves.

Rebalancing Growth: Domestic Political Economy Constraints

East Asian states such as China are aware of the long-term unsustainability of an export-led growth model that relies overwhelmingly on external demand to drive growth and of the adverse consequences of global imbalances. However, there is resistance to any move to 'multilateralize' this problem by linking the problem of global imbalances to exchange rate reform as either part of the global crisis response or as part of the normal course of global economic governance expressed through the IMF, the G20 or the World Trade Organization. Currency values and exchange rate policy have domestic distributional effects, and thus are highly political because they affect important domestic export interests (Hamilton-Hart, 2011). The East Asian export-led growth model has relied on what has been described as "monetary mercantilism" as governments choose to maintain currencies at levels or bands that support export growth (Aizenman & Lee, 2008: 593). Consequently, governments are loath to limit the use of an instrument that has profound impact on domestic growth and insist on retaining their autonomy to determine exchange rate policy, including its preferred value.

It is for these reasons that a number of Asian countries, China and Malaysia included, were unhappy that the IMF in 2007 was prepared to use an internally developed methodology to determine whether exchange rates of countries were 'fundamentally misaligned' in order to enhance the effectiveness of its country assessments (Henning & Khan, 2011: 9-13). Seeing this move as simply a way for the IMF to pressure countries to adopt flexible exchange rates, China, Malaysia and other countries delayed Article IV consultations, with the stalemate only ending two years later when the IMF dropped this addition to its country surveillance framework. In another example of East Asian discomfort with intrusive regulation, emerging economies, including China objected to a US proposal for the G20 Mutual Assessment Process (G20-MAP) of peer surveillance to use trade or current account balances to signal when a country was required to institute measures to correct internal or external imbalances (Dunaway, 2011). Although the G20-MAP continues to identify imbalance indicators and the structural factors underlying them, member countries decide on the reforms they need to institute while there is as yet no compulsory commitment to undertake the structural reforms identified in G20 sustainability reports produced for it by the IMF (Schwanen, 2012).

The preference for 'less global governance' reflects a deep wariness of East Asian states with the neoliberal, 'market-centred' paradigm that continues to inform the policies and practices of global institutions, also reflecting the preponderant power and influence of the US and other western states. Influential policy analysts in China have pointed to the flaws in the present system of global economic governance by highlighting how a key institution like the IMF had either ignored or overlooked the obvious financial risks accumulating in the US prior to the 2008 crisis, an outcome that even the IMF's independent evaluation panel attributed among others to the neoliberal 'group-think' of IMF macroeconomists and their hesitation in challenging advanced country governments and their respective domestic financial experts (see Wang, 2012: 576). It is unsurprising therefore that China and other East Asian governments are reluctant to endorse more global governance if that means simply extending the present flawed governance system.

However, the East Asian preference for 'less global governance' on the rebalancing issue did not mean that governments were unaware or unwilling to undertake reform, but they would do so on their own terms and at their own pace. In fact, China had already adopted measures in the new millennium to rebalance growth, including permitting a 20% appreciation of the Yuan, cutting back on export rebates and raising wages and emoluments; these measures had started to show results by 2008 with falling profits in low-technology sectors, firm closures and worker layoffs in some of the rich coastal provinces. However, China's top leaders and officials, pressured by coastal exporters and themselves uneasy over potential social and political instabilities caused by these measures, chose to review and in some instances reverse these first steps towards rebalancing (Breslin, 2011). When the global and European crises struck, not only were these policies retracted, a hefty stimulus package was also announced that included a reinvigorated industrial policy that saw large amounts of public resources directed to government-linked firms or state-owned enterprises in ten high-technology sectors including automobiles, steel, shipbuilding, industrial machinery, electronics and information technology (Naughton, 2009). Paradoxically then, the crisis that had intensified questioning of the Chinese growth model within China has itself led to actions that seem to be taking the country back to that old paradigm (Yang, 2011; Breslin, 2011). Nevertheless, influential economists within China continue to debate, and advocate, halting the expansion of the "state-owned economy" in order to refocus growth on the basis of domestic consumption (Wang, 2012).

Other APT countries like Malaysia and Thailand have also adopted stimulus and reform packages but unlike China there had been very little questioning of the export-led growth model in these countries prior to the global and European crises, unsurprising as foreign investment-driven exports had underpinned their spectacular growth spurt in the 1990s and had helped them emerge fairly quickly from the Asian financial crisis. When the global crisis struck in 2008, both countries adopted stabilization programmes involving fiscal stimulus and interest rate cuts. Structural reform was not a priority in either of these packages even though some components – on infrastructure and social development such as healthcare, education, social safety nets, and the environment – could help to enhance domestic demand (Nambiar, 2009; Chirathiwat & Mallikmas, 2010). Likewise, other ASEAN states have privileged stimulus packages because these are politically easier tasks than deeper reforms that have the potential to remove the privileged economic position of politically important groups and firms. No doubt these measures have been successful in returning the region to growth on the back of stimulus-induced private consumption spending and the pickup in FDI but no real moves towards reorienting growth has taken place in ASEAN (Pushpanathan, 2011). Without national action on structural reforms, collective action on this front is hardly likely beyond the rhetorical.

The Malaysian stimulus response is especially instructive because of the key role accorded to government-linked corporations (GLCs), thereby reinforcing their position as crucial economic actors in the Malaysian economy. GLCs are closely allied to the ruling coalition federal government led by Prime Minister Najib's party, the United Malays National Organization (UMNO), and are an integral part of the federal government's continuing commitment to affirmative action for the majority ethnic Malay community. Although Malaysia had adopted a series of reform programmes on the initiative of Prime Minister Najib in 2010 – the New Economic Model, the Economic Transformation Plan and the Tenth Malaysia Plan – these continue to emphasize a growth model reliant on FDI and exports. Even though the government has focused on reforming the GLCs, reform is aimed at making them more efficient and productive rather than to limit their expansion. In fact, their role is set to increase even though the heavy GLC presence in the economy has already crowded out private investment (Menon, 2012). Malaysia is not the only country in the region that relies on GLCs to accomplish a range of politically determined economic, developmental and social goals; GLCs operate to varying degrees in various economic sectors in Indonesia, China, Thailand, Singapore, Vietnam and the Philippines. Their significance for global governance lies in the fact that GLCs, whether or not they are efficient and guided by a degree of commercial and profit principles, nonetheless, are vehicles through which the *state* has become a market actor.

Domestic political economy constraints such as those described above also limit the extent to which rebalancing through *regional* demand creation can work. ASEAN members are unwilling to expedite removal of non-tariff barriers, enhance liberalization in services as well as other sectors still subject to protection in order to reach ASEAN's own goal of a seamlessly integrated regional economic community by 2015. Business leaders meeting in Myanmar at the World Economic Forum on East Asia in June 2013 pointed to the gap between ASEAN integration plans and the protectionist reality on the ground (O'Toole & McLaughlin, 2013). Neither are the other free trade agreements (FTAs) found in the region, both ASEAN-based regional FTAs and the burgeoning array of bilateral FTAs, able to support these rebalancing efforts given their limited capacity to drive domestic reform (Sally, 2010). There are also limited prospects for a region-wide East Asian FTA to deliver on the region's rebalancing needs as comprehensive liberalization remains hostage to regional states that choose to privilege interests resistant to further liberalization over demands from more competitive businesses to expedite regional integration.[7] In particular, the anti-liberalization interests that are privileged are the domestic-oriented businesses closely allied to political and government elites rather than those civil society interests railing against liberalization because of its adverse social and environmental consequences (Nesadurai, 2012).

Sovereign Wealth Funds and Government-Linked Firms: The State as Market Actor?

The alarm caused by the global activity of Asia's SWFs, especially in the industrial countries, meant that this matter ended up on the agenda of global forums such as the G8 and the OECD intent on developing some form of regu-

7 The Regional Common Economic Partnership project launched at the November 2012 ASEAN Summit to integrate the existing free trade agreements that ASEAN has signed with China, Japan, South Korea, India and the Australia-New Zealand bloc is likely to confront similar barriers.

latory framework for this growing class of investors (Li, 2011). Numerous studies have shown, however, that SWFs tend to be invested along commercial lines – to enhance returns on investment – and have yet to display any underhand geostrategic motive on the part of their state owners (Pekkanen & Tsai, 2011). If there is a strategic or political rationale for SWFs, it is one that is *domestically* oriented in the home state, used as 'tools of survival' by home governments to undertake politically important domestic investment and other activity to meet the interests of domestic political figures and important segments of domestic society (Shih, 2011: 328-329). Nonetheless, many, especially western, governments, remain concerned that the vast sums of money at the disposal of SWFs could be used for geostrategic ends should the need arise (Shih, 2009: 341).

Home countries of SWFs, however, have rejected any universal regulatory regime for SWF accountability and transparency, preferring broader guidelines such as those established for hedge funds (Lee, 2010: 205). In the end, a voluntary code of conduct for SWFs called the Santiago Principles, which address SWF governance, risk management, financial accountability and transparency, was established in 2008. East Asian SWFs such as China's CIC, South Korea's KIC and Singapore's GIC and Temasek have signed up to these principles (Bagnall & Truman, 2011). Independent evaluations of SWF compliance with the Santiago Principles are an additional dimension of the global governance of SWFs (Bagnall and Turman, 2011) that some governments like Singapore take seriously (Lee, 2010: 206). Further formal global regulation of SWFs seems unlikely in the near future, however, especially since opinion is divided even in the western world on whether these entities should be treated differently from private investors and more heavily regulated. In fact, international institutions have, to some extent, legitimized SWFs. The International Finance Corporation (IFC), following a call by former World Bank President Robert Zoellick, set up the Sovereign Funds Initiative in late 2008 to tap equity finance from SWFs, national pension funds and other sovereign investors to support private sector development in emerging markets, especially in Africa (IFC, 2008). Likewise, UNCTAD has recognized their importance as potential investors in long-term and large-scale infrastructure and agriculture development projects in developing countries (UNCTAD, 2012: 14).

Asian SWFs have already begun increasing their investments in emerging markets in Asia given the hostility they face in western countries (Sarkar, 2010: 631; Lee, 2010: 207). For this reason, Lou Jiwei, CEO of China Investment Corporation, announced at the 18th Party Congress of the Chinese Communist Party in November 2012 that CIC would invest more of its USD482 billion pool of funds in Asian countries (*South China Morning Post*, 12 November 2012). Although the CEO acknowledged that the amount that CIC will be able to invest in Asia will be limited by the region's still shallow capital markets, CIC would nevertheless adopt the more tedious strategy of choosing and investing in *individual* projects. Singapore's Temasek has long been investing abroad in the region as part of Singapore's regionalization strategy (Yeung, 2011) while Malaysia's Khazanah and Singapore's Temasek are co-investing in joint development projects in Singapore and in southern Malaysia with "a total estimated gross development value of MYR30 billion" (Khazanah Annual Review, 2012: 2). Because SWFs are also key investors in GLCs across East Asia, the regionalization of GLCs also means that SWFs will become integral actors in cross border investment and potential tools of regional development. In this regard, ASEAN has chosen to secure cross-border investment activity involving SWFs under the ASEAN Comprehensive Investment Agreement by according SWFs the same treatment, and thus rights and protection, as private investors (Sornarajah, 2011: 273).

Conclusion

Four conclusions emerge from the preceding analysis. First, despite assertions to the contrary, East Asian countries did act collectively in responding to the global and European crises using both the APT framework and the G20. However, their responses were aimed primarily at stabilizing currencies and financial systems because these were politically easier tasks as they tend to be distributively neutral. Second, longer-term structural reforms towards recalibrating growth models in East Asia are far more difficult because such reforms will destabilize existing economic practices and undermine those interests associated with these practices. Third, while East Asian countries want more global governance to stabilize the global economy and address the risks in the Eurozone, these countries also want less global governance in that they are reluctant to sanction expansion of a global governance system that leans heavily towards neoliberal ideas and practices and is dominated by western states, particularly the US. However, East Asia is also resistant to more intrusive regulation in areas that go to the heart of domestic political economies such as rebalancing and SWFs. Fourth, the crises have reinforced the importance of

SWFs, not simply because Asian SWFs came to the rescue of ailing banks and financial institutions in Europe and the US, but because calls for rebalancing growth and the need for long-term development financing in an environment of constrained funding sources make SWFs important actors in various national economies and in the global economy. In East Asia, where their role has never really been threatened, SWFs and by extension GLCs, remain significant market actors that have also been accorded roles by governments as agents of domestic development.

In fact, the global and European crises have seen a re-assertion of the state in East Asian economic governance but this time as a major market actor. This is not simply a return to Keynesian demand management by the state or to the developmental model that emphasized an extensive government role in driving the economy through industrial policy and its associated raft of interventionist measures. Those models never really lost currency in East Asia (Stubbs, 2009). Rather, the contemporary assertion of the state in economic governance is one where the state becomes an active and direct market participant or actor through GLCs and SWFs, which are not only dominant in East Asian states such as China, Malaysia, Indonesia, Thailand, Vietnam and Singapore, they are also significant financial and market actors in the regional and global economy. Global economic governance will have to contend with this contemporary statist phenomenon that challenges the strict public-private divide and the separation between state and market common in the neoliberal approach to global economic governance.

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Stakeholders of Economic Governance: European Perspective

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All power must be destroyed
(graffiti outside a Brussels metro station)

This article addresses global economic governance from the stakeholders' angle. The paper first looks at the changing political and economic environment which is triggering new governance needs. Then, it follows with identifying who the stakeholders are and what is their role at various stages of the governance process. After that, it analyses three case studies. Finally, the paper offers a European perspective and ideas and mutual global-European inspiration for economic governance.

Recent Crises and Calls for Increased Governance

When speaking about global economic governance, it is useful first to define it. The term global refers to governance beyond the boundaries of a sovereign state and on a large – global – scale (in practice, it is limited to a non-exhaustive list of countries which are relevant to the global economy). Governance refers

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to "the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and cooperative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceived to be in their interest" (The Stanley Foundation, 1999) or more simply "the setting of rules and their enforcement which differ widely according to the nature of competences" (Cloos, 2011). Global governance could still mean different things, ranging from the illusionary temptation of a global government to soft leadership or informal discussions. The starting point of this article is that we are living in a world where states are the masters of their sovereignty. They can voluntarily share this sovereignty with others, delegate it or keep it.

When discussing the stakeholders' involvement, it is important to distinguish on the one hand what actors can initiate, influence or try to influence the decision, and on other the decision-making itself. The actors can include multiple stakeholders, while the decision-making is a narrow stakeholder issue. There should not be confusion between the increasing number of categories of stakeholders who are impacted by global governance, and the narrow group of public stakeholders involved in decisions. Of course, multinational companies, cities, regions, the media, and civil society in general are now more involved in shaping governance, and the frontiers for the free movement of people, capital, goods and ideas are more open than in the past, but it is the governments and parliaments which decide in the end.

On the global scale, the fast pace of globalisation in the last decades has resulted in increasingly interdependent countries and regions. International trade and finance have grown faster than GDP, and have been an undisputed source of growth and prosperity (Khanna, 2012). However, it has also been shown that the sudden reversal in trade and finance can be very disrupting – economically, socially and politically. Indeed, globalisation relates to international spillovers, and these can be both positive and negative.

Mayer-Foulkes (2010) finds the long-term roots of the current economic crisis in the dynamics of globalisation and in the link between the acceleration of the world growth rate, increases of inequalities in leading countries and a situation where the interest rate decreases if capital accumulates at a faster rate than technological change.

Global financial stability and global economic growth can in this sense be interpreted as global public goods. The strengthening of global safety nets and firewalls to deal with emergencies could be an example of such goods, and these require global fora and institutions to deliver them. Importantly, the need for such an international cooperation seems to be a broad-based desire by many stakeholders, including policymakers, analysts and the private sector.

The traditional institutions involved in global economic governance were the Bretton Woods institutions and the World Trade Organisation. However, a shift took place with the Asian crisis of the late 90s, where the G7 was unable to efficiently lead the way out of the crisis. The G20 was then established, bringing together major advanced and emerging economies to stabilise the global financial market. Later, in 2008/2009, as a result of the financial and economic crisis, the G20 members were called upon to further strengthen international cooperation, and G20 Leaders' Summits were held for the first time.

At the EU level, efforts to deal with the euro crisis are to some extent parallel to those by global fora and institutions at the global level. Indeed, calls for increased governance in the EU have equally highlighted the need for strengthening stabilisation tools, and for stronger policy coordination (a reinforced architecture for the Economic and Monetary Union).

Who are the Stakeholders of Global Economic Governance?

The stakeholders in broad terms are the actors involved in the process of establishing global economic rules. To understand the role of the stakeholders in economic governance in the last two decades, it is worth mentioning two key developments – globalisation and democratisation. Globalisation has increased the interconnectivity of the global economy and thus the need for global rule-setting. Interdependence and the need for a common vision have increased. By the democratisation of the global scene, we mean both the falling of the iron curtain with the subsequent establishment of democratic and market-based societies in Central and East Europe, and the process of liberalisation of the Chinese and other Asian economies and societies. These two processes have also changed the rules of the game for global economic governance.

Long-term global economic governance is shaped by markets on the one hand and democracies on the other. The balancing act is thus between the ongoing pressure from investors expressed by the evolution of share indices and other financial indicators on the one hand, and the slow and complex decision-making of parliaments and governments in the multilateral framework on the other. There is an obvious gap between the speed of pressure and the collective action in economic governance, especially in times of crisis. This could be witnessed in the G20 process as well as during the financial crisis in the EU at the regional level.

A short-term trigger for global economic governance was the economic crisis (Mayer-Foulkes, 2009; Frieden, 2012). The Asian financial crisis of 1997/8, the 2008 mortgage and banking crises and the ongoing sovereign debt crisis in some EU countries triggered (Lianou, 2012) global economic governance changes – both procedurally, by creating new regional or global institutions or for a, as well as by adopting new rules in substance.

Global economic governance thus gained momentum due to long-term (globalisation, democratisation) and short-term (financial crisis) factors and increased the role of the public sector involvement ('the state is back') – the process is a multi-stakeholder one (Khanna, 2012; Petersmann, 2011).

The process of rule-setting is typically happening in four stages: signalling, initiating, shaping and deciding. The stakeholders vary in each stage, with the general pattern of narrowing them down (Table 1). In the signalling stage, the wide range of stakeholders are signalling failures or putting the existing cross-border rules (or their absence) under scrutiny. This comprises the evolution of the stocks and shares of companies in various sectors, bonds of sovereigns as well as the sentiment and opinion presented by the media and civil society, including the non-profit sector. Typically, the number of identified issues is very wide and it is for the stakeholders in the further stages to decide which they will prioritise as a subject for governance. In the initiating stage, the problem is identified and the cross-border spillovers should be demonstrated in order to advocate the case of collective action. The stakeholders in this stage are broad, ranging from the private sector and their lobbyists, the media, NGOs, the academic sphere and the public sector. In the shaping stage, the range of stakeholders narrows down. The rules are drafted by the relevant international body according to their rules. Input is provided by private, technical or public actors or a combination of these. Case studies for each of these cases are provided below. In the deciding stage, the stakeholders involved are limited further to the competent authority which makes the decision. They are exclusively public authorities once the normative rules are established.

Table 1: Stakeholders of global economic governance

Stage	Instrument	Principles	Stakeholders
Signalling	Financial market signals, press reports, citizens' initiatives	Market economy, democracy, transparency, accountability	Broad range. Private, semi-private, public sectors. Stock exchange, media, rating agencies, reports
Initiating	Opinions, analysis, proposals	Legitimacy of private, semi-private and public sectors	Wide range. Private, semi-private, public sectors
Shaping	Proposing rules	Expert competence, technical mandate	Medium range. Public authorities, international agencies. Feed-back from shaping-stakeholders possible
Deciding	Adopting rules	Democracy, transparency, public accountability	Narrow range. Public authorities (possibly delegated to private or technical level)

The involvement of categories of stakeholders is becoming complex due to three factors. First, the complexity of the issues to be subjected to global economic governance and the effect of the rules on the various actors are high. This is becoming clear in the banking and financial sector, economic coordination, monetary dialogues, trade rules, accountancy, tax evasion and other areas. One example of the multi-stakeholder theory (Pigman, 2006) at the initiation stage is the Davos Forum process (World Economic Forum). Its character is of an informal exchange of view involving governments, global private institutions, local industry, international and regional organisations, NGOs and academia. Its impact on real governance is limited but it certainly plays a catalyst role. Second, the geographical scope of multilateral economic governance is widening. With globalisation and the emergence of new global economic players, such as BRIC countries, not only the number of national actors is growing but new regional organisations are also involved. Third, the emergence of new actors is also coming from the fact that the role of states is changing. In the globalised word there are tasks which the states delegate to the higher level (macro-regional or multilateral cooperation) or below to the sub-national level or even private actors. The examples of multilateral cooperation are sectoral agreements (such as the WTO for trade) or geographical agreements (such as the European Union, African Union, ASEAN and others). An example of a sub-national delegation is the case of accountancy standards, where the private sector is a key actor and the public sector follows their decisions.

Stakeholder-driven Global Governance: Three Cases

As shown above, in the first two stages – signalling and initiating – the variety of stakeholders is large. This implies that their relative power in the shaping of the final rules is smaller. This does not mean less power in governance. They key role is to make the decision-makers move, so this is the key role of policy-triggering. Once it comes to the two later phases – shaping and deciding – the power of the stakeholders in the concrete form of rule-setting increases. In the text below we look at three cases of global economic governance according to the nature of stakeholders: private, technical and state. Subsequently, we can establish three models of stakeholder governance: private sector-driven, technical sector-driven and state-driven. To analyse these models, we will look at three recent cases.

Private-stakeholder Governance: the Case of International Accounting Rules

The first case refers to accounting rules. The rationale for their harmonisation at the global level comes from the fact that the possible differences in accounting systems across jurisdictions creates biased information for market participants, such as in the capital markets and in the area of tax harmonisation. The possible negative impact is amplified in times of banking crises which was clearly the case in 2008. The objective of setting globally recognised accountancy standards is to create cross-border, transparent and comparable standards to be followed by the economic agents and thus create a level playing field.

The process is run by the International Accounting Standards Board (IASB) which developed the set of accounting rules called the International Financial Reporting Standards (IFRS). The stakeholders of the IASB process are from both the private and public sectors. The private side involves businesses, such as investors and business leaders. The other private stakeholders are analysts, the accountancy profession, suppliers, customers and employees. The public stakeholders comprise governments, their agencies and the accounting regulators. In spite of the fact that the initiating and drafting stages of the governance of accountancy rules is driven by the private sector, the political sphere has also been involved. Since the Pittsburgh Summit in 2009, the G20 leaders have called for convergence between the IASB and FASB. G20 leaders also encouraged the IASB to "further improve involvement of stakeholders", as there has been a tension between IASB's technical legitimacy as standard setter and the political perception, especially in the EU, that users of such standards were insufficiently heard and represented in the IASB's governance. There was a two-way interference between the EU and global governance in this field. In the first stage, the EU was involved in shaping the drafting of the global technical rules. This happened both bilaterally, while having discussions with the IASB representatives and the EU Finance Ministers, as well as via the EU positions within the G20. On the other hand, once the IASB norms were settled, these global norms became binding inside the EU.

Technical-stakeholder Governance: the Case of Regulating Bank Capital

Regulating bank capital adequacy is a typical case which calls for global governance. The globalisation of the economy and related financial integration create interdependency across jurisdictions (Trichet, 2011). The risk of negative cross-border spillovers in the case of a default of a systemically relevant financial institution is important, as was seen in the 2008 financial crisis. Therefore there is a case for the good of the public to enhance financial stability of the individual credit institution where banks would be required to hold more capital and liquid assets. Due to the international character of the global financial sector, global regulatory setting is required. At the same time, the rule-setting has important financial accounting – up to 20-25 percent of the total impact on the output of the banks. An OECD study estimates that the medium-term impact of the Basel III implementation on GDP growth is in the range of -0.05% to -0.15% per year (Slovik and Cournède, 2011).

This governance process happens within the so-called Basel Process. The key stakeholders in this case are the regulators, who can be seen as experts and technicians supervising the banking sector. They are accompanied by private, public and mixed actors. The scope of the stakeholders in this case coincides with that of the most prominent formal structure through which the global agenda of financial regulation is set – the Bank for International Settlements (BIS, seated in Basel) – and especially its committee – the Basel Committee on Banking Supervision (BCBS).

This mostly technically driven process has been politically endorsed by the G20 leaders. At their 2010 summit in Seoul, the G20 Leaders endorsed the

Basel III regulatory framework. In November 2011, the Leaders, at their summit in Cannes, emphasised the importance of implementing Basel III.

In the EU, the financial crisis prompted a regional EU and international effort to develop effective policies to tackle the underlying problems. The need for new capital has been caused by capital leveraging, capital quality, credit growth, liquidity buffers, risk governance and oversight of the banking sector (Coen, 2010).

In the EU context, the extent of the financial crisis has exposed unacceptable risks pertaining to the regulation of financial institutions. According to IMF estimates, crisis-related losses incurred by European credit institutions between 2007 and 2010 were close to €1 trillion or 8% of the EU GDP.

In order to restore stability in the banking sector and ensure that credit continues to flow to the real economy, both the EU and its Member States adopted a broad range of unprecedented measures with the taxpayer ultimately footing the related bill. In this context, in October 2010 the European Commission approved €4.6 trillion of state aid measures to financial institutions, of which more than €2 trillion were effectively used in 2008 and 2009.

On the rule-setting in the EU, the result of the Basel process is a starting point for a legally-binding legislative process which ensures the implementation of the Basel agreement.

There is a prominent example of technically driven governance in the European Union, namely the De Larosière report. In October 2008 the European Commission asked Mr De Larosière to put together, with a group of prominent experts, advice for the European Commission on the future regulatory approach on financial regulation and supervision in the European Union. This input was eventually closely followed in the subsequent Commission legislative proposals, as well as in the laws adopted by the EU legislators.

Public Sector-driven Governance: the Case of Coordinating Economic Policies

The global financial crisis which started in 2008 revealed the need to develop a process of some level of coordination of economic policies among the major global economies. The objective is to set common objectives and put forward policies for reaching these objectives and a common assessment of progress. The overall rationale of this case of global economic governance is to limit as far as possible the accumulation of imbalances.

G20 pledged at the 2009 Pittsburgh Summit to work together to ensure a lasting recovery and strong and sustainable growth over the medium term. To meet this goal, they launched the Framework for Strong, Sustainable, and Balanced Growth (FfG). But each country's ability to achieve its goals depends partially on the actions of others. The FfG is a shared recognition among the G20 that they will need to work together. It is recognised that national measures benefit from a common international approach. Identifying best practices and taking into account spill-over effects of structural policies in one country or group (of countries) can improve the impact of those policies on growth and job creation. The backbone of the FfG is the Mutual Assessment Process (MAP). The MAP is the tool directed at monitoring and coordinating domestic economic policies. In this context, countries are meant to i.a. avoid and gradually correct global imbalances, consolidate sustainable and balanced growth, accelerate job creation and promote structural reforms.

Policy coordination of this kind at the global level is a new concept. Bearing in mind that economic policies are at the core of the sovereignty of states, it can only progress in small steps and with soft means.

In practice, the FfG process can only be successful if supported by balanced policy analysis. This is why the G20 asked the IMF to assist with the analysis of whether national policies are collectively consistent with more sustainable and balanced growth. The IMF has been asked to provide technical support to help develop indicative guidelines to evaluate imbalances and to assess progress towards commitments made by the G20 members. Similarly, the World Bank was asked to give advice on the progress in promoting development and poverty reduction as part of the rebalancing of global growth.

The stakeholders in the shaping and deciding stages in this type of governance are public actors. They include states and monetary authorities. The reason for the involvement of public authorities is that the subject of governance is macroeconomic, monetary and structural policies. These are under the responsibility of elected actors via the parliamentary process and are executed by governments and central banks.

The nature of this type of governance is soft. It has no legally binding nature. It is rather a political commitment. A final communiqué is issued at the end of the each G20 Ministerial (and Summit), containing the agreed work streams and members' joint commitments. The G20 has furthermore neither a founding treaty nor a permanent secretariat. Most of its working methods at the Leaders' level have been transplanted from the G7/G8.

The interaction between the global and EU regional governance in this area goes both ways. The EU has been actively pushing for global coordination in this field at the G20. On the other hand, since the global agreement was established, the EU and its members have been subjected to it.

The EU might serve as an inspiration for global governance in this area. Since the economic crisis of 2008, it has actually implemented various measures going in the same direction. We highlight two measures. The first measure is of a compelling nature (this would not be possible at the global level). It consists of the excessive imbalance procedure. In this procedure, the Commission evaluates macroeconomic imbalances within the 27 EU Member States and suggests measures to the Council. The Council decides on the measures to be taken by the Member States. In case of non-compliance, sanctions are foreseen for euro area members. Another example of legally binding rules, this time of an intergovernmental nature, is the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. This specifies the obligations of the contracting parties – euro zone members – amongst others in the fiscal area.

The second measure is non-binding. It consists of political commitments towards growth measures including avoiding imbalances. This is done via the Euro Plus Pact, which is a political agreement between 25 EU members.

On the recipient side of global governance, the EU and its members are subject to the G20 procedure. The G20 sets high-level objectives and guidelines to which member countries and international financial institutions adhere. Direct support to the G20 is provided by the IMF for macro-surveillance and by the FSB for micro-prudential, regulatory and supervisory issues.

To summarise these three cases of stakeholder-driven global governance, a few comments can be made. Most importantly, in the earlier stages of global economic governance, there are many stakeholders. However, the final decisions remain for the sovereigns, meaning national states. Due to the complexity of economic governance, innovative ways of involving global stakeholders have emerged. The sovereigns delegated the power to shape the global standards to other stakeholders. In the case of global accountancy rules, the sovereigns allowed the private sector to define the global standards and commit the sovereigns to make them legally binding. In the case of capital requirements for banks, the sovereigns gave the responsibility to technical stakeholders, including national supervisors and central bankers to draft global rules which the sovereigns transposed into normative rules. In areas such as macroeconomic coordination, the sovereigns are not globally ready to delegate their power to other stakeholders and the sovereigns so far committed only in a limited way to the global coordination of their own policies. In all three cases, the European Union is part of global governance both as an agent shaping global governance as well as a transmission mechanism for making global rules applicable in their member states.

Stakeholder Involvement in Global Governance: the Case of the EU

The European Union can be seen as a laboratory of regional economic governance. It is the only regional governance which applies a normative approach. It involves on the one hand the creation of legally binding rules (Louis, 2011). In this case, the four stages of governance as described in section 2 apply as well. The signalling and initiating phases involve multiple stakeholders including the private sector, media, regions, civil society, academia and others. The shaping of the rules phase is solely conferred to the EU institution called the European Commission. The process here typically comprises a consultation by the Commission with the stakeholders (private sector, consumer associations, NGOs, international partners, universities).

Based on this, the Commission publishes a 'green paper' (a discussion document) for public consultation of all interested parties. If the Commission decides to continue with the process, it usually publishes a 'white paper' (an official set of proposals). In the next stage, the Commission proposes a legal text to be adopted the by the legislators, according to the given procedure defined in the Treaties. In the case of an ordinary legislative procedure, the legislators are the European Parliament and the Council. The Commission proposal represents the interests of the EU as a whole. At the level of legislators, the Council scrutinises the draft according to the individual interests of the EU Member States, while the European Parliament typically represents the EU's interests. This law-making mechanism ensures the balanced power between the national stakeholders the EU as a stakeholder.

Other governance methods used in the EU are soft, non-binding ones: the open-method of-cooperation, coordination or peer pressure (Cloos, 2011). The EU governance is subject to reflections and improvements (European Commission, 2011).

In the EU governance process, the public stakeholders (i.e. the states) are therefore a key player. They are both legislators and designers of the strategy to be adopted by the EU. The last task is ensured by the European Council. A typical feature of the states as stakeholders is their evolution due to the election process in the democratic systems. The EU is therefore always keeping an eye on the preferences of the national governments and parliaments. This is a complex process. With 27 Member States and various regional, national and supranational elections, there are elections coming up very often. On average, an EU citizen votes more than once a year. Table 2 gives an overview.

Since the entry into force of the Lisbon Treaty (2009), the European Council has become an institution of the European Union with its fixed President. This increased the involvement of the heads level in the strategic orientation of the EU. During the economic crisis, this proved to be a useful development. The financial crisis of 2008 and subsequent sovereign debt crisis in some of the EU Member States, including the euro area's exposure to stress, put leaders in the driving seat. The number of their meetings increased as did their focus on economic governance – see Table 3 (p. 85).

On top of this, new stakeholders emerged in EU governance. In addition to the Member States and EU, the euro area, to which eventually other members adhered, became a more active actor due to the crisis inside the euro area. The euro area members and some others decided to move forward further in some cases on an intergovernmental basis outside of the EU (EFSF – European Financial Stability Facility, ESM – European Stability Mechanism, TSCG – Treaty on Stability, Coordination and Governance in the Economic and Monetary Union) (Gloggnitzer & Lindner, 2011; Blizkovsky, 2011 and 2011a; Begg, 2012). This was not in conflict with the EU, but rather a supportive measure. The number of meetings on economic issues during the crisis increased as did the variety of meetings (formal/informal EU meetings, informal euro area meetings, intergovernmental meetings) – for details, see Table 4 (p. 86).

If we look at the interplay between the global and EU economic governance, we see a case of inter-dependence and mutual influence (Renard & Biscop, 2012). The EU and its Member States have been proactive stakeholders of global economic governance and have thus shaped the global economic rules. On the other hand, the EU has been a recipient of the global economic governance and implemented what has been decided at the global level.

Table 2: Election intensity in the EU

Countries	Time period for elections in years							Average no. of elections per year
	Municipal	Subregional	Regional	National		Presidential	EUElection	
				First Chamber	Second Chamber			
Austria	5	0	5	5	6	6	5	1.125
Belgium	6	6	5	4	4	0	5	1.200
Bulgaria	4	0	0	4	0	5	5	0.889
Cyprus	5	0	0	5	0	5	5	0.800
Czech Rep.	4	0	4	4	6	5	5	1.286
Denmark	4	0	4	4	0	0	5	0.941
Estonia	3	0	0	4	0	0	5	1.000
Finland	4	0	0	4	0	6	5	0.842
France	6	6	6	5	6	5	5	1.256
Germany	6	4.5	4.5	4	0	0	5	1.042
Greece	5	5	0	4	0	0	5	0.842
Hungary	4	4	0	4	0	0	5	0.941
Ireland	5	5	0	5	5	7	5	1.125
Italy	5	5	5	5	5	0	5	1.200
Latvia	4	0	0	4	0	0	5	0.692
Lithuania	4	0	0	4	0	5	5	0.889
Luxembourg	6	0	0	5	0	0	5	0.563

Countries	Time period for elections in years							Average no. of elections per year
	Municipal	Subregional	Regional	National		Presidential	EUElection	
				First Chamber	Second Chamber			
Malta	4	0	0	5	0	0	5	0.643
Netherlands	4	4	0	4	4	0	5	1.190
Poland	4	4	4	4	4	5	5	1.633
Portugal	4	4	4	4	0	5	5	1.385
Romania	4	0	0	4	4	5	5	1.136
Slovakia	4	4	4	4	0	5	5	1.385
Slovenia	4	0	0	4	5	5	5	1.087
Spain	4	4	4	4	4	0	5	1.440
Sweden	4	4	0	4	0	0	5	0.941
UK	4	4	0	5	0	0	5	0.889
							EU average	1.050

Sources include:
https://www.cia.gov/library/publications/the-world-factbook
http://www.loc.gov/law/help/guide/nations/

*Table 3: Focus of European Council conclusions on economic policy**

	Total number of pages	Number of pages on economic policy
2008		
March	22	12
June	25	3
September	5	0
October	12	5
December	23	5
2009		
March	23	12
June	32	6
October	25	3
December	20	6
2010		
March	12	8
June	15	7
September	13	1
October	6	3
December	13	11
2011		
February	16	4
March	35	27
June	17	6
October	13	8
December	8	2
Total	**335**	**129**

Source: http://www.european-council.europa.eu/council-meetings/conclusions?lang=en

* Note the number of pages of written conclusions do not correspond necessarily with the focus of the meeting.

It is worth comparing the approach taken at the global and EU levels in different segments of economic governance (Table 5, p. 87). The table shows that there has possibly been mutual inspiration. In some cases, the practices of the EU could have been of interest for the broader scale in the case of macroeconomic policy, structural policy and possibly tax coordination. The global example was possibly an inspiration for the EU/euro area in fields such as financial assistance and financial stability.

Table 4: Frequency of meetings

	Before crisis		During crisis			
	2006	2007	2008	2009	2010	2011
EU meetings						
European Council (formal, heads)	3	3	5	7	6	7
Council (ECOFIN) (formal, ministers)	9	9	10	10	11	9
Informal* (ministers)	14	18	17	18	21	18
Euro area meetings (informal)						
Euro Summit (heads)					1	4
Eurogroup (ministers)	9	9	9	9	10	10
Intergovernmental						
Ad Hoc (reflection group)					7	1
TSCG (ministers)						1
ESM (ministers)						5

Source: http://www.european-council.europa.eu/council-meetings/conclusions?lang=en

* In margins of Council meetings or in country of Presidency of the EU Council

Table 5: Global and EU economic governance

Issues	Global governance		EU governance		Comment
	Forum	Instrument	Forum	Instrument	
Macroeconomic policy	G20, G7/8	FfG, dialogue	EU-27 EU-17 Eurogroup, Euro Summit EU-25 EU-23	EU Treaty, SGP, 6 pack, 2 pack Policy guidance Treaty (TSCG) Euro Plus Pact	EU coordination more advanced (normative governance) Source of inspiration for global governance
Monetary policy	G7, G20	Dialogue	EU, ECB	Single currency	Euro area governance fully harmonised
Structural policy	G8, G20	FfG, dialogue	EU-27 EU-17, Eurogroup, Euro Summit EU-25 EU-23	EU Treaty, SGP, 6 pack, 2 pack Policy guidance Treaty (TSCG) Euro Plus Pact	EU coordination more advanced (normative, coordination, peer pressure) Source of inspiration for global governance
Financial assistance	IMF	Loans	EU-27 EU-17	Loans for non-euro members EFSF, ESM, loans for euro members	Global governance source of inspiration for euro area
Financial stability	G20, G8, FSF	Risk identification	EU	EFSF – risk identification	Global governance source of inspiration for EU

	Global governance		EU governance		
Issues	Forum	Instrument	Forum	Instrument	Comment
Financial regulation	G20	Political commitment	EU	Legal obligations	Binding EU governance in line with global political commitments
Capital requirements of banks	G20 Basel process	Political commitment Rule-setting	EU	Legal obligations follow Basel process	EU governance follows global governance
Accountancy	G20 IASB	Political commitment Rule-setting	EU	Legal obligations follow IASB process	EU governance follows global governance
Tax coordination	N/A	N/A	EU EU-25	Voluntary coordination Euro Plus Pact	Soft EU coordination. Source of inspiration for global governance

Conclusions

This article looked at global economic governance from the stakeholders' perspective. We can conclude that:

- The subject of global economic governance should be treated extremely carefully. It should not be confused with global economic *government*. However big the inter-dependence of the global economy, the accountability for rule-setting is driven by sovereigns.
- Global governance typically happens in four stages: signalling, initiating, shaping and deciding. Concerning the number of stakeholders involved, a pyramid structure can be observed: at the beginning (bottom) of the process, there are many stakeholders, whereas at the top there remarkably fewer.
- The early stages of global governance, a multi-stakeholder process, involve the private sector, civil society, media, academia and public sector. The number of stakeholders is increasing over time due to the process of globalisation, market economy and the increasing inter-dependence of global economies. The recent economic crisis in various parts of the world served as a trigger for more global governance and a new procedural and institutional set-up.
- The decision-makers, meaning the sovereign states, stay at the top of the pyramid of the decision-making stage of global governance. They are the ones who make or delegate the decision.
- The EU is both an actor and recipient of global governance. The division of labour between the competences of the EU and those of its Member States makes the EU participation in global governance complex.
- In the EU, the sovereign debt crisis in some EU Member States triggered new stakeholders (euro area) as well as new processes and rules.
- The EU can be seen as a laboratory of economic governance and its complexity. As such, it is worth looking at the elements which work well and which can serve as inspiration for global governance. This includes the well-established rules and practices for the involvement of the stakeholders in the rule-setting process as well as the split between the drafting and deciding stages of the process. Global governance on the other hand is an inspiration for EU regional governance.

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Thinking in Time: Lessons from the History of Globalisation

Alexander N. Chumakov[1]

The European Sovereign Debt Crisis is a repercussion of the 2007-2009 Global Financial Crisis, the effects of which are being faced till date. The crisis demonstrates how financial markets can cause serious socio-economic tension and are highly destructive, in the absence of an adequate system to control and coordinate the activities of global financial regulatory bodies.

Several studies conducted by organisations and economists state that financial crises are inevitable given the cyclic nature of the market economy. In order to provide a nuanced analysis of the crisis and devise crisis management mechanisms, it is important not to commit subjective mistakes that would provoke further crises. Only then can corrective measures be applied in order to ease its consequences.

Several countries and regional groupings such as the European Union leave the onus of this task upon political leaders and specialists in economics, management and so on. Oftentimes, their decisions are bereft of a nuanced understanding of the world and the process of globalisation, thereby limiting their effectiveness. Doing so becomes a critical task, since technical solutions are not adequate in themselves. A philosophical analysis of the issue at hand, and of the earlier trends of global development is needed.

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This article examines globalisation, as it exists today and diverging perceptions of the term. It then discusses the challenge it poses to governance, a key concern given the nature of contemporary global issues. Lastly, the article provides lessons that can be drawn from the global financial crisis.

Globalisation as Reality

Globalisation is indeed a worldwide phenomenon. This however, does not imply that there are generalised concepts, consolidated opinions or analyses of the opportunities and consequences it offers. For one, it is often discussed – and even disputed – as to whether a 'global society' exists, despite the existence of global interdependence, the transnational nature of environmental and nuclear threats, global information systems, global transport communications and so on.

In order to analyse global issues a deep understanding of globalisation is essential. While global processes are influenced by subjective factors, they are basically dependent upon the will and the subjective desires of people, corporations, or even separate states. The process of globalisation and the challenges of modernity as a consequence of it, have stemmed from the development of the society and its new relations with the environment.

It may seem that world has changed dramatically within the last few decades, but that is not the entire side of the story. Arguably, the process of globalisation started in the Age of Discovery. By the beginning of the 20th century it became more profound as it strengthened and expanded to new spheres of social life. Now globalisation has reached economic, political, cultural and informational flows, melting geographical barriers to a large extent.

Equating globalisation with modernisation or only economic integration is a reductive and simplistic vision of a complex phenomenon, even amongst academics. This has resulted in a proliferation of analysis and discussion about the 'waves', 'intensification', and 'stagnation' of globalisation.

Before the 20th century, society was intrinsically individualistic. There were only a few local, regional, cultural and organisational systems that had little or no influence upon each other. These global systems are being formed today. With the emergence of issues that had a transnational impact in the 1970s-1980s, the global significance of these changes has become more apparent to the public mind. Mankind has entered the age of universal interdependence of various countries and regions. Gradually, the foundation for a universal culture has emerged, in which countries preserve their national cultures but simultaneously show signs of unity in their civilisations. Several scholars reflected on the issue of governance in broader context.

Perception of Globalisation

It is commonly seen that human behaviour resists change even in times of great necessity – this is reflected in the study of globalisation as well. The impact of globalisation upon countries and individuals is fairly evident. There appear to be several opportunities for finding constructive and practical solutions to this.

Despite this however, specialists in various fields of global studies often view the situation through a single dimension. As a result, much attention is focused, on conventional issues. Secondary problems such as the dangers or obstacles to social development remain outside the field of view.

It is often stated that the global community has never been as endangered as it is now in the 21st century, given the nature of nuclear and environmental threats. While these are critical issues, they are not by any means, the only ones that are so. The point is not just that we have nuclear weapons that are poorly controlled and are threatening humankind with a real possibility of self-destruction. The increasing human pressure on the environment definitely worsens our ecological situation, but this is not the greatest danger.

More importantly, in the last few decades, the world faces a new danger, which still remains highly understudied – *the important and rapid change in the design of world interconnections and interrelations.* The global community demonstrates its inability to react to such changes appropriately. The situation is worsened by the fact that humans are naturally social animals. They possess a combination of good and bad, kind and evil, love and hatred, peacefulness and aggression. While culture, upbringing and education make people humane and tolerant, they preserve what is defined by their nature, their biology: aggressiveness, lust for domination, struggle for survival, and violent solutions. This can be seen in the behaviour of separate communities and in the politics of nation-states. Now the global community behaves selfishly within the natural environment.

Governance: the Main Issue of the Contemporary World

Consequently, the world faces new challenges and has no adequate system of governance, resulting in greater contradictions and uncertainty. Arguably, under the influence of globalisation, the world community is becoming more of a single system. That said, there are no governance mechanisms to manage and address this.

Most striking is not that this kind of governance does not exist, but that it is not purposefully constructed. Theoretical discussions about it are rare today and it is not given as much attention as it is due. In this context, it is useful to distinguish between *governance* and *regulation. Governance* in general and global governance in particular, unlike *regulation*, cannot emerge spontaneously.

Regulation should be understood as an intentional activity aimed at providing functioning of systems or a system that creates specific parameters, set up naturally or intentionally. Hence, regulation and self-regulation can ensure that systems function best as they create the most favourable conditions for the interaction of their components. Regulation can be of two kinds: the first is in cases where an institution plays a regulative role, where it monitors combined actions of various parts of a whole and can be done consciously. The other refers to the existence of self-regulating systems. The biosphere for instance, is a self-regulating system, whose balanced development is supported by the law of struggle for survival. Regulation becomes purposeful when it is done with the participation of a subjective factor that would introduce some order into the system. In this way it is akin to a traffic-controller, who disciplines on-going traffic at crossroads or a specialist regulating the functioning of an engine. Like traffic lights, regulation can also be implemented automatically.

Governance, unlike regulation, never occurs naturally and spontaneously. It is characterised by more complex structure of relations between the subject and the object. Governance is similar to terms like 'justice' and 'law'; it is a process or activity that is consciously done with the aim of achieving a specific result. This activity is based on predetermined order of conduct combined with acts of an agent that makes decisions not only on the basis of existing rules, but situational changes. Unlike regulation, *governance* is always connected with conscious human activity based on goal setting, feedback and creativity. Hence, the Government always does this consciously and purposefully. It presupposes formulating specific results and finding the most optimal means to achieve them. Thus, general governance and *global governance* in particular cannot emerge spontaneously or naturally. It can only take place in a society and built consciously, purposefully and logically within the limits of such governance. Unlike the case of regulation, there is always an active source or a *subject of governance*, for which goals can be set and achieved.

Hence, in many ways, g*overnance* is, thus, a higher type of *regulation*, and *development* is a higher form of *movement.* Hence development without movement is impossible while the opposite is. Similarly while *governance* includes *regulation*, regulation can take place without governance.

At this stage, it is worth looking at the history of the *development* of social relations, when governance finally accompanied natural regulation. For example, in the early days of mankind where savagery prevailed, relations were regulated by force and survival of the fittest. However, the governing of social relations in the full sense emerged later, together with the development of the division of labour, formation of a state and, finally, formation of the world's first civilisations. While this does not replace natural regulation, it is an addition to it, making social development more predictable. This is how most social systems have evolved, of which the concept of nation-states have become the largest and the most established.

From the middle of the 20th century, the situation has changed, due to the process of globalisation and the world becoming a single interwoven system. Today, the world as it exists seems like an individual organism based on its interaction with the natural environment and the central parameters of economic, political, informational and other forms of social life. While there is more order in society, it is not adequate.

From this, it is evident that mankind has reached a limit, beyond which a spontaneous regulation of social relations cannot last. It should be supplemented with the conscious and purposeful building of a system of governance. A world of interdependent global relations without effective global governance encounters serious challenges.

The world as it exists today seems like an un-steered ship sailing from safe shores into the open sea. Its crew appears to be caught in conflict, and making no effort to steer it. As a consequence, the ship is free-floating and sails aimlessly upon the waves. Having entered the era of global interdependence, the international community should acknowledge the danger in the lack of control of the modern world and the urgent need to start acting collectively and with purpose. In all certainty, the current state of affairs does not seem very promising. Without effective governance, the world will end up in a state of increasing conflict.

Lessons from the Global Financial Crisis

Decisions regarding the construction of a global system of governance should be made at the international level. Apart from states and intergovernmental organisations, two major factors have emerged in world policy: global business and global civil society. They seem to become central components of the nascent global governance mechanism.

In order to deal with the challenge of global governance, mankind needs to overcome an important psychological barrier. For centuries the state has become inseparable from the foundation and study of international relations. Today, globalisation gradually eliminates differences between internal and external economic and social processes; intrastate regulators have to act together with other states, large multinationals and global civil society. Governing alliances are being formed, where states interact with civil society and private business.

As transnational relations expand, global civil society becomes increasingly important to those new dynamics as a consequence. Collective action has become much easier, given the universal nature of the problems faced by countries and the rapid development of international communication, especially by means of the Internet.

Global civil society as a system of non-governmental and non-commercial organisations, essentially desires a unanimous world community to approach certain issue areas. These will increasingly play the role of one of the regulators of the world society, together with business enterprises and the state.

At the same time, in this emerging global governance system, separate states are expected to be not only to be sovereign and masters of their territories, but to be part of the supra-state mechanism for regulating global processes. This mechanism will look not be habitually hierarchical, but rather network-like. National power structures, being remnants of the previous era, may become hubs of the global governance network.

Conclusion

It is impossible to overcome the diverging interests of the countries that are at different stages of economic development. The possibility of reaching a compromise is also very limited, given the extent of the difference between them. But a path of narrow compromise seems to be the only, way to reduce global risks associated with inequality in the future. The development of a new, architecture of global governance and the reformation of its existing principles should be prioritised by national governments and international organisations. This need not be taken up as a challenge all at once. However, approaching it in small – evolutionary rather than revolutionary – steps would be the best way to overcome the problems in the future. The union of countries, especially in the sphere of economics and trade, is the obligatory condition for risk reduction in many areas.

Promoting Innovation in Global Governance

Wolfgang Reinicke[1] and Thorsten Benner[2]

'Promoting innovation in global governance': reading this title, one might expect a concrete agenda full of suggestions on reform efforts: how to change the procedures and composition of global institutions, how to enhance legitimacy and representation in global fora, how to respond to the need for ever growing political space where norms, rules and standards are to be borne that govern global economic, financial, social and communicative interaction and more. No doubt these are all important concerns that require attention. And yet we have and continue to fail making any significant progress in these domains while the context is getting ever more challenging as crises become more frequent and power is shifting.

This paper is a first effort to focus on the meta-level and outline a broader framework for thinking about innovation in global governance. Is it sufficient to merely think about adaptation and reform as we have over and over again? Or have we reached a critical macro structural juncture where transformation can and should no longer be excluded? The paper proceeds in two steps: first, it details why the present system needs innovation of a deeper kind. Second, it begins to explore how we can think about innovation and improving the conditions for innovation in global governance to occur.

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Why the Present System Needs a Makeover

To be successful, global governance needs to address three interrelated challenges: manage geopolitical transitions peacefully, provide global public goods and address "problems without passports" and (re)create legitimacy (also at national levels where it is being eroded).[3]

Managing Geopolitical Transitions

The club of those countries with the economic and political power to make a difference in world affairs – for better or for worse – is changing fast: less Western, fewer common interests, more ideological diversity are among the more important outcomes of this process as it continues to unfold. Managing this geopolitical transition is a major challenge for global governance. History offers few grounds for optimism. It was Thucydides, writing on the Peloponnesian War, who observed that, "The growth of the power of Athens, and the alarm which this inspired in Sparta, made war inevitable." The rise of new powers has pretty much led to the same result ever since. True, Britain ceded power to the US rather peacefully, but this is the exception rather than the rule. World order did not survive the rise of Germany and Japan – and millions lost their lives as a consequence. As John Maynard Kenyes and Harry Dexter White were soon to find out, it was a unique and almost uncontested position of monopoly power that allowed the United States to single handedly reshape and restructure the post World War Two global political and economic architecture furnishing it with a set of rules and norms that came to govern ever since. So by historical standards, a 'peaceful rise' of new powers would be a major achievement. And here the present focus is certainly Asia not Latin America. To conclude with relative certainty that Brazil's rise (despite growing resentment within Latin America) will not lead to major war is much less daring than predicting that China or India will not be involved in major wars in the coming decades. Notwithstanding growing economic interdependence, Asia (with the US involved as a major external player) is a geopolitical tinderbox. Some historical skeptics might even argue that it still needs to go through another round of major devastating war of its own making in order to achieve a sustainable regional security order – such as was the case with Europe after

3 The following builds on Benner (2012).

two European world wars. It will take a lot of hard work on the part of the major powers and some luck to avoid this scenario and achieve a lasting security order in the Asia-Pacific without a further violent detour.

Moreover, unlike with previous geopolitical transitions, a 'peaceful rise' of new powers will be far from sufficient to ensure the success of global governance and global well-being.

Providing Global Public Goods

A second challenge will be dealing with runaway global challenges such as climate/energy, nuclear proliferation, environmental degradation and financial stability. These "problems without passports" (in the words of former UN Secretary-General Kofi Annan) seem to be ever increasing over the past decades and global efforts to address them are failing to catch up. Cross-border policy problems are deepening in terms of their speed, complexity and degree of contestedness.

In recent decades, the sheer speed by which the context, the environment in which we conduct public policy has changed significantly. Now mind you, this is often not by accident but due to conscious political choices by major powers (for example economic liberalization and the ensuing competitive pressures) and due to technological progress (the communication revolution). Fact is, however, that the new environment is posing enormous problems for traditional modes of bureaucratic regulation. Just think of the example of global financial markets, and the regulatory challenges national institutions face in keeping control over new financial products. Rarely can the public policy process keep up with the pace at which financial innovations surface in the marketplace. In fact and contrary to what some want us to believe, regulation has not been a burden for competition but has become a key driver for constant innovation. As a result there is a growing asymmetry, between regulators who constantly try to catch up with the regulated – a regulatory dialectic as Ed Kane pointed out over 30 years ago. It thus should come as no surprise that regulators fail to provide the public good of financial safety and stability in a sustained way, be it nationally and at the global level. This asymmetry is not just limited to government bureaucracies struggling with change and innovation in 'legitimate' markets. Illegitimate economic players such as criminal networks and terrorists, also innovate in their efforts to find ever new ways of laundering money. This poses enormous problems for government bureaucracies and efforts at international regulation.

Turning to complexity, a growing number of issue areas are being conceptualized and framed as ever more interlinked and multidimensional. Just think of the relationship between trade and environmental or social issues. The WTO tried to neatly separate trade from social and environmental concerns. In reality, it turns out that this is hardly sustainable. Or take the example of large dams. Large dams might provide huge economic gains for a developing country (for example in terms of energy supplies). At the same time, however, they can have disastrous ecological and social consequences – how does one balance the two? Or one step further up the ladder of complexity, consider, climate change. Scientists are just coming to terms with the complexity that a better understanding of the global climate system inevitably entails, let alone that our knowledge about the sources of change in the climate continues to expand. Or take the revolution in genetic engineering and its public policy implications that have yet to be fully understood.

Dealing with Contestedness

Third, fast-moving and complex challenges are also becoming more contested both within and across countries and regions. Take the issues just discussed, for example climate change. It is contested in terms of the degree of the problem within countries (at least in key countries such as the US) although there might be an emerging consensus on the fact that the world is facing a problem. At the same time, there is a high degree of contestation over what 'climate justice' means – who should pay the costs for responding to and arresting climate change given that most emissions have historically come from the 'old' industrial powers. Even more contested are issues surrounding the norm of sovereignty and intervention. Take the discussions on the Responsibility to Protect which have become ever fiercer after the Security Council invoked the norm in the case of Libya. And yet the deliberative spaces for these issues and a growing number of global issues both in structural as well as procedural terms date back to the immediate post world war two period.

This raises the third interrelated challenge – legitimacy. Short of embracing a narrow technical definition of public goods characterized by non-exclusion and joint-supply, the provision of public goods is a political process. At the very least (and that is a minimalist conception), the governments of the major powers need to support the key elements of global governance for it to be seen as legitimate. At the same time, it matters what other countries think. Outside the club of the now rarified G-20 inner circle, there are a large number of other countries demanding a voice and not contenting themselves with being governed by a self-appointed closed shop of G-x countries. In addition, all states (democratic or not) are subject to domestic interest groups and public opinion. And that public opinion might well turn increasingly populist and against global cooperation both in the West which is in relative decline with all the social upheaval accompanying it and in rising powers such as China where nationalist sentiments are rife. Add to this the demands for accountability and transparency and the possibilities of instant global communication and you will end up with turbulent prospects for the traditional approach to multilateralism which has been the domain of the executive, technocrats and experts in closed shops.

The current crisis of legitimacy and identity in Europe, despite what one might describe nascent but established structures of democracy, is a stark reminder that ceding sovereignty to an intergovernmental body alone is not sufficient to solidify popular support for the provision of public goods at regional or even global levels. To the contrary it decouples and estranges the demos from those processes that are vital for defining the meaning of public or bads.

On balance, the record of both the institutions and processes of global governance over the past decade to deal with these three challenges of managing the geopolitical transition, dealing with fast-moving, complex and contested "problems without passport" and ensuring legitimacy can only be described as a failure. On the first problem, there is minimal success to the extent that to date war between major powers has been avoided. And while rising powers are to some degree being drawn into the architecture of global governance this is a painfully slow process yielding few results especially on the second challenge, that of providing global public goods and dealing with cross-border challenges. Little progress has been made on critical issues such as dealing with climate change and nuclear security. Financial regulation is another area of outright failure. On the third front, legitimacy, this is hard to measure reliably but it is safe to say that by and large we have not seen progress in terms of the legitimacy of institutions. In sum, a decade which started with high hopes at the UN Millennium Summit in 2000 ended in an endless series of crisis summits that produced non-binding commitments to try to save the world from the global financial abyss.

Why this failure? In order to begin to understand failure, it is useful to recall the conditions for success of multilateralism taking John Ruggie's by now classic discussion of multilateralism as a starting point. Writing shortly after the fall of the Berlin wall, Ruggie reminded us that our understanding of multilateralism needs to go beyond the purely nominal take suggested by Keohane: "what is distinctive about multilateralism is not merely that it coordinates national policies in groups of three or more states, but that it does so on the basis of certain principles ordering the relations among those states" (Ruggie, 1992: 567). Accordingly, the post-1945 multilateral order rested on three core features: nominal sovereign equality, indivisibility (e.g. collective security in security relations and non-discrimination in trade) and diffuse reciprocity (expectation by members to yield rough equivalence of benefits over long period of time not specific quid-pro-quos at all times). The post-1945 world saw an "explosion of multilateral arrangements" with an unusual form at the core, the multi-purpose universal membership organization that is the UN. To a significant degree, this order was underwritten by distinct U. S. leadership. As Ruggie points out, "it was less the fact of American *hegemony* that accounts for the explosion of multilateral arrangements than it was the fact of *American* hegemony" (Ruggie, 1992: 568).

From this, three important factors for the success of multilateralism stand out. The establishment and subsequent maintenance of common principles and norms. Second, trust. It is only a modicum of trust that can form the basis of the kind of "diffuse reciprocity" that is indispensable in order to avoid a simple tit-for-tat bargaining situation. Third, leadership.

On all three fronts of critical factors (common principles, trust, leadership) we have seen a decline over the past decade which explains a weakening of global governance and multilateralism.

In terms of common principles, the greatest divergence has been experience on the understanding of sovereignty. Sovereign equality (at least in theory) and non-interference into sovereign states were key features of the post-1945 international order – especially in the area of peace and security. In view of the failures of protecting populations from mass atrocities and genocide in Bosnia and Rwanda in the mid-1990s, there has been a growing trend toward redefining sovereignty from an unquestioned right to a responsibility with obligations and with compliance being second-guessed by outsiders. The hallmark of this trend is the Responsibility to Protect (R2P) which holds that while governments remain the primary bearers of duty vis-à-vis their citizens, the international community has a responsibility to intervene in case governments are unable or unwilling to protect their populations against mass atrocity crimes.

Many critics see R2P as a tool for Western-led interventionism – a pseudo-legal ploy to undermine the hard-fought sovereignty of countries when their policies go against Western interests. Many of these critics are based in rising powers. This is no coincidence given the different historical memories. For countries such as China and India being the victims of Western imperialism is a defining part of their historical memory. For these and other countries, sovereignty is a precious and hard-fought achievement that is not easily to be weakened.

Moreover, for non-democratic rising powers the thought of R2P being used as a pretext for calls for regime change is an additional concern. Mark Leonard (2012) has put the example of R2P and the norm of sovereignty into a larger context of global change: "The big unwritten story of the last few decades is the way that a European-inspired liberal economic and political order has been crafted in the shell of the American security order. It is an order that limits the powers of states and markets and puts the protection of individuals at its core. If the United States was the sheriff of this order, the EU was its constitutional court. And now it is being challenged by the emerging powers". Whatever one might think of this particular reading of the larger picture, one conclusion should be clear. Principles and norms such as sovereignty are increasingly contested and this makes multilateral cooperation harder. The key to future successful multilateral cooperation will thus lie in the ability of the global system to accommodate and negotiate the changing meaning of key norms among a more diverse set of powers.

A second related difficulty relates to trust. To date the level of trust among established and rising powers that is needed for diffuse reciprocity to work to a sufficient degree if far too little and the "shadow of the future" to short. In the West over a period of several decades the required level of trust was achieved through a deepening of ties among many parts of society, in particular the elites. This was facilitated by a shared set of basic values. High levels of trust do not guarantee a convergence of interests. To the contrary, interests within the West are often not aligned – as we currently see with issues such as climate change or financial governance. Rather a high level of trust and a belief in "diffuse reciprocity" made it easier to invest in institutions that were charged to mediate those diverging interests. In the absence of the necessary trust between established and rising powers and in some cases the weakening of trust within the West itself, the dismal record of multilateral cooperation over the past decade is not particularly surprising.

A third important factor contributing to failure is the absence of leadership. As Ruggie points out, the post-1945 global order rested to a great deal on American leadership. Whatever you might argue with America's behavior in specific cases and its tendency to demand special treatment ("exemptionalism"), the US invested a great deal into making the institutional order viable after the Second World war. The US acted with a lot of foresight and helped to design and underwrite an institutional order that proved to be enduring and outlasted the collapse of the Soviet Union and bipolarity. Unfortunately, the US proved much less foresightful when being seduced by the appearance of a 'unipolar moment'. Jean Paul Sartre captured the moment best when he likened the Berlin Wall to a mirror which distracted the West from its own failings and weaknesses (Reinicke, 2012). This allowed it to be blinded by the "end of history". Instead of using this moment of superior power to invest in the rebuilding of international institutions in order to make them robust, resilient and adaptable not only for a global age that had already begun before the Soviet Union collapsed, indeed contributed to its demise, but also for a time in which US and Western power more broadly would be contested by others.

Not surprisingly then, there has been precious little leadership during the past decade emanating from the US in the area of multilateralism and international institutions – if you discount the important push for a nuclear-free world that President Obama started but which has yet to bear concrete fruit in the context of informal let alone formal institutional arrangements.

Instead of investing in global governance, the US chose to put its emphasis on fighting two very expensive wars and defending itself against terrorist attacks. As the New York Times observed shortly before the 10th anniversary of the September 11 attacks: "America's bill for fighting a 21st-century "asymmetric war" comes to at least $3.3 trillion. Put another way, for every dollar Al Quaeda spent to pull off the Sept. 11 attacks, the cost to the United States was an astonishing $6.6 million" (Sanger, 2012).

Though often touted as such, decision to transform the G-7/8 into a G-20 was not a case of US leadership. To the contrary, history did not end and the US had little choice but to enlarge the G-7/8 during the financial crisis which, this time around, originated at the heart of the Western financial system challenging many firmly held assumptions that lie at the heart of the Western liberal order. As late as 2012, the US insisted on sticking to old privileges by choosing another American citizen as head of the World Bank, instead of leading the way and taking a calculated risk by endorsing one of the suggested alternatives and inviting diffused reciprocity. Even now that the US is extricating itself from the wars in Afghanistan and Iraq and turns to new strategic horizons, the 'Asia pivot' sounds more like old fashioned balance of power politics rather than a concerted investment into international institutions.

To no surprise, the record of leadership does not look better for Europe. The EU started the first decade of the 21st century with grand ambitions in terms of global governance and ended up as an inward-looking regional entity riven by crisis. As much as a 'Global Europe' is the only answer to the present Euro-malaise, as much European elites are unable to spell out a 'Global Europe' project and get their populations behind it. To outsiders, Europe even rhetorically comes across as a much diminished player. In terms of concrete actions, the record is dismal. And even though Europe still invests a great deal of money into international institutions, it is hardly able to shape them for the better in a critical period of geopolitical transition. This is particularly true when it comes to symbolic acts in terms of the shape and membership of institutions and privileges of particular members. Europe cannot agree on the project of a common EU seat on the Security Council – rather you have Germany fighting for its own seat on the Council (while being opposed by the likes of Italy and Spain in this futile bid). There is not a single example of Europe giving up outdated privileges to make space for a greater role and say of emerging powers at the global table again giving newcomers the option to reciprocate and building a foundation for trust. In 2011, along the same lines, the EU insisted on having a European as the head of the IMF – despite a previously made promised that Europe was willing to give up on this privilege. The reasoning given by the EU (that in the middle of the Euro crisis one needs a European at the helm of the IMF) once again confirmed that trust was and is short in supply.

Powers in relative decline such as the US and Europe are increasingly self-absorbed and reduce their contributions to global governance. Rising powers are not ready to fill the leadership gap. Most rising powers have not yet produced full-fledged visions on how they are going to use their power to provide global public goods and shape global governance while some of them may not be able to garner sufficient support abroad if they fail to open up at home. To some the fact that many rising powers claim large power rights while continuing a 'Global South' solidarity and developing country rhetoric is rightfully irritating. Oxford academic Andrew Hurrell explains this duality by "the tension between an aspiration to international influence and a continued sense of vulnerability, and to the difficulty of having to defend oneself against an increasingly intrusive world that challenges older established national ways of acting and thinking". No doubt the lack of leadership is certainly also due in part to a lack of capacity. Neither the size of the Indian Foreign Service nor the Brazilian think tank community are at present certainly a match for the global ambitions and role of either country.

How to Approach Innovation in Global Governance

So the case for innovation in global governance is not only clear in the face of the failures of the past decade but urgent before another financial crisis erupts or environmental crises put the globe beyond a point of no return. But how to think about the sources and shape of innovation? It is clear that we need to go beyond the dominant approach in the Western debate of those who see themselves as 'liberal internationalists' committed to an open and successful global order. Scholars such as John Ikenberry expect rising powers to be 'socialized' into 'responsible stakeholders' of the global liberal order, to use the somewhat patronizing term by former World Bank president Robert Zoellick. The result would be a 'Greater West' as the Western-built liberal world order gets extended to fully include rising powers. It is high time to question this narrative about the automatic, adaptive expansion of global governance and the Western-built global order. It is far from clear whether newly powerful countries such as Brazil, India and China will gladly take their pre-assigned seats as 'responsible stakeholders' in a Western-built global order not the least in the wake of the deep seated vulnerabilities exposed and perpetuated by the financial crisis. There is a clear danger that the 'Greater West' is more a pipe-dream of Western policy-makers and scholars than an accurate description of the key trends in the evolution of global governance. More precious time to act will be lost. We need to think about innovation because successful global governance cannot just be an extension of present arrangements.

As Mark Moore and Jean Hartley (2008: 2) have pointed out, innovation in governance is different to standard business innovation; it is not about products or processes in single organizations, but involves "networks of organizations, or the transformation of complex social production systems".

What would be the sources for this kind of transformation? It is possible to distinguish between large-scale and small-scale modes of innovation in global governance. Due to the stickiness of institutions and the interests associated, large-scale innovation in global governance seem to occur only after major crises. The conditions seem rare. Even the recent global economic and financial crisis with all its effects on the economies around the globe has unfortunately not led to a fundamental re-thinking of the way we regulate financial markets globally. It seems that after major wars there might be the rare moment where fundamental large-scale innovation seems possible – e.g. the founding of the UN system after the World War II. Betting on major world war as the catalyst for innovation is certainly not viable strategy going forward. What could be done by civil society actors and governments, would be to exploit the 'cracks' in the system that open up in case of crises more effectively – in the case of the global financial and economic crisis, it was also the failure of effective transnational advocacy and pressure that made it easy for key governments to continue with business as usual.

Small scale experiments have been at the forefront of innovation in global governance over the past decade and a half.[4] This includes public-private partnerships and global public policy networks, new forms of governance bringing together governments, international organizations, non-profits and the private sector. Some of these initiatives are being driven by courageous cross-sectorally minded political and social entrepreneurs. Achim Steiner, the Secretary General of the World Commission on Dams, one of the more prominent of the early innovations in global governance, is a case in point.

Public-private partnerships and networks seek to combine the complementary resources different actors bring to the table such as expertise/knowledge, reach and credibility. Analysts have tended to either celebrate or dismiss these new forms of small-scale innovation in governance. What is lacking until now is a rigorous evaluation to ascertain which new forms hold promise and can be scaled up eventually opening the possibility for a more formal institutionalization of the innovations based on a set of norms and principles that reflect not only the importance of trust and leadership but the inclusive nature that the provision of global public goods would have to reflect to be mainstreamed.

So we need to establish the conditions for small-scale innovation to be analyzed and scaled up if promising. But it is certainly not enough to just hope they will save us from the financial, environmental abyss – as some enthusiasts have for example suggested for the field of the following the failure of the Rio

4 See Thomas Hale and David Held (2012) and the earlier work on this topic by the Global Public Policy Project and Institute (www.gppi.net).

2012 summit. Supporting this could be an overall investment in the learning capacity and building up a solid evidence base on the effects of different institutions of governance. This evidence base should be built up by researchers and practitioners from a diversity of background geographically and otherwise. It could serve as a catalyst for joint learning and collective innovation.

This needs to be accompanied by innovation in the way we conceive of the genesis and development of global norms that are at the heart of global governance arrangements. The old model of norms being conceived in the West and then rolled out through a process of linear, unidirectional 'diffusion' is no longer sufficient. A diversity of voices is now demanding to co-shape norms and the institutions upon which they are based and Western powers in particular need to be open to this new reality.

Without sustained investments in the conditions for innovation, we will end up with 'No One′s World' or a 'G-Zero' world without any leadership for the provision of global public goods. If this downward trend is to be countered, declining and rising powers alike need to invest in global governance in order to create a minimum set of joint norms, build trust and demonstrate joint leadership. Established and rising powers should see themselves as 'joint stakeholders' of the global order which would be a welcome departure from the situation where one party defines what becoming a 'responsible stakeholde' means.

There is a need to invest in transnational ties to build trust between the major players. As then Presidential candidate Barack Obama argued in 2008 in Berlin, “Now is the time to build new bridges across the globe as strong as the one that bound us across the Atlantic”. It is about time to put more resources behind this call. This includes more track II exchanges involving civil society (namely academia, think tanks and advocacy organizations) as well as business from both established and rising powers to come to a joint understanding on the need to invest in global governance and innovative ways for doing so. These exchanges would increase the ability of all parties to develop interface skills and to see the world with the eyes of 'the other side' – not just one′s own historical narratives and preconceptions that are often taken for granted[5]. This would hopefully also result in pressures for greater leadership on the part of all critical players. The lack of leadership is often the result of a lack of domestic pressures for promoting and rewarding forward-looking policies on

5 See for example Mishra (2012).

global governance. It is time for social and political entrepreneurs, advocates, think tank analysts, academics and concerned citizens to try to make their own contributions toward reversing this trend – based on a sober analysis of the failures of global governance and the need for innovation. Then perhaps can the notion of 'purpose beyond power' start to inform efforts to improve global governance.

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