

Asia in Global Economic Governance

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Abstract

Asia is gradually changing the landscape of regional and global economic cooperation. Institutional reforms are underway to respond to its growing economic clout and pluralism. External expectations of Asian participation in collective goals are growing. But even though Asians have been major beneficiaries of the global economic system they remain more comfortable with incremental change than with leading new initiatives or with enforcing global norms and rules. This reticence combined with reticence on the part of existing players to revamp the governance structures in the global economic institutions means that the existing order will continue to function. But cooperation in new areas such as climate change could, as a result, evolve more slowly as countries face tradeoffs between their domestic priorities and the collective interest.

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Asia in Global Economic Governance

Peter A. Petri and Wendy Dobson¹

I. Asia's involvement in global economic governance

As its share of global output rises Asia's role in global economic governance is rising as well. Even before the global financial crisis, the Bretton Woods institutions, created by the United States and its allies in 1944, were becoming less and less representative of the distribution of economic power. The global crisis highlighted gaps in cooperation and accelerated the relative rise of Asian and other emerging economies. As world leaders sought to respond to the crisis, they turned to the G20 as the new more inclusive institution to formulate policy. Since then the G20 leaders forum has been designated the world's "premier forum" for economic cooperation. The transition to a new global architecture has begun.

What role will Asia play in this transition and what other new institutions are emerging? While Asia's interests and influence are more apparent, no other specific institutions or cooperative approaches have yet emerged. Much still depends on whether economic growth in Asia and the West slows or accelerates; whether political tensions within or among economies intensify; and whether global energy, resource, health or other new issues radically change the priorities for international cooperation. Any of these areas could come to dominate trends in global governance. Even so, some central features of a transition are becoming clear:

- Economic governance will be multi-polar, mainly due to Asia's growing economic weight. The United States and the European Union will remain important centers of power for some time, but the global system will not be dominated by any one country or region as it was by the United States since the collapse of the Soviet Union.

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- The modes of international cooperation will be conditioned by Asian preferences for consensus decision making and a preference for relationships over rules and legal frameworks.
- The transition to new institutions will be gradual because of the inertia built into existing institutions and a natural resistance to change. Asian policy makers see economic and political stability as foundation stones for economic growth and influence and have varied interests in change. Significantly as well, Asia has been a major beneficiary of the existing world order and it will not be easy to find widely accepted alternatives.

These observations suggest that global governance will change as a result of Asia's rise, but not quickly or dramatically. We have called this environment one of "contested stability"—an era likely characterized by incremental additions to global rules, continuity of institutions, and ongoing tension about future directions. Given the important role of economic integration in the past half century, one might worry that such an ambiguous world order might lead to worse economic outcomes. This need not be so. It is important to distinguish between the level of integration and further liberalization. Economic integration is already high, and current rules, if sustained, provide ample room for efficient specialization. In the meantime, other development engines—especially technological innovation—can continue to drive growth, taking the place of incremental liberalization in the past.

It can be argued that such expectations are not universally shared; many observers have urged Asia to pursue a more aggressive leadership role. For example, the Asian Development Bank has criticized Asian economies for being "passive onlookers in the debate on global rule-making and reluctant followers of the rules." Others have urged Asia to "deliver on its global responsibilities" given its strong relative economic position in the wake of the financial crisis to promote a new global order based on open markets (Drysdale 2010).

We argue that Asian leadership is likely to emerge slowly, for both historical and utilitarian reasons. That may mean stalemates on issues that demand decisive global responses (for example, climate change), but will also give the world more time to adjust to the extraordinary

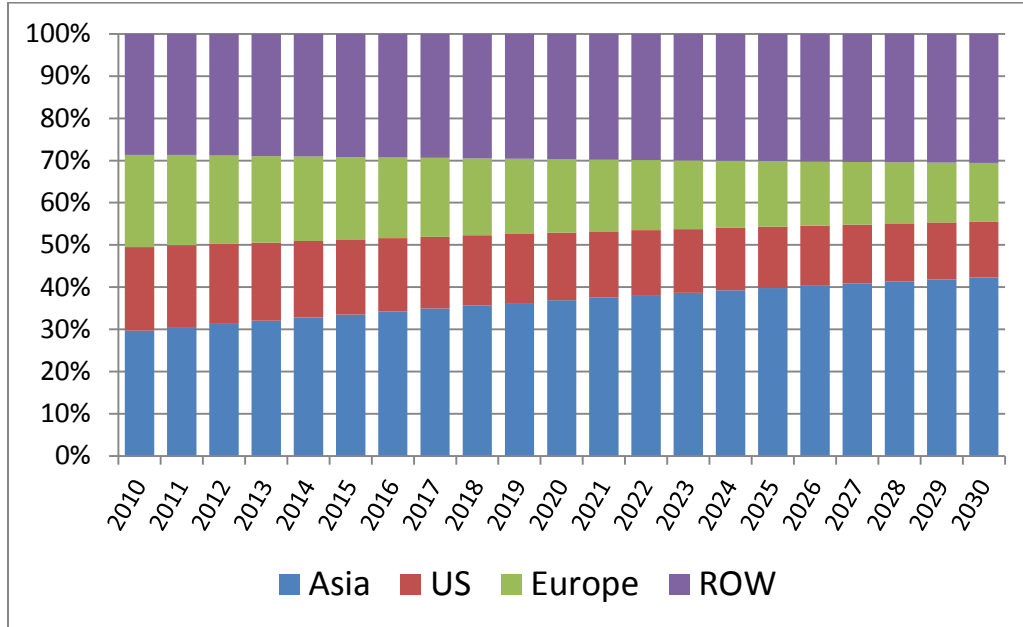
transformation represented by Asia's rise. We begin by reviewing the distinguishing characteristics of international cooperation in an Asian context. We next consider the changing functions of the international system, examining both the demand for and supply of cooperation in the context of changing economic interactions. We then explore the implications for cooperation in key functional areas, focusing on the pressures facing existing institutions and their possible adaptations.

II. Cooperation with Asian characteristics

The global financial crisis has diminished the prospects of the United States and Europe and boosted those of most Asian economies. (In this and some other contexts in this paper, we refer to "Asia" as a whole, despite many differences in the circumstances and interests of individual countries.) Asia survived the crisis with less damage, stronger fundamentals, and typically less debt than Europe and the United States.² Figure 1 provides a projection of the shifts in global economic power by plotting the likely evolution of the shares of GDP (at market prices) for the United States, Asia and Europe. In 2010, the shares of all three are roughly equal in the 20 percent range. As the shares continue to shift over the next 20 years, Asia will reverse its relative position compared to the United States and Europe in 1990 (Petri 2010). Meanwhile, each bloc is also multi-polar; Asia itself consists of four major components with potentially diverging policy perspectives: China, Japan, India and ASEAN.

² This paper is focused on the Asia Pacific, but growth poles have also emerged in Latin America, based on similar policy strategies. Latin American economic integration through MERCOSUR, a trade zone initially criticized for diverting more trade than it creates, has become more open by including the Andean Community countries and by gradually reducing extra-MERCOSUR barriers.

Figure 1. Changing Shares of World GDP (Purchasing Power Parity)



Source: ADB (2012). Asia includes ASEAN, China, India and Japan. Europe includes the EU 25 plus Iceland and Norway.

The dispersion of world economic activity has led to calls for revising the governance of the IMF, World Bank and other global institutions, especially by providing a stronger role for Asia's emerging economies. The G20 leaders have tasked the global institutions to undertake particular roles in carrying forward their collective goals; they set up the Financial Stability Board, for example, and charged the IMF with carrying forward mutual assessment of economic policies. More accurate representation of current economic conditions will make global institutions more legitimate, but much depends on how the new votes will be exercised. More diffuse voting power and accountability could simply lead to more deadlock rather than better decisions. Asia's participation will be an important determinant of whether concerted global efforts are possible.

Of course, there is no single Asian voice or perspective on these issues—Asia is arguably the most diverse and complicated region in the world. Nevertheless, the approaches that dominate Asian cooperation have distinctive characteristics, in part developed to manage diversity. These characteristics and their contrasts with the prevailing global system provide a useful backdrop to analyzing the modalities of Asia's role in international governance.

History is a powerful factor in shaping contemporary Asian reactions to international cooperation. Skepticism and distrust of global systems and relationships is prevalent in Asia, despite the region's strong economic connections with the world. The roots are easy to understand; Asia's contacts with the West until well after World War II were based on sharply unequal power relations and are remembered as leading to humiliation and exploitation. All of Asia with the exception of Thailand was occupied at one time or another by Western colonial powers, eventually joined by Japan. Even when not fully occupied, countries were required to accede to commercial treaties under the threat and occasional use of force. The opium trade marked a tragic low in the history of international trade. These deep-rooted memories may even help to explain Asia's bitter political reaction to the IMF during the Asian Financial Crisis; the political fallout from IMF interventions appears to have been greater in Asia than, say, in Latin America, where arguably harsher and longer-lasting conditionality was applied.

History pervades Asia's regional relations as well. Relative to Europe, Asia's historical tensions remain closer to the surface, flare up more frequently, and are less completely resolved. Thus they impede integration efforts. For example, while a complex network of bilateral free trade agreements now criss-crosses Asia, little progress has been made on a trade agreement to link the region's three largest economies, China, Japan and Korea. Efforts to intensify such negotiations are periodically announced, but then fall prey to some new political event that ratchets tensions back to a level that no longer permits business as usual. Most recently, this was the effect of the confrontation of a Japanese coast guard vessel with a Chinese fishing boat. Political tensions are even more strained in South and West Asia. As a result of intra-regional tensions, many Asian countries depend on partnerships with extra-regional powers, including the United States, to insure against regional conflicts.

Asia's mechanisms of cooperation reflect this complicated history, with three important implications. First, Asia is committed to the existing global economic framework. Trade played a central role in most Asian economic "miracles" and cooperation with international institutions was instrumental in the expansion of trade. China is a prominent example; it was not a founding member of GATT or the WTO and accepted unusually demanding terms to join the WTO in

2001, including sweeping revisions in its regulatory regimes.³ China hedged its bets by denying access to foreign capital in some industries and by continuing to control capital flows, exchange rates, government procurement and innovation. But it dramatically opened its economy by inviting foreign investment, signing new bilateral and multilateral agreements, reaching out to the ASEAN-based regional framework. FDI inflows set new records among developing economies. Trade linkages intensified especially fast with the United States, a former enemy and new rival.

Second, Asia's ability to focus on economic development has relied critically on peace and political stability. Wealth, not bullets, has been the route to power and influence in Asia. The United States, in turn, helped to underwrite this stability. Today China's economic power is rising and its political and military influence will inevitably grow. These trends have raised concerns among smaller countries in the region. To maintain stability and to build trust, China will need to extend its regional power cautiously, while assuring neighbors that Chinese markets and policies will continue to serve as a powerful regional locomotive (Zhang and Tang 2005).

Third, as already noted, there is a paucity of formal agreements among the region's leading powers. As a result of these gaps, none is able to provide broad regional leadership. Sometimes China and Japan even compete against each other by forming parallel regional integration initiatives. It falls on the smaller countries, such as the members of ASEAN and Australia, to conduct a delicate balancing act and convene regional cooperative forums.

Fourth, the principle of non-interference is enshrined in Asian institutions such as ASEAN and is frequently upheld as a pillar of Chinese foreign policy. It is also a source of contention between Western and Asian policy makers, for example with respect to economic relations with countries governed by oppressive regimes. The principle reflects Asian governments' intention to act in what they see as national interest, whether or not their actions conflict with "universal values" as seen from abroad. This issue has been highlighted by prominent Asian leaders such as Lee Kuan

³ To join the WTO thirty central ministries and departments were directed in 2002 to change 2300 laws and regulations (eliminating many of them) and 100,000 local laws and regulations at the provincial and autonomous region levels (Yu 2009:153).

Yew as they have attempted to formulate “Asian values” that could be distinguished from Western values.

These opposing threads—Asia’s pride in its accomplishments and independence, juxtaposed with its recognition of the benefits of global connections and stability—will influence future trends. Asia has generally supported international institutions, but has yet to play a role commensurate with its power and (arguably) debt to the global system. For example, Japan has been blamed for preventing progress on global agricultural issues that would have facilitated a new Doha agreement between developing and developed countries. China and India, in turn, were central to the unresolved battle over safeguard policies that brought the Doha negotiations to a halt in July 2008. Except for pioneers like Singapore, smaller Asian economies have also failed to band together as champions of the world trading or monetary system, instead voicing narrower concerns about particular interests.

These positions may be attributed to Asia’s relative inexperience with global institutions, its focus on the still-urgent requirements of national development, and its aversion to complex legal systems and international rules. Although Asian economies have concluded many trade agreements in recent years, these have typically covered fewer products, areas of policy and issues than Western agreements. The agreements themselves are shorter and vaguer than the templates used, say, by Australia or the United States. Most intra-Asian agreements are limited primarily to tariff reductions and few have chapters on “behind the border” issues such as investment, services, competition and regulatory policy.

Views of the global system vary among Asian economies, ranging from the relatively global perspectives of Asia’s most populous countries, China and India, to the more regional focus of smaller Southeast Asian countries. In between, mid-size powers like Japan, Korea and Indonesia are attempting to balance regional and global engagement. But overall, the position articulated by Chinese President Hu Jintao in 2006, calling for peaceful development in an harmonious world (*hexie shijie*) is reasonably consistent with Asian global views. The main elements of this vision include principles of independence, self reliance, and peaceful coexistence, with differences resolved on the basis of mutual respect and cooperation. These principles do not

envision conflict with the West, but nevertheless challenge Western views by omitting priorities such as human rights, democracy, transparency and the rule of law. Critiques of the contemporary world order include (Wang and Rosenau 2009):

- The status quo order is “undemocratic”; the democratic deficit in international institutions, dominated by western nations and serving their own interests, (and tolerating US unilateralism) should be reduced;
- North-South economic disparities are growing and the wealthy advanced nations practice double standards in which they expect concessions from developing nations that are not reciprocated. These disparities should be reduced through “shared development and common prosperity”.
- Countries have differing histories and cultures and therefore differing political systems and economic models. The international system should observe diversity and tolerance and countries should not interfere in each other’s affairs but seek “reconciliation amid differences”.
- Cross border conflicts should be resolved through cooperation rather than force.

These principles imply, among other things, that the United States should become a “normal” country and abide by international law; that western countries should open their markets more to developing countries; and there should be greater reliance on the UN system in multilateral diplomacy and world peace. These critiques also have substantial overlap with views often argued in the West, namely that the international order should be build on international regimes, democratic decision making within international institutions, and should emphasize fairness, mutual respect and development.

While Asian and Western prescriptions for the world order have substantial overlap, much uncertainty remains about how these principles will translate into action as Asia’s power grows. Several contradictions will need to be resolved. For example, the natural pride that “the middle kingdom is being restored” is at odds with China’s still-low per capita income and evolving economic, legal and political institutions. There is also a contradiction between leadership of

global and regional institutions and actions that more narrowly serve national interests. And there is, on occasion, conflict between the desire for a peaceful cooperation and non-intervention. In the United States and elsewhere, there is concern that China and other major Asian powers have done only the minimum requested, kept a low profile, and have not played a large enough role in discouraging countries from violating international norms of conduct.

III. Functions and constraints of economic governance

Tensions between Asia's rising power and slow ascent to leadership are playing out against the background of an increasingly complex international agenda. The "market" for international economic governance can be thought of as connecting demand and supply—the demand side reflecting the need for making cooperative decisions in the collective interest, and the supply side reflecting the ability of the international system to generate such cooperation. The "good" transacted in this market is a public good, namely the agreements and institutions needed to make international transactions predictable and cheap, with minimal negative side-effects (such as environmental or financial risks). Thus, we can think of the rising demand for such public goods (due to the growing complexity of the international economy) to lead to rising supply, provided that the international system is capable of organizing the necessary cooperation.

The demand for international cooperation has grown sharply, in part because of burgeoning flows of goods and services. World trade has risen three times as fast as output and real international transactions were fourteen times as great in 2008 as they were in 1960. In addition, economic exchanges have become more complex and multi-dimensional. Direct investment and intellectual property flows (as measured by patents or royalty payments) have grown faster than trade. The fragmentation of production has led to new requirements for logistics and flows of services, technology and information. Financial flows—essential in their own right as well as for moving goods and capital—have added further complexity. Innovations in information technology have created vast opportunities for exchanging services that were previously untraded. All of these trends raise new questions about the coherence of a wide range of (historically) national policy decisions involving investment, intellectual property rights, the environment and many other fields.

The supply of international cooperation, however, has arguably failed to keep pace with demand. One way to provide such public goods is to have a hegemonic leader impose rules and institutions through a combination of pressures and incentives. England in the 19th century and the United States in much of the 20th century played this role; their large scale made it worth their while to offer significant benefits to other countries—principally through access to their own markets—to induce them to participate in an open world order. But in a multi-polar world the provision of global public goods encounters "free rider" problems; smaller economies prefer to benefit from access to others' markets without providing access to their own. As the relative power of the United States has declined, the prominence of free rider problems has grown, and the supply of global public goods has declined, notwithstanding increased need for cooperation.

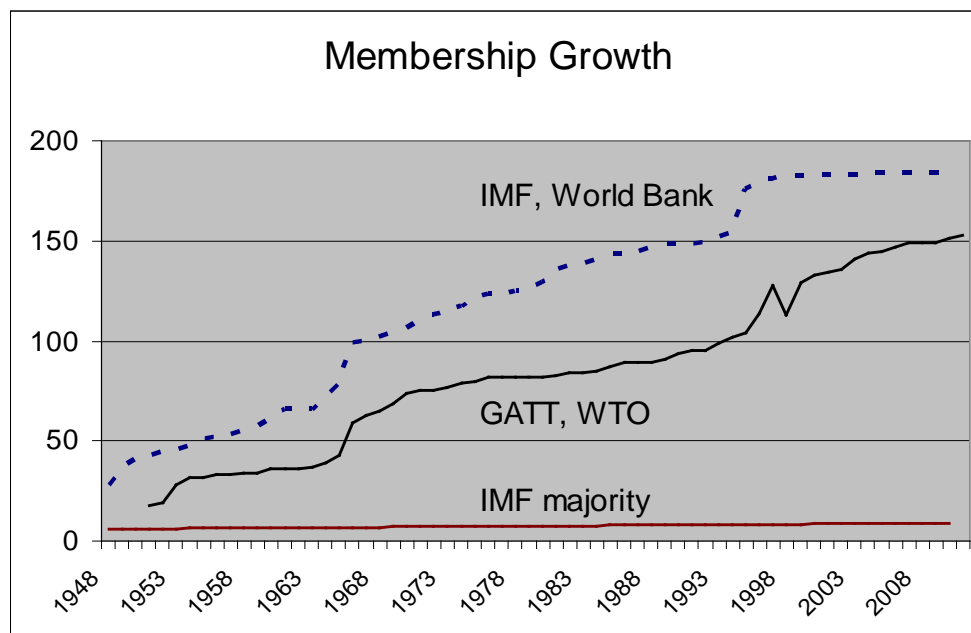
Some global public goods can be replaced by regional public goods that serve a smaller membership. In recent years, the world trading system has seen an explosion of regional agreements that benefit two or more partners. From a theoretical perspective, these agreements represent public goods provided by clubs—institutions that serve only their limited membership. This is possible for public goods that are non-rivalrous (more than one member of the club can use their services at the same time) but at least partially excludable (non-members can be denied access to them). While international trade agreements fall into this category, many other forms of collaboration do not. For example, since the benefits of reducing green house gas emissions are universally available, whether or not countries signed the cooperative agreement to do so, regional policies cannot definitively mitigate climate change.

International organizations are another form of club which provide services that are essential, and under some conditions optimal, and yet cannot be produced privately. They are also subject to the challenges generally faced by clubs. They are not easily "scaled"; expanding clubs become unwieldy because larger memberships make it harder for them to meet the preferences of all club members. They are also inflexible; charters and super-majority voting rules, designed to insure the interests of a club's charter members, place strict limits on change. These problems are modest when clubs are formed: founding members have similar interests and create services to meet common needs, as did the participants at the Bretton Woods conference. But over time, as membership grows, interests diverge. This creates tensions among club members and, eventually,

makes clubs unable to meet members' needs. These problems are compounded by charters that make it difficult to change governance.

The evolution of the IMF, the World Bank and the WTO roughly follow the predictions of club theory. As Figure 2 shows, their memberships have multiplied since they were originally founded. Yet governance structures and voting shares have adjusted little. Quotas have been revised several times since they were first set in 1944, but have not kept pace with economic growth.⁴ Emerging economies have much smaller voting shares than early members. As a result, international organizations find it increasingly difficult to carry out their responsibilities.

Figure 2. Growth of Membership of IMF, WB and GATT/WTO



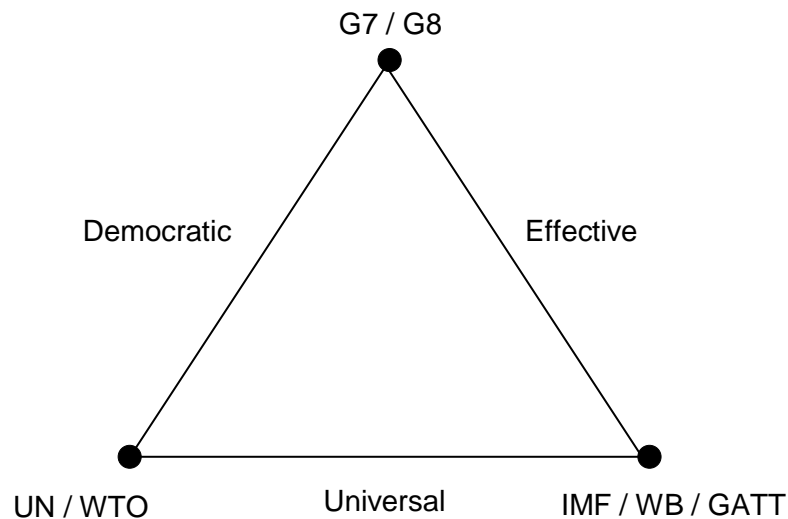
Note : IMF majority refers to the number of countries required to produce a majority vote.

Ideally, international organizations should be universal (globally inclusive), democratic (responsive to individual members), and effective (able to adapt and deliver services quickly). As Kawai, Petri and Sisli-Ciamarra (2009) argue, these three goals are very difficult to meet simultaneously, yielding a governance trilemma (Figure 3). Many organizations can satisfy two of the three goals but then fail on the third. For example, the United Nations is universal and

⁴ The IMF's Board of Governors conducts general quota reviews every five years. Any proposed changes in quotas must be approved by an 85 percent majority.

democratic, but has difficulty making and implementing decisions because of its large and diverse membership.

Figure 3. The governance trilemma



Source: Kawai et al. (2009).

One solution to the trilemma is a layered architecture for making decisions. In such a structure, smaller “democratic and effective” institutions (say, regional trade groups) are the principal actors, ideally coordinated by a “universal” global framework (say, the G20 or a system of rules such as GATT article XXIV). This is akin to functional federalism within larger countries, and to the principle of subsidiarity in Europe (Casella and Frey, 1992). This framework can generate a wider range of public goods than are possible under universal clubs. A layered institutional framework would permit global institutions to manage global interdependence while permitting deeper cooperation on sub-global tracks. The theoretical foundations for a layered approach rest on the theory of clubs (Kawai and Petri, 2010).

A multi-layered system could be built from the top down. For example, the G20 might become cohesive enough to direct international institutions in administering policy. In this case, the G20 could ensure that the global institutions are strengthened and that national bureaucracies cooperate with them. This is a tall order: even if governance reforms make the international institutions more democratic, they may not make them more effective. NGOs and critics will

still question their legitimacy, and they may still find themselves unable to influence important national policies. Inevitably, they will become targets for political criticism.

Alternatively, a multi-layered system could develop from bottom up through increased cooperation among regional and functional institutions. In Asia alone, 14 “major economic cooperation groups” have been identified by the Asian Development Bank (ADB 2008: 256-259). For now, these groups are often little more than talk shops. To be effective, they would need more support from governments, including resources to monitor and enforce cooperative decisions. For example, a new model of emergency finance in the Chiang Mai Initiative Multilateralized (CMIM) would need to develop its own adequate monitoring and analytical capability well as clear rules for coordination with the IMF. An even more difficult coordination problem confronts the myriad overlapping trade agreements that have been concluded in recent years.

A coherent, layered system would involve both global and sub-global (typically regional) institutions as well as strong connections among them. These connections may consist of explicit mechanisms (such as the monitoring role assigned to the IMF by G20 leaders) or rules that circumscribe the scope and jurisdiction of sub-global agreements and institutions. For example, a famous theoretical contribution by Kemp and Wan (1976) could be used to define a strategy that regional trade agreements should follow to be globally acceptable. In this case the strategy would require the members of the regional agreement to lower their trade barriers to non-members sufficiently to offset potential trade diversion effects.

Asia is active in initiatives that are both below and above the level of the global Bretton Woods institutions. Asian institutions *below* the global level include the ASEAN Economic Community, which is arguably the most ambitious integration effort in the developing world. Several high-level forums involving security, trade and finance have also developed around ASEAN, including the Chiang Mai Initiative, an experiment in financial cooperation. As will be discussed later, free trade agreements have proliferated in the Asia, and a new set of regular, high-level bilateral and mini-lateral consultations have been established, ranging from the Strategic and

Economic Dialogue between China and the United States to a similar meeting between the United States and India, and a new Triad meeting of the leaders of China, Korea and Japan.

Asia is also prominent in the G20, the new layer of decision-making *above* the Bretton Woods institutions. The G20 includes five Asian countries (China, India, Indonesia, Korea and Japan) and five more Pacific region countries that are members of APEC (Australia, Canada, Mexico, Russia and the United States). The chair of ASEAN also attends G20 meetings. Yet despite these numbers and their considerable economic weight, Asian countries have not yet provided leadership in the G20 beyond South Korea as Chair in 2010.

IV. Asia in the emerging structure of economic governance

Asian preferences and the logic of cooperation provide useful lenses for exploring recent trends in international cooperation. The 2008-09 financial crisis highlighted the interconnectedness of the global economy and focused attention on global decision making. The United States and Europe were at the epicenter of the crisis, but the effects of their recessions cascaded quickly through global supply chains to Asia and the world. Asia's financial institutions, having undergone reform following the 1997-98 crises, escaped the worst of the crisis, but the region was nevertheless buffeted by sharp drops in demand. These shared problems opened a window for the overhaul of global summitry and rethinking the global governance system.

The principal elements of the international governance architecture are surveyed in Table 1. As this table shows, most major functional areas involve both global and Asian cooperative efforts. As it also shows, Asian interests vary significantly in each of the areas, both among countries and across modalities of cooperation. The next sections review the functional areas in further detail.

TABLE 1. ASIA IN INTERNATIONAL GOVERNANCE

Function	Asian Objectives	Institutions
High-level cooperation	<ul style="list-style-type: none"> • Support global approach • Accelerate transition to new international reserve system • Resist formal targets 	<ul style="list-style-type: none"> • G20
Trade liberalization and dispute settlement	<ul style="list-style-type: none"> • Support global trade • Reluctant to accept strict binding disciplines • Varied detailed positions, but often oppose agricultural liberalization and strong intellectual property rights, • Interest in regional FTAs 	<ul style="list-style-type: none"> • WTO • Current focus on ASEAN+ regional agreements and (by some countries) on TPP • Proposed regional agreements (EAFTA, CEPEA, TPP, FTAAP)
Monetary and macroeconomic cooperation	<ul style="list-style-type: none"> • Support global monetary oversight • IMF as provider of global reserve currency • RMB and yen as reserve currencies 	<ul style="list-style-type: none"> • IMF • Chiang Mai Initiative Multilateralized (CMIM) and Asian Macroeconomic Research Organization (AMRO)
Financial regulation	<ul style="list-style-type: none"> • Relaxed view of international rules due to strong current position of banks 	<ul style="list-style-type: none"> • Financial Stability Board (FSB), Proposed Asian FSB
Development finance	<ul style="list-style-type: none"> • Support development finance • Emphasis on infrastructure, resource development • Emphasis on political relationships 	<ul style="list-style-type: none"> • World Bank • Asian Development Bank (ADB)
Climate change mitigation	<ul style="list-style-type: none"> • Green growth is a priority in several countries • Concern about responsibility of developed countries for funding, mitigation • Pledges plans to reduce carbon emissions based on development capacity 	<ul style="list-style-type: none"> • UN Framework on Climate Change (UNFCCC)

High-level cooperation

The most important public good required from the global system is high level cooperation on problems that cut across major economies and fields of policy. The world had no institutions for providing this good at the outset of the global financial crisis. Leaders had to meet urgently and develop new mechanisms involving all economies essential to the task. A decade earlier, for similar reasons following the Asian financial crisis, finance ministers and central bank governors had begun to meet in a G20 framework, and elevating those meetings to the leaders' level was the practical choice. The G20 emerged in part as historical accident, with most (but not all) of its members representing the world's twenty largest economies.

The upgraded G20 initially focused on generating consistent national responses to the global financial crisis and monitoring the actions of international organizations in carrying out their

assigned tasks. The IMF was directed to provide appropriate emergency liquidity, strengthen its own monitoring functions, and reform its governance to reflect the changing shape of the global economy. They asked the WTO to monitor protectionist measures and to conclude the Doha round, and instructed the World Bank to mitigate the effects of the crisis on the poor in developing countries. They also decided to transform the Financial Stability Forum into a Financial Stability Board and to develop new international rules for financial oversight. In time, progress was made on all of these tasks.

Asia's G20 members have welcomed this new role on the world stage. Korea made extraordinary efforts to ensure the success of the 2010 Seoul summit, the first G20 leaders' meeting outside the G8 countries. It also used its role as a middle power, and not long ago one of the world's poor countries, to champion development. Some smaller Asian countries were less enthusiastic, but eventually Singapore and Vietnam were invited to the Seoul summit.

China, the world's most populous country and soon-to-be largest economy, is central to the G20. From early on, China was criticized in the G20 for its exchange rate and foreign exchange reserve policies. To some extent it deflected these criticisms and to some extent it responded to them. It increased the flexibility of its exchange rate prior to the June 2010 Toronto summit and accelerated yuan appreciation prior to the Seoul summit. China is still feeling its way on the G20 agenda. Expressing support for the G20, President Hu Jintao outlined priorities for shifting cooperation towards "...long-term governance and from passive response to proactive planning." He urged establishing "...a new international financial order that is fair, equitable, inclusive and well-managed" and policies that "...reject all forms of protectionism and unequivocally advocate and support free trade" (Xinhua 2010). But aside from listing these objectives and pressing for the inclusion of the yuan in the SDR, China has offered few concrete proposals.

So far, Asia's role in the G20 has been exercised through the individual (and typically muted) contributions of members. South Korea's efforts to prioritize development in 2010 were overshadowed by macroeconomic issues and attracted only modest support from other members. Japan has been preoccupied by internal economic problems, and ASEAN by the ASEAN Economic Community and "ASEAN-centric" approaches to regional cooperation. Thus, calls

for concerted Asian positions and an Asian G20 caucus (Young 2009) have met with little support from governments. There was no collective Asian stimulus effort in the crisis or a common Asian strategy for the global monetary system. Instead, some countries experimented with other alliances. China and India joined dialogues in the “BRICS” grouping which, on the sidelines of the Cannes G20 summit in 2011, articulated the view that European bailouts should be managed by the IMF rather than through ad hoc arrangements.

The G20 plays a unique role in global governance, but much uncertainty remains about whether the G20 can evolve into a permanent, effective institution and whether an “Asian” voice could or should emerge within it. The emergency responses to the global crisis orchestrated by the G20 were broadly successful and, as our review of functional areas will show, progress has been also made on the G20’s structural priorities. But as the urgency of the crisis receded and the details of implementation came to the fore, the momentum for action faded. Urgent regional issues, such as the European debt crisis, came to dominate the G20 discussions. In this context, consensus has been difficult to achieve and G20 meetings have become less conclusive.

In sum, so far the G20 has been more successful in responding to crises than in delivering sustained cooperation. The latter goal of course may not be attainable in the politics of the early 21st century. The G20 is playing a mid-field game: facilitating discussion while standing by for (rare) emergencies. This operational model more closely mirrors Asian than Western approaches to governance, and may an harbinger of change in the global system. Meanwhile, practical cooperation, to the extent it is possible, is left to specialized institutions, both global and regional, in functional areas. We examine these in turn, focusing on the role of Asian economies in global and regional efforts.

Trade and investment

After general coordination, creating and sustaining a liberal, rules-based framework for trade is arguably the next most important public good required from the international system. Dramatic progress toward that framework was made in eight rounds of global trade agreements, the last being the Uruguay Round concluded in 1993, which established the WTO as a permanent institution for administering the global trading system. The Asian economic “miracles” are in

part products of this remarkable achievement. While the United States played a central role in building this system given its dominant role in the post-World War II global economy, its relative position has diminished over time. In the increasingly multi-polar context, further progress has stalled. At this writing the Doha Round is moribund and the momentum of trade liberalization has shifted to regional and bilateral trade agreements.

Despite the absence of new global agreements, most global trade continues to be conducted under the extensive rules and institutions of the WTO system. The WTO's dispute resolution mechanism is widely used and usually obeyed. Given the monitoring and safety valves it provides, protectionist responses to the global financial crisis appear to have been surprisingly muted.⁵ Both developed and developing countries now use the WTO to resolve disputes and, with the addition of Russia in 2011, every large trading economy is now part of the WTO system.

Nearly all Asian economies recognize the value of the global system and support it. China and Vietnam worked intensively to join the WTO in 2001 and 2005, respectively. China used its 15-year accession negotiations as an instrument of domestic policy reform, transforming the institutions and managers of the planned economy into more market-oriented ones. Some terms were harsh—China accepted designation as a non-market economy in antidumping and safeguard cases and agreed to annual compliance reviews—but the concessions paid off. Value added in exports now accounts for around 20 percent of China's GDP, and China has become the leading emerging market destination for foreign direct investment (FDI). Similarly, Vietnam has greatly benefited from its accession; trade increased sharply in the five years following accession relative to the years before.

This support for the global system is confirmed by data on protection. Asia has relatively low trade barriers compared to the world and other regions such as Latin America, and has lowered barriers more rapidly over the last decade. Asia also participates reasonably actively in the WTO's dispute resolution system on both the complainant (and third parties supporting

⁵ In a comprehensive recent study, Christian Henn and Brad McDonald note that only 0.2 percent of world trade was subject to trade diversion due to new protectionist measures. See <http://www.imf.org/external/np/seminars/eng/2011/trade/pdf/session3-Henn-presentation.pdf>

complainants) and respondent sides. To be sure, given the prominent role of governments in Asian development strategies, there have been many cases when governments promoted domestic sectors and technologies with measures seen as protectionist abroad. Nevertheless, Asia's interest in the global trading system is deeply rooted, even as countries jockey for perceived advantages from intervention.

The plurilateral Government Procurement Agreement under the WTO sets significant limits on government intervention through procurement and is a nuanced indicator of the role of Asian economies in the WTO system. Only the advanced economies—Korea, Japan, Singapore and Chinese Taipei—are among the agreement's 42 members. In 2010, nine years after it committed to join, China offered a negotiating proposal (Anderlini and Betts 2010) which remains under discussion in early 2012. Southeast Asian economies, although targeting regional procurement provisions, have not entered the global negotiations.

The positions of Asia's advanced economies also differ from those of Asia's lower income countries in other ways. For example, Japanese and Korean positions on intellectual property rights and an investment framework are probably closer to those of Western countries than of other Asian exporters. Several countries have concluded FTAs with the United States or are involved in the TPP negotiations (discussed further below). Most welcome China's dynamism but are uneasy about the role of its large state-owned enterprises in the region's economy. Despite important common interests, Asian economies are far from comprising a monolithic block.

There are also other reasons why Asia has not assumed leadership in the WTO. Asia's principal markets in the developed countries are already reasonably open. At the same time, Asia's own barriers are reasonably entrenched. Japan's agricultural protection has prevented it from making obvious contributions and many countries generally resist liberalization in services, which they see as much more competitive in the United States and Europe. Many believe that so-called "new issues"—labor and environmental protection—are designed to undermine their own areas of comparative advantage. And now many are also concerned about Chinese competition in manufacturing. Most are in midst of rapid transformation and reluctant to take on additional

policy challenges. As a result, rather than forcefully promoting the global system, Asian countries sometimes appear to be blocking it; for example, when several supported India's demands for special safeguard protection in July 2008, pouring cold water on the talks at a crucial stage.

Meanwhile, Asia has pursued trade initiatives on a more manageable regional scale. Regional negotiations are easier to manage because they allow for exceptions and typically focus mainly on tariff reductions. They provide light treatment of issues of interest to advanced economies, such as services, intellectual property rights, investment and labor. In some cases, these include feature issues not found in other FTA projects such as support for development through technical training to facilitate the extension of supply chains.

The China-ASEAN agreement, intended to upgrade China's political and economic relations with Southeast Asia, has been a catalyst for other large economies. Japan, South Korea and India have followed suit. Competing proposals then appeared to expand these agreements into an ASEAN+3 agreement preferred by China (to include ASEAN, China, Japan and Korea) and an ASEAN+6 agreement proposed by Japan (adding Australia, India and New Zealand). In 2011, a truce was negotiated by China and Japan, permitting both initiatives to move forward in parallel. ASEAN is also developing its own blueprint, a so-called "ASEAN++" template that will harmonize ASEAN agreements and permit other countries to join. In practice, the success of such efforts will depend on consensus among China, Japan and Korea, the region's three largest economies. Discussions among them have been under way for some time and are expected to lead to formal negotiations in 2012. But their uncertain and shifting political relationships may make progress difficult.

Thus, despite extensive activity in Asian trade diplomacy, little progress has been made toward a comprehensive regional agreement. Economic studies show that such an agreement would produce results that are far superior to smaller ones (Park and Cheong 2008). Since benefits increase with the size of the area, ASEAN+6 generates somewhat greater gains than ASEAN+3 (Kawai and Wignaraja 2009), and an agreement that includes all 21 APEC economies (also the United States and countries on the Eastern edge of the Pacific) would be still better.

Incorporating the U.S. is of interest to many economies, since it is a critical end market for Asian manufactures and a potential stabilizing force in the face of China's rising power. The 21 members of APEC agreed in 2008 to pursue a Free Trade Area of the Asia Pacific (FTAAP) as a long-term goal, eventually designating several pathways toward it.

Significantly, the United States has also entered the negotiating arena by promoting the Trans-Pacific Partnership (TPP), an agreement initiated by small Asian and Latin American economies that now encompasses nine APEC economies with three others planning to join.⁶ The TPP builds on a comprehensive, high-quality free trade agreement (encompassing New Zealand, Chile, Singapore and Brunei) and intends to create a "21st century" standard for trade. But its ultimate benefits inevitably depend on large Asian economies joining. While Japan now appears ready to do so, the agreement is likely to include standards that China will find difficult to accept in the near future. Some concern has been expressed that the US objective is actually to contain China's influence but it can also be argued that the TPP replicates networks of FTAs that China, Japan and Korea have already developed, presumably "encircling" the United States.

Objective analysis suggests that the TPP is best seen as a move in a competitive liberalization game, and a potential stimulus for region-wide integration. Asian and Trans-Pacific FTA tracks that move in parallel and extensively overlap could well speed the integration of a region that is becoming splintered (Petri et al. 2011). Progress on the tracks is likely to accelerate integration within each track and competition between them. In time, the tracks will increase the gains from consolidation to their dominant economies (China and the United States). This end result—a regional or global agreement—may not happen for some time. But in the meantime the tracks will generate forward momentum on trade liberalization, yielding real benefits at low cost to non-members.⁷ The tracks are a "contest of templates" designed to shape eventual patterns of integration. In any case, the TPP strategy is ambitious, and there is reason to be skeptical that it can clear the high political hurdles in its way.

⁶ The nine current participants are Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam. Canada, Japan and Mexico are planning to join, and many observers expect Korea to do so as well.

⁷ This is not a necessary result, but appears to be the empirical implication of the nature of existing economic relationships and the proposed agreements (Petri et al. 2011).

A prominent feature of 21st century trade agreements (and indeed of the TPP) is to offer better investor protection. With regional production networks a key feature of Asian economic and trade architecture, international investment is an increasingly important element of these linkages. Most high quality FTAs include investment provisions or are accompanied by investment agreements (now being negotiated, for example, among China, Japan and Korea). Investment concerns in Asia include sometimes-conflicting concerns such as attracting foreign investors while stimulating inward technology transfers and promoting “infant industries” while protecting the right to invest in sensitive resource and technology sectors abroad. These conflicting objectives make it difficult to design a consistent investment regime.

Some of the challenges faced by Asian firms in foreign markets are illustrated by some high profile failures by Chinese firms to acquire foreign assets. Key resource acquisitions (CNOOC’s of Unocal in the United States, and Chinalco’s bid for Rio Tinto assets in Australia) have failed for apparently political reasons. Chinese technology companies have also faced suspicions in India and the United States on national security grounds. India temporarily blocked imports of Chinese equipment in its mobile telephone network. In the United States, politicians accused the electronics giant Huawei of having military ties and argued for blocking its access to the supply chains of the military and law enforcement sectors. Several Huawei efforts to acquire U.S. assets failed (2Wire, a Motorola unit, and 3Com) and the U.S. Committee on Foreign Investment (CFIUS) instructed the company to divest its interest in 3Leaf Systems, a small technology company it did manage to purchase. These cases raise difficult questions: does an acquisition reflect commercial goals or national strategic objectives? And in turn, do committees such as CFIUS reflect national security interests (as intended) or the interests of domestic firms?

Foreign investment regimes in some Asian economies have also raised concerns. In Korea and Japan, for example, foreign investment is far below levels predicted in international econometric studies, strongly suggesting explicit or implicit barriers. China has been open to many types of foreign investment, but has restricted access to others in an effort to foster technology transfers. The conviction and imprisonment of foreign executives (including an Australian and an American, on charges of bribery (in the first case) and violating laws on state secrets in both

cases) has raised serious questions about inter-relationships among business, politics and the Chinese legal system. These cases may have represented retaliation for discrimination against Chinese companies abroad. The complexity and importance of such investment linkages represents a clear argument for strengthening rules-based approaches.

As a result, these trends in Asian trade and investment raise conflicting questions. Will the region continue to cede the leadership of the world trading system to the United States and Europe, as it has in much of the postwar period? Will it deepen regional cooperation, and if so, through the Asian track promoted by China, or the Trans-Pacific track championed by the United States? A more prominent role for Asia is inevitable, but will emerge gradually. The region's scale and connections with the world economy suggest that purely regional, even Asia-Pacific, initiatives will not accommodate its interests. Thus, Asian economies, as dominant Western economies before them, are likely to emerge as champions of a stable and open global system. The precise implications are unclear, but will need to bridge contemporary Western legal approaches with the flexible, relationship-based models of Asian integration.

Macroeconomic cooperation

The global monetary system provides the frameworks for massive trade and investment flows that now connect the world economy. Yet increasingly it consists of a patchwork of compromise and ill-defined and often ignored rules. A safe and effective global monetary system will require substantial revisions in its central institution, the International Monetary Fund (IMF), and the gradual replacement of the dollar as the world's single dominant reserve currency.

The IMF was designed in 1944 to provide emergency lending in a dollar-based, fixed-exchange-rate world of limited international capital flows. As these initial conditions changed, the centrality of fixed exchange rates was replaced by flexible regimes and rising cross border capital flows. Private capital flows now finance current account imbalances that would have been unimaginable a half century ago. The IMF, in turn, has specialized in providing short term liquidity support in the face of balance of payment crises and macroeconomic oversight, mainly to developing countries in trouble. The role it played in the 1997-98 Asian financial crisis, brought it under attack when it was perceived, rightly or wrongly to have deepened the crisis by

treating Asian borrowers with liquidity problems as if they were insolvent with structural problems (Ito 2007). Resentful borrowers repaid their loans early and began self-insuring by accumulating foreign reserves larger than those needed to cover imports and short term liabilities. By the time of the global financial crisis, the IMF's activities had sharply diminished and its resources, at around \$250 billion, paled in comparison with those of Asia's central banks whose foreign exchange reserves totaled nearly \$5 trillion in 2010 (Truman 2007).

The G20 resuscitated the IMF by raising its resources to \$1 trillion, proposing a major new SDR issue, and encouraging the Fund to revise its lending approach.⁸ The IMF streamlined its lending by curtailing conditionality and provides adjustment support through short term loans (including the flexible credit line facility, or FCL) that permit countries to qualify on an ex ante basis for funds up to five times their quota, without ex post conditions. In the long run, the operation of the international monetary system requires a credible, effective, lender of last resort, as well as effective surveillance of macroeconomic policies to prevent imbalances that lead to emergencies. It is now widely accepted that the IMF's effectiveness will depend on bringing its voting structure and management in line with the changing sizes of the world's major economies—that is, reducing Europe's influence and raising Asia's.

As emerging market economies, with China in the vanguard, move up the ranks of the world's largest economies currencies such as the Chinese yuan are becoming more widely used in trade and other transactions, raising questions about the future of the US dollar as the world's principal reserve currency. How long this shift is likely to take is a matter of debate, as are the outlines of the new system: will it be based on the SDR, as the Bretton Woods architects envisaged in 1944? Or as multiple reserve currencies? The uncertainty surrounding the Euro, the world's second most popular reserve currency, has further clouded the outlook.

Among Asian currencies, the Chinese yuan is now the one most likely to become a significant global reserve currency. (Japan's earlier proposals for a multi-currency Asian basket have faded with the rapid progress and globalization of the Chinese economy.) China has begun the process

⁸ In April 2009 leaders authorized a one-time SDR allocation of \$250 billion and \$500 billion in new borrowing from Fund shareholders under the New Arrangements to Borrow (NAB). Japan and the EU each agreed to lend \$100 billion and China indicated its willingness to provide \$40 billion in other ways.

of internationalizing the yuan, but major adjustments in its financial and monetary system will be required for the yuan to become a reserve currency. The Chinese central bank, which manages the exchange rate, also manages deposit and lender rates to provide the largely government-owned banks with generous riskless spreads (Dobson and Kashyap 2006; Dobson 2009; Prasad 2009). This system has created powerful interests vested in investment- and export-led industries. If the yuan is to be widely used internationally, opposition to more flexible exchange rates and interest rates will have to be overcome.

The Chinese government recognizes these challenges and has begun to internationalize the yuan. Its several steps in this direction have included swap agreements with other central banks, increased foreign access to the interbank bond market, and agreements with foreign governments in Japan, the United States and the United Kingdom to permit yuan-based international trade and investment transactions. The authorities have also created opportunities for holding yuan in offshore accounts in Hong Kong and elsewhere, and are expanding vehicles (such as the Qualified Foreign Institutional Investor funds) for investing some holdings in mainland securities. Many of these policy measures have been implemented on a limited, experimental basis so far, and much work remains before the capital account is opened and the yuan becomes fully convertible (Dobson and Masson 2009).

Looking ahead, as Asia's influence increases in the IMF and in the day-to-day conduct of finance, how might this influence be used? First, Asia is committed to maintaining as much independence as possible in managing national macroeconomic policy and the resulting global imbalances. China and other Asian countries have adopted important elements of the international system, but have been slow to change their domestic policies. One explanation for sluggish adjustment is that governments put an unusually high premium on the stability of manufacturing and export employment. To the extent that rapid adjustments might be forced by volatile short-term capital flows, Asian economies are willing to consider controls to dampen them. Since consensus is needed to adopt any formal approach in the G20, Asia's opposition to rapid changes in macroeconomic variables has effectively turned international macroeconomic coordination into a slow, informal negotiation—an approach consistent with the region's decision making style.

Second, Asia's influence is reflected in growing calls for changes in the reserve currency system, in part to provide independence from policies pursued in the United States. During the Asian financial crisis, Japan advocated forming an Asian Monetary Fund, and perhaps also an Asian Currency Unit. Buffeted by capital flows, ASEAN countries have also supported greater cooperation. Most recently, the action has shifted to heavier use of the Chinese yuan. China's central bank governor Zhou Xiaochuan's (2009) argued that the current global arrangements are flawed because of conflicts between the domestic goals and international responsibilities of the United States, the provider of the world's principal reserve currency. As a result, the dollar-based system has become volatile, forcing both developing and emerging market economies to divert foreign exchange reserves to insurance from more productive uses. The United Nations Commission (2009) also proposed an expanded SDR, calibrated to the size of reserve accumulations. But these proposals have gained little traction because private investors have shown little enthusiasm for the SDR over the dollar and governments are reluctant to lead markets.

Third, Asia is hedging its bets by seeking its own emergency liquidity facility. In the aftermath of the Asian financial crisis in 2000, the ASEAN+3 governments adopted the Chiang Mai Initiative (CMI), a regional emergency financing mechanism based on bilateral currency swap agreements. The CMI did not make much progress in the next decade and did not prove useful in the global financial crisis. In 2010, the CMI was multilateralized (becoming the CMIM) and expanded to \$120 billion with 80 percent contributed by China, Japan and South Korea.

Like the IMF, CMIM will provide short term liquidity or balance of payments support within the region. But the difficult work of establishing procedures to activate the CMIM and provide associated surveillance has just begun; for now, substantial drafts on CMIM funds require also an IMF program. An Asian Macroeconomic Research Office has been established in Singapore to support the CMIM. Ideally, it will develop procedures consistent with IMF methodology so that support might combine IMF and CMIM funds, similar to the funding approach now used in Eastern Europe. Early indicators of the CMIM's success will be members' willingness to submit to multilateral peer review and surveillance of national policies and to reduce self-insurance.

Asia's rising influence and cautious policy-making style are now more evident in international monetary affairs. The region prizes stability and independence, and has blocked commitments to formal cooperation or rapid change. It is gradually pushing for a more multi-polar currency system and is hedging its bets by exploring regional arrangements. Most dramatically, Asian economies have built huge foreign exchange reserves, effectively buying insurance against a wide range of global shocks. But from this perspective of strength, Asian policy makers generally support the gradual reform—rather than dramatic reinvention—of the international system. There is wide agreement with Western observers on the diagnosis of problems and ultimate trends, although Asians would prefer some initiatives, such as the inclusion of the yuan in the SDR, to be implemented sooner rather than later. On the whole, Asia's rising influence does not appear to foreshadow major changes in the present, admittedly imperfect, mechanisms of monetary cooperation.

Financial markets

The global crisis highlighted the paradox between the national scope of financial supervision and the global reach of capital markets and institutions. While strong and modern national financial systems are essential to stable markets national regulators cannot prevent cross-border financial crises by acting on their own. They must coordinate and communicate among themselves. The Financial Stability Forum, set up by G7 governments after the Asian crisis, is based at the Bank for International Settlements and closely related to the Basel Committee, to facilitate such cooperation. But the institution lacked legitimacy and relied on voluntary implementation of its guidelines and recommendations. G20 leaders expanded its membership and changed its name to the Financial Services Board (FSB), charging it to work closely with the IMF in implementing its recommendations and guidelines through the Fund's surveillance and its Financial Sector Assessment Program (FSAP) which focuses on national financial systems and their prudential supervision. A group of East Asian economists has recommended intensified supervision of financial institutions engaging in cross-border business and an Asian Financial Stability Dialogue to deepen regional financial integration (Asian Development Bank Institute 2009), but the proposal has not gained much traction so far.

The new Basel III Accords agreed in 2010 provide a new framework for bank regulation in the wake of the global financial crisis. Although Asian economies were involved in the discussions leading up to the Accords, they did not play a central role in their design. For the most part, Asian banks have not been unduly strained by the new regulations; in many cases their asset structures were more conservative than those of Western banks and their equity positions were stronger, and so the implications of meeting the new standards are manageable. There is even a possibility that Asia's regional banks will make headway against global competitors, since a much smaller part of their income depends on fixed-income, currency and commodities businesses, which will require more capital (Flatt 2012). Nevertheless, some objections were raised about the possibility that unnecessarily rigorous standards would be applied to banks with largely domestic operations, and that some of the requirements (for example, providing a favored treatment for government securities in judging liquidity) implicitly favored Western banks because of the greater availability of government securities in those markets. But on the whole the Accords have not increased calls for regional regulations, despite suggestions by the Asian Development Bank that a regional regulatory forum similar to the FSB be developed on a regional level.

Development finance

The World Bank and the regional multilateral development banks provide development finance through loans and grants and technical assistance to developing countries to promote poverty reduction and economic development. The network of banks is more decentralized than the IMF system and the regional banks are largely run by countries in the regions. The World Bank is governed by its shareholders but developing countries criticize it for reflecting the development priorities imposed by the advanced countries rather than those of the developing countries themselves. Since 1980 China has had an harmonious relationship with the World Bank. China continues to borrow for projects ranging from energy efficiency and environmental projects to urban and rural development. In 2007 China became a net contributor to the World Bank's International Development Assistance mechanism and in 2010 its third-largest shareholder. A Chinese national is the World Bank's chief economist.

The Asian Development Bank is active in promoting regional integration in Southeast Asia by providing substantial support for new transportation corridors and other infrastructure initiatives. The ADB has also scaled up its policy research efforts, aiming to match the analytical capacity provided by the international organizations with Asia-focused research capabilities. ADB capital was tripled in 2009 to \$165 billion, permitting a significant increase in the loan portfolio. Its management has been dominated by Japan—its president has been always Japanese—but its operations are increasingly wide-spread and are likely, as in other development banks, to take on a more democratic configuration.

Perhaps because other development banks have established dominant country personalities, the rapid rise of China, and its massive foreign exchange reserves, is leading to some new directions in development lending, possibly in a development bank, although a similar proposal by China also surfaced at the 2012 BRICS Summit in New Delhi (Fourth BRICS Summit). There is debate about the wisdom of such institutions based on Chinese contributions alone. China has taken similar initiatives, such as the ASEAN-China Investment Cooperation Fund announced in 2009, which would focus on infrastructure development opportunities in the ASEAN region.⁹ China has also offered loans to member states of the Shanghai Cooperation Organization, a grouping of six economies with Central Asian interests. And it has provided a variety of infrastructure investment support for African countries.

Finally, the China Investment Corporation (CIC), the sovereign wealth fund charged with investing part of the China's foreign exchange reserves, has indicated substantial interest in undertaking "public-private partnerships" to develop infrastructure around the world, including in advanced countries such as the United Kingdom and the United States. These efforts represent an interesting new mix between initiatives designed to secure relatively safe and high returns, but due to their public dimensions inevitably play a role in China's international relations with the host governments.

⁹ <http://www.aseansec.org/23633.htm>

These new initiatives suggest some “disintermediation” in the traditional lending functions, with funds shifting from general, global development banks to narrower asset portfolios and more direct political content. So far, and particularly in the wake of the global financial crisis, the trends have moved in parallel, with expansion in the lending programs of all lenders. Nevertheless, they suggest that Asia’s new investments—led by China’s resources—could be channeled in more direct ways to support national political and commercial objectives. These initiatives may, in turn, intensify competitive efforts among major economies to provide comparable support for its own political and commercial interests.

Environment

Owing to its rapid industrialization and large populations, Asia faces a wide range of environmental problems, ranging from water availability and quality to air pollution and carbon emissions. Three of the world’s five largest producers of greenhouse gases (China, India and Indonesia) are Asian economies, although Asia is still far down the list in per capita terms. With its many islands, long coast lines and great population concentrations in low-lying port cities, it is also the region most acutely threatened by climate change. Divisions on climate change policies are nevertheless substantial across Asia, reflecting the different levels of development.

Local pollution issues are likely to be addressed by Asian economies as their resources permit. Air pollution and congestion have been brought under control in Tokyo and Seoul with policies ranging from gasoline standards and taxes to the development of rapid transit. Bangkok and many other large Asian cities in poorer countries are now following suit. China is also beginning to respond to widespread popular pressure to reduce particular pollution in its largest cities. These initiatives are at times costly—in China, for example, they will require the substitution of imported oil and gas, or even more expensive alternative fuels, for domestically produced coal.

The most vexing issues, however, involve carbon emissions and global climate change. Asian developing economies, particularly China and India, are reluctant participants in global climate negotiations. They are committed to rapid economic growth and are in the energy-intensive stages of their industrialization processes. They also rely heavily on fossil fuels and especially coal. They see pressures to generate binding commitments on emissions, especially given vague

commitments by much wealthier nations, as efforts to constrain their economic catch-up with the West.

The central issue is a collective one: how to allocate responsibilities for mitigation among countries. There is much rhetoric and little agreement on how emissions targets should be determined. There are many questions: should responsibilities be allocated on the basis of emissions per capita, emissions per unit of GDP, or absolute emissions? Should emissions standards apply to what countries emit, or the global emissions induced by their consumption? Should past emissions be taken into account, since they have contributed to the buildup of greenhouse gases in the atmosphere? Should income be taken into account, since the wealthier countries have greater ability to pay for mitigation?

Asian economies have developed predictable positions on these issues, favoring principles and criteria that they will find easiest to meet. For example, China and other emerging countries prefer an emissions/GDP standard, because fast development reduces energy intensity by this measure, even as it increases other ratios. They also argue for taking past emissions into account, and for special treatment of developing countries, for example, through special funds that support adaptation in poor countries. The theory acts as an academic (and often not very seriously considered) backdrop to pragmatic politics; the positions of individual countries reflect the urgency of climate change issue in their domestic politics, and global cooperation as a whole in turn reflects the urgency of such political pressures around the world.

As a result of these divisions, global climate negotiations are making limited progress. Asian countries have played a prominent role in the UN Framework Convention on Climate Change. The Copenhagen Conference in December 2009 appeared to be headed for massive failure, but in a last minute agreement negotiated by Brazil, China, India, South Africa and the United States agreed to a non-binding commitment to keep temperature increases under 2° Centigrade. Although many observers at the time saw this agreement as a face-saving gesture, it kept the negotiating process alive. At the Durban Conference in November 2011, moved another step forward, committing to a negotiation—as outlined in the Durban Platform—to replace the Kyoto Protocol by a new treaty that would be negotiated by 2015 and implemented by 2020. This

agreement was signed by both China and India (as well as the United States, which had not ratified the Kyoto Protocol), committing at least to the principle of accepting binding mitigation targets. Nevertheless, the pledges that countries had assembled so far did not add up to sufficient reductions in greenhouse gas emissions to meet global targets, and statements made by Chinese and Indian negotiators indicated that they were not prepared to make larger concessions than they had already offered. In the meantime, little progress was made on providing funding for the Green Climate Fund and for reducing emissions from deforestation and forest degradation (known as REDD+) initiatives, both issues of concern to Asian economies, especially those like Indonesia that could benefit from such incentives (Ardiansyah 2011).

In the meantime, most Asian countries, including China and India, have recognized that the growth of global emissions could harm their development prospects, either directly through environmental risks, or indirectly through the threat of foreign pressure—for example, potential carbon tariffs by developed countries. China's reaction to the European Union's plan to impose carbon taxes on airlines traveling to or from Europe is an early skirmish in this battle; China had apparently put on hold its Airbus orders in order to persuade the EU to drop the plan¹⁰.

At home, Asian economies are making significant commitments toward reducing energy intensity and developing alternative energy sources. These policies serve in part as insurance, should the pressure for a low-carbon growth strategy intensify. They also stimulate the development of technologies, such as wind power, that might generate important industries in the future. Some Asian countries, notably Japan and Korea, are leaders in green technologies and have become champions of global climate change mitigation. China is also entering the fray; its 12th Plan contains obligatory targets to increase renewable energy supplies to 15 percent of the primary energy mix and for 40-45 percent reduction by 2020 in carbon emissions as a ratio to GDP, and large investments are being made to develop globally competitive wind and solar power industries. Asia's growing emphasis on renewable energy—which, it is argued by competitors, is supported by subsidies and government procurement practices—could lead to major innovations and new industries. But it also attracting complaints of unfair trade from the

¹⁰ "EU to keep carbon tax," China Daily, March 10, 2012.

United States, and currently several anti-dumping investigations are underway on Chinese exports of alternative energy products to the United States.

Asia's attitude toward the environment is consistent with its broad stance toward global economic governance: participate in global processes and apply the brakes to initiatives that might constrain the region's future options and development prospects. Even so, in this area change might come relatively early as the region increasingly faces serious environmental challenges that are being recognized in its internal politics. Meanwhile, innovations are helping to make alternative energy an important regional growth industry. Energy security concerns also argue for greater conservation. All these factors could turn the region toward more proactive policies, based as usual on pragmatic self-interest.

V. Conclusions

Asia's rise in the context of an increasingly multi-polar world economy is changing the landscape of global and regional cooperation. This trend has had arguably negative effects on established institutions of global cooperation so far. But it has also given rise to useful institutional experiments and deeper regional integration. The 2008-2009 crisis was handled mostly outside existing institutions, but it gave birth to the G20, a new high-level coordinating forum. The crisis also amplified dissatisfaction with global governance and led to increased hedging through alternative regional institutions in trade and finance.

It would be wrong to conclude that the changing configuration of global economic power is a harbinger of the wholesale replacement of the international system. Asia has benefited greatly from the liberal world economic order created in the aftermath of World War II and generally supports it. China and other Asian countries have made major adjustments in their domestic institutions to build relationships with the WTO and other international institutions. Despite their criticism of Western economic management, they share many Western views on how the world economy works and broad goals for macroeconomic and trade policy. So far, however, Asian powers have been reluctant to assume the costly responsibilities of global leadership or to invest more in international institutions than is justified by narrow, immediate interests.

The implication is that Asia's approach toward international governance—admittedly a difficult generalization to make, given the region's extraordinary complexity and diversity—will provide pragmatic but limited support for the international system. Asian countries will not want to undermine the current level of integration, but appear to have little appetite for deeper collaboration. This reflects historical suspicions of the international order and preoccupations with policy space for national development. Asian countries prize national independence and its corollary, non-intervention. And they prefer gradual, limited action to precedent-setting initiatives. Visionary pronouncements about long term goals have become more common in Asian institutions such as ASEAN, perhaps to meet Western expectations, but actual decision-making—the “ASEAN way”—remains unintrusive and gradualist.

The shift toward Asian policy styles will undoubtedly shape international norms and institutions. Norms enforced by the IMF and the WTO might become more flexible, giving way to “tit for tat” self-enforcing norms in both trade and finance. It is unclear whether these changes will mean less satisfactory outcomes in trade or financial stability. Resistance to global legal agreements may lead to greater self-insurance, deeper regional initiatives and more informal negotiations. Meanwhile, economic integration could continue to deepen, much as it has among Asian economies in the last two decades, with relatively little institutional support. What is less likely is new, formal, rules-based cooperation. This will disappoint economists invested in international rules, but it may not mean slower growth. The level of international interdependence is high, and self-enforcement may be enough to keep it in place while other drivers of growth—especially technological change—replace the role played by new liberalization initiatives in the past. On the positive side, Asia is likely to have the financial clout and commercial interest to make sure that international trade and financial systems survive serious threats.

Thus, Asia's rise is likely to mean stability for global institutions, both in the negative sense of making new initiatives more difficult, and in the positive sense of providing support and, if necessary, resources to keep pragmatic cooperation intact. The challenge will be to make this complex, informal global system more coherent and effective. As Asia gains votes and voice,

perhaps it will become more comfortable in leading and coordinating. It may also see its way to making greater investments in global public goods than it has so far. Time and patience will be required to complete Asia's extraordinary transformation. This analysis suggests that the path forward appears to be different, but not intrinsically more, or less, hazardous than managing the global system has been in the past.

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