

Asia's role in twenty-first-century global economic governance

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The basic foundations of today's framework for global economic governance were laid in the years immediately after the Second World War, with the establishment of the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD)—later the World Bank (WB)—and the General Agreement on Tariffs and Trade (GATT), the precursor to today's World Trade Organization (WTO). In those postwar years, much of Asia was in dire poverty and Asia's share in the world economy had fallen to its lowest level for centuries. Reflecting the balance of economic power of the time, Asian countries did not play a significant role in either designing the institutional architecture or setting the agenda for global economic governance.

Economic realities have, however, undergone a sea change in the last half-century. Economic miracles by successive Asian countries—starting with Japan and continuing with a host of others at regular intervals—have enabled Asia to re-emerge as a dominant force in the global economy. Asia has got bigger and richer. There is a growing consensus around the world that the centre of gravity of the global economy is shifting towards Asia and that this trend is most likely to continue in the decades to come.¹

Taking the above assessment of Asia's rise in the global economy as a given, this article addresses two questions: can Asia play a much bigger role in shaping global economic governance in the twenty-first century than it did in the latter half of the twentieth? And what challenges would Asian countries—individually and collectively—face in playing such a role? These questions are answered against the backdrop of the evolving institutional architecture for global economic governance. The conclusion of the article is that Asia's growing global economic weight enhances its potential to play a much bigger role in global economic governance, but the realization of that potential will depend upon how successfully the region addresses five key challenges.

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¹ Indermit Gill and Homi Kharas, *An East Asian renaissance* (Washington DC: World Bank, 2007); Kishore Mahbubani, *The new Asian hemisphere: the irresistible shift of global power to the east* (New York: PublicAffairs, 2008); Harinder Kohli, Ashok Sharma and Anil Sood, eds, *Asia 2050: realizing the Asian century* (New Delhi: Sage Publications, 2011).

This conclusion is derived from a synthesis and consolidation of recent work on the subject by economists, political scientists and International Relations experts. The article also incorporates relevant analytical arguments and empirical evidence from work in other fields. Generally, economists conclude that as Asia gets bigger and richer it will, or will have to, play a much bigger role in global economic governance. However, political scientists and International Relations experts are generally less optimistic about Asia actually playing such a role, despite its growing economic weight. By synthesizing these somewhat divergent views, the article focuses on the challenges that Asian policy-makers would need to address if they were to enable the region to play a much bigger role in shaping global economic governance.

Articulating the challenges facing Asia in translating its growing economic size into a bigger role in global economic governance is the key contribution of the article. A related but separable question, whether there are forces that will impel Asian policy-makers to address these challenges expeditiously, is an appropriate topic for further research. At various points, however, the article indicates that while Asian policy-makers' ambition to play a bigger role in global economic governance is growing, their appetite for addressing the necessary policy challenges is not keeping pace with that ambition. This gap between ambition and action will need to be gradually closed if Asia is to play a more substantial role in global economic governance. While the declining relative economic size of western countries could provide some impetus for such a change, the basic appetite for it should and could come from within Asia.

Before delving into the details, we should ask: what *is* global economic governance? Finkelstein provides a definition of global governance that is both wide enough in scope and user-friendly in practice: 'Global governance is governing, without sovereign authority, relationships that transcend national borders. Global governance is doing internationally what governments do at home.'² Global *economic* governance, then, is governing, without sovereign authority, *economic* relationships that transcend national borders. When a nation interferes in the economic activities of its citizens, other nations and their citizens are invariably affected. Thus, quite often, national economic actions have global implications, just as global events have national repercussions. In the absence of a global government, managing such a process of globalization requires intergovernmental arrangements—formal or informal, institutionalized or ad hoc. Global economic governance, then, refers to the institutions, norms, guidelines, standards, practices and decision-making processes that are embedded in such arrangements.

While this article adheres to the above definition, it excludes global environmental governance and global migration management, not because these are unimportant but in order to keep the article's scope within manageable bounds.

² Lawrence S. Finkelstein, 'What is global governance?', *Global Governance* 1, 1995, pp. 367–72.

Evolving architecture

Global economic governance through formal intergovernmental institutions and arrangements originated after the Second World War, marking a significant departure from the world economic order of the preceding century under British hegemony.³ The IMF, IBRD/WB and GATT were all established immediately after the war. The objective of the IMF was to maintain global monetary (and financial) stability, that of the IBRD to finance postwar reconstruction of war-torn nations, and that of the GATT (which became the WTO in 1995) to promote an orderly world trade regime. Over time, all three institutions have undergone adjustments to their original objectives, mandates and institutional structures in response to the demands placed upon them by their member governments.

'Multilateralism light'

The postwar system of pegged but adjustable exchange rates—the Bretton Woods system—ended in 1971 when the US delinked the dollar from gold. That decision heralded a new era in the evolution of the institutional architecture for global economic governance, with the beginnings of international governance through informal multilateral forums. The first of these was born in 1973 with the formation of the Group of Five (G5) comprising the United States, Japan, Germany, France and the United Kingdom. The G5 was formed partly to provide a faster track of global governance that could circumvent the constraints faced by a formal institution such as the IMF in the turbulent times after the breakup of the Bretton Woods system.⁴ It is noteworthy that the 1985 Plaza Accord for currency realignment was spearheaded by the G5, not the IMF. Some refer to this trend towards the use of informal multilateral forums as a 'multilateralism light' approach to global economic governance.⁵ Multilateralism light became an integral part of global governance through successive expansions of the G5 in the next quarter-century, culminating in the establishment of the Group of 20 (G20) in 1999.

Until recently, the G20 functioned at the level of finance ministers and central bank governors. However, in 2009, in the aftermath of the 2008 global financial crisis, the G20 was upgraded to the level of heads of state. One of the earliest initiatives of the G20 leaders was to establish the Financial Stability Board (FSB) for international coordination of financial regulation and supervision. The FSB replaces the Financial Stability Forum that was created in the aftermath of the 1997–8 Asian financial crisis, and is now considered as the fourth institutional pillar of global economic governance (along with the WTO, IMF and WB).

³ Martin Wolf, 'Globalization and global economic governance', *Oxford Review of Economic Policy* 20: 1, 2004, pp. 72–84.

⁴ Andrew Crockett, 'What have we learned from 50 years about the international financial architecture?', in Christopher Kent and Michael Robson, eds, *Reserve Bank of Australia 50th anniversary symposium: proceedings of a conference* (Sydney: Reserve Bank of Australia, 2010), pp. 77–86.

⁵ Risto Penttilä, *Multilateralism light: the rise of informal international governance*, EU202 essay (London: Centre for European Reform, July 2009).

A hybrid architecture

The rise of multilateralism light has now moved the institutional architecture for global economic governance towards a hybrid system with two interrelated yet distinct layers: a set of formal institutions (WTO, IMF, WB and FSB) forming its four pillars, and the G20 as an informal, yet presiding, multilateral forum setting the overall agenda and guiding the formal institutions. The dual system of global governance that is evolving could be seen as a combination of the nineteenth century's informal 'Concert of Europe' forum for the conduct of international relations (established among Austria, Prussia, the Russian Empire and Britain, and subsequently expanded to include France), which existed from 1815 to 1914, and the twentieth century's formal institutional structure that was developed after 1945.⁶

The strength of this hybrid system is that it can potentially maximize the synergy of the two components, making the most of the agility and effectiveness of the informal forums and the technical strengths and implementing capabilities of the formal institutions. An informal forum such as the G20 (like the nineteenth-century 'Concert of Europe' in international relations) could focus on convening crisis meetings, reaching broad consensus on international policy cooperation and launching new initiatives, while the formal institutions could then flesh out the technical details of these broad agreements and initiatives, convert them into binding commitments on the members and implement them in practice.

Asia's potential role

The hybrid institutional architecture has plenty of issues to resolve if it is to put global economic governance for the twenty-first century on a firm footing.⁷ It is in Asia's interest to strengthen the architecture so that it can effectively address the emerging issues for global economic governance.⁸ In particular, Asia could play a constructive role in striking the right balance between legitimacy and effectiveness of the institutions and forums responsible for good global governance; rejuvenating the WTO and the multilateral trade negotiations that are so crucial for the highly open Asian economies; resolving the global payments imbalances in which Asia is both part of the problem and part of the solution; developing an international consensus on sequencing, pacing and managing capital account liberalization—an issue on which Asian countries have been deliberating ever since the Asian financial crisis of 1997–8; and revamping financial regulation and supervision, while at the same time ensuring that the new regime takes into account the imperatives for modernizing their financial markets. Asia's growing economic weight and strong presence in the G20 greatly enhance its potential to play a stronger role in addressing all these emerging issues for global economic governance.

⁶ Penttilä, *Multilateralism light*.

⁷ Srinivasa Madhur, '21st century global economic governance: evolving architecture, emerging issues, and Asia's role', mimeo, Korea Institute for International Economic Policy, Seoul, South Korea, Aug. 2011.

⁸ ADB, *Asia's strategic participation in the G20 for global economic reform* (Manila, 2010).

A bigger, richer Asia

In 1950 Asia's share in global output (at purchasing power parity, PPP) had bottomed out at about 15 per cent, compared to about 26 per cent each for western Europe and the United States. By 2010, Asia's share had gone up to about 40 per cent, while western Europe's share had fallen to 17 per cent and the US share to 19 per cent. Even at market exchange rates, Asia's share in global output is now about 27 per cent—similar to the respective shares of western Europe and the United States. Many Asian countries have now caught up with western living standards and many more are on their way to achieving a similar feat, including the two most populous countries on this planet, China and India.

A number of studies indicate that by the middle of this century Asia could regain the dominant position it held in the world some 250 years ago before the industrial revolution. One such recent study concludes, first, that Asia's share in world output at market exchange rates could almost double from the current 27 per cent to over 50 per cent by 2050, with seven countries—China, India, Indonesia, Japan, Korea, Malaysia and Thailand—together accounting for about 45 per cent; and second, that by 2050 Asia's average annual per capita income could be about US\$40,000 (PPP)—similar to Europe's today.⁹

Asia's growing economic weight gives the region more resources to finance a stronger role in global economic governance. It also enhances Asia's bargaining power *vis-à-vis* countries and regions whose relative weight in the world economy is declining and likely to decline further. As one former Canadian prime minister put it:

The image of Hu Jintao, the president of China, and Manmohan Singh, the prime minister of India—quite possibly the largest economies on earth within our lifetimes—waiting outside while we held our G8 meetings, coming in for lunch, and then being ushered from the room so that we could resume our discussions among ourselves, is one that stayed with me ... Either the world will reform its institutions, including the G8, to embrace these new economic giants, or they will go ahead and establish their own institutions.¹⁰

Asia's strong presence in the G20

For some time now, Asian countries have been under-represented in the Bretton Woods institutions, their quotas (i.e. financial subscriptions to IMF resources) and voting rights in these institutions lagging behind their economic weight.¹¹ Another dimension of Asia's under-representation is more telling—absolute deprivation. Neither the IMF nor the WB has ever been headed by an Asian citizen. As one prominent expert lamented: 'Not one among the 3.5 billion people in Asia can

⁹ Kohli et al., eds, *Asia 2050*.

¹⁰ Paul Martin in *Hell or high water: my life in and out of politics* (2008), quoted in Gordon S. Smith, *G7 to G8 to G20: evolution in global governance*, Centre for International Governance Innovation (CIGI) G20 paper series no. 6 (Waterloo: CIGI, 2011), p. 5.

¹¹ Masahiro Kawai and Peter A. Petri, 'Asia's role in the global economic architecture', Asian Development Bank Institute (ADBI) working paper, Manila, Aug. 2010; Arvind Virmani and Michael Debabrata Patra, 'IMF reforms 2010: do they mirror global economic realities?', *Economic and Political Weekly*, no. 46: 30, 23 July 2011.

occupy any of the two posts, even though Asian economies have the largest foreign currency reserves and the fastest growing.’¹² There is a widespread perception that it was partly because of Asia’s under-representation that the IMF’s assistance to Asian countries during the 1997–8 Asian financial crisis was too small, too late and badly conceived (that is, it came with inappropriate conditionalities).

Encouragingly, the G20 has now made IMF reform a key plank of its agenda. As a result, the ‘voice and participation’ amendment to the IMF’s Articles of Agreement in April 2008 was subsequently followed by completion of the 14th general review of quotas in December 2010. The recommended reform package includes a doubling of the IMF’s quota to SDR476.8 billion; a 6 percentage point increase (from the 2006 level) in the quota of Asian and other emerging economies; a review of IMF board composition every eight years, with all board members to be elected rather than nominated; a comprehensive review of the current formula for quota allocation to be completed by January 2013; and the deadline for the 15th general review of quotas to be brought forward by two years to January 2014.¹³

Asia’s strong presence in the G20 gives it much-needed leverage not only in pushing ahead with the expeditious implementation of these recommendations but also in setting the agenda for the future reforms of the four institutional pillars of global economic governance.¹⁴ The five Asian members of the G20—China, Japan, India, Indonesia and South Korea (A5)—account for 27 per cent of the forum’s output at market exchange rates, one-third of its output at PPP, and two-thirds of its population. With the December 2010 IMF quota adjustments, which are expected to come into effect by the end of 2012, the total share of the A5 in the IMF quota will have increased from 14.1 per cent in 2006 to 18.4 per cent (an increase of about 4.3 percentage points), mostly at the cost of downward revisions in quotas for Saudi Arabia, Canada and most advanced European countries. Among the A5, China gets the largest increase (from 3.72 per cent to 6.39 per cent), followed by India (1.91 per cent to 2.75 per cent), South Korea (1.35 per cent to 1.80 per cent) and Japan (6.12 per cent to 6.47 per cent), while the share of Indonesia is reduced marginally (0.97 per cent to 0.95 per cent).

Converting Asia’s potential into reality

Asia’s growing economic weight in the world and its strong presence in the G20 are necessary but not sufficient conditions for the region to play a bigger role in shaping global economic governance.¹⁵ These factors enhance the region’s potential

¹² Kishore Mahbubani, ‘Move over to the east, Asia is there’, *China Daily*, 23 Dec. 2010 (interview reported by Li Yang).

¹³ Virmani and Patra, ‘IMF reforms 2010’.

¹⁴ Barry Carin and Peter Heap, ‘Asians can think: a time for Asian leadership at the G20’, *East Asia Forum*, 4 Nov. 2010.

¹⁵ Miles Kahler, ‘Asia and the reform of global governance’, paper presented at the conference on ‘Asia reshaping the global economic order: trade and finance’, Tokyo, April 2010; Amitav Acharya, ‘Can Asia lead? Power ambitions and global governance in the twenty-first century’, *International Affairs* 87: 4, July 2011, pp. 851–69; Je Yoon Cho, ‘What do Asian countries want the seat at the high table for? G20 as a new global economic governance forum and the role of Asia’, ADB working papers on regional economic integration no. 73 (Manila: ADB, Feb. 2011).

to play a bigger global governance role; however, the realization of that potential is conditional on Asia successfully addressing several challenges. In this context, political scientists emphasize the need for rebalancing growth, regional collaboration and political leadership. A broader perspective adds two more challenges to the list: strengthening national governance and adopting the global language.

Rebalancing growth

Despite successive economic miracles spanning several decades, many Asian countries still depend heavily for growth on export markets in the United States and Europe. 'Factory Asia' has been sustained by China importing capital goods from Japan, Korea and Taiwan and raw materials and intermediate inputs from the ASEAN countries, assembling final products and exporting them to western markets.¹⁶ As much as half of China's growth is generated by exports, and other East Asian countries' dependence on western markets is even greater once their indirect exposure through exports to China is taken into account.¹⁷

The ability to open or close its domestic market to trade is a reasonable measure of a country's bargaining power in the global trade regime.¹⁸ The more a country depends on export markets for its growth, the lower will be that bargaining power. Not surprisingly, then, in the current world trading system the United States and Europe, as the largest single markets, exert the greatest influence in the multilateral trade negotiations, despite the wide membership of the WTO and the supposedly consensus-based decision-making process. Heavier export dependence also lowers the bargaining capacity of countries in global governance more generally, not just in the trade regime.¹⁹

Therefore, if Asia is to bargain for a much bigger role in global economic governance, it will have to generate more organic growth. That requires a rebalancing of the sources of its growth away from exports and towards domestic and regional demand. Many Asian countries need an 'export-substitution growth strategy' that would transform them from being producer-exporters to at least producer-consumers. Raising regional demand is a key element in that transformation. Ultimately, the Asian century will have to be one where Asia produces for its home markets rather than markets around the world.²⁰ Otherwise, for how long will the less than 1 billion consumers in the United States and Europe (with populations ageing rapidly in two-thirds of these countries) support the economic rise of 3.5 billion Asians? To some extent, as Asia grows bigger and

¹⁶ Gill and Kahars, *An East Asian renaissance*.

¹⁷ Yimlaz Akquz, 'Export dependence and the future of growth in China and East Asia', *South Bulletin*, no. 48, June 2010, pp. 1–5; International Monetary Fund (IMF), *Regional economic outlook: Asia and Pacific*, ch. 3, 'Does Asia need rebalancing?' (Washington DC, April 2010).

¹⁸ Wolf, 'Globalization and global economic governance'; John H. Barton, Judith L. Goldstein, Timothy E. Josling and Richard H. Stenberg, *The evolution of the trade regime: politics, law, and economics of the GATT and the WTO* (Princeton, NJ: Princeton University Press, 2006); Kahler, 'Asia and the reform of global governance'.

¹⁹ Kahler, 'Asia and the reform of global governance'.

²⁰ Stephen Roach, *Stephen Roach on the next Asia: opportunities and challenges for a new globalization* (New York: John Wiley and Sons, 2009).

richer, rebalancing may happen naturally, with an expansion of its middle class and new rich.²¹ But that outcome cannot be relied upon, as East Asia's experience shows. Hence, there is a need for policy action to bring about rebalancing.

Raising consumption in China will have to be a key ingredient of Asia's growth rebalancing strategy. China has one of the lowest consumption–income ratios in the world.²² Recent studies suggest that promoting service sector growth, developing the financial sector, allowing the exchange rate to appreciate, and reforming the health-care and pension systems are some of the measures required to raise the consumption–income ratio in China.²³ For the middle-income countries of ASEAN, raising private investment—which has not revived after its collapse following the 1997–8 Asian financial crisis—should be a priority. A two-pronged approach is needed to achieve this, both improving the business climate and hastening the ASEAN integration process.²⁴ Although India is much less dependent on exports for growth, its export dependence is increasing; given its huge infrastructure deficit, the obvious strategy should be one of increasing investment in infrastructure.

These national strategies could be complemented by regional initiatives to channel Asia's huge savings into infrastructure investment. Two recommendations made by recent studies that are worth pursuing are the establishment of an Asian Infrastructure Forum for developing a regional infrastructure investment strategy and the creation of an Asian Infrastructure Fund for financing regional infrastructure projects.²⁵ Encouragingly, in September 2011 the ten ASEAN countries joined hands with the Asian Development Bank to establish an ASEAN Infrastructure Fund (AIF). Although the initial equity capital of the AIF is only about US\$500 million, it is believed to have the potential to eventually finance about US\$13 billion of ASEAN infrastructure investment. This innovative initiative could usefully be extended by expanding the membership of the AIF to other Asian countries and also by increasing the size of the fund over time.

Strengthening national governance

For Asia to play a responsible role in global governance, it may have to begin governance reforms at home.²⁶ These would include ensuring people's representation and participation in decision-making, establishing accountable and responsive domestic institutions, administering the rule of law and fostering a democratic

²¹ Kohli et al., eds, *Asia 2050*.

²² IMF, 'Does Asia need rebalancing?'

²³ Kai Guo and Papa N'Diaye, *Determinants of China's private consumption: an international perspective*, IMF Working Paper no. 93 (Washington DC, April 2010); IMF, 'Does Asia need rebalancing?'

²⁴ Ana Charlotte Schou-Zibell and Srinivasa Madhur, 'Regulatory reforms for improving the business environment in selected Asian economies: how monitoring and comparative benchmarking can provide incentive for reforms', ADB working papers on regional economic integration (Manila, ADB, Jan. 2010); Srinivasa Madhur, 'Global crisis and ASEAN: impact, outlook, and policy priorities', in Saw Swee-Hock, ed., *Managing economic crisis in Southeast Asia* (Singapore: Institute of Southeast Asian Studies, 2010), pp. 23–53.

²⁵ ADB, *Institutions for regional integration: toward an Asian Economic Community* (Manila, 2010); ADB and ADBI, *Infrastructure for a seamless Asia* (Manila, 2009).

²⁶ Haruhiko Kuroda, 'Asia's future: regional challenges and global responsibilities', address to the 44th ADB annual meeting, Hanoi, Vietnam, 5 May 2011.

polity. How can Asian countries play a credible role in shaping global economic governance if their own national governance standards are poor? It is true that 'one cannot assume ... that a government that delivers competent domestic governance is equally good at addressing global challenges'.²⁷ However, it is most unlikely that countries with poor governance at home will have the credibility to make a claim on governing the global economy. High standards of national governance are a necessary, though not a sufficient, condition for a country to contribute effectively to good global governance.

It is difficult to come up with a set of accurate indicators for measuring standards of national governance; any assessment is thus bound to have an element of subjectivity. With that caveat in mind, it is worth noting that the World Bank ranks countries according to certain 'governance indicators'. Countries are positioned on a scale of 0 to 100, where a rank above 90 means that a country belongs to the top 10 per cent, and conversely a rank below 10 means that a country belongs to the bottom 10 per cent. In terms of most of these WB indicators, Japan compares well with the United States, with South Korea not far behind (table 1). On most criteria (excepting voice and accountability), Singapore ranks above the United States. Aside from these three countries, all other Asian countries have much lower rankings than the United States on all four indicators.

Table 1: World Bank governance indicators: country rankings 2010

<i>Country</i>	<i>Voice and accountability</i>	<i>Government effectiveness</i>	<i>Rule of law</i>	<i>Control of corruption</i>
China	5	60	45	33
India	59	55	55	36
Indonesia	48	48	31	27
Japan	82	89	88	92
Malaysia	31	82	65	61
Philippines	47	52	35	22
Singapore	37	100	93	99
South Korea	69	84	81	69
Thailand	30	58	50	47
US	87	90	91	86

Source: World Bank, Worldwide Governance Indicators (<http://www.govindicators.org>).

The Economic Intelligence Unit (EIU) uses a different set of indicators to compile its 'democracy index', with an emphasis on the political aspects of national governance (table 2). Once again, in terms of overall rankings and scores, Japan and Korea come close to the United States, while other Asian countries generally lag behind. India is an interesting case, its scores—higher than the US on electoral process and civil liberties and equal on functioning of government, but lower on

²⁷ Mahbubani, *The new Asian hemisphere*, p. 176.

Table 2: EIU democracy index: country rankings and scores, 2011

Country	Country ranking ^a	Overall score ^b	Electoral process	Civil liberties	Functioning of government	Political participation	Political culture
China	141	3.1	0.0	1.2	5.0	3.9	5.6
India	39	7.3	9.6	9.4	7.5	5.0	5.0
Indonesia	60	6.5	6.9	7.1	7.5	5.6	5.6
Japan	22	8.1	9.2	8.5	7.9	7.2	7.5
Malaysia	21	8.1	9.2	9.4	8.2	6.1	7.5
Philippines	81	5.9	4.3	7.4	7.5	2.8	7.5
Singapore	71	6.2	6.5	5.9	6.8	5.6	6.3
S. Korea	58	6.6	7.8	7.1	6.1	5.6	6.3
Thailand	75	6.1	8.3	9.1	5.0	5.0	3.1
US	19	8.1	9.2	8.5	7.5	7.2	8.1

^a Ranking out of 165 independent states and two territories.

^b Scores range from worst (0) to best (10).

Source: Economic Intelligent Unit, Democracy Index 2011 (http://www.eiu.com/Handlers/WhitepaperHandler.ashx?fi=Democracy_Index_Final_Dec_2011.pdf&mode=wp).

political participation and culture—pointing to the fact that although India is a liberal democracy, it has some way to go to become a mature democracy.

Many Asian countries thus have substantial scope for strengthening their national governance standards. These may improve as countries become richer: for one thing, as citizens become wealthier and more educated, they are likely to demand better governance; for another, as countries become wealthier, they will have more resources to invest in developing the institutions and practices required to achieve those improvements. Thus, to some extent, better national governance may result from stronger economic growth and prosperity; but it would be in Asia's interest to initiate more proactive policy measures to the same end.²⁸ Encouragingly, most countries in the region do realize the importance of improving their governance standards. Even in China there is a growing realization that the country has to work towards a more liberal polity. As the Chinese premier Wen Jiabao said to a US delegation in October 2006: 'When we talk about democracy, we usually refer to three most important components: elections, judicial independence, and supervision based on checks and balances ... We have to move toward democracy. We have many problems, but we know the direction in which we are going.'²⁹

Regional collaboration

Another key determinant of whether the region can translate its potentially larger role in global economic governance into reality will be the ability to build regional

²⁸ Shigeo Katsu, 'Transforming governance and institutions', in Kohli et al., eds, *Asia 2050*, pp. 221–42.

²⁹ Quoted in Mahbubani, *The new Asian hemisphere*, p. 14.

options through collaboration among countries within Asia. Credible regional options will increase Asia's bargaining leverage *vis-à-vis* other regions and the established incumbents in the existing global forums and institutions.³⁰

Since the Asian financial crisis of 1997–8, Asia has taken several initiatives to promote regional cooperation and integration.³¹ These initiatives have recently culminated in three achievements: first, the multilateralization of the bilateral currency swaps under the Chiang Mai Initiative (CMI) and the establishment of a US\$240 billion regional reserve fund; second, the creation of a regional economic surveillance body—the ASEAN+3 Macroeconomic Research Office (AMRO); and third, the creation of a regional credit guarantee and investment facility. In addition, the ASEAN countries have recently ratified a charter and are on course to achieve an ASEAN Economic Community (AEC) by 2015. There is a growing consensus that, building on the AEC, ASEAN should work towards a borderless economic community by substantially freeing the cross-border movement of goods, capital and people by 2030.³² Even South Asia is increasingly realizing the need for regional integration and has now established a South Asia Development Fund as one of its integration initiatives under the South Asian Association for Regional Cooperation. Moreover, links between East and South Asia are growing.³³ China has now become India's largest trading partner, whereas only a decade ago Indo-Chinese trade was minuscule.

Despite these achievements, Asian integration is weakly institutionalized. A recent study has explored several options for strengthening the institutional base of Asian integration.³⁴ Three of the study's recommendations are worth fast-tracking for implementation: first, consolidating the bilateral and plurilateral free trade agreements in the region into an Asia-wide free trade area; second, establishing an Asian Monetary Fund, building on the recently created CMI and AMRO; and third, establishing an Asian financial dialogue. In the interim, there is a need to make a success of the recently established US\$240 billion regional reserve fund and the regional economic surveillance body, AMRO. Developing the necessary regional surveillance capacity will be a major challenge, requiring that member countries give AMRO sufficient resources and autonomy to function effectively and conduct objective economic surveillance of the member countries in order to generate meaningful peer reviews. It is also an opportune time to develop an Asian financial stability dialogue, building on the FSB's Regional Consultative Group for Asia that was established late in 2011.

A stronger institutional base of regional integration will enable Asia to come up with more unified regional views on emerging issues in global economic governance. It would also give Asia the leverage to gradually move the institutional architecture towards a multilayered structure along the lines of the 'functional

³⁰ Kahler, 'Asia and the reform of global governance'.

³¹ ADB, *Emerging Asian regionalism: a partnership for shared prosperity* (Manila, 2008).

³² ADBI, 'ASEAN 2030: toward a borderless economic community: draft highlights' (Tokyo: ADBI: 2012).

³³ Joseph François, Pradumna Rana and Ganeshan Wignaraja, *Pan-Asian integration: linking East and South Asia* (Manila: ADB, 2009).

³⁴ ADB, *Institutions for regional integration*.

federalism' practised in many countries at the national level.³⁵ In such a structure, global institutions and forums would focus on areas of governance where the issues involved are primarily global in nature, and delegate to regional forums and institutions the responsibilities of governance in other areas, especially those where the issues involved are primarily regional or subregional in nature. Asian regional forums and institutions would thus form an integral part of the global economic governance architecture.³⁶

Pending the emergence of such a multilayered architecture, an option that the Asian regional forums (such as the ASEAN, ASEAN+3, the East Asia Summit, and the South Asian Association for Regional Cooperation) should consider immediately is to align their regular meetings with the G20 meetings, so that any common positions on global governance issues that these forums may have could be effectively pursued at the G20 through those countries that are simultaneously members of these forums and of the G20.³⁷ Moreover, there would be merit in the A5 holding meetings among themselves to exchange information and conduct consultations in order to arrive at unified positions on relevant issues of global governance that could then be pursued in the G20 forum. The A5 might also consider co-opting Australia into such consultation meetings, given that the latter is an important G20 neighbour for Asia.

Political leadership

'Asian countries should now provide leadership and become drivers, rather than staying passengers in the global bus.' 'Asia's role in global governance cannot be de-linked from the question: "who leads Asia?"'³⁸ Strong political leadership is a crucial prerequisite if Asia is to convert its growing economic size into corresponding economic power in global forums and institutions. Political scientists specify three determinants that enable nations to play leadership roles: resources, will and legitimacy.³⁹ It is worth applying these criteria to the A5 to see how they measure up to the leadership challenge.

Japan has the resources for leadership (although they are slowly eroding, with two decades of economic stagnation and a public debt equivalent to 225 per cent of output). However, its regional legitimacy—given its war-related history—is of concern to its neighbours. Even if the war-related 'legitimacy deficit' could somehow be resolved over time, Japan's reluctance to play a regional leadership role seems to be a major constraint. Japan's dependence on external demand for growth and its reluctance to credibly open up the domestic market for imports have hindered it from playing the role of protagonist in global economic governance

³⁵ Kawai and Petri, 'Asia's role in the global economic architecture'.

³⁶ Kawai and Petri, 'Asia's role in the global economic architecture'; Randall C. Henning, 'Connecting regional and multilateral financial institutions', paper prepared for ADB, Sept. 2010; ADB, *Institutions for regional integration*.

³⁷ Peter Drysdale, 'Asia's global responsibilities through global and regional arrangements', *East Asia Forum*, 10 Oct. 2010.

³⁸ Mahbubani, 'Move over to the east'; Acharya, 'Can Asia lead?', p. 863.

³⁹ Acharya, 'Can Asia lead?'.

that is consistent with the size of its economy, despite its handsome financial contributions to multilateral institutions.⁴⁰

China's current political system may be a constraint on its leadership legitimacy, though that may change over time. On the resource front, despite its recent expansion, it still has a substantial amount of economic catching up to do, as is acknowledged by its own self-designation as a developing country. The resource constraint may also ease over time. However, by paraphrasing its emergence as a 'peaceful rise', China is perhaps indicating its reluctance to embrace a bigger global leadership role. It appears that China is content with a shared leadership role in regional forums such as ASEAN+3.⁴¹

India, already a liberal democracy, may have an advantage in terms of leadership legitimacy. However, being even poorer than China, it has serious resource constraints and many domestic economic problems to focus on. Moreover, although India's links to the economically bigger and richer countries of East Asia are growing, it is still not well enough integrated within Asia to be a region-wide economic power. For some time into the future, therefore, India may continue to focus on its South Asian leadership role. Indonesia has similar constraints on leadership role to those applying to India—that is, it has a democratic polity but still is a developing country with many domestic economic problems. However, being the largest country in ASEAN, it has a special role within that context, including representing ASEAN in the G20 even as it pursues its national interests in that global forum.

The possibility of a single nation emerging as the Asian leader for international economic cooperation, then appears unlikely at this stage. More likely is the evolution of a shared Asian leadership among, say, the A5, although some argue that such a shared leadership model will be thwarted by regional rivalries—between China and Japan on the one hand and between China and India on the other.⁴² Encouragingly, there are some indications that in recent years Asian countries have demonstrated the capacity to work together on a shared leadership model. ASEAN, as a regional institution, has been a good example of that; and in more recent years, China and Japan have been able to work together on regional initiatives such as the CMI and AMRO, tackling sticky issues such as individual country contributions, voting rights and decision-making modalities for the CMI amicably, and even sorting out the thorny issue of who heads AMRO. It is thus possible that countries may be prepared to strike political compromises if the resulting economic benefits are perceived to be significant. In such a shared leadership model, 'middle economic powers' like South Korea will have a significant intermediation role to play, as has already been evident from the experience of regional forums such as ASEAN+3.

Is there, nevertheless, an inherent unwillingness among Asians to take on leadership roles, as a recent perception survey among Asian Americans in the

⁴⁰ Kahler, 'Asia and the reform of global governance'.

⁴¹ Kahler, 'Asia and the reform of global governance'; Acharya, 'Can Asia lead?'.

⁴² Kahler, 'Asia and the reform of global governance'; Acharya, 'Can Asia lead?'.

United States seems to indicate? The survey found that Asian Americans are great workers (competent, intelligent and dedicated) but not great leaders; and do not even aspire to advance to leadership positions commensurate with their education, experience and competence.⁴³ Possible reasons for this 'leadership deficit' seem to be social introversion, verbal inhibition, quiet demeanour, passivity and reserved manner. These results seem to resonate with what others have said in a slightly different context: 'Barriers remain to Asia playing [a] greater role on the world stage, however. In particular, there is little appetite for true leadership from Asia: Asians want to grow and perpetuate the global system not revolutionize or reset it.'⁴⁴ Are these survey results simply an aberration? Or is the Asian leadership style so different from the American model that the survey is simply unable to capture it? These issues are worth examining and addressing.

Adopting the global language

Asia has been very successful in globalizing its economies through international trade, investment and capital. Asian countries have welcomed and enthusiastically embraced the information technology revolution. To varying degrees, they have also adopted various aspects of modern western culture: music, movies, even dress code. This shows the very flexible and adaptable nature of Asians. Going forward, Asia needs to make more, perhaps much more, progress in another complementary area of globalization, namely: adopting the global language or global lingua franca—English.

The flattening of the global economy increasingly requires English language competence as a crucial skill, whether in private business, international diplomacy or global politics.⁴⁵ English is the most widely used language in the world—spoken by more than 1.5 billion people in more than 100 countries, used by about 85 per cent of international organizations, and printed in over 90 per cent of published articles.⁴⁶ Even by 2050, English is still projected to be the most widely spoken language in the world.⁴⁷ Adopting the global common language will enable Asians to better communicate their positions among themselves, with the rest of the world, and in global forums and institutions.

Better communication is not the only benefit of adopting English. Since knowledge dissemination in all subjects—science, engineering, technology, social

⁴³ Thomas Sy, Lynn M. Shore, Judy Strauss and Ted H. Shore, 'Leadership perceptions as a function of race-occupation fit', *Journal of Applied Psychology* 95: 5, Sept. 2010, pp. 902–19.

⁴⁴ Kishore Mahbubani and Simon Chesterman, 'Asia's role in global governance', Public Law and Legal Theory Working Paper no. 175 (New York: New York University, 2010), p. 1.

⁴⁵ Hui Du, 'The globalization of the English language: reflections on the teaching of English in China', *International Education Journal* 2: 4, 2001, pp. 126–33; C. H. Kwan, 'How to fix Japan's English language deficit', *Asia Times*, 27 June 2002; David Crystal, *English as a global language*, 2nd edn (Cambridge: Cambridge University Press, 2003); Dorothea C. Lazaro and Erlinda Medalla, 'English as a language of trade, finance, and technology in APEC', working paper no. 36, Philippine Institute of Development Studies, 2004; Shen Qi, 'Globalization of English and English language policies in East Asia: a comparative perspective', *Canadian Social Science* 5: 3, 2009, pp. 111–20.

⁴⁶ Crystal, *English as a global language*.

⁴⁷ D. Graddol, 'The future of English', in Ann Burns and Caroline Coffin, eds, *Analysing English in a global context* (London: Routledge, 2001).

sciences and humanities, art and architecture—is carried out primarily in English, adopting that language would give Asians better access to the global knowledge pool in general. Hence, by tapping the ‘network externalities’ of English, Asia can have better knowledge assimilation and accumulation at the same time as it gains better access to cost-effective global communication.

Encouragingly, realizing the importance of English, many Asian countries have introduced it as a second language at an early stage of their education systems.⁴⁸ An online survey of English proficiency conducted in March 2011 by the global language training company English First (EF) indicated that out of the 2.3 million respondents it surveyed in 44 countries, South Korea and Japan were ranked 13 and 14 (moderate proficiency), while China and India were ranked 29 and 30 (low proficiency), and Indonesia and Thailand were ranked 34 and 42 (very low proficiency).⁴⁹ Interestingly, India, despite its British legacy and reputation as a nation proficient in English, is actually no more proficient in the language than the rapidly improving China; similarly, despite its historic ties with the United Kingdom and the official status of English as a language of the government, Hong Kong does not significantly outrank South Korea and Japan.⁵⁰

Leaving aside methodological issues of sampling, and even variations in access to computers and the internet, it is possible that the EF online survey might have inadvertently put too much emphasis on testing proficiency in English grammar. Quite often, people may know better English grammar than native English speakers but still be unable in practice to speak or write a sentence without having an English–local language translation book by their side.

Another way of assessing English proficiency would be to look at the number of people who speak English at least as a second language, although such estimates would be sensitive to methods of data collection and definitions of spoken skill. Wikipedia puts together such data for 127 countries (as of May 2012). Since the data are for different years and from different sources, the numbers are not reliably comparable across countries. Even so, bearing this caveat in mind, out of the 127 countries covered by Wikipedia, India came in second with an English-speaking population of 125 million (after the United States, with an English-speaking population of 267 million), followed by the Philippines at number 5 (English-speaking population of 90 million), Pakistan at number 9 (English-speaking population of 18 million), Thailand at number 11 (English-speaking population of 17 million), and China at number 18 (English-speaking population of 10 million). Using the Wikipedia data, the Philippines has the highest percentage of English-speaking people of any Asian country (93 per cent), followed by Singapore (80 per cent), Hong Kong (36 per cent), Thailand (27 per cent) and Malaysia (19 per cent). Even though India has the largest number of English speakers in Asia, the percentage of people speaking the language is only around 11 per cent (similar to the percentages in Pakistan and Sri Lanka). At 10 million, the proportion of the population speaking English in China is less than 1 per cent.

⁴⁸ Lazaro and Medalla, ‘English as a language of trade, finance, and technology’; Qi, ‘Globalization of English’.

⁴⁹ Education First, English Proficiency Index, March 2011.

⁵⁰ Education First, English Proficiency Index, March 2011.

Irrespective of the measure one uses, it is clear that many Asian countries have substantial scope for improving their global language skills. While globalizing their language skills, it is possible that Asians will also ‘Asianize’ English by modifying and adapting it to suit their own requirements, just as the Americans Americanized British English. ‘Indeed, if there is one predictable consequence of a language becoming a global language, it is that nobody owns it anymore. Or rather, everyone who has learned it now owns it—“has a share in it” might be more accurate—and has the right to use it in the way they want.’⁵¹

Thus, even if only a small percentage of the 3.5 billion Asians use the language in the future, English will be de-westernized, so that any stigma that may be attached to Asians using a western language will be vastly reduced. English will truly become an Asian language as much as a global language.

Conclusion

Reflecting the balance of economic power at the end of the Second World War, Asia did not play a major role in either designing the postwar institutional architecture or setting the agenda for global economic governance. Since then, and in more recent decades, the centre of global economic gravity has shifted towards Asia, and this trend is likely to continue in the decades to come. This gives Asia a historic opportunity to play a much stronger role in shaping twenty-first-century global economic governance.

Adapting an analogy from Indra Nooyi, the CEO of PepsiCo, if the twenty-first-century global economy is a hand, Asia is its thumb—strong, powerful and ready to assert itself as a major player on the global stage. Europe is the index finger—the cradle of democracy and western civilization and the basis for most of the global commercial and business laws; North America, the United States in particular, is the middle finger—the longest finger, which stands out and anchors most functions that the hand performs; South America is the ring finger—symbolizes love, passion and the sensuous beats of the mambo, samba and tango; and Africa is the little finger—it has failed to catch up with other regions, and yet, when it gets hurt, the whole hand is in pain.⁵²

The above analogy well summarizes the emerging global balance of economic power and Asia’s position *vis-à-vis* the other parts of the world. It also avoids posing the issue of Asia’s role as one of Asia (the East) versus the West. Rather, the question can now be posed in terms of how Asia and the rest of the world can work together in shaping global economic governance. This is what international economic cooperation for global governance is all about. Viewed from this perspective, the key conclusion of this article is that Asia, as it gets bigger and richer, is already acquiring the potential to play the ‘thumb role’ in global economic governance—in reforming the institutional architecture, setting the agenda, and addressing the emerging issues; but realization of that potential depends upon

⁵¹ Crystal, *English as a global language*, pp. 2–3.

⁵² Indra Nooyi, address at Columbia University Business School graduation ceremony, 15 May 2005.

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how successfully the region addresses the challenges of rebalancing the sources of growth, strengthening national governance, institutionalizing regional integration, providing political leadership and adopting the global lingua franca.

Encouragingly, Asian countries are gradually realizing the need to address many of these challenges and hopefully will succeed in doing so. History suggests that the process of change contemplated here is inherently slow; but it is equally true that Asia's failure to address the policy challenges might put unbearable pressure on the global economic governance system. The conclusion of this article is thus one of cautious optimism about Asia's role in shaping twenty-first-century global economic governance, especially compared to the somewhat pessimistic conclusions reached by recent articles on the subject.⁵³ That said, it is good to remind oneself that 'optimistic outcomes do not happen on their own. They require decisive human intervention.'⁵⁴

⁵³ Kahler, 'Asia and the reform of global governance'; Acharya, 'Can Asia lead?'; Cho, 'What do Asian countries want the seat at the high table for?'

⁵⁴ Mahbubani, *The new Asian hemisphere*, p. 9.