

Asia's challenge: rebuilding the global economic order in a generation

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WE LIVE in troubled times. The Dow has taken several multi-hundred point hits as fears rise and fall on Europe's debt crisis. The rising debt crisis has left many seriously doubting the United States' ability to provide global economic leadership. And the news about the global economy's slowing down is not good.

Over the long term, no other forum but the G20 can continue to represent the shifting locus of economic power away from the developed economies of the West and to the emerging economies of Asia — and no other is likely to emerge. Even in the short term, following the G20's successful collective response to the 2008 global financial crisis, the world will look to the G20 again to deal with the renewed threat of a global recession. And with all the domestic constraints that Europe and the US currently face on the third round of quantitative easing and further stimulus, the G20 is bound to focus on the role of Asia.

We should strive for two things in thinking about Asia's role in the G20. First, handling the short-term problems of global demand and the anxieties about a double-dip recession. Second, and of equal importance, addressing the question of how to rebuild the global economic order in one generation.

A generation might seem a very leisurely pace of change, but it will take

time for both the West and the East to adjust to new economic realities. And pretending otherwise will rule out real opportunities for shaping the G20 into the longstanding forum it deserves to become. It must learn from the Asian experience of steady, even if often slow, economic cooperation.

Let's consider two approaches to addressing these two priorities. First, on the immediate question of sustaining global demand, it now seems clear that the G20 has not been able to repeat the success it had in dealing with the 2008 crisis in the much harder task of rebalancing the global economy. That success put the

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G20 in a somewhat more complacent mood than it can afford. It may also have placed its Asian members in what the Asian Development Bank (ADB) has called the role of 'a passive onlooker in the debate on global rule-making and a reluctant follower of the rules.' This has to change. The world cannot afford the G20 to lose credibility.


Substantially increasing and advancing investments in productive infrastructure is one way of boosting global demand. The report of the G20 High-Level Panel on Infrastructure on ways to boost and improve infrastructure investments in low-income economies will be timely. This report should catalyse an effort by the Asian G20 members at the 2011 Cannes Summit to address financial and other policy constraints in order to generate accelerated investment in economic infrastructure. We need new ways of raising capital and new ways of sharing the risks that will go with the returns from such infrastructure investments. Developing economies such as India will need serious policy reforms, including better governance, better land acquisition policies, and overall improvements to the investment climate. This is a win-win strategy, and falling prey to narrow domestic political interests and bureaucratic gridlock will mean passing up an historical opportunity for many Asian countries.

Second, when it comes to the

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future of the G20 and its role in bringing about a new economic order, much will depend on whether the organisation remains effective over the long haul. Can the G20 be as effective over a generation as it has been in generating the short-term, collective response to the threat of global recession and of competitive devaluations or protectionism?

Much will depend on how the Asian emerging newcomers, including India, take up their responsibilities to shepherd the G20 agenda. There is a lot to lose if the G20 descends into nothing more than the old G7 plus others. ASEAN has had considerable experience in coordinating policy responses and domestic policy choices, both those that have been successful and those that have failed. Asian members should bring this experience to the G20. ASEAN's durability and openness to change presents an opportunity for the Asian G20 members to bring this ASEAN spirit to the G20. This will equip the G20 to be effective over the generation that will be required to rebuild the global economic order.

Adopting an explicit longer-term framework allows us to think about future developments that need to be shaped now, such as the G3 relationship between the US, China and India, and the shape it will be in 10 years from now. The relationship between these countries will be important in determining future G20 behaviour. India is today by far the poorest member of the G20. But it is nonetheless the fourth biggest economy in the G20, measured at purchasing power parity, and the 11th biggest measured at market exchange rates. Laying the foundations of a more cooperative relationship now will go a long way towards shaping it in productive ways for the future. 

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THE expansion of the G7 to the G20, thereby incorporating Asia, is a welcome step. Economic power relations have changed considerably in the past decade or so and it was thus only natural that the global governance architecture should begin to reflect this new reality. The efforts of the G20 in tackling the 2008–2009 global crisis reinforced the efficacy of this initiative.

The question now is whether the G20 can become an effective coordinating mechanism for maintaining stable conditions in the global economy. If successful, it could promote sustainable and equitable growth for improving living standards while holding inflation under control and generating gainful employment opportunities. The other objectives for the G20 would be reducing global imbalances, keeping markets open for trade and reforming the international financial system. There seems to be a broad consensus on this agenda but anxieties persist over whether the G20 possesses the tools, leadership, culture and authority required to resolve conflict and enforce its decisions. In order to proceed, the G20 will have to confront several challenges.

The first challenge is to demonstrate that the G20 is not an attempt by G7 countries to perpetuate their ascendancy by co-opting other countries that have developed economic muscle and thus become critical for the wellbeing of the

advanced countries. The G20 must make it clear that it grants equal status to all members and is not simply the G7 plus 13.

Secondly, the G20 will have to address the disjunction that exists between the key international institutions through which it implements its decisions, and those institutions' structure and mandate. For example, the International Monetary and Financial Committee (IMFC) is the policy-setting body for the International Monetary Fund (IMF) and has a system of representation drawing on all its 180 members. But what happens if a decision taken by the G20 is perceived to be against the interests of some of the 160 members represented at the IMFC but not the G20?

Thirdly, there are serious doubts about the quality of the present leadership of the G20 which will need to be ameliorated. The political divisiveness in the US and the tension between the Northern European countries led by Germany and peripheral countries within the EU have made it difficult for either President Obama or Chancellor Merkel to assert any moral authority in the leadership role. Unfortunately, Japan has gone through too many prime ministers in the last few years and the developing countries are too new to the game to take on leadership. This leaves few alternatives.

Fourthly, the culture of the G7 is derived primarily from the Western