

## **East Asia, the G20 and Global Economic Governance**

by Hadi Soesastro

*Hadi Soesastro ([hadisoesastro@gmail.com](mailto:hadisoesastro@gmail.com)) is part of the research staff at the Centre for Strategic and International Studies (CSIS), Indonesia. This article was published in the East Asia Forum on March 8, 2009.*

East Asian members of the G20 must participate strategically in this emerging global forum. They need to make sure that the G20 can produce policies and actions that will help bring the global economy out of the current crisis as soon as possible. Existing international institutions have been helpless in dealing with the issues the world confronts and are in dire need of major reforms. There is now no better forum than G20. Essentially, it will act as a “steering committee for the world economy,” as Barry Eichengreen aptly said, and this forum should now replace the G7 or G8 for good.

Yet the G20 is still very fragile. In part, this is due to its ad hoc nature. It also suffers from problems of legitimacy in respect to how its membership is determined. The problem has deepened with the inclusion of a few additional participants at the coming London Summit: why them and not others? European members of the G20 face the greatest challenge from fellow Europeans on this issue, although the EU already has a seat at the table.

East Asian members of the G20 will need to adopt a proactive role to voice the concerns of and propose ideas from the region. They already missed a good opportunity to do so when East Asian leaders met on the sidelines of the Asia Europe Meeting (ASEM) in Beijing about three weeks before the first G20 Summit in Washington, D.C. They were narrowly focused on the establishment of a regional emergency fund, based on the bilateral swap arrangements known as the Chiang Mai Initiative (CMI). This idea was aired some time before there was any sign of the current crisis, and efforts were stepped up after October 2008, but the fund will become operational only in April or May 2009.

This single focus from East Asia is far from adequate. Peter Drysdale suggests that East Asia might be performing in the “wrong play.” The key issues for East Asian members of the G20 are how measures for global recovery can be crafted collectively, what role the region can play to ensure a sustained and effective recovery, and how the G20 can be mobilized to re-shape global economic governance.

The crisis has created an opportunity for new players to bring their plight, interests, and aspirations to bear on more inclusive global efforts to resolve it. Developing countries should seize this opportunity. This will be important to a sustained recovery, but it is not clear how developing countries can undertake the task. Should big developing

countries like China, India, and Brazil represent the developing world?

Regional or sub-regional arrangements provide an alternative as they can amplify the voice and sense of ownership among smaller countries. Regional arrangements include a mix of developed, emerging market, and less developing countries. The new global economic governance structure will need to be based on representative institutions.

There are demands to reform institutions to reflect the changing economic weight of emerging economies in the global economy. There is also the idea that these reformed institutions (the IMF and the World Bank) should be supervised by an over-arching and inclusive global institution, such as the United Nations global economic and social council as was proposed by German Chancellor Angela Merkel. But such a global organization is likely to become unwieldy. A better alternative would be to have networks of regional arrangements play into global forums. East Asia’s emergency fund, the multilateralized CMI, for instance, would be more meaningful if it was part of a network of monetary funds.

East Asia needs to be better coordinated if it is to develop a coherent regional agenda to contribute to resolving the global crisis. Meetings of East Asian leaders (ASEAN + 3 and the East Asia Summit) are scheduled to take place in April 2009 after the London Summit. Leaders can agree to direct their finance ministers to have regular strategy meetings to strengthen East Asia’s engagement in formulating G20 policies and actions for the recovery of the global economy and in shaping global economic governance.

In early March 2009, finance ministers and central bank governors from 19 Latin American countries convened a meeting in Portugal to demand a bigger say in global economic governance. Earlier, Russia also took the initiative in bringing together governments from the Commonwealth of Independent States (CIS) to present the group’s interests in the G20. Such initiatives will strengthen the G20 by increasing its legitimacy.

East Asia’s strategic participation in the G20 is aimed not only at securing its role in global economic governance but also at increasing its effectiveness in projecting the region’s strategic efforts toward global economic recovery.

East Asian countries overcame one major financial crisis a decade ago and undertook a raft of measures to reform and strengthen their financial sector with a good deal of success. Moreover, they have not taken measures that backtrack on their commitment to promote regional financial and economic integration. Presenting these ambitions through the G20 can help sharpen the focus in the region in undertaking regional infrastructure development projects that could stimulate the regional economy and recycle the region’s huge reserves as

well as promote structural adjustments to redress the global financial imbalance.

The region can also more effectively exert leadership on the trade front to keep global markets open, one of East Asia's top priorities in the G20. Other priorities are ensuring adequate financial flows for development and purposeful coordination of their economic stimulus packages.

East Asia's strategic participation in the G20 provides a framework for China to play an increased role – as a key member of the regional community – in the recovery of the global economy and in shaping global economic governance. In the Chinese language, the word “crisis” includes the characters for “danger” and “opportunity.” Opportunities provided by the crisis need to be fully exploited by East Asia to help avert the dangers that continue to loom large, for the region and for the world, while a strong framework for collective action is fashioned through the G20.