East Asia in the G20 and the global governance of finance

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1. Introduction

The global financial and economic crisis since 2008 has demonstrated the importance of East Asia for global economic governance. Global problems like volatile financial markets, erratic exchange rates and global economic imbalances cannot be solved without the region that produces huge trade surpluses, accumulates the largest amount of foreign exchange reserves and accounts for an increasing share of international financial flows. East Asia is needed, but how does it respond to calls for global economic cooperation and more specifically to reregulate global finance?

Since the 1997/98 Asian financial crisis, East Asian countries have gradually received a stronger voice in international financial institutions (IFIs) like IMF and World Bank. The establishment of the leaders G20 in 2008 puts four East Asian countries, China, Indonesia, Japan and the Republic of Korea (henceforth Korea) at the table of the “premier forum for international economic cooperation” (G20 2009) (section 2). How does this formal integration affect the G20 agenda to reregulate global finance since the beginning of the global financial and economic crisis in 2008? In important discussions in the G20 like improved international banking standards (“Basel 3”), East Asian countries showed little interest and remained sceptical bystanders or reluctant followers (section 3). On the other hand, global solutions that are in the strong interest of East Asian countries like curbing volatile global financial flows and exchange rates have not been seriously discussed by the G20. Instead of proactive actions, the G20 focused on incremental improvements in reactive crisis management like increasing IMF quotas and the strengthening of “global financial safety nets” (section 4). Finally, the most serious conflict involving East Asia in the G20, the issue of global economic imbalances and exchange rate management (“manipulation”) of East Asian countries is far from being solved (section 5). In short, despite its importance for the solution of global economic problems, East Asia remains strangely out of sync with the agenda of the G20.

As we will see throughout this short essay, instead of seeking global solutions for problems of economic crisis, volatile financial growth and exchange rate instability, East Asian countries in the G20 are concentrating on national self-help strategies like accumulating foreign currency reserves and implementing unilateral capital controls. What is important to note is that this bias against global cooperation is not primarily the result of an “anti-Western” political strategy or a “Hobbesian” world view (Katzenstein 1996), but can be more persuasively explained by structural constraints originating in the East Asian political
economy. I identify four major reasons for East Asia’s reluctance to take on global responsibility. First, East Asia has been hit by the crisis since 2008 in a distinct way. The problems in East Asia were not flaws in the regulation of financial actors but its dependence on exports and exposure to the volatility of international financial flows. Secondly, so far, East Asian countries have been very successful in implementing national(ist) development strategies that aim at exploiting the global economic system – not challenging it. Thirdly, a successful export oriented development model in which the government’s major objective is to increase “national competiveness” has created an export oriented path dependency that is difficult to abandon. Fourthly, a “corporatism without labour” or in the case of China a “socialism without labour” in which governments are dominated by business interests and have a strong bias against demand side policies and the introduction of social safety nets that would be needed for more balanced growth.

2. A gradual shift of power to East Asia in the G20 and the IFIs

The inclusion of four East Asian countries into the leaders G20 in 2008 has elevated the role of the East Asian region in global economic institutions and global economic governance. In the previous G7 framework, Japan was the only East Asian representative that enjoyed the benefit to discuss issues of economic cooperation with the most important global leaders. Understandably, the most important goal of the “new”, non-G7 members is to consolidate the role of the G20 to permanently replace the G7 as the “premier forum for international economic cooperation”, which was in principle agreed upon at the Pittsburgh meeting of the G20 in September 2009 (G20 2009). The French proposal to create of a permanent G20 secretariat also finds strong support among the new East Asian G20 members although Japan remains cautious to replace the informal setting with a more formal organization.

An important benefit for East Asian G20 members is that they can use their position in the G20 to lobby for an expansion of their power in related international organizations like the IMF and World Bank. At the G20 finance ministers’ meeting in Gyeongju in October 2010, an

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1 It might seem presumptuous to lump together all East Asian G20 members, given their obvious and significant differences. Nonetheless, I believe that East Asian countries share many similarities in their development paths. The “flying geese pattern,” whereby Japan leads and is followed by Korea, Taiwan with China and South East Asia behind might be an oversimplification. However, there are strong similarities in economic structure (dependence on large conglomerates), integration into the world market (export orientation, capital export), the role of finance (low level of financialization), the role of the state (authoritarian pro-business corporatism) and ideology (strong nationalism). I believe that this kind of regional view can complement (but of course not replace) country-specific case studies, because it can help us to think outside the box of nation states and national idiosyncrasies, rather guiding our view to the underlying political-economic dynamics of the East Asian region.
agreement was reached to reform the voting shares in the IFIs. If we compare the now-reformed voting shares with those in place before the first round of very limited reforms at the IMF annual meeting in Singapore in 2006, there are three important points to note. First, the reforms are slow and incremental. G7 countries only lost 4 percentage points of their voting share in the IMF, which still leaves them with 41 percent. Second, the East Asian G20 members (except Indonesia) are the biggest winners of the reform, as they gained 4.1 percentage points and now control 14.9 percent of the votes. Third, most of the changes are taking place within the G20, though some non-G20 IMF members also lose voting shares – particularly if we look at those countries outside the East Asian (ASEAN) region (chart 1).

The reform of the IFIs does not substantially change the balance of power within the IFIs, but a very limited shift in voting shares from the G7 (and oil exporting countries) to emerging Asia, and to a lesser extent, to other emerging economies such as Mexico, Brazil and Turkey.

[Chart 1 about here]

The influence of East Asian countries within the G20 and the IFIs is growing only slowly and in the IMF, the four East Asian G20 members still have fewer votes than the US alone. It is thus not surprising that the role of East Asia in shaping the reform of the global governance of finance remains limited as we will see in the following to sections.

3. **East Asia’s as a bystander and reluctant supporter of Basel 3**

Weak regulation and supervision of banks and other financial firms was one of the major reasons of the global financial crisis. Consequently, a reform of the Basel 2 framework that sets international standards for bank regulation was a major concern of the leaders G20 from the beginning. The so called Basel 3 framework was passed in September 2010 despite scepticism from East Asian governments. This is mostly, because banks in the region were far less affected by the global financial crisis than banks in the US or Europe. When the global financial crisis began in September 2008, some smaller East Asian countries such as Korea were hit hard owing to capital flight to safe havens in Japan and the US. However, throughout the entire period, banks in the region remained remarkably stable. One reason for the resilience of East Asian banks is the relatively recent shock of the Asian financial crisis in 1997/98 and the long malaise of the Japanese banks since the collapse of the real estate bubble in the early 1990s. Having experienced those crises, East Asian banks had ever since
been undergoing a process of deleveraging and asset bubbles had little chance to become big enough to cause any major problems for banks. Even though there is arguably a real estate bubble in Korea and some parts of China today, it remains limited to some regions and is far less debt-financed than was the case in the US. After the Asian financial crisis, Asian governments also implemented stricter rules for banks, rules that they perceive as superior to those in the West. In Korea for example, the government limited real estate loans to 50 percent of purchase values – a regulation that would have prevented the US subprime mortgage crisis. In China, capital controls and strict government control and guarantees also immunized against any banking crisis contagion.

Another reason for the resilience of East Asian banks is the relative “underdevelopment” of East Asian financial markets that limits the exposure to complex and risky assets. In the East Asian development model, banks are not profit-seeking businesses, but tools of governments and big corporations for financing industrialization and economic development. In stark contrast to the US-style financial-market-driven economy, banks in East Asia have always been subordinated to the real economy and accordingly have functioned as providers of financial services. Banks only slowly abandon this traditional role. Financial firms remain focused on non-complex and “unsophisticated” financial products such as stocks, bonds and futures for the domestic market, while limiting their exposure to complex financial products (e.g. collateralized debt obligations and credit default swaps).

The low level of financialization also explains the second reason why East Asian governments have been hesitant to agree to stricter capital requirement rules within the Basel 3 framework. Part of the new guideline is to increase common equity requirements from 2 to 4.5 percent of (risk weighted) assets until 2015 and Tier 1 capital requirements from 4 percent to 6 percent, with an additional capital buffer that has to be built up by 2019 (BIS 2010). While these incremental changes in capital requirement rules are not posing serious problems for East Asian banks, they put them at some competitive disadvantage and might limit their ability to expand assets. Stock markets in East Asia are relatively shallow and banks in the region are mostly controlled by a majority shareholder, which makes it more difficult for them to increase their capital base by issuing common stocks. Even though Basel 3 favours banks based in financialized countries like the US and Britain, East Asian governments have done little to prevent the new standards or offer alternatives. For example, a Basel 3 that would have put more emphasis on limiting the accumulation of highly risky and complex assets

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2 This applies to the private banking sector in Japan and Korea, while Chinese banks are owned and backed by the state.
would probably have suited East Asian banks much better.

The scepticism about international standards for bank regulation has other reasons as well. East Asian governments are far from content with their relatively resilient but unsophisticated financial systems. They are planning to take advantage of the crisis of “Western finance” and establish financial centres in East Asia that can become serious competitors of New York’s Wall Street and London’s “The City.” Reversing the tradition of strict government control over banks, East Asian governments are trying to establish or strengthen “financial hubs” within their jurisdictions. In Hong Kong for example, employment in the financial sector increased from 146,000 in 2003 to 196,000 in 2010 (Wassener 2010). The Chinese government is also trying to promote Shanghai as a new financial centre, while Korea has passed the Korean Financial Hub Act (2008) in an attempt to boost Korea as a financial centre and attract financial firms to the country. Japanese banks have launched a new initiative to become global players after failing to establish themselves in the 1980s and 1990s. For example, the Japanese brokerage firm Nomura bought the international operations of bankrupt Lehman Brothers and is planning further acquisitions in the US (Financial Times 7 November 2010).

East Asian governments are reluctant to agree to international standards for banking regulation but rather are looking to gain advantage from the strengthening of bank regulations in Europe and the US. It is likely that competition between the US and Britain about who offers the lightest regulation, which has fuelled financial globalization and crisis since the 1970s (Helleiner 1994; Abdelal 2007), is now being supplemented by competition between Western and East Asian financial centres. If this scenario in fact emerges, the intensifying trilateral competition will make the necessary, stricter and globally coordinated financial regulation even more difficult to achieve.

4. **East Asia’s unilateral regulation of financial flows and currencies**

Unlike improving bank regulations, curbing volatile global financial flows and erratic currency swings are major concerns of East Asian countries. All East Asian countries are highly affected by volatile in and outflow of private capital, for smaller economies like Korea and Indonesia this is a major problem. The trauma of the 1997/98 Asian financial crisis and the humiliation of depending on the IMF to prevent a default are still vivid in the collective memory of East Asia. In 2008/09 many feared that history would repeat itself when massive capital outflow from the region destabilized currencies and exhausted foreign currency reserves.
Instead of looking for global solutions to regulate global financial markets and currencies, East Asian countries relied on national strategies to protect themselves against the volatility of global financial markets. The most important measure was to accumulate huge amounts of foreign currency reserves as a defence against sudden outflow or inflow of capital. Among the top ten foreign exchange-rich countries are six East Asia representatives that, together, have accumulated US$4.5 trillion of currency reserves (chart 2). Foreign currency reserves not only provide insurance against a sudden withdrawal of capital but also allow central banks to manage exchange rates. Since 2010, not capital flight but inflow of capital has become a serious problem for the East Asian region. Low interest rates in Japan, the US and Europe have created a carry trade of cheap “hot money” to emerging markets in East Asia that recovered relatively fast from the global financial crisis. This inflow of capital puts upward pressure on currencies in the region and threatens to undermine international competitiveness. By accumulating foreign currency reserves and, thus, selling their own currency, East Asian central banks prevent a rapid appreciation of their currencies that would undermine exports as the main contributor to economic growth.

[Chart 2 about here]

Unfortunately, buying insurance against financial crisis and managing exchange rates through reserve accumulation is quite costly, because it requires the purchase of US Treasury Bonds that carry very little interest. The dependence on the US dollar as a reserve asset is also risky, as it puts the value of foreign currency reserves at the mercy of US monetary policies and the value of the US dollar. East Asian governments are fully aware of these risks. China’s Premier Wen Jiabao has voiced concerns about the future of the dollar as a global reserve currency and the Governor of the People’s Bank of China, Zhou Xiaochuan even proposed that the IMF’s special drawing rights (SDR) should take over the role as the global reserve currency. While both remarks were widely published and created a stir on global financial markets, they had almost no impact on the discussion within the G20 and the IMF.

A more real but less published challenge to Western ideological hegemony was East Asia’s readiness to abandon capital account liberalization, which was an almost sacred principle of US dominated globalization under the “Washington Consensus”. Since 2010, many East Asian countries suffered from massive inflows of short-term capital, because the region recovered fast and interest rates in Europe and the US remained low. This “carry trade” created the danger of asset bubbles and put currencies in the region under additional pressure
to appreciate, which further threatened to undermine the export oriented economic recovery. To defend themselves against the inflow of this “hot money” many East Asian countries including Korea and Indonesia have newly introduced capital controls on the inflow of capital (e.g. a tax on bond holdings by foreigners) while China has always maintained a relatively high level of control on international financial flows (Singh 2010). Implementing these capital controls has drawn criticism from developed G20 members, but East Asian countries get support from an unsuspected side. In a recently published IMF staff paper, the authors signalled support of the introduction of capital controls under certain circumstances (Ostry et al. 2010), and the G20 leader’s communiqué from the recent meeting in Seoul can be interpreted as approving capital controls.³ Another question is the effectiveness of such unilateral capital controls, which might limit the inflow of capital into the region but do not solve the underlying problem of volatile financial flows as such.

Considering the destabilizing effects of erratic global financial and currency market on East Asian countries, the high cost and the doubtful effectiveness of national self-help measures, it is surprising that East Asian governments have shown little interest in global initiatives like the financial transaction tax (FTT) proposed by France and Germany or a new global currency system (“New Bretton Woods”) that was put on the agenda by France for the G20 summit in 2011 (The Economist 2010a). A FTT could curb volatile financial flows “on both ends” and a new Bretton Woods System could create stable exchange rates through international cooperation without the need to accumulate huge amounts of currency reserves that bear little interest.

One reason for the scepticism about such global solutions is the East Asian experience with the failure of international institutions and particularly the IMF during the Asian financial crisis in 1997/98 (Veneroso and Wade 1998; Kalinowski 2005). The scepticism about Western dominated international institutions even led to the creation of a regional financial safety net. Already in 1997 Japan proposed the formation of an Asian Monetary Fund (AMF), a proposal that was rejected by China and the US. Later this proposal let to the creation of the Chiang Mai Initiative (CMI) consisting of a system of bilateral and multilateral currency swap agreements between East Asian countries (Park and Wang 2005). In the current global financial crisis, however, East Asian countries have not just shunned IMF lending (with the exemption of Mongolia) but have also demurred from activating the CMI. Instead, in 2008,

³ The communiqué states that “…in circumstances where countries are facing undue burden of adjustment, policy responses in emerging market economies with adequate reserves and increasingly overvalued flexible exchange rates may also include carefully designed macro-prudential measures” (G20 2010).
countries such as Korea directly asked the US Fed to provide support through bilateral swap agreements.

The failure of the CMI to become a viable alternative to the IMF in the region has shifted attention back to the global level and the strengthening of “global financial safety nets”. East Asian countries not only increased their voting share in the IMF but supported the largest quota increase in the IMF’s history. In November 2010, member countries approved a doubling of its quota from SDR 238.4 billion to SDR 476.8 billion (about US$755.7 billion) in November 2010 (IMF 2010a). East Asian countries not just provided the IMF with substantially more money but also continued their attempts to change the way it lends. Particularly, East Asian governments were interested in reducing ex-post conditionality of IMF lending that was perceived as particularly intrusive and humiliating during the Asian financial crisis. Consequently, the IMF established two new credit lines with no or limited ex-post conditionality and fast access to funds: the flexible credit line (FCL) and the precautionary credit line (PCL). The FCL and the PCL come with no (FCL) or “focused” (PCL) ex-post-conditionality, but instead require ex-ante conditionality and provide money only to countries with a proven record of “sound economic policies” (IMF 2010b, 2010c). Both credit lines are tailored to successful emerging economies in East Asia with good economic records like Korea and Indonesia but also other new G20 members such as Brazil, Turkey and Mexico. East Asian G20 members and some of the more developed ASEAN members that are part of the CMI would qualify for “light touch conditionality” lending by the IMF, while most poorer developing countries still depend on support through “traditional” IMF Standby Arrangements that come with heavier conditionality.

5. Global rebalancing and East Asian export-orientation

So far we have looked at East Asia’s approach to the institutional and technical reforms of the global governance of finance that have been implemented or discussed since 2008. However, we can only understand East Asia’s role in this reform process, if we take a broader look at the East Asian political economy and its role in the global economy. It is East Asia’s mercantilist, export oriented development strategy that enabled countries to follow costly national self-help strategies and limits the ability of governments to actively participate in finding global solutions. In other words, we have to understand the political economy of the global economic imbalances that have been a root cause for the global financial and economic crisis since 2008. In the past four decades, East Asia’s emerged as the “factory of the world” that produces everything from raw materials and labour-intensive consumer products (China, Indonesia) to
capital- and technology-intensive consumer products and transportation equipment (Korea) and high-tech consumer and capital goods (Japan). In this flying geese pattern, Japan leads, followed by Korea and China, creating a sophisticated regional division of labour and economic trade that previously only existed in Europe and North America. Until the 1980s this export oriented strategy largely worked without trade surpluses, because East Asian countries had huge demands for Western technology and capital goods. Since then, however, many East Asian, with the notable exemption of China, have reached or are about to reach a stage of economic development in which investment opportunities are declining. Trade surpluses became chronic since the Asian financial crisis because East Asian countries needed them to create growth, repay their foreign debt and accumulate foreign exchange as a way to insure themselves against future external financial shocks.

The global economy is a system of communicating tubes in which surpluses in one group of countries depend on deficits in other countries and deficits in the trade of goods and services require corresponding inflows of capital and vice versa. Most of the East Asian current account surpluses since the Asian financial crisis have been absorbed by the US (chart 3). The resulting accumulation of foreign currency reserves that were recycled as US treasury bonds (see section 4) led to the low interest rates in the US that fuelled the US credit and real estate bubble and led to even more consumption of East Asian products. This “symbiotic relationship” between the US and East Asia has contributed to the economic recovery of East Asia and the rise of China, but at the same time has created the global imbalances that contributed to the severity and reach of the current global financial and economic crisis.

When the financial crisis in the US spread to the global real economy in the fourth quarter of 2008 and growth rates around the world collapsed, countries in East Asia were heavily affected due to their export dependency. Growth rates in Japan and East Asian NIEs initially declined even more than the US or Europe, while growth rates in the remaining ASEAN and China declined a bit less dramatically (chart 4). Since the Pittsburgh summit in 2009, the leader’s G20 put the goal of achieving “sustained and balanced growth” at the centre of its
agenda. Initially the focus was on coordinating and implementing fiscal stimulus packages that could restart the stalled economic and financial engine. Since then, all G20 members have implemented massive stimulus packages, but while European and US governments have rediscovered Keynesian support for consumption or profited from automatic stabilizers in their welfare systems East Asian countries have engaged in more business friendly, supply-side oriented stimuli. These “corporatist” fiscal policies had first been explored by Japan as it entered its low-growth period in the early 1990s. Unlike Western countries that provided tax breaks or subsidies for new car purchases (“cash for clunkers”) that benefited global demand for cars (including Japanese and Korean cars), East Asian governments in the current crisis have focused on infrastructure investments or subsidies to businesses that benefitted almost exclusively domestic businesses. These measures include investment in housing, airports, high-speed trains and R&D in China and the “four river restoration project” and support for “green growth” industries in Korea (Hur et al. 2010). Instead of reducing global imbalances, these investments will further increase the global competitiveness of East Asian businesses and will probably create even larger trade surpluses in the future.

[Chart 4 about here]

Export-oriented East Asia was hit severely by the crisis, but it also recovered faster, partly due to the massive stimulus packages and partly due to revived exports. While the US current account deficit shrunk, global imbalances remain a problem as East Asian exports to the US were replaced with exports to Europe and the developing world. When it became clear that fiscal stimulus packages alone would not reduce global imbalances and that East Asia might run even stronger surpluses after the crisis, the G20 switched from coordinating fiscal packages to discussing more structural reforms. First, the US criticized East Asia and particularly China for “currency manipulation,” that is, strategically undervaluing their currencies to gain export competitiveness. In Korea, exports profited from currency devaluation due to the outflow of foreign capital. Since the beginning of the recovery process in the

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5 For example, in Japan supply side effects of the fiscal stimulus from 2008-10 were 2.9% of GDP (tax reduction for business + transfer to businesses + government investment) and demand side effects were 1.2% (tax reductions for households and consumption + social transfers + government consumption + transfer to households. In Korea, it was 3.3 and 2.2% respectively. In comparison in the cases of more demand side oriented stimulus packages the figures were 1.1 and 3.6% for the US, 0.6 and 1.3% for the UK and 1.4 and 1.6% for Germany (OECD 2010).

6 Only Indonesia’s much smaller fiscal stimulus, a substantial share of which was tax incentives, can be called “consumption friendly.”
second half of 2009, Korea joined the Chinese strategy to limit the appreciation of their currency through exchange rate management. Because exchange rate management was targeted to limit appreciation against the devaluing dollar, East Asian currencies (except the Japanese Yen) devaluated massively against free floating currencies like the euro and currencies from emerging economies without currency management like Brazil. Whereas it is difficult to determine relative currency values, The Economist’s October 2010 “Big Mac Index” (like other indexes) suggests that with the exemption of Japan, all East Asian currencies remain substantially undervalued, ranging from about 20 percent for Korea to roughly 40 percent for China (The Economist 2010b).

East Asian countries in turn accuse the US of using monetary policies of quantitative easing to devalue the dollar and flood East Asia with cheap money that is drives up currencies and creates asset bubbles. During the G20 meeting in Seoul, US President Obama changed course, instead of demanding an exchange rate adjustment, he proposed to limit current account surpluses (and deficits) to 4 percent of GDP. This proposal was immediately dismissed by East Asian surplus countries with the support of Germany, which dislikes undervalued East Asian currencies but is even more concerned about losing the economic stimulus from its own massive trade surplus.

In short, all attempts to limit East Asia’s export orientation have been unsuccessful, and governments in the region have shown little interest in finding global solutions for the global economic imbalances. East Asian countries follow a path dependency of corporatist “developmental states” (Johnson 1982, 1995; Woo-Cumings 1999; Evans 1995; Kalinowski 2008) that have successfully utilized industrial policies and mercantilist strategies to develop. The export oriented strategy and the corporatist goal of “national competiveness” are so deeply engraved in the East Asian economic structure and political-economic institutions that they will be very hard to remove – just as the US would find it hard to abandon financial-market-oriented capitalism. The export orientation has prevailed in East Asia since the 1960s (Japan), with Korea joining in the 70s and China in the 80s. Particularly remarkable has been the successful export-oriented crisis recovery strategy as was exemplified by Korea after its debt crisis of the 1980s, the Asian financial crisis (Indonesia, Korea) and the current crisis (chart 3).

Recommendations for reforms made by international organizations or the US to reduce East Asian export dependency by appreciating exchange rates, increasing domestic consumption or

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7 It is, thus, not a surprise that it was the Brazilian Finance Minister Guido Mantega who warned of a “currency war”.
strengthening social safety nets neglect that unique political economy of East Asian countries. Industries in the region that manufacture consumer products like electronic and IT equipment, transport vehicles like cars and ships or intermediate products like semiconductors are so heavily dependent on exports that domestic demand can hardly ever match supply. These corporate engines of development have over the decades formed an export lobby that certainly will push their governments to further increase export competitiveness and prevent or at least limit exchange rate appreciation. Problems associated with undervalued currencies are mitigated through alternative policies like capital controls to prevent inflow of volatile capital and government led “resource diplomacy” to limit the increase of prices for natural resources and agricultural products.

On the political level, the path dependency of pro-business corporatism is a formidable obstacle to global rebalancing. Already in the 1970s Pempel and Tsunekawa have characterized the Japanese developmental state as a “corporatism without labour” (Pempel and Tsunekawa 1979), a term that can be used for Korea and to some extend for the “socialism without labour” in China. In such a political constellation, demand side oriented policies are difficult to implement because they are seen as costs that undermine the competitiveness of the export sector. The creation of a comprehensive welfare state that would reduce the necessity to save for retirement and illness and, thereby, free up resources for consumption is equally unrealistic. Japan and Korea are both spending far less on welfare than other developed countries, and China has just abolished its “iron rice bowl” welfare system upon joining the WTO in 2001.

East Asia seems to defy Western modernization theory that would expect the region to enter a new “stage of economic growth” (Rostow 1990) based on domestic consumption. On the contrary, the past decade in East Asia has been characterized by a massive increase of social inequality in terms of income distribution and the ability to consume (ADB 2007). A minority of East Asians has succeeded in entering the middle class and become consume oriented while a majority is kept in precarious working conditions that create neither the income nor the social security necessary needed for an increase of consumption that would match economic output. Inflated real estate prices in the region and the necessity to accumulate private savings for retirement and health care tie up income and require high saving rates that further limit the availability of income for consumption.

A balanced, domestic consumption driven economy does not emerge spontaneously, through international negotiations or government strategy, but needs domestic social actors that supports such a transformation. Unfortunately, due to the long tradition of authoritarian
corporatism, labour unions and demand side oriented political forces in the region are too weak to gain wage increases high enough to shift the economies onto a domestic-consumption-oriented trajectory. Where strong labour unions exist like in Japan or Korea, their organization on the company level (as opposed to the industry level) facilitates collusion with business at the expense of those in the massive low-wage sector that are not able to increase their consumption expenditure. The cooptation of a small group of privileged workers that are well paid and receive corporate welfare benefits has depoliticized labour unions. They focus on bread and butter issues and do not develop an alternative to the supply side oriented corporatism. This further weakens progressive political forces that represent demand side policies and could facilitate the transformation to a balanced, less export dependent economy.

6. Conclusion
East Asia is needed to reregulate international finance and rebalance the global economy, tasks that are on the agenda of international institutions like the G20 since the beginning of the global financial and economic crisis in 2008. We have seen that the G20 agenda does not reflect East Asian interests and so far governments in the region fail to offer serious alternatives to Western initiatives. While there is broad agreement in the G20 for a more important East Asian role in the IMF and an expansion of global financial safety nets, the proactive reregulation of global finance remains heavily contested. East Asian governments care little about international banking standards, because they want to establish their own financial centres as competitors to Western financial centres where financial regulation is strengthened. Issues that are an important concern of East Asian countries like volatile international financial markets and exchange rates are not seriously discussed in the G20, which forces East Asian countries to follow national self-help strategies like the accumulation of foreign currency reserves, exchange rate management and unilateral capital controls. Finally, without solving the global economic imbalances, technical reforms of improving the regulation of banks, financial flows and even a global currency regime (“New Bretton Woods”) would not be effective. A stable global financial system can only rest on a balanced real economy. Unfortunately, solving the global economic imbalances would require deep changes of the East Asian political economy. The global economic imbalances are nothing else than the East Asian trade surplus with the rest of the world. This trade surplus is the result of an export oriented development regime that is deeply engraved in the East Asian political economy. There is little indication that East Asia is abandoning the path dependency of export
orientation and is turning on a more balanced, domestic consumption oriented road to economic development.

It is important to note that East Asia reluctance to seek global solutions and the conflicts in the G20 about global economic imbalance and exchange rate management are not the result of an “East Asian challenge” to Western dominated international institutions. Trade surpluses and accumulation of foreign exchange reserves are not the means of an “economic attack on the West” but the consequences of the limits of the East Asian export oriented development model. In order to understand East Asia’s dilemma and to avoid misinterpretations about the rise of East Asia, we need more careful studies of the East Asian political economy. Only if we carefully analyze path dependency and change in the region, we can understand the dynamic of East Asia’s role in global economic governance.
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