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The Impact of the Rising Powers on Global Economic Governance

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Summary

In view of the ongoing transfer of power from the transatlantic order to Asia and other emerging economies, some analysts suggest that we are progressing toward a more fragmented world order. They note that this order will depend greatly on China, as well as on Brazil and India. The rapid rise of the emerging powers has generated an increasingly wider debate on the systemic implications of their hypothetical status as great powers. One fundamental issue in this debate is China's long-term strategic vision with respect to the current international economic order, not only in terms of the power that the country could achieve, but also of the use that it could make of it; or rather, its intentions. From a broader international perspective, some of the more innovative studies have analyzed the potentially transformational impact – on a systemic level – of the simultaneous rise of China, India and Brazil, as well as the return of the Russian Federation. US foreign policy specialists situate the debate around whether the emerging powers will challenge the Western liberal order, or choose to work within the framework of existing institutional accords. This intellectual approach has strengthened the debate on whether China, India and Brazil will accept the status quo, or if they are acting as "revisionist powers".

The article suggests that the pertinent question is no longer whether the emerging powers will maintain the status quo, or if they are revisionist powers within the liberal international economic order, but rather "to what extent, and at what speed" they will attempt to reshape the institutional agreements of global governance and the international order, in a broader sense. It can be deduced, from meetings with people in direct contact with the political world, that this is the debate currently in progress in the corridors of power of Beijing, Brasilia and New Delhi. Thus, this study claims that an in-depth analysis of the role played today by these three emerging powers in terms of shaping the international monetary and financial system could help to decipher their strategic *positioning* and even their strategic *intention* with respect to the Bretton Woods order. The main conclusion is that the strategic result that the emerging powers are attempting to develop consists of a change in the world economy (and, in a more general sense, the world order) towards a system that is less centralised, more multipolar and multi-level, where the emerging powers will have greater influence over the setting of the agenda, priorities and rules of world economic governance.

The Cooperative Challenge

A distinguishing feature of the current shift in the global order is that it is characterized not by the rise of one or two alternative Great Powers that are challenging the hegemonic power, but the simultaneous rise of four, and perhaps five emerging powers. The concurrent rise of the BRIC grouping is having a transformative impact on the global order in terms of rendering obsolete the inter-state coalitional and bargaining norms of the Cold War era. The challenge to American supremacy is simultaneously bilateral and cooperative in terms of involving three or more national actors (multilateral), but it is not driven by overt ideological contestation. There are echoes of past clashes, specifically in US-China and US-Russia tensions, however the contestation is now arguably more nuanced, subtle and complex than Cold War type struggle.

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Whereas China may have more national power capability than others within the BRIC group, what makes China's contemporary rise unique is that its ascent presents itself as part of a broader global structural shift that entails the rise of multiple economic power centers, more varied corporate power brokers in terms, the transition to a more multi-layered and less centralized system of international organization, and a relative decline in US economic capability, *and* Western influence.

The ideas of China, Brazil, India, to encourage stable and sustained national growth and recalibrate the balance between citizens, states and markets, have gained traction of late. China, India and Brazil have each faced the triple challenge in their modern eras of nation-building, state-building and economic development. Brazil, India and China are all strong proponents of purposive state mediation of market development, promotion of national corporate growth (rather than relying only on market-led growth), more balance between the real economy and the virtual economy, and on national versus international markets. The guiding logic behind state intervention is protecting, as much as possible, national economic sovereignty, while seeking integration into the world economy.

The primary lessons that are being "exported" under the rubric of the BRIC are gradual and managed integration into global trade and financial markets, especially the need to maintain national-state controls in a globalized economy where financial and economic crises are recurrent and unpredictable, and where the collective insurance of the global multilateral institutions for financial and monetary crisis management cannot be relied upon. The current group of BRIC rising states also share a desire for a more diverse, less-centralized international economic order, but a world economy that continues to be based on market openness and integration.

What is especially interesting for political economists and international relations scholars is the surprising degree of cooperation which the BRIC states have achieved, consciously, through their cooperative diplomatic efforts in responding to the fallout from global economic crisis. Rather than gradually weakening, as have previous developing country alliances, for example Bandung non-aligned grouping of the late 1950s, and later the demand for a New International Economic Order in the 1970s, what is most interesting about the current Southern grouping is that it has drawn increasingly closer together in the aftermath of the 2008-09 global crisis.

The individual BRIC country governments appear increasingly aware that they can achieve certain foreign policy gains if they act cooperatively, pressing the traditional powers for changes in global governance, that reflect the shift in the balance of world economic power. Statements from the leaders of the respective BRIC countries, starting at the first Summit at Yekaterinburg in June 2009, and henceforth at the successive BRIC Summits in Brazil (2010) and China (2011) show that the governments of these nations are conscious of the leverage they can gain in global governance negotiations when they act as a group.

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Bretton Woods Reform

The 2008-09 global financial crisis exposed fundamental flaws in the current system of global governance. It threw a spotlight on the fact that the major multilateral economic institutions – the Bretton Woods system – that were created after the Second World War were unable to respond initially to the collapse of financial markets, and increasingly divorced from the emerging geoeconomic realities of the twenty-first century. Only the incorporation of a larger grouping of emerging countries and traditional powers into the collective effort proved effective in imposing a basement on the freefall.

The global crisis accentuated the dual crises of efficiency and legitimacy in international organization; the paralyses of the global architecture which predated the 2008-09 crisis. The G7/8 club of established powers looks increasingly anachronistic as *the* global steering committee. It is amid this systemic flux that the BRIC countries advanced their efforts to transform the system in a direction where the rising powers and developing countries have more input in setting the agenda, priorities and rules of global governance.

Prior to the global crisis, much of the *diplomatic* effort of the rising powers was actually focused on strengthening ties across and within the global South, although economically, they pursued closer ties with both developed and developing country markets. Diplomatically, the rising powers put their attention into building interconnectivity within the developing world, fostering new institutionalized ties of goods exchange, capital, people and ideas – what some scholars call "routing-around".

However, after the onset of the global crisis, China, Brazil and India became much more re-engaged, diplomatically, in the global-level efforts (G-20) to strengthen the main Bretton Woods institutions, especially the International Monetary Fund. What the global crisis revealed was the limits of their Southern-specific networking of the BRIC rising powers, the limits of their decoupling, and autonomous institution building. The crisis showed that the rising powers were either unwilling or unable to play the role of alternative global lender-of-last-resort. With the onset of the crisis, the rising powers shifted their diplomatic positioning, within the G-20 process, to rebuilding the capacity of the Bretton Woods institutions. However what should not to be overlooked is that they have done so in a manner that is geared strongly to advocating for reforms in the global financial architecture, and not merely strengthening of the global multilaterals within the status quo.

The BRIC states has consistently promoted global institutional reforms within the G-20 Leaders process, through the UN, and when attending other *global* forums such as the G-8 Summits, as invitees to the so-called G-8+G-5 dialogue process (the G-5 included China, India, Brazil, South Africa and Mexico), which had its origins in G-8 "outreach". China has further advocated for internal governance reforms in the major multilaterals within its "Strategic and Economic Dialogue" with the United States.

Legitimacy Reforms

The first dimension of reform to the Bretton Woods system which the BRIC countries have pursued is changing the representational arrangements in the global multilaterals. The reforms to the structure of representation in the major multilateral institutions pertain directly to the *legitimacy* and *credibility* of the Bretton Woods institutions. These reforms pertain to two sets of stakeholders: 1) states; and 2) global financial investors, or what Funabashi Yoichi called "the hidden protagonist in the room."

The BRIC countries have emphasized that the structure of representation in the Bretton Woods institutions is obsolete. Brazilian authorities have been most vociferous in voicing disagreement. At the first G-20 Leaders meeting in Washington D.C. (November 2008), the BRIC and other developing countries secured the agreement of the G-20 to address the issue of "disproportionate and inequitable representation" in the Bretton Woods institutions and other global financial institutions (e.g. Financial Stability Forum). At the G-20 London (April 2009), the BRIC secured a commitment from the G-20 to change the representation inside the Financial Security Board (FSB, the former FSF) immediately, and the IMF by 2011. China, Brazil, India and Russia became members of the FSB after London.

Former Brazilian president Luis Inacio Lula da Silva stated that the G-20 took an important first step in London by recognizing that there can be no long-term solution without bringing developing countries on board. The Brazilian president emphasized that: "developing countries may not be part of the problem – but they are an important part of the solution." China and Brazil (and Russia) put financial suasion behind their rhetorical push, by tying their increased contributions to the IMF to changes in the internal governance structures of the IFIs, and especially the IMF. Around the London G-20, Chinese authorities indicated that they would be willing to invest $40 billion in new IMF bonds, denominated in Special Drawing Rights (SDRs). In early June 2009, Russia and Brazil announced that they would join China as the first countries to buy the new IMF bonds, denominated in SDRs. They each purchased $10 billion worth of the IMF bonds. President Lula da Silva explained that the $10 billion pledge "gives us moral authority to keep pushing for the changes that are needed at the IMF."

In July 2009, the BRIC received a boost from Youssef Boutros-Ghali, the first chairman of the IMFC from a developing country, and also Egypt's minister of finance, when noted in an interview (from Cairo) that he would aim to complete the reform of the IMF to increase the representation of emerging economies and change the voting rules of the Fund's board "within the next 12 months." Boutros-Ghali stated that he had to overcome the resistance of some IMF members to the changes: "I have to get the approval of 15 countries. Some of them are perfectly happy. Others are not happy." In the lead up to the G-20 Pittsburgh Summit (September 2009), Brazilian officials did not let up on their calls to push ahead on ambitious review and "wholesale reform" of quota and vote distribution at the IMF and World Bank. By October 2010, the IMFC Chair had proven successful, when at the meeting of G-20 finance ministers and central banks governors (which preceded the G-20 Seoul Leaders Summit in November 2010), participants agreed to shift more than 6 percent of IMF quota to emerging and underrepresented countries, which was an increase on the previous agreement of a 5 percent quota shift, though not as high as the 7 percent quota shift that Brazil had pushed the US and EU for at the G-20 Pittsburgh (September 2009).

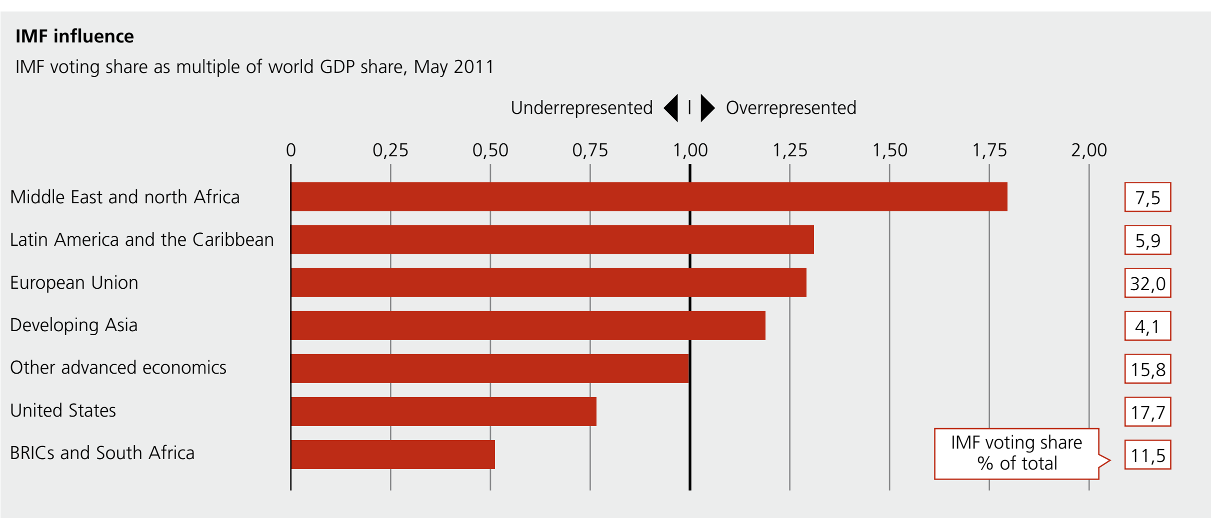
Another unique characteristic of the BRIC challenge is that this group of aspirants has not shied away from resorting to implicit threats to de-dollarize in order to gain leverage in promoting reforms of the international monetary and financial regimes. The concerns of the BRIC carries weight given that they hold combined reserves of over US$4 trillion. They are among the biggest holders of U.S. Treasuries (the others being Japan, Taiwan, South Korea and the ASEAN countries). The BRIC have experienced growing pains in learning how to exercise this form of diplomatic leverage with the necessary caution. Moscow has had to learn how its words can affect currency markets in unintended ways. The dollar fell 0.9 percent against a basket of currencies on world markets after President Medvedev stated to the foreign media the day before the start of the inaugural BRIC Summit (June 2009) that the existing reserve currencies, including the dollar, have not performed their function, and that "we are likely to witness the creation of a supranational currency… which will be used for international settlements". Chinese representatives learned previously that their words carry significant heft in terms of moving money markets in unanticipated ways – one sign of China's growing international influence as a creditor. After being reprimanded, Chinese think tank researchers have learned to pick their words cautiously so as not to cause instability in world currency markets.

Some observers have noted that Russia and Brazil are in the forefront of pushing the BRIC's international monetary reform agenda, and that the Chinese (and Indians) are more reserved. In the lead up to the inaugural "BRIC Summit" in Russia in June 2009, Presidents Lula da Silva and Dmitry Medvedev each raised their government's concerns about the stability of the US dollar, and its role as the predominant international currency. With respect to China, the People's Bank of China (central bank) has prevailed over the more cautious foreign ministry, in expressing concern over the dollar order, and advancing a rationale for multilateral reserve currency options. China's official newspaper, *People's Daily*, has noted that "as a matter of fact, the "de dollar" process has already begun in many regional bilateral and multilateral trading arrangements among developing countries." Although Indian authorities appear more willing to work within the dollar order than the other three members of the BRIC, the Joint Communiqué that was issued after the inaugural BRIC Summit did state that: "We believe that there is a strong need for a stable, predictable and more diversified international monetary system." At the April 2011 BRIC Summit in China, the governments of the four countries agreed to pursue various gradual de-dollarization options, to reduce their international monetary vulnerability.

The latest push from the BRICS (including South Africa) for internal governance reforms in the Bretton Woods institutions came in late May 2011, when IMF directors for the five key emerging countries issued their first ever joint statement to say that it was time to end the "obsolete unwritten convention" that requires the head of the International Monetary Fund to be a European. In their joint statement, the BRICS nations reiterated that the recent financial crisis, "which erupted in developed countries", highlighted the urgency of the need to reform international financial institutions, including bringing reforms in representation and decision-making to reflect the growing clout of developing countries in the world economy. The IMF directors for Brazil, Russia, India, China and South Africa implicitly criticized European and UK officials, and urged "abandoning the obsolete unwritten convention that requires that the head of the IMF be necessarily from Europe." They highlighted that the current handling of the leadership change proceedings was undermining the legitimacy of the global institution. They said that the choice should be based on competence, not nationality.

The BRICS' statement on IMF leadership was the logical next step in their efforts to press for changes in the governance arrangements of the global system, and a harbinger of things to come. The Chinese media emphasized that "IMF

GRAPHIC 1. Vote share in the IMF by country and weight in the world GDP



Source: International Monetary Fund and *The Economist* reform must press ahead" despite the shakeup at the Fund that was resulting from the scandal involving the IMF head. However, what is especially noteworthy is the timing of the criticism from the BRICS. The challenge comes after the British government issued a very public endorsement of the French candidate, after a number of European countries including Germany, and the European Union came out in support of the French finance minister. It is also not accidental that this BRICS challenge was issued just as government leaders of the established powers were jetting to France for their G8 Deauville Summit (May 27-28, 2011). The BRICS' criticism comes not only amid a sensitive time for France when many domestic voices consider the public handling of the former IMF chief's arrest as an affront to French national honour. But most important, it comes as the French presidency heads toward the home stretch in preparing for their upcoming G-20 Cannes summit in November 2011.

"The BRICS challenge on representational reforms, and the reaction of senior representatives in the financial sector highlight that what is actually at stake with the representational reforms in the Bretton Woods institutions is the future credibility of these institutions to provide the necessary reassurance not only to key rising states but also to global *finance*"

The French may eventually succeed, this time, in persuading the BRICS to support Minister Lagarde. However the assault of the rising powers on the traditional entitlements of the established powers is set to intensify as long as the shift in global economic power continues. The longer-term interest of the BRICS and the general trend is reflected in comments from China's central bank governor, Zhou Xiaochuan, that the IMF's leadership should reflect the growing stature of the emerging economies and the shift in world economy, and from Indian Prime Minister Singh, in May 2011, during a visit to Africa, where he urged "developing countries to come together be united on reforms to the Bretton Woods institutions, including the IMF." Also important has been the reaction of corporate financial protagonists. The Chair of Global Assets Management at Goldman Sachs, Jim O'Neill, has thrown the support of the influential investment bank behind choosing the next IMF lead on the basis of merit: that they be "well versed in the many economic and policy issues that the IMF must handle and lead; and must have a personality that can engage successfully with the many different members to orchestrate change as well as a better and more balanced world economy. That the leader must not simply be a figurehead of a European and US 'deal' to sustain the historic arrangement."

The BRICS challenge on representational reforms, and the reaction of senior representatives in the financial sector highlight that what is actually at stake with the representational reforms in the Bretton Woods institutions is the future credibility of these institutions to provide the necessary reassurance not only to key rising states but also to global *finance* (to financial investors), to ensure the long-term stability and viability of world financial markets.

Reorienting Lending Norms

When the global financial crisis struck, the rising powers pushed for changes on behalf of 'Southern concerns' in the guiding principles and implicit development model that guide the IMF's lending practices. China, Brazil and India worked in concert to push for greater availability and flexibility of emergency financing for "well-managed developing countries", to offset the drying up of global liquidity. Brazilian and Chinese state authorities urged the G-20 to also direct the financial support to "counter-cyclical" financing.

Brazil president Lula da Silva emphasized that: "in response to the immediate crisis, governments must adopt anti-cyclical policies to encourage aggregate demand, contain further economic contraction and, especially, preserve jobs. Anti-cyclical measures to stimulate the economy already add up to almost 2 percent of the global gross domestic product. Only by reinforcing and coordinating these initiatives will a prolonged recession or even a global economic depression be avoided." As the Asian countries, Brazil and Russia could attest, counter-cyclical financing measures were the opposite to the pro-cyclical medicine that the IMF prescribed in response to the Asian regional financial crisis a decade earlier, which triggered subsequent currency crises in Brazil and Russia. Chinese central bank governor, Zhou Xiaochuan, also issued an important speech in 2009, to highlight the importance of counter-cyclical measures for crisis prevention – but which has been overlooked by many international commentators.

In the lead up to the London G-20 summit (2 April 2009), the finance ministers of the BRIC group issued a joint statement for the first time ever, which called on the G-20 'leading economies of the world' to rebuild confidence, and maintain and support credit flow to help restore growth. Indian Prime Minister Manmohan Singh noted that the emerging countries in the G-20 called, specifically, for restabilizing the international financial system through recapitalization, liquidity support and cleaning bank balance sheets with government action. They positioned themselves as the 'bridge' for developing countries concerns within the G-20 process. The BRIC demanded that developed countries and development institutions strengthen their support to the hardest hit developing countries. Both Brazil and

China highlighted the issue of 'Northern failure' to provide responsible international financial leadership.

China supported Brazil's strong demands on the IMF to provide more rapid lines of emergency credit that would allow financial authorities in affected parts of the world to avoid the complex and time-consuming requirements normally demanded by the IMF for loan approvals and disbursement. This change in lending practices, according to a leading Brazilian insider, Marcel Biato, was necessary to ensure that vulnerable countries have a chance to counter unforeseen threats to economic stability resulting from a massive exodus of speculative capital, which is a hallmark of contemporary globalization. The BRIC can be credited with advocating for the overhaul in the IMF's lending framework which led to the discontinuation of the "Short-Term Liquidity Facility" (STLF) and the introduction of the new "Flexible Credit Line" (FCL) in March 2009. After failing to attract a single country borrower when the global crisis hit, the Fund acknowledged that "several features" of the STLF had "limited its usefulness to potential borrowers" (read: alienated many strong performing members, both emerging and developing countries), specifically its capped access and short repayment period, as well as the inability to use it on a precautionary basis. Immediately prior to the G-20 London, the IMF restructured its flexible credit line, and announced the rebranding.

The FCL is designated for 'well-managed' countries, for countries that the Fund has designated as with "very strong fundamentals, policies and track records of policy implementation." The FCL is aimed at crisis prevention purposes. FCL arrangements are for countries meeting pre-set qualification criteria, and access would be determined on a case-by-case basis. Importantly, disbursements under the FCL would not be phased or "conditioned" to policy understandings as is the case under a traditional Fund-supported program. Also in March 2009, the IMF also introduced reforms to the Stand-by Arrangements (SBA) – the Fund's workhorse lending instrument for crisis resolution – to increase its flexibility and ensure its availability as a crisis prevention instrument for members that may not qualify for the FCL; double access limits for non-concessional loans; adapting and simplifying cost and maturity structures; reform facilities for low-income country members; simplify the lending toolkit; and boost the Funds resources.

Equally important, at the London Summit (April 2, 2009), the leaders from the G-20 countries set an important precedent when they agreed to delegate to regional development banks a direct role in dispensing a portion of the funds that were newly allocated to the IMF; specifically to provide counter-cyclical financing to help offset capital flight and maintain demand by providing finance for fiscal expansion, support to social safety nets, trade financing, bank recapitalization, and infrastructure investment in emerging markets and low-incomes countries. At the London Summit, the G-20 supported the allocation of a portion of new emergency monies to the Asian Development Bank (ADB) to adopt flexible, fast-disbursing, and front-loaded instruments designed to provide rapid assistance to developing countries that were facing financing gaps because of the global crisis.

Beijing gave strong support to the proposal to enhance the ADB's role in crisis financing. At the Boao Forum for Asia (April 2009), China's central bank governor stated that the IMF failed to give adequate warning about the impending global financial crises, nor did it provide the necessary remedy in the developed countries, where the crisis emerged. Zhou stated that he understood that it might be hard for the IMF, a global organization, to make the appropriate decisions, after all, "it is hard to imagine that any institution could monitor every happening around each corner of the world", and he suggested that regional institutions may have more comparative advantages. The central bank governor added that the current set up of international financial institutions is in need of reform, and that a "combination of international and regional organizations would be a good option"; that "regional institutions such as the Asian Development Bank, could also alleviate the impact of financial crisis through increasing spending and boosting regional activities."

Once the ADB received the G-20's support, the regional bank moved quickly to introduce a new countercyclical instrument – the "Countercyclical Support Facility" – to provide budgetary support of up to $3 billion to crisis-affected low income country-members within the Asian region. Shortly thereafter, other regional development banks followed the example set by the ADB and established their own new counter-cyclical funding facilities for clients in their regions. The African Development Bank (AfDB) created a $1.5 billion "Emergency Liquidity Facility" that could be accessed by a broad range of public and private sector institutions, and the Inter-American Development Bank (IDB) established a $6 billion "Liquidity Program for Growth Sustainability", to support its member governments counter-cyclical efforts. The IDB reported that it set record levels of new loan approvals and disbursements for 2009, in supporting Latin American and Caribbean countries which were dealing with the impact of the global financial and economic crisis.

In August 2010, the IMF had to further modify its lending practices after only Mexico, Poland and Columbia applied and qualified for a total IMF commitment of about $72 billion under the new FCL, despite the severity of the global crisis. The board of the Fund also decided at that time to double the duration of the FCL from one year to two years, and eliminated the quota system for loans – in the hope of increasing the attractiveness of the re-branded FCL. The board also introduced a second credit line called the "Precautionary Credit Line", which targets a wider group of countries that would not qualify for the existing FCL. The IMF's first deputy managing director, John Lipsky emphasized that the Fund "listened closely" to its members in designing the new PCL.

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The aforementioned lending reforms are, arguably, the first steps in the reorientation of IMF lending principles and policies toward greater emphasis on providing financial support for (counter-cyclical) crisis prevention rather than for *ex post facto* crisis resolution lending, as the Fund's practice had become mainly geared toward, in the recent decades. Moreover, the devolution of the administration of emergency lending to the regional level, also set a precedent for an increased role for regional mechanisms in international financial crisis management and prevention. China and the BRICS have together played a central role in catalyzing these changes. The cumulative effect of the reforms is being worked out, currently, in the structuring of the new multi-tiered bailout packages for Ireland and Southern European countries, which combine EU regional and global multilateral credit lines. For the European central bank, Greece and Portugal, Beijing has also been a key new source of external financing.

Beyond the Bretton Woods Order

Much of the diplomatic attention of the BRIC countries prior to the 2008-09 global financial crisis was focused on strengthening their diplomatic ties across the global South, although economically, they pursued integration with both developed and developing countries markets. Diplomatically, the rising powers put concerted attention into building interconnectivity within the developing world, fostering new institutionalized ties of goods exchange, capital, people and ideas.

From 2003 to 2007 alone, then Brazilian president Lula da Silva visited more than 75 countries and opened 33 embassies since 2003, including 14 new embassies in Africa. The operations of Brazil's national development bank, BNDES, with its regional neighbours have grown rapidly during presidency of Lula da Silva. The Chinese Communist Party leadership matched the Brazilian president's enthusiasm for promoting South-South linkages, and furthermore moved large amounts of resources (financial and otherwise) through China's state policy banks to lubricate its growing ties with the South. India has also seen dramatic increases in its economic ties and diplomatic outreach to Africa as well as within Asia of late. The rising states have increased their Southern ties both within and beyond their own regions, reaching into other regions of the South.

This South-South diplomatic outreach is rooted in a desire to manage the increased financial uncertainty which the emerging countries were facing as a result of their increased integration into the global economy. Diversifying to the South was, and is, a part of a multi-layered self-insurance strategy which also includes accumulating sizable foreign currency reserves and domesticating public debt. By building up their reserves and domesticating public debt, Brazil, India and China avoided the need to go to the IMF for emergency financing. After Lula da Silva assumed office, Brazil made sure to pay off its IMF debts ahead of schedule (in 2006). Beijing has actually held a position of "extreme autonomy" of not taking IMF loans for close to three decades, namely since Beijing assumed responsibility for China's relations in the IMF membership in 1980.

Building up a ready store of international liquidity also provides the rising states with a ready (nationally-controlled) supply of foreign currency for non-emergency national developmental purposes.

Beyond the bilateral and global multilateral tracks, the rising powers have also directed a portion of their state resources to creating regional institution within their own neighbourhoods, and China has also reached beyond it own region, to support regional institutions in other parts of the South. Biato writes that Brazil has promoted new cooperation in South America via renewed support to Mercosur; its proposal for a Union of South American Nations (UNASUR), starting in 2007, "born of a novel commitment on the part of member states to forge effective mechanisms to deal with the multiple challenges that should unite – but often divide – the region."

Delhi has supported the development of the South Asia Association for Regional Cooperation (SAARC), and the formation of SAARCFINANCE as the intra-regional financial cooperation initiative; other new regional multilateral initiatives such as "BIMST-EC" (Bangladesh, India, Myanmar, Sri Lanka, Thailand – Economic Cooperation); and has even participated (selectively) in new regional policy dialogue arrangements that connect South Asia and the Chinese sphere of influence. Examples here include the "BCIM" (Bangladesh, China, India, Myanmar) conference, starting at the track-two level in 1999 and elevated to the track-one foreign ministers' level in 2006, the Boao Forum for Asia (inaugurated in 2001); and the pan-regional Asian Cooperation Dialogue which started in 2002.

China has formed a Free Trade Area with ASEAN, and together with Japan, the Republic of Korea and the ASEAN countries has created a regional reserve pool for emergency crisis liquidity called the Chiang Mai Initiative (CMI) that totals $US120 billion as of 2009. China has also helped create the Shanghai Cooperation Organization, the East Asia Forum, and the (northeast Asian) Trilateral Summit with Japan and South Korea, prior to the global crisis, and provided increasing support to the Asian Development Bank, and also regional and sub-regional development banks in Africa and Latin America.

For now, the regional arrangements act mainly as parallel international institutions, as *supplemental* to the Bretton Woods institutions. While they have adopted some best practices from other preexisting international institutions, the new regional institutions also operate more in accordance with social norms and rules, and currencies of power that are indigenous to their own regions. In the current circumstances, the regional institutions are either still mainly complimentary rather than competing with the Bretton Woods institutions, and have yet to develop into rivals or *alternatives* to the Bretton Woods order. Their future role will depend largely on world circumstances, on the response of the traditional powers to the rising powers, and on the future legitimacy and orientation of the Bretton Woods institutions.

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