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World needs new hands on the global finance tiller

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In our rapidly changing world, new global contradictions are emerging rapidly. Today, the biggest global contradiction is this: the demand for global leadership has never been greater but the supply seems to be diminishing.

Why is the demand increasing? I use a simple boat analogy to explain how our world has changed fundamentally. In the past, when seven billion people lived in 193 separate countries, it was as though they were travelling in 193 separate boats, with different captains and crews taking care of each boat, and rules to make sure that they did not collide. But today seven billion people no longer live in separate boats. Instead they live in nearly two hundred separate cabins on the same boat. The problem now is that while there are captains and crews taking care of each cabin, there are no captains or crews taking care of our global boat as a whole. This why the world is struggling to deal with new global crises, like financial crises, pandemics, global warming and terrorism.



One simple and logical solution to this global problem is to

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strengthen institutions of global governance, like the UN Security Council, the International Monetary Fund (IMF), the World Bank and the World Trade Organisation (WTO). Similarly, we should be strengthening regional institutions, like the Asian Development Bank (ADB). Most of these global institutions were a gift from the West to the rest of the world at the end of World War II.

A supremely self-confident West designed global institutions to serve global interests, in the belief that the West would be the primary beneficiary of an open rules-based global order. Today, a supremely self-confident West has been replaced by a nervous and increasingly insecure West. This partly explains why the Doha round of trade negotiations has stalled.

It also explains why the West fiercely resists changes to the governance of key global institutions. The UN Security Council, with its five permanent members, is a fossil from World War II. Even though the G20 agreed to marginally reshuffle voting shares in the IMF and increase resources, the US Senate has essentially vetoed reform.

Even worse, the West appears to be using its control of key global institutions to serve Western interests rather than global interests. The US dollar is a global reserve currency but the US uses it to serve American interests above all else. When the US applied its domestic laws in an extra-territorial fashion and punished European banks for financing internationally legal trade with Iran, US political scientist Ian Bremmer called it the 'weaponization of finance'. The US had also threatened to cut Russia off from the international SWIFT Payment System.

Asia remembers well that the West has applied **double standards** in using these global institutions to deal with multiple global crises. Former Indonesian Trade Minister Mari Pangestu has noted that during the Asian financial crisis of the late 1990s, the IMF's conditional bailout packages did not afford Asian banks any bailouts. But in 2009, when American banks failed, the US government did not hesitate to implement a program of fiscal stimulus. The result has been that non-western nations have been left with no choice but to create alternative and inclusive global institutions.

The single most dramatic recent example of this was the Chinese initiative for an Asian Infrastructure Investment Bank (AIIB). When China launched the AIIB, Washington reacted in a Pavlovian fashion. It automatically campaigned against it without reflecting on whether it served global and Asian interests to have a new multilateral bank.

The US Treasury, which led the anti-AIIB campaign, said it was concerned about the 'governance' of the new



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institution. Financial Times associate editor Martin Wolf **responded wryly**, saying 'as a former staff member of the World Bank, I must smile. Mr Lew [US Treasury Secretary Jack Lew] might like to study the Bank's role in funding Mobutu Sese Seko of Zaire, one horrifying example among many.' It is ironic for the US Treasury to plead for 'good governance' of AIIB when it steadfastly opposes meritocracy in selecting the leaders of the World Bank and IMF.

The decision by several key European governments, led by the UK, not to join American opposition to AIIB indicates that we have turned a significant corner in managing global governance challenges. How much of this was due to the US sanctions on European banks? If Europe is now prepared to cooperate with Asia to develop and strengthen new and old global institutions, we may finally have an opportunity to respond to the increasing demand for global leadership.

This new window of opportunity for Asia–Europe cooperation can succeed if Asian governments are prepared to show wisdom in engaging Europe. China can surprise the world by demonstrating that it is prepared to support meritocratic governance of new institutions like AIIB and the BRICS bank (now called The New Development Bank).

There is no doubt that **the World Bank** and IMF have become over-bureaucratic and sclerotic. If by contrast, China is able to develop a lean and mean bureaucratic machine to run AIIB, it may well demonstrate that Asia can do a better job of managing new global institutions. China could surprise the world by offering new rules of the financing game that others may find more congenial.

Jin Liqun, who has led the Chinese effort to set up the AIIB, has said that China is 'committed to building a lean, clean and green bank.' By this he means that it will be cost-effective and growth-promoting, with zero tolerance for corruption.

A simple statement of support from Washington for such laudable goals would indicate that the world has finally turned the corner in creating new global institutions. With Asia, Europe and — hopefully and eventually — America working together, rather than at cross-purposes, we may see institutions of **global governance** strengthened.

*Kishore Mahbubani is the Dean of Lee Kuan Yew School of Public Policy at the National University of Singapore and the author of **The Great Convergence: Asia, the West and the Logic of One World**. This article appeared in the most recent edition of the **East Asia Forum Quarterly**, 'Leadership in the region'.*

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LINTONG FENG

24TH JUNE, 2015, 12:55 PM

This is an excellent article on the current state of international and global governance. As I have argued elsewhere, international and global affairs need both stability/continuity and reforms. The article demonstrates the need for reforms.

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ANDREW ELEK

24TH JUNE, 2015, 8:08 PM

Well said, Professor Mahbubani.

I would be interested in your views on the 'one road one belt' programs, as I am drafting a posting on that significant Chinese initiative

Andrew

Reply

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