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In Search of the New Paradigm for Global Financial Governance*

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Abstract

Key words(중심용어): 글로벌 금융 거버넌스(Global Financial Governance), 초정부 네트워크(Transgovernmental Networks), 국제금융기준(International Financial Standards), 효율성(Efficiency), 적법성(Legitimacy), 책임성(Accountability), 지역협력(Regional Cooperation)

국 문 요 약

금융의 세계화와 금융기법의 혁신에 따른 국제 금융환경의 혁명적인 변화로 인하여 20세기말 세계금융시장의 위기와 최근 미국 발 글로벌 금융 불안에서 보는 바와 같이 현행 글로벌 금융 감독 체제는 금융의 세계화가 야기한 위험에 적절히 대처하지 못하고 있다. 이는 정부의 잘못과 시장의 실패로 금융위기가 야기되었음이 근래의 글로벌 금융위기에서 밝혀져 금융을 시장의 논리에만 맡겨서는 안 된다는 지적도 받고 있다. 이에 본 논문은 현행 글로벌 금융 거버넌스 체제의 문제점을 분석하고 새로운 글로벌 금융 거버넌스의 패러다임을 마련하기 위해서는 지구촌 개별국가의 금융감독기관과 금융시장 참가자의 상호협력을 위한 방안의 강구가 절대적으로 요구되는 점이 본 연구가 시사하는 바인 동시에 해결해야 할 과제임을 강조하고 있다.

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Ⅰ. Introduction

The ongoing global financial crisis revealed fundamental weakness in the structure of financial regulation. In response, ploicymakers and regulators have embarked on an ambitious regulatory reform and governance agenda that aims to achieve as much global coordination and consistency between regional reform efforts as possible. How successful attempts at international coordination and consistency have been deserves further examination, because it is not too hard for politicians to put aside their differences when the global economy is falling off a cliff. That is, the emerging discord on how to manage economic imbalances and to put in place effective global financial regulation is part of a pattern of fragmentation.

The current global governance agenda emphasizes the universalization of understanding of global governance based on the efficiency and effectiveness through one-size-fits-all formulas, in which democratic accountability and participation is a secondary variable. In this regard, it needs to explore specific policy and regulatory options to national and international policy makers in devising patterns of regional and international cooperation. An important issue is how to enhance democracy, legitimacy, and accountability in the global financial regime dominated by the leading industrial states.

In line with the analyses above, this paper attempts to address what should be the proper responses to the global financial integration. Given the difficulties of institutional collaboration at the international level, it emphasizes the importance of collaboration between political leaders for enhancing global financial governance. To that end, transgovernmental networks as nonstate actors will be assessed. Further, it aims to search for the appropriate response to global financial contagion, and thus provide a new paradigm for the global financial governance. Finally, this paper will draw from a few suggestions which may be of some use to those involved in restructuring regional financial governance in East Asian community.

II. Understanding Global Governance

A significant evolution of the international financial system in recent decades has led to a remarkable increase in the economic integration in the world economy, and greater cross-border capital flows around the globe. Moreover, the emergence of new and complex financial instruments over the preceding decades has posed formidable challenges to financial regulatory authorities in the wake of the current US credit crisis. As such, the globalization of finance has attracted increasing attention to the integrated international regulation of

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financial institutions.[1] As evidenced in recent financial episodes, the world's financial regulators have been struggling with dealing with new and complex financial instruments and techniques driven by the financial innovation over the past decades. In these circumstances, the globalization of finance spurred by the information revolution has called for the integrated international regulation of banking and other financial organizations.

At the same time, the question of global governance has become an agenda for rethinking about the rules and norms that underpin the world order in the wake of financial turbulences around the globe. The crises have shifted the focus in global and domestic policy debates back to the notion of market failure and government failure separately and integrally. Liberalization, deregulation and privatization are not likely to be simply considered as sound economic theory. They are viewed to have negative redistributive consequences that the invisible hand cannot address rather than welfare enhancing outcomes. Thus, there is the need for a new paradigm for global financial governance. In this regard, it needs to conceptualize global governance and examine governing the global finance through transgovernmental networks.

1. What is Global Governance?

Since none of the global issues can be managed easily by sovereign states acting only, there is a wide variety of international policy problems that require governance. The need is truly global in scope as with financial markets. What do we mean by global governance? Is the need for global governance increasing?

In 1995 the Commission on Global Governance (1995), an independent group of prominent international figures, formed to consider what reforms in modes of international cooperations were called for by global changes, and published a report on their five years of deliberations. The commission defined governance as the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is continuing process through which conflicting or diverse interests may be accommodated and cooperative action may be taken. It includes formal as well as informal arrangements that people and institutions have agreed to perceive to be in their interest.

While governance and government are clearly related, they are not identical in that governance is a more encompassing phenomenon than government. Rosenau (1992, 4) notes that Governance embraces governmental institutions, but it also subsumes informal, nongovernmental mechanisms whereby those persons and organizations within its purview

1) For the impact of financial globalization, see generally Pak (2006, 53-83).

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move ahead, satisfy their needs, and fulfill their wants.[2] Thus, global governance is not global government. It is neither a single world order nor a top-down, hierarchical structure of authority. It is the collection of governance-related activities, rules, and mechanisms, formal and informal, existing at a variety of levels in the world today (Karns and Mingst, 2004, 4).[3]

The ongoing economic integration in the world economy raises significant questions concerning the structure of global governance systems intended to safeguard markets where globalization entails the erosion of national boundaries. Moreover, the politics and process of global governance have become increasingly complex in recent years as the pieces and actors multiplied and challenges mounted. In these circumstances, the complex issue of how to govern the global economy comes into question. That is to say, how states can regulate properly the global economy.

A notable response is the disaggregation of the state into its component legislative, executive, administrative and judicial parts, and the positing of a complex of transnational connections between these component parts in different states (Slaughter, 1997, 189).[4] This perspective asserts that contemporary international cooperation is being undertaken among discrete and specialized agencies of governments to coordinate their policies and enhance the enforcement of laws, in a fashion which, by comparison to formal inter-state cooperation is fast, flexible and effective. That is, these constituent institutions are all networking with their foreign counterparts, thereby sharing information, ideas, resources, and policies. This new paradigm of peer-to-peer cooperation adopts the adaptable and decentralized network model instead of traditional international institutions and treaties for their enforcement.[5]

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2) As Kennedy (1997, 545, 548 n.4) mentions in a particularly informative discussion, governance has emerged as a distinctive motto for international public order, consciously distinguished from 'government' and consciously identified with the group of phenomena that are thought to define the late twentieth-century international condition: globalization, interdependence, the demise of sovereignty, the apparent futility of further United Nations institution building, and the emergence of international civil society. These writers identify governance as a new, distinct phenomenon: either a defining characteristic of the new world order or a prescriptive for resolving its pragmatic challenge, or both. 'Governance' in this literature, as opposed to 'government' is the complex of more or less formalized bundles of rules, roles, and relationships that define the social practices of the state and non-state actors interacting in various issue areas, rather than formal interstate organizations[.].

3) Karns and Mingst refer to the activities as the pieces of global governance which include international rules or laws, or soft law, and structures such as formal and informal international organizations.

4) Picciotto (1996, 1018) argues that there has been a shift from government to governance, as the central political institutions of the state have found it increasingly difficult to resolve social conflicts or to reconcile the diversity of social interests Internationally, the arrangements for allocating competence between states have also tended to break down, evidenced by the increased salience and frequency of inter-jurisdictional conflicts.

5) For the term transgovernmental networks, see Raustiala (2002, 4).

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However, Howse (2000, 469) acknowledges the significance of networks, but hold them accountable for their role in reducing transparency and impeding political accountability. Toope (2000, 96) and Kennedy (2000, 412) fear that networks may reinforce the dominance of the major economic powers, particularly inequalities between advanced industrial countries and less developed economy because of networks' club-like feature. Nonetheless, transgovernmental networks are on the rapid rise, and their growth is visible in regulatory cooperation.[6] However, there are still some concerns over governing the global finance through government networks.

2. Governing the Global Finance through Transgovernmental Networks

(1) International Financial Regulatory Organizations

With the globalization of economic relations, and increasing interdependence among nation-states, there is a growing conflict between a conventional notion of territorial state sovereignty and the flow of economic activity, which disrupts coherence of the state. In the meantime, various agencies and institutions within the state such as independent central banks increasingly develop a high degree of autonomy and independence reflecting the fragmentation and/or disaggregation of the nation-state.[7]

As a new system of regulatory networks in the international economy, global network governance establishes rules coping with issues that each nation already regulates within its territorial boundaries: crime, securities fraud, pollution, tax evasion where traditional international law requires states to implement the international obligations they incur through their domestic law (Slaughter, 1997, 188). The adherents of transgovernmentalism argue that the enforcement of national law has been more difficult due to globalization propelled by information revolution. This view stress regulators' potential opportunity to reap the benefits from coordinating their enforcement efforts with those of their foreign peers and from ensuring that other nations adopt similar approaches.

Likewise, Slaughter (1997, 189) asserts that the fragmentation and disaggregation of the domestic order of the nation-state is essential to the development of international regulatory governance system. That is to say, the global governance of the economy requires the

6) Since Keohane and Nye (1974) first observed its emergence, transgovernmentalism has rapidly become the most widespread and distinctive system of global governance.

7) For central bank independence, see Jayasuriya (1999, 439-441).

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internationalization of state agencies as long as these agencies maintain a high degree of independent autonomy. This view claims that the operation of the global economy requires exclusive reform of regulatory system at the national level, and the transformation of state sovereignty represents the regulatory harmonization through the nationalization of international law. Transgovernmentalism highlights that each nation-state will be better able to enforce its domestic law by implementing the agreement if foreign counterparts do likewise in accordance with regulatory agreements between states that are pledges of good faith that are self-enforcing. Here is arguably the rationale for regulatory harmonization, because laws are binding as coercive only at the national level.

By contrast, the new medievalist formula of global governance is governance without government. However, governance without government is governance without power, and government without power rarely works. Although Mathews (1997, 52) is right to point out the transformation of the globe through the information revolution, she neglects the fact that persuasive power of civil society in mobilizing public opinion does not take the place of state power. Despite the hot debate, transgovernmental networks are on the rapid rise, and their growth is visible in regulatory cooperation. In order to understand how these organizations exemplify international financial regulatory cooperation, it is necessary to explore how they actually work in the sense of the increasing economic interdependence and achieving financial stability.

The most important examples of the mechanism of global governance in the international financial area are the Basel Committee on Banking Supervision (Basel Committee), the International Organization of Securities Commission (IOSCO), and the International Association of Insurance Supervisors (IAIS) (Zaring, 1998, 281).

The Basel Committee, an organization composed of 12 central bank governors of the G10 countries, Luxembourg, and Switzerland, was created by a simple agreement among the governors themselves for a significant reform of international banking system (e.g. Walker, 2001).[8] In 1988, capital adequacy standards (Basel I) which were first formulated for all banks were adopted by the central bankers of the world's major financial powers under their supervision and revised in substantial measure in June 2004.[9]

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8) The inclusion of Australia, Brazil, China, India, Korea, Mexico and Russia expanded the Committee's membership to 20 in 2009.

9) For the analysis of the Basel Committee and its capital adequacy requirements, see generally Pak (2007), p. 195-262. Following frequent amendments of the Accord (Basel I) since its promulgation, the Basel Committee released Basel II in 2004. Recently the Committee issued a set of new capital adequacy rule (Basel III) which has become centerpiece of the G20's financial reform efforts. Unlike most treaties or other legal agreements the Basel Capital Accord is intended to evolve over time. For the detail, see generally Pak (2010).

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Its members follow their own rules. Decisions are made by consensus and are not formally binding; however, members do implement these decisions within their own systems. The Basel Committee's authority is often cited as argument for taking domestic action. National securities commissioners and insurance regulators have followed the Basel Committee's example. The IOSCO has formulated basic financial disclosure requirements for publicly issued securities. It has no formal charter or founding treaty. Its primary purpose is to solve problems affecting international securities markets by creating a consensus for enactment of national legislation (Underhill, 1995, 251). Its members have also entered into information-sharing agreements on their own initiative. The IAIS has also adopted core principles and standards for insurance companies and products that have been implemented worldwide.

These international financial regulatory organizations have much in common in the way of their organizing themselves and the manner of their seeking to achieve their objectives.[10] All are sub-state actors, informally formed, with flexible internal organization and decentralized bureaucracies. They often come into operation in secrecy and informality. The institutions manage to attain influence through a kind of decentralized enforcement of their agreements and through links to international, regional, and national financial regulators.

(2) Other Networks

In order to help prevent future crises the creation of a network of G20 was led by the Indian finance minister and consists of the finance ministers of twenty industrialized and underdeveloped countries.[11] Despite most of the regulatory changes taking places under the auspices of the G20, variations in the approaches taken on both sides of Atlantic and in Asia. In the aftermath of the current global financial crisis, political leaders meeting at the G20 industrialized and developing nations pledged to put aside beggar-thy-neighbor policies and adopt a common approach to making the financial system safer and more transparent. The supplanting of the G7 club of rich economic powers by a more representative G20 has been part of the glacial process to date. The outcome of the G20 is the reinforcement of international financial institutions and a big emphasis on regulation. That is, Europeans have

10) These organizations are not international organizations under international law because they lack state membership, tangible manifestations of organizational bureaucracy, and adequate legal pedigree (Zaring, 1998). According to the Restatement (Third) of the Foreign Relations Law of the United States, an international organization refers to an organization created by an international agreement [with] a membership consisting mainly or principally of states. In this context, Zaring (1998) argues that these organizations occupy a twilight legal existence.

11) The G20 was created by the G7 on September 25, 1999 in Washingto D.C. The extension of the membership attributes to the increase in the role of emerging economies in banking and financial service markets.

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a strong voice in the institutions, especially the IMF. But they will have to give up some of that influence in exchange for China's contribution and the representation of other developing countries. As for the G20 itself, the chemistry of the group is instable, because it still lacks a permanent secretariat to allow it to act coherently beyond loose international agreements. It is far from clear whether the G20 will provide lasting leadership. It smacks of an emergency solution, not a considered construction.

Notably, the Financial Stability Forum as a networked network comprising three organizations, and other domestic and international authorities was established in 1999 to provide a coherent strategy to achieve and to maintain financial stability.[12] The key characteristic of government networks in particular, in financial sector is the cross-border interaction of government agencies with similar functions and encountering similar problems.

As noted above, network governance (the external dimension of complex sovereignty) requires the functioning of independent (effective) internal self-regulatory agencies (the internal dimension of complex sovereignty) (Jayasuriya, 1999, 439). In this sense, globalization has propelled the development of autonomous agencies, the development of a state within a state. It is important to note that the autonomy and independence led to the formation of a system of network governance where these agencies actively participated in the formulation and management of the regulatory institutions. More importantly, the transgovernmental network governance depends on compliance, consensus, or good-faith agreements among nations. In this regard, this regulatory system is concerned with establishing international soft law in the form of broad regulatory standards and general regulatory standards followed by compliance of state agencies rather than strict rules and direct enforcement.

However, Howse (2000) acknowledges the significance of networks, but argue that they reduce transparency and impede political accountability. The club-like feature of networks may reinforce the dominance of the major economic powers, particularly inequalities among countries (Kennedy, 2000). Alston (1997, 435) also claims that networks present the political right with a useful but ultimately dangerous substitute for traditional multilateralism.

12) The Financial Stability Forum was led by the finance ministers and central bankers of the G7 industrial countries in February 1999 preceded by a report on international occupation and coordination in the area of financial market supervision and surveillance by the President of the Deutsche Bundesbank. The Forum consists of six representatives from the Basel Committee, the International Organization of Securities Commissioners (IOSCO), and the International Association of Insurance Supervisors (IAS) along with senior representatives from domestic authorities responsible for financial stability in significant international finance centers. Also, the Forum comprises traditional international institutions, such as the IMF and the World Bank, and the OECD. In the wake of recent global credit crisis the Forum was reestablished as the Financial Stability Board on stronger institutional ground with an expanded membership in 2009. See Financial Stability Forum website, at http://www.fsforum.org.

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Arguably, the process of establishment and implementation of global standards are under the Western industrial states′ dominance, and represent an emerging global network governance that threatens undeveloped countries′ state sovereignty and takes away their freedom of action as sovereign states (Morais, 2002, 779).

Ⅲ. The Paradigm Shift in Global Financial Governance

1. Enhancing Effectiveness, Legitimacy and Accountability in Global Financial Governance

Global financial governance regime has evolved haphazardly in response to a series of financial crises over the past decades. As a result, the global community has generated inefficient rules for the regulation of systemic risk in global financial markets. The efficient regulation of systemic risk in global financial markets requires that international financial standard setting and decision making be effective, accountable, and legitimate for the countries and jurisdictions subject to international financial standards.

In response to the critiques on the lack of accountability in the networks, Reinicke (1998, 113) highlights the difference between the creation of the Basel Accord and other global public policy initiatives. According to Slaughter (2004, 50-64), one significant difference to note between the Basel case and the other cases, such as international trade, is the participation of nongovernmental actors in the various policymaking stages limited in the Basel case to one set of interests. Thus, the absence of conflict among domestic interests in the Basel case expedited the agreement reached by central bankers from member states. This loss of accountability at the domestic level was not compensated for at the international level in that the postwar international institutional structure was built to accommodate international economic interdependence, which, from a public policy perspective, is best accommodated by facilitating intergovernmental relations, and thus did not concern its democratic deficit. This view emphasizes that a democratic deficit facilitated the conclusion of a compromise.

Further, the absence of accountability and transparency is arguably welcome for the timely conclusion of an agreement, and the prevention of a global financial crisis.[13] In this way,

13) Here it deserves noting a charge against the Basel Committee in light of its slow response to the Asian economic crisis in 1997. Until the fall of 1997 more than a month after the Thai financial crisis exploded that the Basel Committee did not start moving, apparently realizing the severity of the crisis facing developing countries (The American Banker, Dec. 8, 1998).

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transgovernmental networks can arguably operate more quickly and effectively than formal bodies. This efficiency-oriented perspective is problematic in that trade-off between democratic accountability and efficiency in global public policymaking may not be based on a full consideration of equity and justice.[14)]

In fact, transgovernmental networks do not provide mechanisms for either delegated or participatory accountability (e.g. Grant and Keohane, 2005). It is often unclear which organizations have delegated powers to them because the networks are informal. Moreover, participatory accountability is minimal in that the general public is not involved and transparency is typically lacking. Although abuses of power may in some instances be controlled by the fragmentation of power and conflicts of interests between the participants, cooperation among the members of the networks can easily become collusion of outsiders. It can be said that there is some peer accountability within transgovernmental networks, because the entities involved may request information from one another and sanction other entities for perceived misbehavior (Nye, 2002, 108).

However, there are no clear mechanisms of accountability since accountability requires a public standard of legitimacy to which political actors are held. Nonetheless, there is the potential for negotiation constraints. The power of an entity in the network may be checked only where abuses are against the interests of principles of the other entities within the networks. In this regard, diversity among parties is a precondition for negotiation constraint. Otherwise, collusion is likely to follow. However, serious issues of democratic accountability still remain because transgovernmental regulatory organizations operate like clubs. In short, the organizations look like closed and secretive clubs to functional outsiders, even in the same government.

By pointing to democratic deficit, globalization protesters call into question the legitimacy of international institutions and transgovernmental organizations in that they are undemocratic, but their rules have powerful effects despite the weakness of the institutions and organizations.[15)] As such, consistency with democratic procedures has become

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14) Nevertheless, it is argued that the informality, flexibility, and democratization of networks mean that it is very difficult to establish precisely who is acting and when (e.g. Slaughter, 2000a). In response to the critiques of democratic accountability, Slaughter claims that the critics often miss several key points: legitimacy may derive from performance as well as process; government networks typically operate through persuasion rather than authoritative decision; and these networks may actually empower democratic politicians and their governments by promoting cooperation among them when the alternative could be leaving decisions to markets.

15) It deserves noting the protesters′ interesting points: long lines of delegation from multiple governments and lack of transparency often weaken accountability; although the organizations may be agents of states, they often represent only parts of states (Nye, 2002, 108). Legitimacy means that all countries and jurisdictions subject to the standards have played a meaningful role in their

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increasingly important in today's world. In this context, there is a need to develop the legitimacy of global governance. To that end, three key things are required: (1) greater clarity about democracy, (2) a comprehensive understanding of accountability, and (3) a willingness to experiment.[16] In short, the club model requires modification. As Keohane and Nye (e.g. 2001a) argue, it is significant not to put more weight on the organizations than they can bear. Rather than pursue strong institutions to strengthen deep integration at the international level, it is more appropriate to pursue networked minimalism.[17] Putting too much weight on the organizations before they are sufficiently legitimate to bear leads to deadlock.[18]

As noted, three principles of effectiveness, accountability and legitimacy form the key elements of an efficient global governance regime for financial markets. However they are not mutually exclusive in the sense that the design of an effective standard-setting process that leads to efficient regulatory rules also implies improved accountability measures, such as clearer procedures for enhanced possibilities of the international financial regulatory organizations to their accountee countries. Similarly, improved regulation of systemic risk also implicates the legitimacy of the standards adopted because of the impact of efficient regulation on a country's economic growth and development. Essentially, these principles of global governance are linked by the overriding objectives of controlling and managing systemic risk.[19]

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promulgation and that the standards take account of their economic interests.

16) It is argued that [d]emocracy is government by officials who are accountable to the majority of the people in a jurisdiction. For democracy to work well, the people have to regard themselves as a political community. Democratic governments are judged both on the procedures they follow (inputs) and on the results they obtain (outputs) (e.g. Keohane and Nye, 2001a).

17) According to Nye and Donahue (e.g. 2001b), [n]etworked minimalism is a broad principle of governancemore a matter of what not to try (hierarchy and intrusiveness in domestic policies) than what to do.

18) A power struggle is intensifying within the IMF. The organization's resources have grown sharply in recent years, funding much-needed emergency lending during the financial crisis. But such increases only enhance the voting power held by different countries and have created a battle between the established economic powers and developing world. The recent developments in this fight confront the IMF with a full-fledged crisis. The main difficulty is over-representation of Europe compared to developing countries. The EU accounts for roughly 20% of global GDP but almost a third of IMF votes. To be sure, the balance of power from advanced to emerging market can make the IMF more representative. Adopting these reforms would be an important step in reforming global governance broadly.

19) Financial regulation is normally imposed in response to the prior crisis, rather than theoretical principle. In the past, regulation has been deployed to improve risk management practices in individual banks. This was misguided. Instead, regulation should focus first on systemic externalities.

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2. Building the Public-Private Partnership

Global financial integration has considerably challenged the policy autonomy of the state to supervise and regulate international transactions. National regulatory authorities' efforts to cooperate with their foreign counterparts in order to design and formulate effective regulatory standards have often become problematic. This is partly because of the difficulties of cooperation in an international system, and partly because of variations in domestic market structures, financial institutions and legal systems. Attempts by national and international supervisory and regulatory authorities are often proved insufficient for the effective formulation and implementation of global financial standards in emerging market economies.

While the private sector activities have increasingly dominated global financial transactions, the wider public sector policy and regulatory objectives of financial governance have become more difficult. As such, powerful private interests have increased their dominance of national economic policy making, and have played an important role in formulating financial market rules and structures, whereby state policies tend to promote market-led adjustment policies (e.g. Underhill, 2003). The process of global financial integration has strengthened the position of private market actors in governance of financial system at national, regional and international levels. Given that private sector activities have increasingly dominated global financial transactions, and private interests are crucial to the governance of financial systems, private market actors need to be incorporated into the rule-making process. An important issue examines how to design private sector involvement in formulating and implementing financial standards and regulations.

The private sector must be involved in the standard-setting process in two ways: (1) the private sector's integration of the use of standards into their risk management techniques, (2) the private sector's development of best practice standards in the financial sector (e.g. Vojta & Uzan, 2003). These goals may be accomplished either through private-public collaboration or by the private sector themselves. Given that private market actors have played an important role in developing financial structures, and identifying and refining international standards for acceptable practices, they can help enhance the limited expertise and capacity of regulatory authorities. In this sense, the private sector should be fully incorporated into the process of standard formulation and implementation. If the task of standard setting and enforcement would be exclusively left to the public sector, market disciplines may fail to play their role in financial governance and regulation.

While a consensus that the private sector is crucial to the governance of financial system at national, regional and global levels has been reached, how to fashion the appropriate balance between the public authority and private interests is a crucial issue. That is, to what extent and

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under what conditions should the regulatory authority's rule-making power be ceded to private market forces? Since the recent global financial crises have revealed that the private dominance of financial sector and regulatory process would lead to the legitimacy deficit, economic instability and turbulence, the changing balance between public authority and private market power in the financial regulatory process affects both the stability of the financial system and the nature of the democratic order. In this sense, the impact of private domination of regulatory processes on financial stability, democratic accountability and legitimacy should be addressed.

A proper balance of public and private interests is essential to the legitimate functioning of a market economy. Although financial transactions in the market-based economies are mainly private, the way in which the financial system operates makes it part of the essential infrastructure in any economy, of the value to the operation of markets, to the needs of states and to the well-being of civil society that it should be placed at the center of the public domain (e.g. Underhill, 2000). Over time, regulatory authorities need to have more close relationship with private market actors to respond promptly to their demands, and work in communion with private interests to monitor and supervise properly financial transactions. Symbiotic relations and shared-world views developed in public-private interactions provide private market actors with the opportunity to be incorporated into regulatory processes in the financial system and to affect the nature of financial governance. As a result, it is getting difficult to distinguish the public interest from the claims of private market actors in relation to the financial system Although private interests need to be incorporated into the process of regulatory reforms, the private sector itself is diverse and far from being monolithic and homogeneous. This diversity implies the complexity of interactions between regulators and market actors who have conflicting interests and are marked by different relationships to national regulatory authorities. This difficulty has called into question how regulators can effectively coordinate diverse private market actors to design and formulate standards that are to be applied to financial sectors. In this sense, regulatory authorities at national, regional and global levels should consider these constraints in their attempts at designing new market disciplines.

The private domination of the financial sector and regulatory process can change the notions of public good which underpin the formulation of regulatory standards designed to ensure market stability, compromise the policy autonomy of states to maintain their legitimacy, and pose a fundamental problem of democratic accountability. In this regard, the clear definition of public interests distinct from the claims of private market actors is the key to ensuring the predominance of such interests in the financial system. The problems of democratic accountability and legitimacy become more acute in the international domain as witnessed in the recent episodes of economic turmoil resulting from the undue dominance of financial regulatory processes by powerful profit-seeking private market forces. In the absence

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of strong public authority over private market forces, international regulatory standards may not only conflict with economic and financial imperatives in developing and emerging market countries but also pose serious problems of policy management (e.g. Underhill and Zhang, 2003). In these circumstances, existing institutional arrangements in the global financial system are more likely to facilitate the interests of powerful private actors and institutions from the leading industrial countries than to address the major concerns of the developing world and further financial market stability. Unless this issue is addressed, deep skepticism will run over ongoing efforts to reform the international financial architecture.

Ⅳ. Concluding Remarks

There is an assumption in many parts of the world that the crisis of capitalism represented by the freezing up of the financial system will accelerate the geopolitical shift, heralding the decline of US superpower and European influence. Now we are moving toward a multipolar world, with not only competing powers but also competing ideologies and governance systems. That is because global community looks to new powers, including South Korea, China and India as engines of growth over the globe, and because Japan leads the drive to boost the resources of the IMF as the backstop to domestic economies in global crisis. In the circumstances, the powerful impulse for regional cooperation in East Asia is materialism based on rapid economic development. As the global recession slows Asian export-driven economies, concern is growing over economic nationalism, that is, protectionism around the world. Thus, regional cooperation in East Asia is growing as a defensive response to global conditions than as an aggressive pan-Asian regionalism.

Although a constitution is still not within the grasp of the European Union, but the European project provides a justifiable basis for the formation of economic integration in East Asia. East Asian regional clubs fall short of the Asian project for economic union. As a matter of fact, East Asians did not seriously take the need for regional economic cooperation before the 1997-98 Asian financial crisis. The Association of South East Asian Nations (ASEAN), formed in 1967, was slow to respond to the regional upheaval, with some countries unwilling to embrace a consensus approach to stabilizing currencies and bolstering liquidity.[20] However, more cooperative approach is emerging in the ASEAN+3 process to expand a currency swap agreement to help support currencies destabilized by the ongoing

20) ASEAN includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

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financial crisis.[21] This could offer a blueprint for close economic integration with East Asia.

The current global financial crisis has shown that dependence on the west is just one flaw. Since the 1997-98 financial crisis in the region East Asians have focused on their real economies whereas the west is said to be casino capitalism, and its credit-fueled, asset-bubble growth model. The ongoing Western economic turmoil has formed an instant consensus that a new era has begun, and may accelerate the shift in economic power to Asia with its spirituality and entrepreneurialism as Asian values. Yet East Asian states′ role in global governance is far less than it could, or should be. Asia is the only continent where regional integration and common markets have not taken hold even though it is with the world′s largest population and its fastest-growing economies. Yet the quest for an Asian identity is growing. Moreover, Asians have not attempted. In the circumstances, East Asian states needs to be both better integrated and more internationally engaged to bring their expertise and success to cope with the ongoing global financial crisis so that they could lead global growth and development in the Asian century.

As noted, the general objectives might be consistent, but the different regulatory paradigms in the US, Europe and Asia have become increasingly visible and the resulting changes are becoming less coordinated. It is now possible to envisage permanently different regulatory responses with regional differences, allowing opportunities for regulatory arbitrage. Such moves might risk fragmentation. Rather than viewing this fragmentation as something to fear, it is perhaps better to see it more a natural consequence of the increasing diversity of the world economy. While entailing economic inefficiencies and limiting the optimal allocation of capital, it is not without its advantages and opportunities.

Most importantly, global growth will be constrained and a trade war will be hard to avoid unless global community can make progress in devising global financial governance regime that can efficiently regulate financial markets while adhering to principles accountability, legitimacy and efficiency. This task cannot be easily and readily carried out without a comprehensive examination of the complexity of the international trade and finance environment. In this regard, this study may raise more questions than it answers.

Clearly, more in-depth research is necessary to enhance the governance of finance in national, regional, and international levels. To that end, the new financial environment, and persistent national variations in financial systems and regulatory frameworks need to be examined thoroughly. If this study succeeded in convincing some academic readers to try filling some of the remaining gaps it identified regarding the more fundamental issues, which could then help deriving any meaningful implications of financial governance in action. Hopefully, it would be the achievement of this study.

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21) ASEAN+3 comprises 10 members of ASEAN plus China, Japan and South Korea.

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Abstract

In Search of the New Paradigm for Global Financial Governance

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As evidenced in the global financial crisis of the late 1990s, the world's financial regulatory authorities have not succeeded in keeping pace with the financial innovation. The ongoing global financial crisis revealed fundamental weakness in the structure of financial regulation. The crises have shifted the focus in global and domestic policy debates back to the notion of market failure and government failure separately and integrally. In this regard, this paper attempts to answer the question of what should be the appropriate responses to global financial integration, and thus provide a new paradigm for global financial governance. Finally, this paper will draw from a few suggestions which may be of some use to those involved in restructuring regional financial governance in East Asia.

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