Shaping the G20 Agenda in Asia: The 2010 Seoul Summit

LEAD ARTICLE
Looking Toward the 2010 Seoul G20 Summit

IL SAKONG, Chairman, Presidential Committee for the G20 Summit, Republic of Korea, describes Korea’s hopes for the G20 process and the potential for the summit to be an effective forum and viable institution for international economic cooperation. Korea and its partners suggest that the Seoul G20 Summit will be the place to tackle several mid- and long-term policy issues including financial safety nets, development-related economic issues, reform of international financial institutions, and resisting protectionism. Substantial progress on these issues would pave the way toward global economic reform and establish the credibility and effectiveness of the G20 process. Page 2

COMMENTARIES
Enhancing the G20’s Inclusion and Outreach

AMAR BHATTACHARYA, Director, G24 Secretariat, agrees that South Korea has the potential to play a key role in not only addressing issues raised in 2009, but also in bringing the concerns of emerging markets and developing countries to the G20 agenda. Page 5

The G20: Just Another Annual Get-Together of Leaders?
MAHANI ZAINAL ABIDIN, Director-General and Chief Executive Officer, Institute of Strategic and International Studies (ISIS), Malaysia, expresses skepticism that the G20 is capable of enabling global economic reforms or helping to prevent future crises. Page 6

Vying for the G20’s Attention
MARCUS NOLAND, Deputy Director and Senior Fellow, Peterson Institute for International Economics, and Senior Fellow, East-West Center, praises the program outlined for the Seoul Summit, but cautions that other issues may supersede this optimistic agenda. Page 8
Looking Toward the 2010 Seoul G20 Summit
Il SaKong

This year marks a major transition for the G20, which was designated as the world’s “premier forum for international economic cooperation” at the Summit in Pittsburgh in November 2009. Two summits will be held in 2010—in Toronto in June and in Seoul in November—as leaders continue to grapple with the global economic crisis. As the host of the first G20 Summit in Asia, Korea understands that the results of 2010 will be central to establishing the credibility and effectiveness of the G20 process. The summits need to ensure that agreements made at previous meetings are followed through and that clear policy directions are set for strong, sustainable, and balanced global growth after the crisis.

The global economy is recovering from the worst of the crisis, due in part to the forceful actions of the G20 last year, and with Asia leading the way. But the recovery is vulnerable. It is led by extraordinary, public-sector policy measures, while private consumption and business investment remain weak in many countries. For this reason, the G20 is committed to continuing stimulus policies until a durable recovery is assured. The experiences of the United States in the 1930s and Japan in the

1990s provide valuable lessons in the current circumstances. Nevertheless, countries need to prepare exit strategies, to be introduced as and when appropriate. These should follow common principles agreed among the G20. Global cooperation will be critical in unwinding the extraordinary policy measures of recent months without disrupting the recovery, just as it was in orchestrating the early responses to the crisis.

The main challenge facing the Toronto Summit in June, then, is to take stock of the implementation of exit strategies and to adjust global strategies to emerging developments. Some economies may have implemented exit strategies by then, while others may need to continue extraordinary measures to keep the recovery intact. The Toronto meeting will need to take pioneering steps in developing a mutual assessment process that operationalizes the Framework for Strong, Sustainable, and Balanced Growth, as agreed in Pittsburgh and in the subsequent finance ministers’ meeting in St. Andrews.

“The Seoul Summit in November should be able to turn also to mid- and long-term issues in post-crisis economic management.”
The Seoul Summit in November will need to continue this work, but it should be able to turn also to mid- and long-term issues in post-crisis economic management. The G20 Framework will continue to guide discussions in Seoul and beyond, since rebalancing the global economy will take time. But building on options developed in Toronto, the Seoul Summit should be in a position to propose concrete policy recommendations. The rapidly changing environment makes it difficult to predict the exact agenda of the November Summit, but Korea and its partners have begun to identify several policy areas that could lead to substantial progress in this timeframe.

First, Korea sees inherent value in taking up the issue of financial safety nets. Global imbalances are attributable in part to incentives to generate surpluses and accumulate foreign reserves as self-insurance against the effects of volatile capital flows. This has been an especially important motive for small, open economies. Global rebalancing thus depends on strong and reliable financial safety nets that mitigate risk on the global, regional, and bilateral levels.

Second, Korea sees an excellent opportunity for bringing development-related economic issues under the G20 umbrella. Global rebalancing is not confined to macroeconomic imbalances between deficit and surplus countries; imbalances also arise from gaps in income and development. The G20, as the premier forum for international economic cooperation, is the right platform for these issues. And as the first recipient-turned-donor country in the OECD Development Assistance Committee, Korea has an especially good understanding of the pain and agony involved in development. Korea is also a veteran of the 1997–98 Asian financial crisis—in part due to its own mistakes—and overcame it faster than other crisis-hit countries. Korea is well placed to bridge the perspectives of the advanced and the emerging and developing worlds.

Third, Korea is committed to making 2010 a watershed year in the reform of international financial institutions (IFIs). The crisis has provided painful evidence that the IFIs were not equipped to conduct proper surveillance and provide early warning of macroeconomic and financial risks. Nonetheless, leaders decided to build on existing IFIs, particularly the International Monetary Fund (IMF) and the World Bank, by enhancing their credibility and legitimacy, rather than create new global financial institutions. Reforms in voice and representation at the World Bank are mandated by April 2010, while IMF quota and governance reforms should be taken up at the Seoul Summit to meet the agreed deadline of January 2011. Open, transparent, and merit-based selection of the heads and senior leaders of IFIs is also essential.

Fourth, Korea believes that effective, operational surveillance mechanisms of the financial sector and
early warning systems should be established to preempt another financial and economic crisis. Progress will need to be made on ensuring appropriate regulatory regimes throughout the world. To this end, the G20 process needs to further engage and enhance the surveillance capacity of the Financial Stability Board in collaboration with the IMF.

Fifth, Korea has valuable experience to share regarding the aftermath of financial rescues. Fire-fighting measures and direct interventions have provided a lifeline to systemically important financial institutions in many countries. The challenge now is to find ways to share the burden of government bailouts between the public and the resuscitated institutions, and to establish a more responsible framework for financial discipline in the future. Korea’s experience during the 1997-98 Asian financial crisis is directly relevant in developing effective policies for burden sharing.

Sixth, as a major trading nation, Korea is keenly interested in sustaining the leaders’ commitment to resisting protectionism. Continued resistance to protectionism of all kinds and recommitment to the early completion of the Doha Development Agenda (DDA) remain a priority.

These are all difficult issues and require ample preparation. The planning for the summits started with a sherpas’ meeting in January in Mexico and will continue actively through the year. Korea is making a major investment in the success of the Summit. Immediately after the Pittsburgh G20 Summit, the Korean government established the Presidential Committee for the G20 Summit to coordinate both domestic and G20 Summit-related endeavors. The committee consists of concerned cabinet members, the governor of the Central Bank, and senior presidential staff. The committee will work closely with leading think tanks and multilateral institutions.

The world is at an early and critical juncture in creating a new framework for global economic governance. Korea is committed to addressing this opportunity and welcomes its role as G20 sherpa in this transition year. The agenda is full of large immediate challenges related to the crisis and intermediate-term challenges related to post-crisis growth, but the context is favorable. The G20 has already accomplished a great deal by bringing governments together and launching concerted policy responses at the depth of the crisis last year. It can fairly take credit for helping to avert a “depression-size” recession. The G20 represents a more promising and legitimate architecture for cooperation than has existed for many years, and Korea will work vigorously with its partners to help build it into an effective, durable institution.
COMMENTARY

Enhancing the G20’s Inclusion and Outreach

Amar Bhattacharya

Although the G20 has existed since 1999 as a forum of finance ministers and central bank governors, the decision to elevate it to the leaders’ level in the aftermath of the global financial crisis and to designate it as the premier forum for international economic cooperation is a milestone toward more effective global economic and financial governance. The three summits of G20 leaders have already made their mark through implementing the largest coordinated macroeconomic stimulus in history, which has successfully arrested a potentially deep global recession, through signaling commitment to and setting out the contours for financial regulatory reform, and by mobilizing unprecedented financing for deployment through the IMF and the multilateral development banks.

As Dr. Il SaKong underscores, Korea has assumed the chair of the G20 at a critical juncture. Will the success forged in the crisis endure, when pressures for cooperative actions abate but their need remains just as important in tackling the crisis-related and longer-term challenges confronting the global economy? The 2009 Pittsburgh Summit set out an ambitious agenda: on exit strategies, on the Framework for Strong, Sustainable and Balanced Growth (as a means for policy coordination on macroeconomic and structural policies), on a time-bound process for financial regulatory reform, and on the reform of international financial institutions. Delivering results in each of these areas will require detailed work and deliberations and strong political commitment. Korea’s leadership will be critical in implementing this ambitious agenda.

Given its own recent transformation, Korea is also well placed to bring the concerns of emerging markets and developing countries to the G20 agenda. Indeed the two topics that it has chosen for additional focus during its presidency serve precisely that goal: the issue of financial safety nets to better insulate emerging markets from systemic instability and the consideration of actions by the G20 to help close the development gap, especially for the poorest countries.

Another important contribution that Korea can make is to strengthen the institutional foundations of the G20 process, building on the success of and lessons learned from the almost decade-long experience of the G20 finance ministers’ process. As an informal self-selected grouping of the large systemic countries, perhaps the greatest institutional challenge facing the G20 is one of legitimacy and inclusion. It is laudable, therefore, as Dr. Il SaKong notes, that Korea intends to undertake

“Perhaps the greatest institutional challenge facing the G20 is one of legitimacy and inclusion.”
special efforts to extend outreach to non-G20 countries. In addition to consultations with those countries, there are two other structured approaches to achieving “smart inclusion” that do not lead to an increase in members but enhances the voice of and outreach to those countries.

The first is to strengthen links to formal organizations that have more universal representation, including the governance structures of these organizations. This has been in principle the case from the outset with the G20 finance ministers’ process, where the chairs of the International Monetary and Financial Committee and the Development Committee (the governance bodies of the IMF and the World Bank) are represented in the ministerial and deputies meetings, in addition to the heads of the two institutions. These links need to be strengthened and expanded. In particular, it is important for the G20 to strengthen links to the United Nations, especially in the preparation for and follow-up to the leaders’ summits.

A second effective way to enhance inclusion and outreach is through links with other relevant informal groupings, especially those that would give a voice to the most under-represented countries and where the greatest opportunities for leverage exist. The European Union is already included as one such body in the G20. Other groupings that can be included in the deliberations of and outreach efforts of the G20 include the African Union, the G24 (a longstanding representative group of developing country finance ministers and central bank governors), ASEAN, and APEC. The G20 has already taken steps in these directions, and efforts by Korea to make these more systematic will enhance both the effectiveness and the legitimacy of the G20.

**COMMENTARY**

The G20: Just Another Annual Get-Together of Leaders?

**Mahani Zainal Abidin**

Dr. Il SaKong has provided a succinct analysis of the rapid ascent of the G20 and the work that the group has in store for itself in 2010. It is difficult not to be supportive of the work plan and the goals of the G20, as well as Korea’s leadership, in moving these targets forward. The emergence of the G20 as a principal forum for international economic cooperation is an overdue reflection of the shift in the center of gravity of the global economy from the Atlantic to the Pacific. That, however, does not mean that the G20 will necessarily succeed where the G7 has been found wanting. The G20 has commendably initiated the first steps toward fundamental reforms to global economic governance. Making such reforms a reality, however, is another thing altogether.

The G20 Leaders’ Summit in Washington, D.C., in November 2008 will be remembered as the time when the United States and other major Western nations officially recognized the transformation in the distribution of global economic weight that has taken place in recent decades. Goldman Sachs predicts that by 2040, the economies of Brazil, China, India, Mexico, and Russia (all members of the G20) will together have a larger economic output than the G7. Bringing together key developed and developing countries—which collectively make up 80 percent of the global economy—was certainly the most logical way of managing the response
to the global financial crisis. But the deliberations and decisions of such an exclusive group of countries will inevitably fail to properly account for the interests of those that are not members of the G20. Given that the vast majority of developing and less-developed countries is excluded from the process, the G20 is likely to continue with its focus on financial matters. Issues such as poverty and sustainable development—which still pose formidable challenges for some G20 countries—will probably not figure prominently in the group’s agenda.

SaKong cites the G20’s response to the global financial crisis as evidence that it is “operationally effective.” Undeniably, the provision of US$1 trillion in additional capital to the IMF following the G20 Summit in London in April 2009 gave the global economy a critical boost. It is, however, worth remembering how the specter of the Great Depression loomed large in the minds of policymakers at that time. Parallels were being drawn between the G20 Summit and the 1933 London Monetary and

“**The issues that the G20 intends to address in 2010 and beyond deserve to be handled by a more transparent and representative body.”**

---

**G20 MEMBERSHIP**

The G20 is a forum of Finance Ministers and Central Bank Governors of member countries. Meetings have been held annually since 1999.

**Country members of the G20**

1. Argentina
2. Australia
3. Brazil
4. Canada
5. China
6. France
7. Germany
8. India
9. Indonesia
10. Italy
11. Japan
12. Mexico
13. Russia
14. Saudi Arabia
15. South Africa
16. South Korea
17. Turkey
18. United Kingdom
19. United States
20. European Union Presidency*

**Institutional members**

European Central Bank
Managing Director of the International Monetary Fund (IMF)
Chairman of the IMF
President of the World Bank
Chairman of the Development Committee (a forum of the World Bank and the IMF that facilitates intergovernmental consensus-building on development issues)

*Represents collectively the 23 countries of the European Union that are not G20 country members.
Economic Conference. The pressure on governments to avoid the missteps of the 1930s was therefore intense. But what happens when keeping the recovery on course becomes too burdensome? I believe the commitment to collective action we saw in 2009 will not be as easy to secure in the coming months. Perhaps ironically, the G20’s success in preventing a downward spiral of the global economy may well have diminished its own effectiveness.

An important agenda for the G20 is the prevention of future crises. I am pessimistic that the group will achieve much on this front. Fundamental issues—such as the global imbalances, exchange-rate alignment, preventing bubbles, and discouraging excessive risk taking and outlandish compensation in the financial sector—have not been addressed effectively. Furthermore, since the G20 normally has only one Summit a year, it is difficult to imagine how it will manage to act swiftly in the face of the next crisis. There are already fears that the G20 Summit will become another annual get-together of leaders.

Perhaps a larger question for us to consider is whether the G20 can truly claim the sort of legitimacy that its proponents regularly talk about. SaKong says that the Republic of Korea will take on a big part of the G20’s “outreach” to non-members. Such efforts, though commendable, are unlikely to placate countries that are outside the group. The issues that the G20 intends to address in 2010 and beyond deserve to be handled by a more transparent and representative body. The proposal to establish a Global Economic Council under the United Nations deserves serious thought. Admittedly, a process that involves a larger number of participants will invariably take more time to arrive at decisions. But that is the price of legitimacy, the sort of which the G20 will struggle to achieve.

COMMENTARY

Vying for the G20’s attention

Marcus Noland

In his essay “Ideas for the 2010 Seoul G20 Summit,” Dr. Il SaKong argues that the November 2010 G20 Summit in Seoul will bring to the fore a variety of medium- to long-term issues such as the provision of financial safety nets to mitigate incentives for self-insurance and the build-up of excessive official reserves, the more meritocratic recruitment of leadership of international financial institutions, and the strengthening of international development cooperation.

This is a prodigious program, but unfinished business from earlier summits and a critical new issue may elbow their way onto the agenda. Balance of payments adjustment, a hardy perennial, is likely to remain relevant, and a potential role for the G20 on climate change, in the wake of the disappointing Copenhagen summit, may demand attention.

The host country is well situated for taking on these tasks: diplomatically Korea is a densely networked, middle income, middle power, located between China and Japan, allied to the United States, and maintaining or entering into preferential trade agreements with diverse G20 partners such as the European Union and India.

At the September 2009 Pittsburgh Summit, leaders announced the Framework for Strong, Sustainable, and Balanced Growth. They committed to undertaking macroeconomic policies to pull the world economy out of recession and to submitting their actions to peer review.
facilitated by the IMF. The Seoul Summit will mark the one-year anniversary of the formal launch of the initiative in November 2009 by finance ministers and central bank governors.

The Framework, like previous exercises in multilateral macroeconomic coordination, lacks any enforcement mechanism beyond naming and shaming. A key issue is whether the rest of the world (ROW) believes that the United States will stop acting as the consumer of last resort, providing aggregate demand and enabling export-led recoveries among its partners. If the ROW believes that the United States is serious, out of self-interest it will be induced to undertake the appropriate macroeconomic adjustments even in the absence of any enforcement mechanism. However, if the ROW believes that the United States has not changed its ways (and there is ample reason for skepticism on this score), then the heat is off.

China’s exchange-rate policy has emerged as a critical concern in regard to global balance of payments adjustment, with the IMF now predicting Chinese surpluses larger than U.S. deficits. China has been reluctant to submit its exchange-rate policy to scrutiny, at least publicly. If the issue is subsumed into a broader framework, there is some hope that its role can be given its appropriate prominence in the discussion.

The wild card is that the Seoul summit comes on the eve of the December 2010 Mexico City summit on climate change. Some observers believe that the G20 should try to forge an agreement; this would probably be a mistake, but the group could play a constructive role.

Unlike the case of trade liberalization, where concerted voluntarism has been employed by groups such as APEC, climate change mitigation is arguably more a zero-sum game, putting a greater premium on verifiable commitments. The G20 has legitimacy issues; it is a self-selected, non-universal group, and for this reason it is probably not a good forum for hammering out binding reciprocal commitments. Rather than focusing on the specifics, which is better left for the UN process, the G20 should concern itself with building consensus around the broad principles that would constitute a workable multilateral agreement as well as develop modalities for technical assistance and technology transfer, which may ultimately play a large role in greenhouse gas abatement. The latter could be interpreted as a “development contribution” along the lines of the agenda specified in SaKong’s article.
East-West Dialogue, a project of the East-West Center, fosters discussion and debate of key issues in Asia-U.S. economic relations. The Dialogue seeks to develop and promote innovative policy, business, and civic initiatives to enhance this critical partnership.

Peter A. Petri. Carl J. Shapiro Professor of International Finance, Brandeis International Business School, and Senior Fellow, East-West Center, is the Convener of the Dialogue.

This publication is produced with the support of the East-West Center Research Program and Publications Office, with editorial assistance from Kennon Breazeale and Linda Kay Quintana.

The views expressed in East-West Dialogue are those of the authors and do not necessarily reflect the views of the East-West Center.

Contents of this paper may be reproduced for personal use. Single copies may be downloaded from the Center’s website. To order print copies please contact:

Publication Sales Office
East-West Center
1601 East-West Road
Honolulu, Hawai‘i 96848-1601
Tel: 808.944.7145
Fax: 808.944.7376
EWCBooks@EastWestCenter.org
EastWestCenter.org/ewdialogue

ISSN: 1937-5379 (print) and 1937-5417 (electronic)

© 2010 East-West Center

Previous Dialogue Topics

Climate Commitments to 2050: A Roadmap for China
ZhongXiang Zhang East-West Center
With commentaries by
Gary Clyde Hufbauer Peterson Institute for International Economics
and Jisun Kim Peterson Institute for International Economics
Raekwon Chung Climate Change Ambassador, South Korea
Stephen Howers, Australian National University
EastWestCenter.org/pubs/3308

How the Asia Pacific Can Drive the Global Recovery
Peter A. Petri Brandeis International Business School and East-West Center
With commentaries by
Wendy Dobson University of Toronto
Yiping Huang Peking University and Australian National University
Hadi Soesastro CSIS Indonesia
and Maria Monica Wihjardja CSIS Indonesia
EastWestCenter.org/pubs/3285

How (and Why) the United States Should Help to Build an ASEAN Economic Community
Michael G. Plummer The Johns Hopkins University, SAIS-Bologna, and East-West Center
With commentaries by
Scot A. Marciel U.S. Ambassador for ASEAN Affairs
Kishore Mahbubani Former Singaporean Ambassador to the United Nations
Chalongphob Sussangkarn Former Minister of Finance, Thailand
EastWestCenter.org/pubs/2901
The Asia Pacific Bulletin publishes summaries of Congressional Study Groups, conferences, seminars, and visitor roundtables, as well as short articles and opinion pieces. These 2-page summaries are designed for the busy professional or policymaker to capture the essence of dialogue and debate on issues of concern in U.S.-Asia relations.

EastWestCenter.org/apb

China's Stimulus Package: A Catalyst for Recovery?
Dieter Ernst
No. 35, June 3, 2009
EastWestCenter.org/pubs/3200

Indonesia's Role in India's Look East Policy
Baladas Ghoshal
No. 38, July 6, 2009
EastWestCenter.org/pubs/3232

Defusing Tensions Over China's Exchange Rate Policy
Christopher A. McNally
No. 48, February 18, 2010
EastWestCenter.org/pubs/3347

Pyongyang's Failed Currency Reform
Marcus Noland
No. 49, February 23, 2010
EastWestCenter.org/pubs/3351

Policy Studies provides policy-relevant scholarly analysis of key contemporary domestic and international political, economic, and strategic issues affecting Asia.

EastWestCenter.org/policystudies

The Global Economic Crisis and Its Implications for Asian Economic Cooperation
Michael G. Plummer
EastWestCenter.org/pubs/3281

An East-West Center book series published by Stanford University Press
EastWestCenter.org/studiesinasiasecurity

Political Conflict and Economic Interdependence Across the Taiwan Strait and Beyond
Scott L. Kastner
ABOUT EAST-WEST DIALOGUE

East-West Dialogue, a project of the East-West Center, fosters discussion and debate of key issues in Asia-U.S. economic relations. The Dialogue seeks to develop and promote innovative policy, business, and civic initiatives to enhance this critical partnership.

EastWestCenter.org/ewdialogue

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the U.S. Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options.

1601 East-West Road
Honolulu, Hawai’i 96848-1601
EastWestDialogue@EastWestCenter.org