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The G20: from Seoul to Paris and beyond[*]

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ABSTRACT

This paper reviews what has been done and what should be done at the G20 Summit meetings and suggests key agendas to be focused on for the Seoul Summit so that the G20 Summit can genuinely become the premier forum for international economic cooperation. First, the G20 leaders must address the problem of global imbalances even though it is very sensitive and politically difficult. But naming and shaming must be avoided and more balanced and comprehensive discussions will be needed. Second, regarding financial reforms, the Seoul Summit should focus more on follow-up agendas than on new ones and announce a comprehensive action plan that includes country-specific commitments. Third, given that the IMF reform has quantitative targets and that the G20 leaders pushed forward the deadline twice for the quota reform, this agenda of the IMF reform is symbolic. Thus the G20 leaders must conclude the issues of IMF quota and governance reforms by agreeing on details. Fourth, Korea will propose the agenda of global financial safety nets as a Korean initiative at the Seoul Summit. However, discussions and suggested ideas up to now are insufficient to tackle the intrinsic problem of capital flow volatility. The G20 Summit should be committed to reducing volatile movement of international capital by introducing direct and pre-emptive measures. Fifth, at the Seoul Summit the G20 leaders need to show some progress to break the current impasse of trade negotiations so that its credibility can be greatly enhanced. Sixth, the G20 leaders must recognize that development agenda is morally important and that addressing development issues will strengthen the legitimacy and leadership of the G20. For the success of the development agenda, the multi-year action plans prepared by the Working Group need to be adopted by the Leaders and must further be carried on by the G20 Paris Summit in 2011 and the Mexico Summit in 2012. Last but not least, to overcome those challenges regarding legitimacy issues, characteristics issues, institutionalization issues, and relationships with international organizations and successfully achieve its ultimate goal, the G20 must establish an effective implementation mechanism and this specific matter should be discussed at the G20 Summits in Seoul as well as in Cannes in 2011.

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1. Introduction

Since the first meeting in Washington D.C. in November 2008 that was held amid the global crisis, the G20 Summit has played a major role in addressing the crisis through coordinated fiscal and monetary stimulus policies. Such globally concerted action of economic policies was unprecedented. The G20 has also shown substantial achievements in strengthening the financial system through broad financial reforms. Such comprehensive and simultaneous reform in all major countries is also unprecedented.

Despite its big achievements, the G20 is now at the crossroads. As the unifying threat of financial Armageddon fades, it has become fractured. Unlike at the previous summits, these days there have been serious disaccords in numerous issues among the G20 member countries. For example, at the most recent Toronto Summit, the G20 countries could not derive a unified approach to fiscal stimulus and consolidation plans and rather let each country differentiate and tailor its plan to national circumstances. Also, conflicts between the U.S. and Asian countries, in particular China, have rather intensified than ameliorated, although they agreed on making further progress on rebalancing global demand. Some are even afraid of currency wars.

As the imminent threat of the crisis attenuates, the G20 seems to become not only fractured but also dysfunctional. Even though it has led to many agreements, the G20 is limited in its further ability to derive continued cooperation and to undertake (or enforce) appropriate actions; and there is scarcity of actual implementation and concrete commitments from the governments. A notable example is the reform of international financial organizations. The G20 leaders committed to a shift in (IMF) quota share to dynamic emerging market and developing countries of at least 5% from over-represented to under-represented countries, but this plan has not yet been implemented because they have not been able to finalize who will give up the shares to whom.

The Seoul Meeting will be a cornerstone for the sustainability of the G20 Summit in the long run. The G20 will face challenges because many sensitive issues are handed over to the Seoul Summit. The vexing problem of exchange rate adjustment will be a main focus at the Seoul Meeting as the outcome of the 2010 IMF-World Bank annual meeting was inconclusive on the issue. Also at this annual meeting, they agreed to finalize the quota share adjustment at the Seoul Summit. At the same time the Seoul Meeting can provide opportunities to enhance the G20's credibility. While the G20 leaders only agreed on policy options at the Toronto Summit, it is expected that a comprehensive action plan including country-specific commitments would be announced at the Seoul Summit. Following through and producing an action plan in Seoul and Paris is a key to the success of the G20. If the G20 can derive a consensus on the issues currently at impasse and in conflict, its credibility would be much enhanced as the premier forum for international economic cooperation.

The main purpose of this paper is to examine what progress has been made so far and to provide ideas on what should be done so that the G20 will maintain and strengthen the momentum to lead the world economy. In particular, we focus on what should be main agendas and what actions are needed at the Seoul Summit for the sustainability of the G20.

This paper is composed as follows. After this introduction, section 2 examines the issues already discussed or to be discussed at the summits regarding the Framework such as the diagnosis of the global economy and further efforts, including global imbalance adjustment to attain the strong, sustainable and balanced growth. Section 3 comprehensively analyzes financial issues including financial regulatory reform, reform of international financial institutions, and global safety nets. Section 4 discusses the real issues such as global trade and development agendas and brings those currently at impasse into the G20 agenda. Section 5 proposes what should be key agendas for the

Seoul Summit and finally, section 6 discusses future challenges facing the G20.

2. Global Economy and the Framework

When the leaders of the G20 gathered in 2008 and 2009, they felt that they “confronted the greatest challenge to the world economy in our generation” and agreed to do everything necessary to ensure economic recovery. Thanks to the unprecedented and globally concerted fiscal and monetary stimulus, the world economy began to recover since the middle of 2009.

At the Pittsburgh Summit, the G20 leaders launched the Framework for strong, sustainable and balanced growth as the means to achieving the shared objectives. The first stage of Mutual Assessment Process was successfully completed. The assessment is that overall the outlook of the global economy is positive and the double-dip is less likely, but still the uncertainty surrounding the global economy remains; the global economic recovery is fragile, uneven, and vulnerable to reversal. At the Toronto Summit, to sustain the recovery and achieve the set goals, the G20 leaders agreed on a set of policy options that was based on their understanding as a group of countries facing similar circumstances: advanced countries committed to growth-friendly fiscal consolidation plans; G20 countries committed to structural reforms to increase and sustain growth prospects; G20 countries committed to make more progress on rebalancing global demand; advanced countries take actions to boost national savings and surplus countries focus more on domestic sources of growth; G20 countries committed to narrowing the development gap; These measure need to be tailored to individual country circumstances.

<Table 1> Group Based Policy Options

Group	Policy Options
Advanced countries	Communicating “growth friendly” fiscal consolidation plans at least by halving deficits by 2013 and stabilizing or reducing government debt-to-GDP ratios by 2016
Advanced countries with external deficit	Measures to stimulate private savings and enhance export competitiveness
Advanced countries with external surplus	Structural reforms that support increased domestic demand
Emerging countries with external surplus	Reforms to strengthen social safety nets, increase infrastructure, and enhance exchange rate flexibility
All G20 countries	Structural reforms, avoiding new protectionist measures, completing Doha round, measures to reduce poverty and close the development gaps

Although the G20 leaders agreed on those policy options, there are still many challenges in undertaking action plans to achieve the objectives of the G20 at the Seoul Summit. Two most serious challenges are the public finance problem in advanced countries and the global imbalance problem between surplus and deficit countries. Recent fiscal crises in Europe highlighted the importance of sustainable public finances. In the market this problem is perceived as the biggest threat to the world economy and it is widely agreed that the G20 needs to deliver clear and credible plans of fiscal consolidation for fiscal sustainability. At the Toronto Summit of June 2010 which convened after the euro-zone fiscal crisis, the world leaders seemed to confirm the need of fiscal consolidation. For the first time, they even set the time table for deficit reduction and halting government debt that "…advanced economies have committed to fiscal plans that will at least halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016."[1]

But there was a big debate between fiscal austerity and fiscal stimulus and a serious disaccord in the approach to fiscal stimulus and consolidation plans in contrast to the unity that characterized the previous summits. Supporters of fiscal austerity argued that the failure to implement fiscal consolidation where necessary would undermine confidence and hamper growth while fiscal austerity would not slow the momentum of the global economic recovery. In contrast, those of fiscal stimulus argued that the world recovery is still fragile and synchronized fiscal tightening could significantly reduce aggregate global demand unless the adjustment is complemented by other policies. To keep the balance between fiscal consolidation and economic recovery, they agreed to follow through on fiscal stimulus and communicating "growth friendly" fiscal consolidation plans in advanced countries. Fiscal consolidation plans will be "differentiated for and tailored to national circumstances,"[2] and countries can go on their own ways through their own decision.

Regarding the issue of weaning the world economy off fiscal and monetary stimulus, the world leaders still need to coordinate and discuss this matter at the G20 summit. In the current phase of the crisis, a one-size-fits-all strategy does not exist and the plan cannot but be tailored to national circumstances. Thus one suggestion is that sharp corrections are needed in countries that already face high and increasing risk premium on their debt and at the same time that those with more fiscal room should wait longer than those with less to avoid the dampening effect of simultaneous fiscal adjustment. The world economies need to cooperate in complementary ways instead of accelerating ways. Another suggestion is that central banks and finance ministries must co-ordinate their policies more closely than in recent years.[3] The current size of public debt would not be sustainable, while monetary expansion is considered to lie within a relatively manageable range. Thus, when the recovery is still feeble and incomplete and then would be slowed by fiscal consolidation, loose monetary policy could be helpful to lower the concern of a double dip. This mix of loose money and fiscal adjustment in those developed countries with high debt-to-GDP ratios will also be helpful to resolve the global imbalance problem through weakening their currencies relative to emerging economies.

A more serious challenge to the Seoul G20 Summit will be the conflict surrounding solutions to the global imbalance problem, as we recently witnessed. One of fundamental causes of the current financial crisis was global imbalances, in particular the trans-pacific imbalance between East Asia and the U.S. (Kim 2009). Thus, without addressing the global imbalances, a root of the crisis would not be completely eliminated and the recovery of the world economy would not be secured because the pressure from global imbalances will simply build up again until it finds another outlet.

Solutions to the problem are various depending upon what the member countries think were the causes of the crisis. On the one side of the Pacific, the U.S. put forward the global savings glut (Bernanke 2005), blaming Asian countries for the imbalances. According to this view, developing Asian countries save in excess of domestic investment and run current account surplus to accumulate foreign reserves so as to avoid the consequences of financial crises (war chests against a crisis) and to promote export-led growth by preventing exchange-rate appreciation (Bretton Woods II). The view goes on to say that the U.S. was attractive for foreign investors and net capital flows into the U.S. increased the value of the dollar, creating a rising U.S. current account deficit. A natural solution to global imbalances is therefore to expand domestic expenditure in Asian countries and to appreciate their currencies against the U.S. dollar.

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[1] The G20 Toronto Summit Declaration (2010), p.10.
[2] The G20 Toronto Summit Declaration (2010), p.10.
[3] Economist (2010).

On the other side of the Pacific, Asian countries refute the savings glut and blame an exceedingly lax monetary policy of the U.S. for the imbalances. According to this view, "policy rates … remained too low for too long and this triggered both asset-price inflation… and a generalized leverage boom…. The consequent fall in domestic saving and the increase in consumption have widened the trade and current account balance."[4] To solve the imbalance problem, this view therefore suggests that the U.S. should stop binge of expenditure and belt-tighten both in the private and public sectors.

Putting all the arguments together, it is clear that there are multiple causes of global imbalances. Further, many of them are interrelated. Thus it is not easy to find an appropriate solution to the problem. There have been many sincere efforts to resolve the problem though, and a consensus could be reached that the efforts to adjust internal imbalances should be promoted together with the efforts to adjust external imbalances. Global external imbalances are the reflection of significant internal imbalances of major countries including the U.S., China, Japan and other East Asian countries. For example, the main reason for the U.S. imbalance is its low level of private savings and high level of public deficit. Likewise, the main reason for China's external surplus is its strong propensity to save and the lack of domestic consumption demand. Therefore, solving the problem of global imbalances requires that each part should take full efforts to address domestic economic imbalances.

The G20 Toronto Summit declaration to resolve the global imbalance problem is in line with this consensus.

> "Advanced deficit countries should take actions to boost national savings while maintaining open markets and enhancing export competitiveness." "Surplus countries will undertake reforms to reduce their reliance on the external demand and focus more on domestic sources of growth… To do this, advanced surplus economies will focus on structural reforms that support increased domestic demand. Emerging surplus economies will undertake reforms tailored to country circumstances…"[5]

However, the belt-tightening in the U.S. combined with consumption expansion in East Asia is only partially effective but not sufficient enough to resolve the underlying causes of the global imbalance problem. To eliminate the remaining imbalances, further policies need to be considered. The first one is that the channel of expenditure switching should come in and the exchange rates should be adjusted.[6] But this is politically very difficult. Most of all, many believe that the pressure for exchange rate adjustment could trigger a currency war. Also, once this happens, East Asian countries will face a much more serious challenge. Some countries may be adversely affected and others may be favorably affected by exchange rate changes, and the impact may be enormous for some countries and mild for others. The optimal adjustment of exchange rates needed to resolve the global imbalance problem may vary across East Asia, and this likely leads to the risk of intraregional conflicts. Thus regional exchange rate coordination may be required to relieve the stresses created by payments imbalances between East Asia and the U.S.: it provides a mechanism for solving the first-mover problem that threatens to stifle adjustment. The second policy is to secure stability of the financial markets in those countries. An important motive behind the huge accumulation of foreign reserves in East Asia is that of war chest against a potential future crisis. Thus, unless the fear of future risks due to volatile capital

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[4] Darvas and Pisani-Ferry (2010), p.4.

[5] In this vein, Packard (2010) strongly supports a Keynes's idea advanced in the 1940s. Keynes envisioned an International Clearing Union, which is similar to the IMF. Its members would be given "a quota denominated in a new global currency (similar to SDR)" and "allowed overdrafts based on this quota." "A deficit country could draw on its overdraft facility to make a payment, with a percent annual charge if the debt balance exceeded one quarter of its quota and additional 1 percent on balances exceeding one half of the quota." The same thing applied to a surplus country for credit balances. Devaluation or revaluation could be taken only to adjust persistent imbalances,

[6] Kim and Rhee (2010).

flows disappears, this trend of accumulating foreign reserves would continue and the global imbalance problem would persist.

3. Financial Reforms and Restructuring Global Financial Systems

To ensure the "Strong, Sustainable and Balanced Growth", simple recovery from the crisis is not sufficient and additional efforts are demanded. Most of all, further progress is required on financial reform to build a better regulated and more resilient financial system. The G20 has set out a broad framework of financial reform that covers almost all areas and substantial progress had been made. However, most discussions on policy resolutions have primarily targeted developed economies and do not necessarily coincide with the issues and concerns of emerging and developing economies. Among others, we will raise most important issues that further need to be dealt with to reduce the risk of future crises in the respect of emerging countries.

A. Financial regulatory reforms

Capital and liquidity

As declared at the Toronto Summit, "the core of the financial sector reform agenda rests on improving the strength of capital and liquidity and discouraging excessive leverage".[7] The most urgent reform to ensure that the financial institutions are better able to withstand the impact of a crisis is a reform to reduce excessive leverage and risk taking by increasing the quantity and quality of capital and by raising liquidity standards.

Setting aside the debate about optimal capital and liquidity levels, there are at least two new concerns this time when preparing new standards for capital and liquidity: how to address pro-cyclicality and how to contain systemic risks. The Basel II requirements for capital adequacy were pro-cyclical and amplified, rather than reducing, the boom-bust volatility of the asset markets. In good times, asset prices are high and profits increase, resulting in low level of default risks. Thus, required capital declines and credit expands, leading to further price increases. In bad times, the opposite deleveraging process follows. As asset prices fall, balance sheets deteriorate and default risks increase. In order to shore up capital, new lending is halted and thus credit crunches when it is needed the most. If this is not properly dealt with, the boom-bust cycle is feared to continue. Another problem of old capital regulation is that it only focused on risks at the micro-level, believing that if an individual risk is controlled, the whole risk is also controlled and there is no further need for concern. But the current global crisis shows that there are systemic risks as well as micro-level risks that are quite dissimilar. To manage those risks, the old micro-prudential measures are not sufficient on their own but need to be supplemented with macro-prudential measures.

There are many proposals to resolve these new issues. For example, a capital buffer of 1-2% is suggested to alleviate pro-cyclicality and additional capital surcharge is suggested for systemically important financial institutions (SIFIs). The IMF (2010) also suggests considering "more direct methods to address systemic risks, such as instituting systemic-risk-based capital surcharges, applying levies that are related to institutions' contribution to systemic risk, or perhaps even limiting the size of certain business activities".[8]

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[7] The G20 Toronto Summit Declaration, p.14.
[8] IMF (2010), Ch.2.

On 12 September 2010, the Group of Governors and Heads of Supervision at the BCBS announced new global minimum capital requirements. Under these agreements, "the minimum requirement for common equity, the highest form of loss absorbing capital, will be raised from the current 2% level, before the application of regulatory adjustments, to 4.5% after the application of stricter adjustments. This will be phased in by 1 January 2015. The Tier 1 capital requirement, which includes common equity and other qualifying financial instruments based on stricter criteria, will increase from 4% to 6% over the same period."[9] Besides this minimum requirement, banks will be required to hold a capital conservation buffer of 2.5% to withstand future periods of stress and a countercyclical buffer within a range of 0 - 2.5% of common equity or other fully loss absorbing capital will be implemented according to national circumstances.

Many countries have already taken actions for regulatory reform and there may not be "a great deal of international coordination needed with respect to regulatory processes involved".[10] Thus, considering the achievement of the BCBS and progresses of national circumstances, it would be more important for the G20 summit to press member countries to institute arrangements" to deal with the issue of prudential regulation rather than to spend energy to discuss on more proposals.

<Table 2> Calibration of the Capital Framework (%)

	Common Equity	Tier 1 Capital	Total Capital
Minimum (A)	4.5	6.0	8.0
Conservation Buffer (B)	2.5		
A + B	7.0	8.5	10.5
Counter Cyclical Buffer Range	0 – 2.5		

Source: BIS (2010)

Addressing SIFIs

The recent crisis has shown that systemically important financial institutions (SIFIs) that are too big to fail need special treatment to ensure resilient financial systems. If those SIFIs are allowed to fail, it will directly lead to a systemic crisis. If they are not allowed to fail, it will cause such a serious moral hazard problem that they will take on more risk. Thus, how to handle these institutions is probably the trickiest issue among others. If they operate internationally, this problem becomes much more complicated and requires more special attention.

No specific agreement on this issue was reached at the Toronto Summit except to address that more intensive supervision is needed. Broadly speaking, there are two approaches to deal with this issue. The first is somewhat of a preventive measure to reduce the probability and the impact of SIFIs' failure. Some suggest additional capital/liquidity surcharge for SIFIs to strengthen capital/liquidity requirements. A more drastic idea is the Volker rule, which suggests to limit the business scope, their size and the complexity, for example by separating commercial banking and investment banking or by

[9] BIS (2010).
[10] Thiessen (2010).

ceiling the market share. Suggestions related to international operations include simplifying the governance structure by local subsidiarization and constraining cross-border operations. The second approach is to improve resolution capacity when the actual losses take place. A widely discussed solution is firm specific contingency plans such as formation of a crisis management group and a recovery and resolution plan (living will). This is a requirement that SIFIs set out as a process that could be used to wind them up in the event of crisis. Also at the international level, cross-border resolution framework is often discussed.

There are two difficult issues to be resolved when handling the SIFIs problems. One difficulty is in correctly identifying SIFIs. The IMF, the FSB, and the BIS produced a set of underlying principles to identify SIFIs using information on sizes, risk exposures, interconnectedness, and etc. The other difficulty is in countering regulatory arbitrage that inevitably follows a tighter regulation in the sector of SIFIs and looser one in others. "Providing clarity about how institutions are to be chosen, but at the same time maintaining some discretion to avoid circumvention, will be a major challenge." (Kodres 2010, p.9) It is even more difficult to manage cross-border resolution issues. "This will require consistent national approaches when a bank fails in several countries and are more contentious because domestic operations are subject to individual national legal frameworks." (Kodres 2010, p.10)

Banks' responsibility and infrastructure

During the crisis, most governments spent huge amount of public money to bail out collapsed banks, in spite of the fact that they weree the main culprit of the crisis and impose huge costs to the society. To prevent taxpayers from bearing the entire burden, now many countries have suggested and implemented policies to make banks appropriately share the burden. Unfortunately, however, almost no agreement was reached at the Toronto Summit,[11] saying that "we recognized that there is a range of policy approaches." There are many ideas for banks' burden sharing. One is to charge systemic levy on banks and accumulate resolution fund for future crises. The Volker rule is a notable example of this, and in a recent report, the IMF also supported bank levy to protect against the impact of future crises and to curb reckless behavior of the banking industry. Another is to introduce contingent capitals that convert into either common equity or a hybrid capital instrument such as preferred stock if a particular stress trigger is breached. This may be useful to bolster capital in a time of stress and to fall the burden not on taxpayers but on creditors. An idea relevant to international operation is to charge Tobin's tax or financial transaction tax on international capital movement.

However, there have also been strong oppositions to these ideas of burden sharing, arguing that they would hamper economic growth by limiting the role of financial intermediation and transfer the additional cost to consumers. However, whether this leads to a higher or lower growth path will depend on whether stability encourages more use of the financial system to intermediate between savers and investors. Even though financial activities are reduced due to the regulation, their level (relative to GDP) would be back to where they were in the 1980s or even early 1990s. It would be very difficult to argue that the economic growth in these decades was dampened by small and less-developed financial markets. Also, if financial firms can transfer the additional costs to consumers, they can make as much profit as before and there is no reason for those profit maximizing firms to argue against the regulation.

With regard to strengthening financial market infrastructure and expanding the scope of financial regulation, there has been a substantial progress and the G20 has widely agreed on regulation reform. At the Toronto Summit, the G20 leaders pledged to work in a coordinated manner to accelerate the implementation of the reform measures in those agreed areas, including OTC derivatives regulation,

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[11] Only five basic principles were agreed at the summit: Protect taxpayers; reduce risks from the financial system; protect the flow of credit in good times and bad times; take into account individual countries' circumstances and options; and help promote a level playing field.

reform of compensation practices, improvement of global accounting standards, tightening scrutiny of hedge funds and crediting rating agency, international assessment and peer review of the financial systems, and addressing non-cooperative jurisdictions.

B. Reform of international financial institutions

There is a universal agreement that international financial institutions (IFIs) including the IMF, the World Bank and MDBs (multilateral development banks) are in need of reform. The idea of IFIs reform was reinforced by the painful experience of the global crisis: the IFIs were not equipped to conduct proper surveillance and to provide early warning of macroeconomic and financial risks, and could not function to stop the crisis from spreading. Many countries were even reluctant to ask for their rescue, in particular from the IMF, because they regard it as doctrinaire, responsive mainly to its largest shareholders, and a source of a stigma effect.

At the London Summit, "there was a shared understanding of the key problems facing the IMF such as insufficient resources, stigma among the EMEs, and lack of credibility/capacity in surveillance," and the G20 members agreed that "governance reform in the World Bank needs to be accelerated, with merit-based."[12] To improve the legitimacy, credibility and effectiveness, important actions have been taken by the G20. First of all, the G20 contributed to the mobilization of "$985 billion in critical financing" and "over 250 billion in trade finance."[13] Also, the G20 member countries "are committed to shift in (IMF) quota share to dynamic emerging market and developing countries of at least 5% from over-represented to under-represented countries"[14] and endorsed "the World Bank's voice reform to increase the voting power of developing and transition countries" by 4.59%, bringing their overall voting power to 47.19%.

As stressed by the leaders at the Toronto Summit, what is more important is to enhance the governance structure of IFIs through an open, transparent and merit-based selection processes for the heads and senior leadership of all the IFIs in the context of a broader reform. Even if Asia's quotaincreases, for example, "if the U.S. continues to wield veto power and if the head of the IMF is always selected from Europe," the higher quota shared by Asia may not translate into its changed status.[15] Another issue, which is directly related to the IMF's governance reform, is how to ensure political traction for the IMF's recommendations. Even if Asia's voting power rises and an individual from Asia is allowed to be the head of the IMF, the improved governance may hardly improve the global consensus on monetary and financial policies without the secured political traction from member countries. Also, to complete the governance reform, such issues as size and composition of the executive board, expansion of Governor's involvement in important decision making, selection of head and senior leaderships of IFIs, and enhanced staff diversity should be addressed.

C. Global safety nets

Once a country's financial markets are more open and internationally integrated, its market is always exposed to the shocks from the world financial markets. During the past and current crises, we witnessed this risk in some East Asian countries whose financial markets were widely exposed to the world financial markets. For example, Korea was temporarily hit by the current global financial crisis to a severe extent in spite of its relative economic stability compared to that of other countries.

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[12] London Summit Declaration.
[13] Toronto Summit Declaration.
[14] Toronto Summit Declaration.
[15] Rogoff (2010)

The experience of crises has led many East Asian countries to conclude that in order to avoid a crisis caused by unstable capital flows and accentuated by its detrimental effects, they must protect themselves. Liquidity is the key to self-protection (Feldstein 1999) and these East Asian countries have always been encouraged to accumulate huge foreign reserves. However, no matter how much liquidity a country holds, this amount is dwarfed by the magnitude of international capital flows and a country alone cannot protect itself against the attack of international capital. In order to tackle sudden stops of capital flows, a monetary cooperation instrument through which enough liquidity can be provided in urgent situations is essential. However, when East Asian countries suffered from sudden stops of capital flows and were temporarily short of liquidity, they could not depend on the IMF or other international organizations as lenders of last resort. This suggests that the global financial stability network needs to be improved to provide international liquidity and to sustain confidence in the financial system.

At the Toronto Summit, the G20 leaders acknowledged the need for national, regional and international efforts to handle the volatility of capital flows since they recognized that even countries with sound fundamentals can be hit by a crisis due to sudden changes in global capital flows. They tasked finance ministers and central bank governors to prepare policy options to strengthen global financial safety nets for the Seoul Summit. A natural starting point is to improve IMF's and other IFI's lending facilities. It is very important that the eligibility criteria for its lending must be improved in terms of transparency and quantification.[16] In addition, it is also needed to alleviate the concern that some countries are reluctant to use IMF lending facilities for fear of stigma effects, as mentioned above. The G20 leaders called on the IMF to make rapid progress in reviewing its lending instruments: the IMF enhanced the Flexible Credit Line (FCL) and established the Precautionary Credit Line (PCL) on August 2010.
Another idea to safeguard developing nations against sudden reversals in global capital flows is to set a new mechanism of the IMF in connection with regional safety nets such as the Chiang Mai Initiative. The concerted effort by the EU and the IMF to rescue Greece provides a good example for this. When the 16 members of the euro-zone announced an emergency package of 500 billion euros to defend euro and euro-zone economies, the IMF also announced to contribute up to 250 billion euros as a sort of matching fund. This kind of integration of regional arrangements with global arrangements could enhance the functioning of global safety net. Finally, the expanded use of bilateral swap arrangements between central banks is another possible idea to strengthen the global safety net. Indeed, the swap line with the U.S. Fed was much more effective than the huge amount of foreign reserves or the regional safety net of CMI in stabilizing the financial markets when Korea was suffering from liquidity crunch in late 2008. Since emerging economies are limited in raising international confidence in their currencies due to the "original sin," securing of international liquidity through bilateral swaps with countries whose currencies are internationally liquid could provide a good channel to mitigate risks caused by unstable liquidity supply.

Other issues to strengthen the global safety net involve alternative international currencies, central players in the global safety net, and international cooperation. The instability of international liquidity supply in emerging countries tends to aggravate when there is the sole international currency and the vehicle currency country is in economic trouble such as chronic external deficit. Thus a new international system centered on other alternative international currencies such as SDR or a new currency would be conceivable as a new reform to enhance the existing liquidity system.[17] Regarding the key player in the global safety net, it would not be a good idea to create a new IFI; rather, the IMF should play the role. Finally, a bilateral swap arrangement is a matter between two concerned countries and it would be hard for the G20 to draw on any agreement. But if bilateral swaps are to be expanded, the strong support from the G20 will be necessary.

[16] Kim (2010).
[17] U.N. (2009) also suggested expanded use of SDRs as a global reserve currency and transformation of the IMF into a global central bank and international lender of last resort.

One thing to note, however, is that those abovementioned proposals look attractive but have serious drawbacks. First of all, they are not pre-emptive but a posteriori policies to contain an already occurred crisis. In addition, they do not specifically target the concerns of emerging and developing economies. An intrinsic problem of these countries is that their currencies are not internationally liquid and that they are trapped in the "original sin."[18] Thus they become much more vulnerable to the volatility of capital flow when their domestic markets are opened up as compared to developed countries. This concern was realized in East Asia during the Asian financial crisis and the recent global crisis. The experiences of crises suggest that foreign capitals must share a joint responsibility for triggering the crises by sudden withdrawal from emerging countries. Thus, to prevent a future crisis and to ensure a resilient financial system in emerging and developing economies, a reduction of capital flow volatility should take priority. If the G20 is to be the premier forum for international economic cooperation for the world economy including not only developed but also emerging and developing countries, it should resolve this problem. In this regard, we welcome the G20 declaration at the Toronto Summit which stated that "it is important that financial reforms in advanced economies take into account any adverse effects on financial flows to emerging and developing economies."[19]

When financial reforms are implemented in developed countries, it would cause financial transaction to reduce and may result in revenue reduction of financial institutions. In order to make up for the reduction, these institutions may expand investment in emerging and developing markets; and consequently, the latter countries may be more exposed to the risk of capital flow volatility. To prevent this potential risk from emerging countries, the G20 should be committed to reduce volatile movement of international capital by introducing more direct and pre-emptive measures such as financial transaction taxes or a bank levy on the non-deposit liabilities of the banking sector as well as by establishing global safety nets. These regulations would reduce the volume of short-term speculative activity and the excessive leverage in the financial sector, with the benefit of stabilizing financial markets in emerging and developing countries. In addition, stabilization of capital flow may hold as a clue to solve the global imbalance problem. When capital flow stabilizes in emerging and developing countries, the incentive for savings glut and for accumulation of foreign reserves would be reduced, which would then lead to the adjustment of external imbalance in the emerging surplus countries.

4. Trade and Development Agenda

A. Trade agenda

At the very first G20 meeting in November 2008, the leaders of the G20 emphasized the importance of trade actions to overcome the global economic crisis as follows:

> "We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports. Further, we shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome. We instruct our Trade Ministers to achieve this objective and stand ready to assist directly, as necessary. We also agree that our countries

[18] Eichengreen and Housmann (1999).
[19] The G20 Toronto Summit Declaration, p.12.

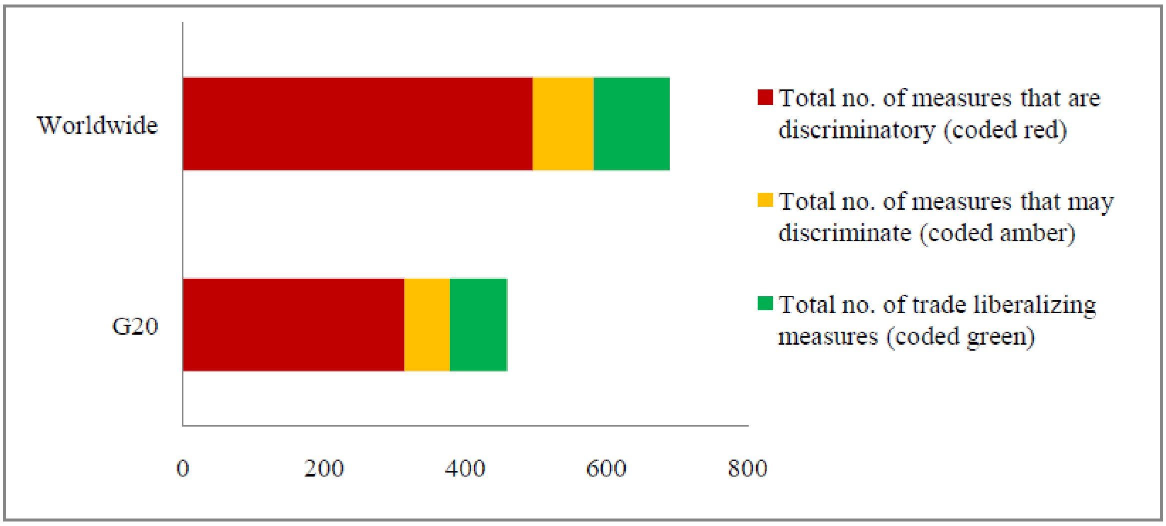
have the largest stake in the global trading system and therefore each must make the positive contributions necessary to achieve such an outcome."[20]

Unfortunately, however, DDA negotiations are currently at an impasse. At the Toronto Summit, the commitment to complete DDA was renewed for further three years to 2013. Trade actions are important not only in overcoming the crisis but also in sustaining a future growth. Since the outbreak of the crisis, the rapid and coordinated G20 actions through the WTO made vital contributions to minimizing contraction of global trade and global economy. Trade liberalization will lead to overall job creation with no additional expenditure. To enhance the G20's credibility as the premier forum for international economic cooperation, the G20 must make meaningful contribution to global trade.

Addressing Trade Protection Problems

A recent WTO report shows that trade is recovering from the decline at the onset of the crisis, and extreme protectionist measures have not surfaced.[21] While the number of bailouts and state-aid measures are decreasing, some countries have prolonged the application of such programs or introduced new schemes. Also amid the pressures of high unemployment, disguised measures are being imposed in the name of protecting the environment. Thus, the whole outcome up to date has not been entirely satisfactory, although the commitment by G20 to avoid trade protection did make a significant contribution to curtailing potential abusive use of protectionist trade measures. For example, as shown in Figure 1, the G20 still accounted for the major portion of discriminatory trade barriers employed after the Washington Declaration. This statistics suggests that measures to combat protectionism must be taken at the G20 Summit.

<Figure 1> Trade measures implemented worldwide and by G20 (Nov. 2008-May 2010)[22]



It may not be rational or even effective to merely constrain trade remedy actions or "protectionist trade barriers" without addressing root causes of the trade problems. The government leaders will not be able to persuade their industries to simply leave the import market without proper safety nets. There are indeed many companies desperately relying on foreign markets to overcome the domestic

[20] Declaration of Summit on Financial Markets and the World Economy (Nov, 15, 2008), Para. 13.
[21] WTO Monitoring Report, June 14, 2010.
[22] World Bank, G20 and Global Development, 19 (June 26-27, 2010).

financial crisis, sometimes with very aggressive pricing practices. Moreover, many countries – even including the most advanced ones – used massive bail-out programs to assist domestic companies under distress of financial crisis. Therefore, it may not be useful for the G20 leaders to simply declare "standstill" of trade protection, which is obviously not feasible.

Instead, the discussion under the G20 should elaborate on the procedure to minimize unjustifiable and abusive use of trade barriers. It has been suggested that the G20 countries commit themselves to a more rigorous surveillance system to mitigate discriminatory trade barriers.[23] Although such proposal can contribute in reducing abusive use of protectionist trade measures by increasing peer pressures for unjustifiable actions, the critical problem remains that unfair trade practices such as illegal subsidies or dumping pricing of exporting countries are not addressed at all. This problem should be rectified by accommodating a way to deal with the situation of exporting countries. For example, when trade remedy measures are detected, the relevant industry and trade situation should also be examined before they conclude that those measures are inconsistent with G20 commitment.

It is clear that such procedure will take more time and may provoke more complicated discussions on trade structures among the G20. But, this procedure will offer not just exporting countries the chance to complain about trade barriers but also importing countries the opportunity to explain their concern. The ultimate legality of pertinent measures if contested is to be determined by the WTO dispute settlement system. In the meantime, G20 commitment to curtail new trade barriers will be effectuated by balanced cooperation among the G20 members.

On the other hand, the Seoul Summit in November is nicely positioned to re-emphasize this agenda. As shown in Table 3, Korea has been very prudent to abide by the original commitments by the G20 leaders. Therefore, this agenda will be taken more seriously in the Seoul Summit under the leadership of Korea.

<Table 3> G20 Rankings of Protectionist Trade Measures Implemented and Considered between 2008 and 2010[24]

[23] Gallagher and Stoler (2009).
[24] Hufbauer, et al. (2010), 80.

Rank	Country
1	Russian Federation
2	United States
3	India
4	Argentina
5	Brazil
6	China
7	Germany
8	France
*	Indonesia
*	United Kingdom
11	Italy
12	Japan
13	Canada
14	Mexico
*	Turkey
16	Australia
17	Republic of Korea
*	South Africa
19	Saudi Arabia

A rigorous surveillance system works mainly as a preventive mechanism for unjustifiable trade barriers. As a supplementary system, G20 members may agree not to unnecessarily delay the WTO dispute settlement procedure related to trade barriers under surveillance. For example, they can endeavor to resolve a dispute during the consultation phase to the maximum extent possible, agree not to resort to the Appellate Body procedure and implement the Dispute Settlement Body recommendation within one or two weeks. These kinds of legal commitments under the WTO system will considerably improve the credibility of the G20 commitment that may be otherwise a hortatory declaration.

Assisting WTO Negotiations

Since the G20 meeting was launched, there have been many proposals to pressure and urge G20 leaders to take up the renewed leadership in order to revive the Doha negotiations. The Toronto Declaration reiterated the support for bringing the Doha negotiations to "a balanced and ambitious conclusion as soon as possible." The G20 leaders also asked the WTO representatives to report on the progress of DDA negotiations at the Seoul Summit. It appears to be inevitable that G20 countries should make more concessions in all aspects of the Doha negotiations, encompassing significant tariff cuts for agricultural as well as industrial goods, deeper and more service sector liberalization and more lenient treatment for at least the least developed country products.[25]

In order to accomplish this task more effectively, the G20 leaders first need to understand the urgency of their position in relation to the Doha negotiations. APEC functioned as an important forum to support the Uruguay Round negotiations in the early 1990s and was in fact utilized to facilitate crucial compromises among key member countries. Unfortunately, the role of APEC in the Doha negotiations has not been very visible or effective. A long absence of an assisting forum for the Doha negotiations can now be filled by the G20 with a more powerful and important membership than APEC for the Uruguay Round negotiations. Moreover, considering domestic political schedules of major players in the Doha negotiations such as the US, India, and EU, it is imperative for the G20 leaders to come up

[25] For a recent example, see Schott (2010).

with meaningful initiatives at the Seoul Summit in November 2010. The G20 fortunately encompasses all the key players for developing as well as developed country groups in the Doha negotiations. This opportunity for the leaders of the key negotiating WTO members to directly compromise the gap among themselves must be taken really seriously this time. The following suggestions can be considered to break the impasse of the current Doha negotiations.

Firstly, as frequently proposed, the G20 leaders should decide to allow zero tariffs for the least developed country members designated by the United Nations. Considering the prevalent free trade agreements (FTAs) particularly by the G20 countries, free trade arrangements for the least developed countries will not cause any additionally significant industry problems for the G20 economies. In fact, the least developed countries have been mostly excluded in the recent FTA competition with major trading countries. Such commitment by the G20 towards the least developed countries will substantially improve the credibility and legitimacy of the G20 in terms of embracing the development agenda of the WTO system.

Secondly, the G20 leaders should conclude the modality of market access negotiations for goods and services. Considering the length of discussions and negotiations on the modality of market access so far in the Doha round, the technicality of the relevant issues is no longer a real problem. In addition, the failure to conclude the Doha negotiations is not the status quo from the Uruguay Round negotiations but rather messy preferential trading arrangements considerably complicated by the FTAs. The calculation by the G20 members regarding the modality of market access negotiations should therefore be modified to reflect on the reality of the world trading system.

Thirdly, negotiations on trade rules including dispute settlement, antidumping, subsidy, and the TRIPS should be separated from market access negotiations. Although the WTO still follows the GATT practices to undertake both market access and rules negotiations in the same multilateral trade negotiations, there is no particular reason or rationale to link two negotiations in the same setting. Unlike market access negotiations that demand multilateral bargaining with complex economic calculation, many issues in rules negotiation can be based on more objective and neutral legal reasoning. For example, the sequencing problems related to dispute settlement procedures have no reason to be linked to market access negotiations in terms of goods or services. So, the G20 leaders should urge to make a compromise as far as they can on the basis of the negotiations up to now and aim to continue any remaining negotiating agenda in the pertinent committees. In other words, multilateral negotiations for market access bargaining should be separately dealt with from rules negotiations that should be initiated and undertaken continually based on accumulated jurisprudence.

B. Development agenda

The G20 recognizes that the inclusion of development issues in agenda is essential in achieving “strong, sustainable and balanced growth” in the post-crisis global economy and eventually achieving the Millennium Development Goals (MDGs). Developing countries have been innocently afflicted by the global recession, and they may be the most affected by any new initiatives to be discussed at the G20 summits. Developing countries also have a great potential as well as a significant role in recovery and growth of the global economy, which is the very objective for the G20. On the other hand, it is important to incorporate the needs of non-G20 stakeholders in the global economy in order to affirm the credibility and legitimacy of the G20 as “the premier forum for international economic cooperation.” As a result, at the Toronto Summit in June 2010 the leaders agreed to develop and adopt ‘development action plans’ at the upcoming Summit, stating as follows:

> “Narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all. In this regard, we agree to establish a Working Group on Development and mandate it to elaborate, consistent with the G-20’s focus on measures

to promote economic growth and resilience, a development agenda and multi-year action plans to be adopted at the Seoul Summit."[26]

The G20 leaders are aware of the importance to work with non-member developing countries to make them active participants and beneficiaries of the global economic system. The Korean government as the chair of the next G20 Summit also shares the same position. As the first non-G7 member to host a G20 Summit, the Korean government expects to exert its leadership in the G20 by taking initiatives in development issues. With its successful development experiences, Korea is in a fine position to take the lead in the discussion on development issues and to get support from non-G20 developing countries. As such, the Korean government is expected to play a central role in developing the G20 agenda on development issues.

G20 development framework

Despite all this rationale for the G20 to include development issues in its agenda, however, it is not very obvious what the G20 can do to foster 'development.' Development is a broad concept, and there can be various approaches to achieve the 'development' goal. Given the diverse development landscape, the most important thing is to prepare a G20 development framework which can be differentiated from and at the same time support existing initiatives such as MDGs.

As mandated at the Toronto Summit, the G20 Working Group on Development held a meeting in July and suggested eight key pillars of economic growth which possibly can be discussed at the G20 Summit: namely, infrastructure, private investment and job creation, human resource development, trade, financial inclusion, growth with resilience and food security, governance, and knowledge sharing. A main differentiation of the G20 development agenda from other initiatives is its focus on economic growth and resilience, in particular investment in infrastructure, trade, and human resource development, instead of poverty reduction. They also agreed to set guide principles to select deliverable development action plans and to establish the role of international organizations (IOs) and MDBs in elaborating multi-year action plans on development.

<Table 4> Key Pillars

Pillars	Elements
Infrastructure	-Data & Analysis -Private Participation in Infrastructure (PPI) -Regional (Cross-Border) Infrastructure
Human Resource Development	-Education Quality -Technical Education and Vocation Training
Trade	-Aid for Trade -Duty Free / Quota Free
Private Investment & Job Creation	-Ease of Doing Business
Financial Inclusion	-Financing for Job Creation
Growth with Resilience &	-Insurance and Futures Markets

[26] The G20 Toronto Summit Declaration, para. 47 (June 26-27, 2010).

Food Security	-Agricultural Development
Governance	-Anti-Corruption -Tax Reform
Knowledge Sharing	-Knowledge Sharing Platforms -South-South and Triangular Partnerships

Source: Lim (2010)

<Table 5> Differentiating the G20 and the G8 Approaches to Development

Principle	G20 approach	G8 approach
Strong, sustainable and balanced growth	Focus on growth	Focus on welfare/poverty
	Global structural transformation	Country structural adjustment
	Systemic risk management	Mitigate impact of shocks
Need for collective action	Coherent policies towards development	Focus on aid
	Model good practice	Define homogeneous standards
	Reduce free-riding through dialogue and common understanding	Enforce global rules
Tangible results	Implementation focus (templates/scorecards)	Announcements focus
	Common accountability framework	Ad hoc accountability mechanisms
	Significant legacy agenda	Fresh agenda each meeting
Legitimacy and Relevance to others	Global economic governance	G8 rules
	Middle income and low income development issues	Low income focus, especially Africa
	Involve regional organizations	Invite specific countries

Source: Kharas (2010)

According to a recent research by the World Bank, the crisis has slowed, and could potentially reverse the recent progress toward the MDGs. In order to mitigate the adverse outcomes that could persist long after the recovery of global economy, increased and more effective aid remains critical to the continued progress of the MDGs in many poor countries.[27] As such, 'development aid' or 'official development assistance (ODA)' issues are placed at the center in international discussions on 'development cooperation.' 'Development cooperation' should also mean not only cooperation between a donor and a recipient but also among donors. Actions to promote development in the low-income countries (LICs) must be discussed and implemented within a multilateral framework. Many countries provide technical and financial assistance to the LICs but this is fragmented into small projects, administered by a proliferation of donor procedures and reporting requirements.

[27] "Recovery at the Crossroads: Role and Implications for Developing Countries," A background paper prepared by staff of the World Bank Group for the G20 Summit in Toronto, Canada, June 26-27, 2010.

Consequently, foreign assistance suffers from considerable overlaps and is often wasted. If the G20 wants to be the global coordinator for economic cooperation which includes a development agenda, it should discuss what an international development cooperation framework (or international aid architecture) would be like and how to harmonize the efforts being made by various donors and institutions.

Under the development framework, it is also important that the G20 focus on the linkage between trade and development, i.e. aid for trade. Aid for trade is about assisting developing countries, in particular the least developed, to build the trade capacity and infrastructure they need to benefit from trade opening. Trade can be a powerful engine for economic growth and poverty reduction, which is already well recognized by the G20 leaders. As a part of overall ODA targeted at trade-related programs and projects, aid for trade is one of the visible and effective means of development aid, which can contribute to successful conclusion of the DDA and growth of the global economy while meeting the needs of developing countries, most of whom are non-G20 LICs.

Aid for trade is not a new aid category but an integral part of regular ODA programs. OECD data shows trade-related ODA commitments running at about $25-30 billion a year in the past few years, which is around 30% of the total ODA. This covers four main categories: (a) trade policy and regulation, to build local capacities to development of national trade policies, to participate in trade negotiations and to implement trade agreements; (b) productive capacity building, targeted at helping enterprises to trade and at creating a favorable business environment; (c) economic infrastructure, to build the physical means – transport and storage, communications and energy – to produce and move goods and export them; (d) assistance for trade-related structural adjustment.[28] There exists a growing consensus on the real and overall positive impacts of aid for trade, especially in the category of trade policy and regulation aid and are still much to be explored about its effectiveness.

The topic of aid for trade has gained significance during the last several years in many international institutions such as the WTO, OECD, World Bank and UNCTAD. APEC also recognized the importance of aid for trade in achieving its agenda of trade liberalization and facilitation in the region, and started discussions on the topic in a form of ‘Dialogues on Aid-for-Trade’ this year. The consensus is that aid for trade can provide a coherent framework for supporting the objectives of enabling developing countries and in particular LICs to participate and reap the potential benefits of trade liberalization. Aid for trade has been mentioned in G20 communiqués as in the G20 Toronto Declaration, but only very briefly and with little elaboration. The G20 can work with the OECD, World Bank, UNCTAD and the WTO to gather evidence of the positive impact of aid for trade, to show that aid for trade is worth supporting, and to discuss more effective delivery of aid for trade and active involvement of the private sector.

However, in order to take on further actions, there first must be a better understanding and a more critical evaluation of the nature and consequences thus far of aid for trade projects. It is hoped that based on such new understanding, the development agenda to be formed by the G20 can result in practical long-term results that are geared toward economic growth and trade promotion of LICs.

Sharing Development Knowledge and Experience

While development assistance occupies the center of global dialogues on development cooperation, the development needs to go beyond aid and recognize that more financing is only part of the solution. The G20 should discuss how to assist developing countries, especially the LICs, to build their capacity to develop and implement effective development policies. It is important to share diverse development experiences and expertise so that developing countries may benefit from accumulated knowledge and may be able to design the most effective development models. With the

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[28] WTO website: http://www.wto.org/english/tratop_e/devel_e/a4t_e/a4t_factsheet_e.htm

unique experience of developing from one of the poorest countries in the world to one of the major global economic players, Korea is well-positioned to take the lead in the discussion of development policies and knowledge-sharing of development strategies. When Korea actively promoted to add development to the agenda of the Seoul Summit, it was confident and committed to carrying out the role of bridging the perspectives between the developed and developing countries. Korea should capitalize on its own development experience and knowledge-sharing partnership in order to balance the G20 development agenda for developing countries most of which are left out of the G20 process.

Sharing development knowledge and experience is not new for Korea. Based on the successful development history often described as a miracle, Korea launched the Knowledge Sharing Program (KSP) in 2004, which is designed to help other countries realize their economic potential using Korea's experience of rapid economic growth over the past five decades. The KSP has allowed government officials, academics and other economic experts from Korea and other countries to share their experience and development strategies. The Korean government is expanding the program to more countries, having increased the budget three fold between 2007 and 2010.[29] Korea can initiate a global development knowledge sharing program extended from this type of bilateral program. The most important is to accommodate voices of the developing countries in order to meet their policy priorities. Development policies for each country should be differentiated based on national circumstances.

Korea's development knowledge sharing is not limited to the area of traditional economic growth strategies. Under the 'East Asia Climate Partnership,' Korea has committed itself to a $200 million assistance package between 2008 to 2012 – the second largest ODA package in Korea – for policy consultations on low carbon development, facilitating technology transfer and mobilization of financial resources, and pilot projects for mitigation and adaptation technologies among developing countries in East Asia.[30] In line with Korea's commitment for international cooperation to combat global climate change and promote 'green growth,' Korea can also extend this initiative to a global partnership, which would raise awareness and contribute to the capacity building for climate change responses in developing countries. It is consistent with G20's commitment to a 'green recovery' in the Toronto Declaration, as well as Korea's strategy to provide leadership in global cooperation against climate change.

5. Key Agendas for the Seoul Summit

We have reviewed what has been done and what should be done at the G20 summit meetings. Instead of summarizing what we have discussed in the previous sections, we will suggest the following key agendas to be focused on at the Seoul Summit so that the G20 can continue to lead the world economy and really become the premier forum for international economic cooperation.

First, the G20 leaders must recognize that without effectively addressing the global imbalances, a true recovery of the world economy would not be secured. The governments with current account surpluses as well as those with deficits should realize that a wake-up call on this reality is needed and actions need to be taken right now. If the G20 is to undertake its role as the premier forum, the Leaders must address this problem of global imbalances even though it is very sensitive and politically difficult to resolve. Avoidance of tackling or inaction on adjusting the global imbalances would undercut the credibility of the G20 Summit and the effectiveness of other G20 measures. Some countries may be tempted to focus on exchange rate adjustments as a silver bullet to resolve the global imbalance problem. But naming and shaming will not succeed and must be avoided; it may only lead

[29] "Korea to Expand Knowledge Sharing Program for Asia," *The Korea Times*, Feb. 28, 2010.
[30] Presidential Committee on Green Growth website: www.greengrowth.go.kr

to currency wars as we often witness. Instead, more balanced and comprehensive discussions will are needed.

Second, with regard to strengthening the financial system and expanding financial reforms, the G20 has widely agreed on many issues and has achieved a substantial progress. A notable example is the agreement on the new global minimum capital requirements by the Group of Governors and Heads of Supervision at the BCBS on 12 September 2010. But many areas remain unfinished and further progress is required to ensure the completion of financial reforms to build a better regulated and more resilient financial system. The primary goal of the Seoul Summit is to announce a comprehensive action plan including country-specific commitments, and the Seoul Summit needs to focus more on follow-up agendas than on new agendas. In particular, the Seoul Summit should focus on establishing a new framework by successfully completing key tasks of financial regulatory reform, deciding on a new regime for bank capital and liquidity requirements, providing concrete policy measures for SIFIs, and emphasizing international coordination to ensure a level playing field and to prevent regulatory arbitrage.

Third, given that the IMF reform has quantitative targets and that the G20 leaders pushed forward twice the deadline for the quota reform, this agenda of the IMF reform is symbolic in the sense that it can determine the credibility of the G20 process.[31] Even though it was agreed that a 5% shift of IMF quota share from over-represented to under-represented countries, the specifics have not been finalized. At the IMF-World Bank annual meeting held in October 2010, the IMF director Mr. Strauss-Kahn said that there were still diverging views among IMF members, and finalization of quota share adjustment has been handed over to the Seoul Summit. Thus the G20 leaders must conclude this issue of IMF quota reform by agreeing on details such as quota shift, size of quota increase, quota formula, and protection of voting share of the poorest. Also they should make agreements to complete the governance reform including size and composition of the executive board, expansion of Governor's involvement in important decision making, selection of head and senior leaderships of IFIs, and enhancing staff diversity. If the G20 can derive a consensus on these issues that are not resolved at other international meetings, its credibility as the premier forum for international economic cooperation would be greatly enhanced.

Fourth, Korea will propose the agenda of global financial safety nets as a Korea initiative at the Seoul Summit. Accordingly, the Seoul Summit will emphasize emerging issues more than other G20 summits. At the previous summits, discussions on policy resolutions have primarily targeted developed economies which do not necessarily coincide with the issues and concerns of emerging and developing economies. For example, the broad framework of financial reforms set out by the G20 leaders is to strengthen the financial system so that the international financial markets can be more stable and sustainable. Those reform proposals are somewhat broadly applicable, but they show limits in dealing with the main concerns of emerging and developing countries. Taking this into account, the Committee for the Seoul G20 Summit is making a substantial effort in setting appropriate additional agenda including the establishment of strong global financial safety nets, especially for small open economies. As mandated at the Toronto Summit, the finance ministers and central bank governors are also preparing concrete policy options of global safety nets for the Leaders' consideration at the Seoul Summit. However, discussions and suggested ideas up to now are insufficient to tackle the intrinsic problem of these emerging and developing countries: They become much more vulnerable to the volatility of capital flows when their domestic markets are opened up than developed countries. This worry was realized during the Asian financial crisis in late 1990s and the recent global crisis. Unless the fear of future risks due to volatile capital flows disappears, the global imbalance problem which was a main cause of the global crisis would not be resolved. If the G20 summit is to be the genuine premier forum for international economic cooperation for the world economy including not only developed but also emerging and developing countries, it should be committed to reducing volatility

[31] Kim, Sungmin (2010).

of international capital flows by introducing direct and pre-emptive measures such as financial transaction taxes or a bank levy.

Fifth, the Seoul Summit needs to emphasize real issues as well as financial issues. From the first meeting in 2008, the G20 leaders have mentioned the importance of trade actions to overcome the global crisis and successfully maintained the "strong commitment to resist protectionism."[32] However it cannot but be admitted that although the support for the Doha negotiations was clearly enunciated from the inception of the G20 summit and still the leaders reiterate their "support for brining the WTO Doha Development Round to a balanced and ambitious conclusion as soon as possible," the trade issue has been sent to a back seat because the leaders have been so busy handling too many accumulated financial issues. The deadline of 2010 will definitely not be met, and the extension of further three years may not be enough to conclude the Round. It would not be good for the world leaders to affirm Doha deadlines because unkept commitments only weaken public trust in the G20 itself.[33] Instead of discussing specific issues following a specific deadline, the world leaders must assure the public that backsliding into protectionism is as deadly as a financial crisis and international cooperation on trade agreement is needed to eventually achieve the strong, sustainable and balanced growth. Even if the G20 shows a little progress to break the current impasse of trade negotiations, its contributions to global trade will be considered huge and its credibility will be greatly enhanced.

Last but not least, regarding the development issue, the G20 leaders must recognize as world leaders that this issue is important not only in a moral aspect but also for the legitimacy of the G20. Poverty in developing countries has become more severe: developing countries were gravely affected by the financial crisis and the subsequent food and energy price volatility. The World Bank estimated that an additional 64 million would cross the poverty line by the end of 2010. The world-leading G20 countries must not tolerate the depth of poverty in LICs. Benefits of the G20's policy coordination must be shared with the world and LICs. Reducing poverty and narrowing development gap is also closely related to the framework for strong, sustainable and balanced growth. The development agenda falls in line with the broad mandate and expertise of the G20. Thus, addressing development issues will strengthen the legitimacy and leadership of the G20. Korea is well placed to bridge the perspectives of the advanced and emerging and developing worlds in the G20 process. As the first recipient-turned-donor country in the OECD Development Assistance Committee (DAC), Korea can better relate to the pain and agony of the developing countries. It is expected that the Leaders will adopt the multi-year action plans prepared by the Working Group on development at the Seoul Summit. For the success of the development agenda proposed at the Seoul Summit, it is very important, first, that the G20 development framework must not duplicate but complement other existing initiatives such as MDGs, and second, that the G20 Paris Summit in 2011 and the Mexico Summit in 2012 must further carry on the multi-year action plans on development.

6. Challenges Ahead – Beyond Seoul

At this juncture, the most important task for the G20 is to gain trust not only of G20 members, but also of non-members. This explains why the international community is paying keen attention to the possible results of the G20 Seoul Summit. The effectiveness of the G20 depends on the substance and feasibility of the agreements reached this upcoming Summit across a vast list of issues that include settling conflicts over exchange rates, establishing a new set of financial regulations, reforming the IMF quota system, yielding a breakthrough for the Doha Round, setting up a safety net for the global

[32] G20 Toronto Summit Declaration (2010), p.1.
[33] Canada-Korea High Level G20 Seminar Report (2010), p.5.

financial system, and dealing with the development agenda proposed by the Korean government. The global perception of its effectiveness in resolving global economic issues, after all, will decisively affect the credibility of the G20. Experts argue that the G20 Seoul Summit is significant because it may deliver the judgment on whether the G20 can develop into a new global governance system that can better address the challenges of the world economy even after the global crisis.

Although one should wait for the outcomes of G20 Seoul Summit before making any hasty judgment, it is undeniable that the current G20 system faces a number of issues. The most pertinent question is the legitimacy of the G20 membership composition. This is of particular interest to the non-G20 nations who suggest the G20 to include representatives for the regional economies or economic integrations. If this does take place, the G20 must develop a new set of rules and principles. In this regard, an adequate remedy to form a consensus among the G20 and the non-G20 nations on the representativeness of the membership would empower the Summit Agreement as the global accord.

The second controversy lies in the effectiveness of the G20 mechanism. If the G20 Summit fails to draw meaningful conclusions on the key agenda in Korea, France or Mexico, the three next G20 chairs, it is highly likely that the effectiveness of the G20 mechanism will be seriously questioned. The possible debate revolves around the size: twenty may be an oversized international body to reach consensus for any critical current interests. Moreover, should the G20 fail to improve its decision-making process, the subsequent step might lead to doubts about the credibility of G20. However, one should be careful in suggesting a link between this issue and the first, the representativeness of G20, as there are experts who raise possible dampening of the effectiveness of IMF if quota share adjustment to enhance its representativeness were enacted. On the other hand, an effectiveness of any given system could be determined more by the characteristics of the agenda on the table than the size of the membership. The major cause of a continued failure to advance from the Doha Round being the acute conflict between the developed and the developing nations on particular issues than the large size of WTO membership epitomizes this point.

Third, there already is a debate on the nature of the G20 among the G20 members with different views advanced. On the one hand, some countries argue that the G20 should remain an international forum for discussing pertinent global economic issues and recommending adequate solutions. On the other hand, others argue that the G20 should evolve into a permanent organization with a decision-making power on global economic issues. If the latter path is taken, this will raise a subsequent matter of the enforceability of such decisions on non-G20 member countries that did not participate in the decision-making process. This point relates back to the original concern regarding the representativeness of the G20.

Fourth, another item that is being discussed within the G20 is the institutionalization of the G20 system. While it is uncertain whether this issue will be discussed in detail at the Seoul Summit, it is quite likely that there will be a more serious discussion on this issue in the next Summit in France. On this point, many conflicting views are presented. For instance, some propose that the G20 institute a secretariat to provide a systematic approach in selecting agenda and monitoring implementation of agreements. Others oppose to this notion by pointing out that neither the G7 nor the G8 had a secretariat. Another poignant criticism of the institutionalization is the belief that institutionalization of the G20 inherently means bureaucratization of the G20. As a compromise between the conflicting views, some propose the maintenance and strengthening of the current troika mechanism. The question of institutionalization will be discussed alongside the nature of the G20: based on the consensual nature of the G20, the need for institutionalization should be evaluated.

Finally, the relationship between the G20 and other international organizations merits a further analysis. The central issue is the binding power of the G20 decisions: international organizations based on the principle of “one country - one vote” are not bound by any decisions or statements from the G20 since the G20 will not be a majority while those with each member’s voting power weighed according to its economic share will more likely to follow the G20 decisions because the G20 members and their disproportionate economic weights will give them more than the majority required. Considering this connection, it is less surprising that the G20 process has not had a great impact on the DDA negotiations. The WTO is based on the “one country - one vote” principle; hence, the G20 cannot be said to represent 153 member countries of the WTO. For that reason, it seems, the G20 has not been able to officially summon the trade ministers meeting during its nascent history. In contrast, the G20 Summit has been able to authoritatively discuss the reforms of the IMF and the World Bank because the countries present at the G20 add up to more than the majority of vote in each respective organization. In other words, a consensus in the G20 can directly translate into a decision by the IMF and the World Bank. Hence, the G20 has been able to incorporate the meetings by finance ministers and heads of the central banks into its process. Clear definition of relationships between the G20 and relevant international organizations, based on the scope of the G20 agenda, will become more critical.

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