Canada-Korea High-Level G20 Seminar

Report 2010

CANADA–KOREA
HIGH-LEVEL
G20 SEMINAR

REPORT

2010

TABLE OF CONTENTS

PREFACE

The Norman Paterson School of International Affairs at Carleton University and the Graduate School of International Studies at Seoul National University are pleased to issue this report which is based on the discussion and papers delivered at the Canada-Korea G20 Seminar held in Ottawa on March 17, 2010.

The Chairs' Report is intended to provide a summary of the major policy recommendations that emerged from the meeting.

The two schools gratefully acknowledge the financial support provided by the International Development Research Centre (IDRC) and the Government of the Republic of Korea. We especially thank His Excellency Chan-Ho Ha, Ambassador of the Republic of Korea to Canada, and Mr. Len Edwards, the Prime Minister's G20 and G8 sherpa, for their continued and strong support for this venture.

We are also grateful for the superb leadership provided by the two conference co-chairs, Derek H. Burney and Dr. Yung Chul Park, in putting this workshop together.

A second high-level meeting of experts, similar to the Ottawa workshop, will be held in Seoul, Korea, in the early fall.

Taeho Bark
Dean
Graduate School of International Studies
Seoul National University
Seoul, Republic of Korea

Fen Osler Hampson
Director
The Norman Paterson School
of International Affairs
Carleton University
Ottawa, Canada

CHAIRS' REPORT

Introduction

The following is a summary of discussions held during the Canada-Korea G20 Seminar held in Ottawa on March 17, 2010, convened under the auspices of the Norman Paterson School of International Affairs at Carleton University and Seoul National University. These views were conveyed in similar form by us to the G20 Sherpa meeting in Ottawa the same day.

The G20 forum has performed remarkably well through the global recession. But, as the crisis abates in some economies, there is a real and ominous danger that complacency or faltering political resolve will undermine recovery. If the gains from renewed growth are to be sustained and fully shared, the G20 will need to fortify public trust in international governance generally – and in financial governance especially. Improving the credibility of international governance is a necessity. This can best be achieved if the G20 focuses on a few key priorities, and achieves practical, measurable results.

The Canada-Korea G20 Seminar addressed these priorities and outcomes under four headings: recovery; financial regulation and reform; energy security and climate change financing; and trade. Discussions were enriched by diverse perspectives and emphases, but they exhibited notable consensus on crucial policy issues now confronting G20 leaders. As co-hosts and host, respectively, of this year's G20 summits, Canada, on the basis of the stability of its financial institutions, and Korea, on the basis of its impressive growth trajectory, have a unique opportunity to help shape the agenda.

From Recession to Recovery

Economic recovery shows surprising strength in some countries, but it remains fragile, unevenly shared, and vulnerable to reversal. The most serious hazards and impediments to global economic stability and growth are: current-account imbalances between surplus and deficit countries, and budgetary deficits that in many countries grow worse. Recovery cannot be sustained unless these acute imbalances are corrected and fiscal discipline is exercised. More broadly, transition strategies for exiting stimulus programs must be coherently aligned with programs to correct these imbalances and to foster sustained growth. Higher target rates for inflation are not the answer.

Current-account imbalances call for prompt, coordinated attention. Specifically, surplus countries (notably China, but also Germany and Japan) must be encouraged to accelerate domestic consumption and public spending; deficit countries (notably the United States but also the United Kingdom) must adopt prudent fiscal policies in the medium term, restrain consumer demand, and generate more exports.

Such measures will no doubt prove delicate and difficult. “Naming and shaming” will not succeed. But G20 leaders and their ministers must address these imbalances frankly and constructively. Inaction on correcting these major imbalances would undercut the effectiveness of other G20 measures.

To undertake its role more effectively as the “premier forum” for managing global economic affairs, the G20 may consider enhancing its relations with non-member countries by engaging regional forums in dialogue and policy cooperation. Additionally, peer review (and peer pressure) in regional forums might constitute one element in a G20 payments-rebalancing strategy. Promoting greater flexibility in exchange rates, together with structural reform for fiscal sustainability, would be another.

True recovery will be secured only if these imbalances, particularly those between the US and Chinese economies, are effectively addressed. G20 leaders should put in place measures to monitor and measure progress on agreed commitments. They should take care, moreover, to concentrate on a few critical commitments and resist adopting an overly broad agenda that will only deplete and divert political will.

International Financial Regulation and Reform

In addition to securing an efficient international monetary system, five imperatives of financial regulation compel immediate and continuing G20 attention:

1. Establish capital reserve requirements for banks. Setting ratios too high stifles investment (and can drive lending into unregulated shadow sectors). Ratios set too low can cause the harms already experienced. The G20 should reach consensus on a sensible level (eight percent?) and facilitate shared assessments. Quick action here is more important than laboriously pursuing and debating an elusive "just right" ratio number.
2. Subdue the procyclical dynamic of capital supply and demand. Under prevailing conditions, lenders tend to ramp up lending and accept higher risks in boom times – only to intensify busts by withholding credit when times turn bad. Regulators might counter these swings by requiring more capital accumulation in good times (contingent capital securitization), and by imposing forward-looking loan-loss provisions.
3. Improve the capital infrastructure of financial markets, for transparency and responsibility. This will involve orderly exchanges and central counterparty arrangements, recognizing the dangers of contagion that can amplify financial crises across the world. (Problems in small countries like Greece could adversely affect the entire system.)
4. Systemic or sectoral risks can arise and damage even the banks that seem trouble-free. (Example: the US housing market.) This implies the need for "macroprudential monitoring" mechanisms in G20 countries to contain credit problems. (Canadian authorities exercised such prudence when they recently restrained mortgage lending by introducing modest but noticeable changes in borrowing limits. As the examples of Canada and the United States also attest more broadly, interest deductibility on residential mortgages induces

indebtedness, discourages savings, and does not demonstrably expand home ownership.)

5. "Too big to fail." Various solutions have been advanced, including "living wills" prescribing how big banks would be wound up in a crisis, as well as specific restrictions on banks. None has been widely endorsed. One alternative: Amend bankruptcy laws to accommodate the unique characteristics of banks and possibly include a support fund for this to which all banks would contribute. This change would require legislation and may be difficult, but it merits consideration.

Financial reforms generally should be principle-based, not rule-based. A proliferation of rules adds complexity without clarity. The emphasis overall on regulatory reform should be on greater efficiency. More regulation is not necessarily better, and one size does *not* fit all.

The International Monetary Fund (IMF) seems not well-placed to perform a stronger, more systematic surveillance of the financial industry. The Financial Stability Board (FSB) might be more useful here, along with rigorous mutual assessment. The IMF, meanwhile, must quickly remedy its out-dated quota issues. The IMF quota allocation should reflect the economic significance of each member in the context of the global economy. Enhanced participation by IMF governors in decision making should be a key goal of institutional reform, along with a more diverse composition of the IMF staff and merit-based appointments to top management posts.

Energy Security and Climate Change Financing

The Copenhagen conference represented a failure of process that should be addressed by G20 leaders. The climate change negotiating challenge is not in itself central to the G20, but leaders, nonetheless, should encourage a more productive negotiating approach.

More than that, the G20 can integrate green-economy thinking more fully into energy security and economic discussions. The most promising strategies stress "opportunity" over "obligation" and deliver on commitments to phase out pernicious fossil fuel subsidies. G20 governments should be encouraging private investment in energy conservation.

Comprehensive climate change action calls for agreed methods of carbon pricing. Unilateral moves are of limited attraction, given the impact on competitiveness.

The United States and China together produce 42 percent of greenhouse gas emissions. It is hard, therefore, to imagine climate change progress without explicit and coordinated US-Chinese policy changes.

Re-energizing the Trade Regime

Recession has aroused understandable public discontent with conventional notions of globalization – and has inspired new pressures for protectionist measures. G20 governments must take steps to restore confidence in the wisdom of freer trade. These steps must start by recharging the "standstill agreement" with new language and more vigorous commitment. G20 economies cannot afford to backslide into protectionism.

Whether the G20 should proclaim any further endorsement of the Doha Round is an open question. All seminar participants strongly favoured completion of a Doha agreement, if one is possible – and they firmly supported trade liberalization. But a significant number placed a higher priority on repairing and defending the existing trading system than on crafting new rules that might not be attainable.

In particular, G20 leaders should not affirm Doha deadlines they know will not be met. Unkept commitments only diminish confidence in open trade and weaken public trust in the G20 itself. It would be a grave mistake to indulge in futile promises of negotiating success. It may be preferable to reinforce present rules (with stronger monitoring of standstill commitments by the World Trade Organization, for example) and pursue bilateral and regional arrangements to maintain liberalization momentum, while seeking ways to conclude the Doha Development Agenda (DDA) as soon as possible.

The G20 can also act to restore confidence in the existing global trade regime by prohibiting discriminatory government-procurement practices; restricting the application of trade remedies – and specifically of antidumping measures; sharing information to impart transparency to non-tariff barriers; and banning any tariffs above the levels in effect in November 2008.

Conclusion

The Canada-Korea G20 Seminar in Ottawa assembled experts of extraordinary quality and experience, with the aim of helping to inform preparations for G20 summits in Toronto and Seoul. Our work continues with a second seminar in Seoul later this year. The issues facing the G20 – and seminar participants – are inescapably complicated and contentious. They engage different interests in different countries. The consensus reached on the main conclusions – and on the central role of the G20 – is therefore all the more powerful in its significance.

Leaders in Pittsburgh designated "the G20 to be the premier forum for our international economic cooperation." It is critically urgent, at this moment in the G20's development, to build on the G20's initial successes and advance its credibility and effectiveness. This can best be achieved by focusing on a small number of pressing priorities, and by coordinating action with early, specific, and beneficial results. It requires zealous determination to refrain from adding new subjects to a G20 agenda that is already full. It demands a united resolve among G20 leaders to avoid deadlines they cannot meet and to resist commitments they cannot keep. The G20, after all, remains something of an experiment in collective leadership and enhanced coordination. It will be properly judged not by the promises it makes, but by the progress it delivers.

Yung Chul Park, Co-Chair — Derek H. Burney, Chair

PROSPECTS AND CHALLENGES FOR THE GLOBAL ECONOMY: FROM RECESSION TO RECOVERY

Kevin Lynch

Wendy Dobson

Soogil Young

Dongchul Cho

KEVIN G. LYNCH

Introduction

At their Pittsburgh summit in 2009, the G20 leaders made three decisions with far-reaching consequences. First, they designated the G20 as the key forum for international economic cooperation, with all the responsibilities, expectations, and challenges that entails. Second, they set out an ambitious and far-ranging agenda, one that appeared more detailed and more interventionist than pre-crisis pronouncements by the G8. This cooperative agenda contained six elements: creating the conditions for strong and sustainable growth; strengthening the international financial regulatory system; modernizing the global institutions, notably the International Monetary Fund (IMF) and the World Bank; dealing with energy security and climate change (including an interesting pledge to intensify efforts to reach agreement in Copenhagen through the United Nations Framework Convention on Climate Change (UNFCCC) negotiations); strengthening support for the most vulnerable; and committing to an open global economy, including a "determination" to seek an ambitious and balanced conclusion to the Doha Development Round in 2010. And three, there is an apparent sense of greater managerialism to the process: setting out objectives, determining whether the sum of the national policies is mutually consistent with these global objectives, tracking progress in a rigorous and hopefully transparent manner, and being accountable for the results.

The best insight into how the G20 leaders see this new process working, and working differently than in the past, is contained in their *Framework for Strong, Sustainable, and Balanced Growth*. In this, the leaders speak of a new "compact," where the G20 will agree on shared policy objectives, G20 members will each set out medium-term policy frameworks consistent with these shared objectives, and then there will be a cooperative process of mutual assessment of these policy frameworks to determine whether they add up to a balanced macro-economic environment, or pose global stability risks. G20 leaders also set the clock running on this new approach, instructing their finance ministers and central bank governors to have it launched by November 2010, with a report to the November G20 summit in Korea.

The Outlook

Recovery from the shock of the worst global financial crisis since the 1930s, and the awe of the first synchronized global recession in postwar memory, is now underway. It will not be a harmonious or rapid cyclical recovery.

What precipitated the recession was, for the first time in a long time, a financial crisis. Therefore, the recovery will be a complex interaction of a more traditional cyclical recovery of inventory, income, and spending adjustments, with a less traditional balance sheet recovery involving deleveraging, asset write-downs, and capital accumulation impacting financial firms, households, and businesses. One implication of the current financial crisis is a destruction of wealth of an extraordinary magnitude; another is higher fiscal deficits everywhere and extraordinary fiscal situations in a number of industrial countries. In addition, looming on the horizon are powerful demographic forces of change, the question of whether the international community can move forward on trade liberalization or merely play a defensive game against protectionist pressures, and the uncertainty of how and when the world will address climate change.

The January 2010 IMF projection provides as good a baseline outlook as any for the global economy over the next two years, and a reasonable starting point for a discussion of the risks and uncertainties facing policy makers and markets. First, the good news. The IMF believes that the global economy is recovering faster than most were willing to contemplate last fall, expecting world GDP growth of nearly four percent for 2010, after one of the weakest years on record, and slightly stronger growth of 4.3 percent next year.

For the industrial countries, led by the United States, growth in 2010 is expected to be over two percent. Driving this rebound was the extraordinary amount of fiscal and monetary stimulus, which steadied markets, stabilized confidence, and created demand. Private-sector demand has not yet kicked in sufficiently in a number of industrial economies. This pace of growth will do little to bring down unemployment rates in the near term. Growth in emerging and developing economies is forecast to be about six percent this year and next, paced by Chinese growth of around 10 percent and Indian expansion near eight percent. Africa, which avoided the worst of the crisis, is reasonably well-positioned for the recovery. There is considerable variation of growth prospects across countries, and in advanced countries the recovery is anticipated to be sluggish by historical standards.

This reasonably favourable forecast, particularly so when viewed from the perspective of the crisis atmosphere of last year, still has a high level of risk and uncertainty overhanging it. This is the less good news. The policy risks include the very large fiscal deficit situations in the United States and a number of European Union (EU) countries; the still unfinished business of repairing the integrated global financial system; and the needed rebalancing of saving versus consumption in the United States and domestic demand versus externally led growth in China, both of which have contributed to the unsustainable macroeconomic imbalances of recent years. The uncertainty relates to confidence. Will the stabilized confidence that we have witnessed in the last six months strengthen further or weaken? This depends on whether trust is firmly re-established in financial markets, whether policy makers continue to collectively make the needed policy changes, and whether individual citizens feel better about their personal economic prospects.

Macroeconomic "Exit" Strategies

While fiscal circumstances differ across countries, there are many similarities: large fiscal deficits, reflecting both stimulus measures and automatic stabilizers; massive injections of liquidity by central banks; and, in some countries, government ownership stakes in what were judged to be systemically important and troubled firms.

The February 2010 statement by G7 finance ministers, that it is too early for fiscal consolidation as stimulus measures are still needed, is correct. But, it is not too early for governments to develop and set out credible, multi-year, fiscal consolidation strategies. Central banks need to begin withdrawing extraordinary liquidity support and reducing monetary stimulus in an orderly manner consistent with inflation pressures and financial market rebalancing. Too slow an exit strategy risks inflation, entrenched structural deficits, and rising debt; too rapid risks taking the wind out of the recovery; and too uneven risks large currency swings.

The global fiscal situation has worsened markedly, but unevenly, across countries, reflecting both the differential impact of the global financial crisis and recession, and the varying size and nature of the stimulus packages. The United States, the world's largest economy, is confronted with its largest fiscal deficit in the postwar period – over 11 percent of GDP – and this is combined with a rapidly rising debt-to-GDP ratio. The prospects for a substantial reduction over the next five years are fraught with much political and policy uncertainty. The fiscal situation in a number of major European countries may be even worse, with the United Kingdom (UK) deficit over 12 percent of GDP, and Italy in both a deficit and debt mess. The bigger European worry may be smaller countries such as Portugal, Ireland, and particularly Greece, and the moral hazard risk posed by Eurozone countries that are unable to deal with escalating deficit and debt dynamics. Asia is a more heterogeneous fiscal picture: while there are large entrenched deficits in Japan, and too high deficits and debt in India, the more worrying imbalances are macroeconomic.

In looking at the G20 Pittsburgh commitment to fiscal consolidation, it is useful to take Canada as a practical example. After ten years of surpluses, Canada has a deficit this fiscal year of approximately $55 billion, or 3.75 percent of GDP. This is a much better budgetary situation than in many G20 countries. However, as we painfully learned from our long journey with deficits, it is too easy to put off to another day the difficult decisions required to balance the books unless there is a transparent and credible five-year fiscal plan to return to fiscal balance. Our experience in balancing the books points to the importance of realistic forecasts and building prudence into the fiscal framework to protect against the inevitability of the unexpected. Canadians make excellent witnesses to the pivotal role a strong fiscal balance sheet can play in helping to insulate an economy from the ravages of external shocks. And, from past experience, Canadians can also bear witness to the fact that deficits, unlike wine, do not get better with age.

The Evolving Role of Government

Expectations of the public for governments are changing, reflecting their angst at the financial crisis and recession but also their surprise at other shocks to their prevailing view of the world. Opinion polls point to public expectations for governments to better prevent and protect them in this suddenly more uncertain world.

Governments are now debating more active roles for themselves, in sharp contrast to the deregulatory trends set in place by US President Ronald Reagan and UK Prime Minister Margaret Thatcher. Whether it is unspecified worries about pervasive globalization, concerns about product safety and information protection, nervousness about security, reduced trust in regulatory institutions and financial markets, concerns about demographics and the solvency of pension plans, and the affordability of health care, citizens in many G20 countries are gazing at the future with less certainty and looking to their governments to reassure them. And, with greater skepticism about the benefits of globalization in some countries than before, it will be important that international governance proves itself to be up to expectations.

Managing the Policy Risks

How well governments manage policy risks will importantly shape the evolution of the global recovery. Restoring fiscal balance, repairing financial market regulatory systems, strengthening international economic cooperation, and renewing governance at key international institutions are the economic policy challenges facing the upcoming G20 meeting. Perhaps the most important thing the meeting could achieve is to demonstrate that governments will deliver on commitments made at the previous G20 meetings, set out credible and concrete next steps and be accountable for meeting them, and show that the spirit of international cooperation that rose to the occasion in the crisis will be maintained in the recovery and beyond.

Macroeconomic imbalances did not cause the financial crisis, but they certainly fuelled it. Going forward, the core of the global rebalancing challenge is that the United States has to save more, in both its public and household sectors, and China has to save less, in both the public sector and, particularly, the household sector. Impediments to adjustment, whether they are exchange rates, tax incentives for consumption over savings, or the absence of public safety nets, need to be tackled. As difficult as these changes may be politically, there is also a scale problem for the world economy as American consumption is 17.5 percent of world demand and China's is only two percent, pointing again to the need for credible multi-year adjustment plans and cooperation among all major economies in this adjustment.

The origins of the global financial crisis were both stunningly modern and as old as markets themselves. Yes, there were financial products of amazing sophistication and complexity, traded around the world 24/7 through broadband networks of unbelievable power, by highly educated and trained professionals, but there was also excess liquidity, asset bubbles, greed, and a suspension of common sense, all of which are hardly new. Markets may be efficient but they are not always right, and more transparent information and better early warning systems are needed for both policy makers and market investors. Arbitrage opportunities across financial instruments and jurisdictions point to the need for much greater regulatory cooperation within countries and across sovereign borders. Innovation incentives around regulatory systems suggest a better balance of principle-based regulation and prescriptive rules, and simplicity over complexity.

The thrust of the financial reform proposals agreed at the London and Pittsburgh G20 summits are solid steps to deal with these problems: consolidated regulation; caps on leverage; more and higher quality capital; "peer review" of national systems; and reformed governance to make international cooperation more effective. It is crucial to implement well and quickly what has been agreed to, and, in this re-regulation process, focus on better, not just more, regulation.

As challenging as the macroeconomic rebalancing and financial reform elements of the G20 summit agenda are, they will likely prove less divisive than either climate change or trade. The G20 leaders' process, launched in Washington in late 2008 in the midst of a crisis, was very effective in marshalling a common understanding of the scale and scope of the global financial crisis, in helping to coordinate exceptional monetary responses, and in providing a political and policy rationale for a large and coordinated international fiscal stimulus. But the September 2009 Pittsburgh G20 leaders' statement initiated a broad and ambitious six-part agenda, and made the G20 the forum for international economic cooperation. In this new governance context, there will be expectations for the G20 to provide early leadership on climate change, particularly in response to the ineffective UNFCCC process that Copenhagen so clearly demonstrated. There will also be pressure for the G20 to inject momentum into the Doha Development Round, as most of the impediments to progress are policy positions held by countries seated around this larger governance table.

Conclusion

To conclude, where does all this take us? The upcoming G20 meeting provides a key opportunity to demonstrate that broader-based and solution-minded international economic cooperation governance, born in the financial crisis, will continue to be effective in the recovery and beyond. This is necessary to deal with the integrated and common nature of the policy challenges facing most countries, and it will also bolster public and market confidence.

The G20 will have to deliver on its commitments to garner this credibility. Its broader agenda serves to enlarge the tent and increase the diversity of views and interests. But, it will have to guard against too ambitious an agenda in too short a timeframe, manage expectations carefully, and deliver early "wins" from this new international governance approach. Public engagement and dialogue on these issues is equally needed, to provide the understanding of why change is necessary and why difficult decisions now will alleviate the need for very unpleasant decisions in the future.

WENDY DOBSON

Introduction

A year ago, the world economy teetered on the brink of depression. Much has been accomplished since then. The prospect of looming catastrophe focused leaders' minds, bringing about unprecedented cooperation among governments of the world's largest economies. Large fiscal and monetary stimulus packages greatly improved the growth outlook for 2010. However, big challenges still lie ahead. Clearer evidence is needed of the resumption of organic, self-sustaining growth in the largest economies. Coordinated policy actions are required to change the composition of global growth.

Every crisis opens windows of opportunities for reforms, and this one was no exception. The G20 systemically significant economies elevated cooperation to the highest political levels. Leaders maintained a political leadership focus, charging the existing global economic institutions with implementation and reforming them where necessary. Now that their focus is shifting to sustaining growth and changing its composition, a wider range of domestic policies will come under the microscope. The mutual assessment (MA) process, with technical support from the international institutions, will examine the global consequences of countries' domestic policies and identify opportunities for government to do things differently, or do different things to contribute to a positive global outcome. The process could be seen to infringe national sovereignty – a very sensitive issue in some of the largest countries. Thus, as the chairs of the process, Canada and the Republic of Korea will face big challenges to ensure national interests and the global public interest are reconciled.

To put this concern in context, it is useful to recall a basic principle of policy cooperation: prescribed policy changes should be ones that are in the country's best interest, as well as the global interest. There are precedents: I think particularly of trade policy, where, although the record is somewhat untarnished, governments have applied the lessons of 1930s' beggar-thy-neighbour policies, and protectionism has been quite muted to date. Unfortunately, this good performance is offset by the failure of will to complete the Doha Round and at Copenhagen. Governments were unable or unwilling to reconcile the global interest with those of narrower, special interests.

Progress under the Framework for Strong, Sustainable, and Balanced Growth

There is no reason to relax as we look ahead to 2010 and 2011. Growth is being restored, but on a multi-speed basis, with China and India leading the world, predicting growth rates of seven to nine percent. The US rebound is more modest, and Japan and Europe are lagging with more sluggish growth and continuing uncertainty in Europe about the solvency problems of some of the southern members.

In each country, governments and central banks are turning their minds towards macroeconomic exit strategies. Before implementing these strategies, they are looking for evidence that the private-sector business cycle is beginning to turn, as businesses restock inventories, stop firing and begin hiring; that labour market expansion is supporting household income growth and consumer spending, which, in turn, will encourage businesses to resume investing. To reach that stage, financial institutions must be willing to resume lending. If stimulus is withdrawn before organic, private-sector growth has gained this momentum, these economies could enter a renewed slump. Exit too late, however, and precious resources are wasted and the seeds of future inflation sown.

We still lack clear evidence of rising demand in the advanced economies, and so the authorities are likely to err on the side of caution. A related concern is that many of the large countries have little room left for further fiscal stimulus because of high levels of indebtedness: the estimates by the Organisation for Economic Co-operation and Development (OECD), for example, that debt in the advanced economies will be well over 100 percent of GDP in 2014. In countries with large credit bubbles, interest rates are at historic lows and central bank balance sheets are in uncharted territory. With little room to manoeuvre in the face of still-high unemployment, we cannot be complacent about the threat of protectionist policies or political pressures to turn back globalization.

A troublesome aspect of the recovery is the uncertainty around financial sector reforms, in part because of pushback from powerful, vested interests. Support for the financial sector needs to be unwound; banks' bad assets need to be tackled and banks restructured if necessary; incentives are needed to make support less attractive; risks of future instability must be reduced and ways found to tackle future financial crises without taxpayer support. Acquired assets also need to be sold, recovering as much as possible for the taxpayer.

Exit must be well-timed, but that is no reason not to be preparing medium-term strategies of fiscal consolidation and monetary exit. Both need to be signalled well in advance to condition expectations. It also needs to be stated that monetary policy should not be enlisted to reduce the real burden of public indebtedness.

More coherence and coordination among countries are needed in fiscal and monetary exit. China and India are already well advanced, with their own articulated strategies, while the EU Stability and Growth Pact's rules are forcing fiscal consolidation on a European schedule. The United States does not yet have a medium-term framework that restores public debt to sustainable levels, a topic to which I will return.

Most advanced economies should aim to remove fiscal stimulus and at the same time substantially improve primary balances in anticipation of long-term demographic shifts (which implies both tax reforms and changes to entitlement spending), while in China more social spending is needed.

A related principle is that governments should not just tighten fiscal policy but should shift public spending in the direction of investments that foster future growth, such as education, green infrastructure, physical infrastructure upgrading, and reduction of distortionary taxes. This link between exit and rebalancing is crucial.

The Central Challenge in 2010: Addressing Unsustainable Global Imbalances

Front and centre in the G20 are goals to restore global demand – and change its composition by rebalancing countries' reliance on external and domestic demand. The IMF's January 2010 numbers on world trade volumes show exports and imports bouncing back to six percent rates in 2010 and rising to eight percent rates in emerging market economies in 2011. This could mean that too many governments are relying too heavily on exports to restore growth momentum.

The underlying issue therefore is to encourage reliance on domestic demand in current-account-surplus countries – and on more currency flexibility – and more reliance on exports in current-account-deficit countries.

Rebalancing will be both a technical challenge and the G20's biggest political challenge. For instance, in the United States, whatever are the US decisions on exit (and there are voices calling for more stimulus), the US lacks a medium-term fiscal consolidation plan. It is apparent from the administration's optimistic 2011 budget assumptions that the deficit-to-GDP ratio will near one percent in 2010 (down from 13 percent in 2009), and decline to not more than four percent between 2015 and 2020 (whereas two to three percent is considered to be sustainable). Private-sector assumptions show the deficit remaining above five percent of GDP in the next decade. These numbers are not sustainable. By IMF projections, the gross debt/GDP in 2014 will be 108 percent of GDP, while the administration estimates net federal debt in public hands will be 71 percent of GDP in 2012, and rise to close to 80 percent by 2020.

The measures proposed by the administration in the 2011 budget amount mostly to expenditure compression. One has to conclude that Americans are asking for more government services and transfers than they are willing to pay for. Despite the simmering populist anger about "big government," a sustainable fiscal position in the long term requires revenue raising and, ideally, tax reform, to shift the burden of taxes away from income and property towards consumption. Since no politician will be willing in the current polarized atmosphere to advocate revenue-raising measures, the bipartisan congressional commission, with all expenditure and revenue items on the table, is a logical means to break through these attitudes of denial – or, a bond market revolt will force change.

China, the main actor on the other side of external imbalances, faces a structural policy challenge. In the short term, the central question is whether China's economic structure will be any different when the stimulus is withdrawn, with more consumption and less investment driving GDP growth. For the longer term, the Chinese leadership is clear about relying more on domestic demand, but related changes in institutions and incentives will take time to bring it about. To change the incentives for household saving, public spending on education, health care, and pensions was increased three-fold between 2002 and 2008. A number of other changes are also under discussion or in train.

Yet, many outsiders focus on exchange-rate appreciation as China's "silver bullet" – allow exchange-rate appreciation and China's economy will rebalance. This assertion is conceptually correct, since a flexible exchange rate in a surplus country should appreciate. However, China manages its exchange rate, as do some other East Asian countries. So, of all the changes China recognizes it must make, perhaps exchange appreciation is the most politically difficult because of powerful entrenched interests and uncertainties about the size and distribution of job losses, as expenditure switching occurs. Sounds familiar? Yes, that sounds very much like the US dilemma.

What we should be encouraging, and what is in China's interest as well, is a package of domestic reforms that will rebalance external and internal demand, and shift growth to be less capital-intensive and less polluting and raise household incomes. These shifts are possible. Household incomes can be raised by creating more labour-intensive jobs in the services sector, and by increasing productivity in industry with more knowledge-based production. This means deregulating services and raising productivity by raising educational attainment in the work force. One of my colleagues, who has an ongoing survey of hundreds of non-state Chinese firms, observes how many of them are looking for workers with more than the compulsory nine years of basic education. Household savers should also earn more from their savings, which means interest rates should be deregulated – but, first, China needs a deposit insurance system. The shift away from capital-intensive production by the non-state sector and China's gigantic state-owned enterprises can be accomplished in several ways: by requiring them to pay larger dividends to their government owners, and by raising energy, land, environmental, and capital costs – each of which is subsidized either directly or indirectly by lax enforcement of existing regulations. Exchange-rate appreciation is required. But, what seems most likely is that we will see *real,* rather than nominal, appreciation through higher domestic inflation.

A number of these measures are also desirable in other East Asian countries that depend on export-led growth. To reduce export reliance, resources will have to be shifted to non-tradables, such as services and infrastructure. Thus, developing a package of common measures that are desirable changes in themselves but also contribute to global rebalancing makes the most sense for the G20.

Such rebalancing is manageable, as demonstrated by a recent study[1] carried out by a trans-Pacific team in which I participated.

We looked at pre-crisis expenditure patterns in 2007 and estimated what expenditure changes would be required to reduce the US current account deficit to three percent of GDP (see Table below). It would have to decline by US$304 billion. We then allocated this amount across those economies with current account surpluses, in proportion to the share of each in total surpluses. The implication is that China would absorb a third of the reduction, reducing its current

---

[1] Yongfu Cao, Wendy Dobson, Yiping Huang, Peter Petri, Michael Plummer, Raimundo Soto, and Shinji Takagi, *Inclusive, Balanced, Sustained Growth in the Asia-Pacific* (Singapore: Pacific Economic Cooperation Council, 2009). (This report will be published in early 2010 by the Institute of Southeast Asian Studies (ISEAS) in Singapore.)

account surplus by US$102 billion. (This arbitrary calculation could, but does not, include Japan and Middle East in the absorption.)

Next, we allocated the reduction across expenditure categories within countries, assuming that they will fall on consumption in the United States and China (because consumption is too high and too low, respectively, and needs to change) and on investment in Southeast Asia (where investment is considered to be too low). Thus, 60 percent of the adjustment is allocated to US and Chinese consumption, respectively; another 20 percent is allocated to Southeast Asian investment, with the residual 20 percent allocated to other expenditure categories.

The resulting expenditure changes (in Figure 1 below) are quite interesting. In China, the recalculation brings consumption five percent above actual 2007 levels. We think this is a credible estimate, since it is about what would happen during eight months of growth, or if Chinese consumption growth were to exceed GDP growth by 1.67 percent a year for three years. The demand effects in the United States would be smaller: around two percent reductions in consumption, investment, and government spending. In Southeast Asia and South America, similar percentage changes would occur in investment and government expenditures.

We also calculated trade adjustments, which were allocated 50:50 between exports and imports (see Figure 2 below). Such a change would lead to a five percent change in US trade (with exports rising more than imports fall) and approximately two to four percent change in trade in other regions.

This static exercise suggests that rebalancing is manageable – $300 billion is a large absolute number, but, relative to the $28.8 trillion Asia-Pacific economy, it is not. Indeed, such adjustment would be less damaging than market-driven changes in recent years – even if politically difficult.

G20 Mutual Assessment and Rebalancing

Politics is where the G20 comes in. The G20 will have to find ways to encourage this rebalancing, and it should be linked to countries' exit strategies. The IMF scenarios exercise planned for the lead-up to the

Toronto meeting will be based on countries' own forecasts and adjustment packages. Its value lies in highlighting both the possibilities, as we have just seen, and the global consequences of inconsistencies among these policies. The other focus of the exercise should be to link exit strategies to rebalancing by shifting public spending in the direction of investments that foster future growth.

Rebalancing is manageable, but that does not mean it will happen. International and domestic political considerations are quite likely to intervene, and so we must consider alternative tactical approaches to ensure forward momentum. The first alternative, and the most desirable, would be for the largest countries to provide leadership by example. If the United States had a credible medium-term fiscal consolidation strategy, it would be the natural leader of the mutual assessment process. But how likely is this to happen at this stage of the US electoral cycle? It could happen in the wake of a renewed crisis triggered by a bond market revolt.

A second alternative is for key trading partners or neighbours to use quiet diplomacy with both the United States and China. Pressure on China would most usefully come from other developing countries, particularly those facing rising competitive pressures from China in their export markets.

The third alternative is for a group of like-minded countries, possibly led by Canada and South Korea, to lead by example. The most credible members of the group would be other East Asian current-account-surplus countries which come up with their own strategies to reduce dependence on exports and which pressure each other by example. South Korea's President, Lee Myung-bak, has foreseen such a role and has expressed his government's determination to provide an example. Fiscal stimulus is front loaded and is focused on human capital investments in health care and social welfare spending and on technology and productivity, particularly a "Green Korea" strategy of investing in energy conservation, clean energy R&D, and energy-efficient vehicles and transportation systems. Other East Asians are looking at measures to reduce export incentives, increase competition, deregulate services, and encourage green and other needed infrastructure projects.

Conclusion

The challenges in 2010 in getting the G20's mutual assessment process on a credible track are potentially immense and imply significant risks. One risk is that, while governments in key countries may delay the timing and structure of exit strategies until market forces take over, they also lack the political will to formulate strategies for credible, medium-term fiscal consolidation. These do not need to wait for organic growth to re-appear. Indeed, there are risks of renewed financial market volatility in the absence of such plans.

The other risk is that leaders are tempted to choose quick fixes and so declare success at the June and November summits. The United States and China are at the centre of these issues. Each faces adjustments that are unquestionably in its own long-term interests, but which are politically difficult to execute because of the increasingly sensitive stages of the US electoral cycle and China's 2012 leadership succession. Policy and institutional changes in China are also politically connected with US policy change in an "after-you-Alphonse" fashion. In both cases, outside pressure will have little impact, and could even be counterproductive if publicly applied. Consequently, it will be tempting for each to tolerate higher inflation, which effectively would erode China's exchange rate under-valuation and the real value of US indebtedness—but, at what long-term cost?

This is why I conclude that Canada will have the easy part in June when G20 members identify desirable policy changes. It is around the November meeting in South Korea that the G20 faces its most formidable challenge of demonstrating forward momentum in actual policy changes. The fact that the meeting takes place in South Korea may turn out to be extraordinarily fortuitous if President Lee is able, by example, to encourage change.

Beyond that, I conclude that we need to step back and ask ourselves if the necessary leadership and vision exists to support continued multilateralism. Do we have the leaders in countries and international institutions with the necessary ambition, credibility, and power to persuade others to take the tough decisions that will get the shifting world economy back on track? We cannot afford more of the deadlock and inertia of Doha and Copenhagen or the G20 will lose its credibility and effectiveness as a more inclusive world economic forum. And, the burdens of this global financial crisis on future generations will only grow.

Table: Pre-Crisis Imbalances Were Not Sustainable
(USD billions, 2007)

		Expenditures						Current
	GDP	Cons	Inv	Gov	Exp	Imp	Net Exp	Acct
World	**54,841**	**31,835**	**12,810**	**9,810**	**17,149**	**16,763**	**386**	**299**
European Union(EU15)	15,724	8,998	3,359	3,227	6,147	6,006	141	9
Middle East	1,394	589	347	203	811	556	255	265
Rest of the World	8,895	4,742	2,575	1,462	3,076	2,959	117	63
Asia-Pacific	**28,827**	**17,506**	**6,529**	**4,919**	**7,115**	**7,242**	**-127**	**-38**
China	**3,652**	**1,340**	**1,493**	**488**	**1,773**	**1,443**	**330**	**397**
China (exc. Hong Kong)	3,445	1,216	1,450	472	1,342	1,035	308	372
Hong Kong	207	125	43	17	431	408	22	26
Advanced Asia	**7,028**	**3,915**	**1,772**	**1,188**	**2,100**	**1,947**	**153**	**221**
Australia	910	508	257	161	183	199	-17	-57
Japan	4,384	2,469	1,057	786	772	699	73	211
Korea	1,049	571	309	154	440	424	16	6
New Zealand	131	76	32	25	38	39	-1	-11
Singapore	168	64	35	16	384	332	53	39
Chinese Taipei	385	227	83	47	283	254	29	33
Southeast Asia	**1,089**	**640**	**268**	**111**	**637**	**567**	**70**	**60**
Brunei Darussalam	12	2	2	3	8	3	5	6
Indonesia	436	275	108	36	127	110	17	10
Malaysia	187	85	41	23	206	168	38	29
Philippines	137	100	22	14	62	61	1	7
Thailand	247	132	66	31	180	161	19	14
Vietnam	70	46	30	4	55	64	-10	-7
North America	**16,533**	**11,294**	**2,880**	**3,060**	**2,446**	**3,147**	**-701**	**-720**
Canada	1,432	799	326	279	500	471	29	15
Mexico	1,023	669	266	105	290	306	-17	-8
United States	14,078	9,826	2,289	2,676	1,656	2,370	-714	-727
South America	**525**	**316**	**117**	**71**	**160**	**138**	**21**	**4**
Chile	164	89	34	18	77	55	23	7
Colombia	208	132	51	34	35	44	-9	-6
Ecuador	46	29	11	5	16	16	0	2
Peru	107	66	21	13	31	24	7	1

Source: CEIC Oct 2009.

This table and other graphics are found in Yongfu Cao, Wendy Dobson, Yiping Huang, Peter Petri, Michael Plummer, Raimundo Soto, and Shinji Takagi, *Inclusive, Balanced, Sustained Growth in the Asia-Pacific* (Singapore: Pacific Economic Cooperation Council, 2009).

Figure 1: Changes in Expenditure Patterns

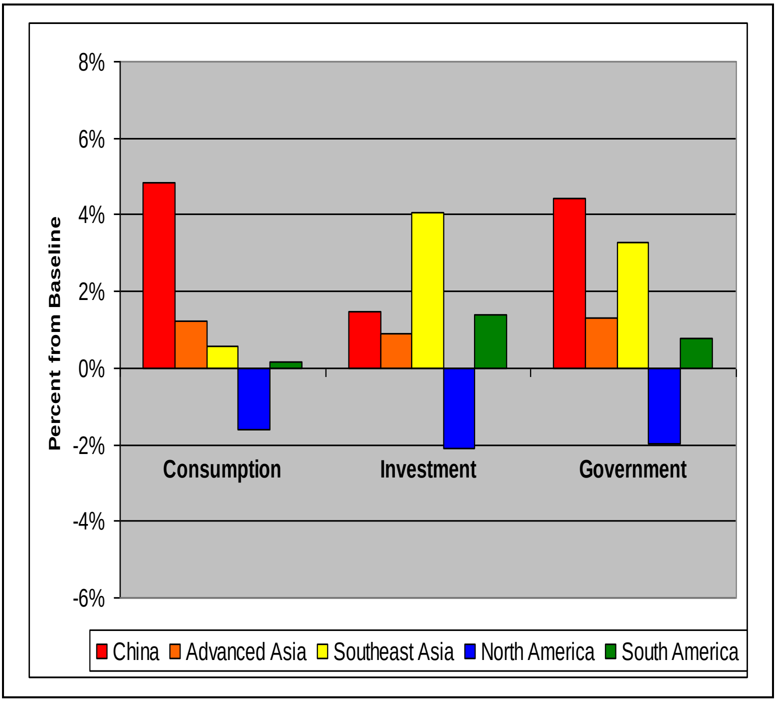
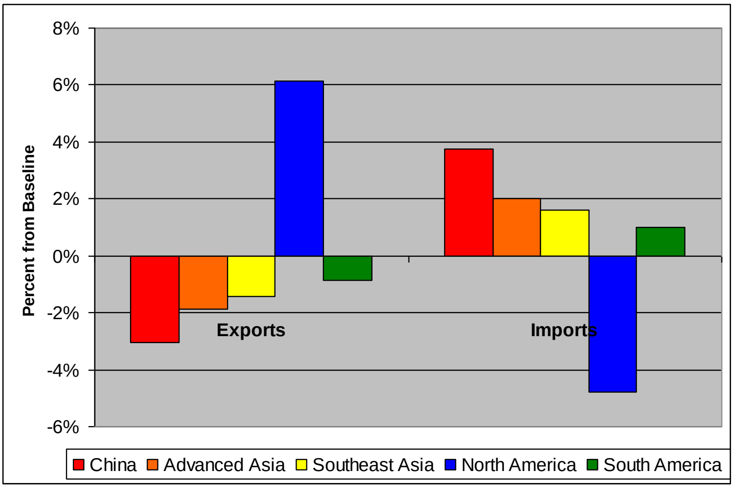


Figure 2: Changes in the Pattern of Trade, by Region



SOOGIL YOUNG

The Framework: Urgency and Agenda

Thanks to "the largest and most coordinated fiscal and monetary stimulus ever taken," recovery from the global financial crisis is well underway in all major economies, although at variable speeds. In the midst of this recovery, concerns over mounting government debts and built-up inflationary pressures, as well as continuing financial fragilities in some regions, have emerged. Thus, the prevailing view is that the present recovery is not a durable one. The key to a durable recovery of the global economy is in coordinating exit strategies for those stimulus measures undertaken during the crisis with work being undertaken within a framework for strong, sustainable, and balanced growth (SSB) of the global economy. More specifically, this means that the implementation and pace of exit strategies in 2010 should be contingent upon agreement on the framework.

In Pittsburgh, the G20 leaders agreed on the following agenda for the framework:

- To implement responsible fiscal policies;
- To strengthen financial supervision and undertake appropriate macroprudential and regulatory policies;
- To promote more balanced current accounts;
- To support open trade and investment, while rejecting protectionist measures;
- To undertake monetary policies consistent with price stability and market-oriented exchange rates;
- To undertake structural reforms to increase our potential growth rates and, where needed, improve social safety nets; and,
- To promote balanced and sustainable economic development.

Obstacles in Implementing the Framework and Remedies

The G20 leaders hope to reach an agreement on the framework by the time of their meeting in Seoul in November 2010. A number of obstacles will have to be overcome in reaching an agreement or in implementing it subsequently, including the following.

Complexity of Work

The work under the framework is a very tall order for the G20 leaders and ministers, consisting of international discussions and coordination on complex sets of national policies, each, especially in the cases of the emerging economies, covering a rather broad range of fiscal, financial, trade, monetary, exchange-rate, structural, and social policies. For example, and to focus on boosting private consumption relative to GDP alone, achieving this for the Chinese economy by a significant degree would take a number of structural measures, such as improving income distribution, strengthening social safety nets (such as pensions, health care, and the education system), enhancing consumer infrastructure (such as consumer credit and the retail network), and developing the services sector.

Reaching an agreement on the framework will be complex, technical work. To cope with this challenge, all the relevant international economic institutions, including regional development banks, such as the Asian Development Bank (ADB), should be mobilized as much as possible. This, in turn, requires skilful coordination of work with those institutions.

Domestic Politics

The most serious challenge in reaching an agreement on the framework will arise in the respective national capitals of the G20 countries. The framework will consist of significant policy changes and reforms, such as budgetary reform, financial regulatory reform, trade liberalization, exchange rate policy change, and structural reforms. The vested interests in the status quo will oppose those changes. This will affect emerging economies as well as advanced economies.

The leaders should make use of international peer pressure in the forum of the G20 discussion on the framework in order to counterbalance the domestic resistance to reforms. Peer pressure should be as multilateral as possible, and, by the same token, the discussion within the G20 should be as wide as possible. An exercise of bilateral pressure can be counterproductive because it would strengthen the voice and hands of the domestic opponents to reforms, since it could be seen as an act of infringement on national sovereignty. Acting outside the G20 process in a unilateral way, such as through an act of "naming and shaming," would be especially counterproductive.

The G20 countries should take an "intelligent" approach in exercising peer pressure on one another. This, in fact, should not be as much to exercise "pressure" on others as to ensure, and let them understand, that their work under the framework is consistent with their own national economic interests.

In a similar vein, the G20 process may be complemented with non-compulsory regional cooperation, such as at the level of APEC, or ASEAN-plus-three in the case of the Asia-Pacific countries. In developing a framework for the region, pursuing voluntary cooperation for common interests may help national leaders overcome domestic resistance to the requisite reforms, and would be supportive of the progress under the framework.

Protectionism

Protectionist actions by one or more of the G20 countries, regardless of whether they are legal under the WTO or not, violate the spirit of the leaders' standstill agreement. An outburst of protectionism would be enormously counterproductive to progress on the framework. The G20 leaders should affirm their commitment to the standstill agreement.

While the prospects remain bleak for further multilateral trade liberalization under the Doha Round, unilateral or regional trade liberalization moves under a free trade agreement by one or more countries outside the G20 context could help to thwart any possible protectionist actions by others and even encourage others to take similar actions. Ratification of a Korea-United States free trade agreement (KORUS FTA) by their respective legislative bodies could work as a "confidence-building measure" in an open trade and investment regime. Progress on the free trade area of the Asia-Pacific (FTAAP) in the APEC context could also help in this regard.

Time Horizon

Some of the structural measures expected of the emerging economies, especially those in East Asia, will take many years – possibly more than five or ten years – to be implemented and bring about the intended demand re-balancing or growth engine impacts of material significance. For example, according to a recent McKinsey study, it may take Chinese authorities more than 15 years, that is, until 2025, to boost private consumption relative to GDP from 36 percent (2007) to somewhere between 45 and 50 percent. This analysis illustrates the point that the framework will have to allow some time for some of the component policy measures to be implemented in order to lay the foundations for strong, sustainable, and balanced global growth. By the same token, the framework will have to include long-term structural measures, but, at the same time, commit the respective national governments to them in the form of credible, long-term plans.

This analysis cautions against trying to rectify the problem of global imbalances in one or two strokes of policy action within a short period of time. At the same time, it points to the need for an optimal policy mix that would bring about the intended impact within a reasonably short period of time, i.e., within a few to several years. Both of those points are applicable to the use of the exchange rate policy for the purpose of rebalancing. The latter point seems to argue for the use of the exchange rate policy as part of a larger package of rebalancing measures, including domestic structural reforms. The former point seems to argue against using the exchange rate as the sole instrument for the purpose of rebalancing, for example, in the form of one, large, currency revaluation.

Unbalanced Progress on the G20 Agenda

In Pittsburgh, the G20 leaders reached agreement on six principles:

(i) To launch a framework that sets out the policies and the way we act together to generate strong, sustainable, and balanced growth ("launching the framework");
(ii) To ensure our regulatory system for banks and other financial firms reins in the excesses that led to the crisis ("financial risk management");
(iii) To reform the global architecture to meet the needs of the twenty-first century ("global governance reform");
(iv) To take new steps to increase access to food, fuel, and finance among the world's poorest countries ("reducing development gap");
(v) To phase out, and rationalize over the medium term, inefficient fossil fuel subsidies, while providing targeted support for the poorest groups ("energy efficiency and security"); and,
(vi) To maintain our openness and move toward greener, more sustainable growth ("fight protectionism and climate change").

The G20 leaders should make efforts to ensure parallel progress on all of the six agreements above, but especially in the areas of financial risk management and global governance reform, including the strengthening of financial safety nets, and fighting protectionism.

The need to strengthen financial safety nets so that the emerging economies will not feel compelled to run surpluses on their current accounts in order to accumulate international reserves, while pushing for domestic reforms in the individual economies, cannot be emphasized too much. Suffice it to note that the economies in East Asia have begun to run surpluses on their current accounts after experiencing the Asian financial crisis.

Structural Transformation for Rebalancing

The key to the G20's effort to rebalance global demand in order to launch strong, sustainable, and balanced global growth is in shifting aggregate demand from domestic expenditure to exports in the United States, and from exports to domestic expenditure in East Asian economies, and, in particular, to private consumption in China. In other words, both the United States and East Asia should trade their pre-crisis growth models with each other – the United States for an export-led growth, and East Asia for a domestic, demand-led growth of the economy. Should both regions fail in rebalancing, the global economy will be back to the pre-crisis growth models, with the global, current-account imbalances re-emerging. The consequence will be uncertainty for the global economy and recurrent global financial instability. The global economy, including the East Asian economies, not to mention the US economy, will not be able to resume strong and sustainable growth.

If, on the other hand, the United States succeeds in rebalancing its aggregate demand in the prescribed manner, but no such rebalancing takes place in East Asia, this would entail the loss of the dominant portion of the pre-crisis export market for the East Asian economies, and deprive the region of its growth dynamism, which had been critically dependent on the markets in the United States. Growth will tend to grind to a halt and employment situations worsen in the respective economies. The United States, too, would be unlikely to be able to resume growth under its new export-led growth strategy, because a major export market for its goods and services will fail to emerge in East Asia.

Rebalancing in the United States requires budgetary reform consisting of financial and tax measures to reduce chronic budget deficits, structural measures to enhance the competitiveness of its export industries, and trade policy measures to improve access to foreign markets abroad, for example, through free trade agreements. Undertaking such rebalancing in the United States is largely a political challenge and forbids optimistic expectation for its success. In this regard, the US administration may benefit by taking maximum advantage of the G20 process as an exercise in global cooperation, with China as a key partner.

Rebalancing in China, and more broadly in East Asia, however, requires major, structural, economic transformation. This has been demonstrated by the respective experiences of Japan and Korea, which undertook the rebalancing of their economies in the late 1980s and 1990s, in response to pressure from the United States for them to reduce their large current-account surpluses. The experience of the two countries shows that the rebalancing of an East Asian economy will be, in the ultimate analysis, a developmental venture, being a complex undertaking consisting of policy actions in a number of areas, from product to factor markets, and from industrial to financial and social policies. This will require the right mix of policies to maintain macroeconomic stability and trusted, effective, political leadership with which to overcome vested interests. It is also a long-term process, taking at least ten years for completion, and probably at least a few years to begin to bring the intended impact to a tangible degree along the way.

A "New Vision Group for Asia-Pacific Growth": Proposal

In managing rebalancing, the United States and China, or any other economy in the region, could learn from the early rebalancing experiences of Japan and Korea. The respective governments each developed a vision and strategy for rebalancing in the early phase, and then used that vision and strategy to promote the need for rebalancing.

Japan's rebalancing was launched following a sharp appreciation of the yen, which was triggered by the Plaza Agreement in 1985. In 1986, the "Maekawa Commission," launched by then-Prime Minister Nakasone, drew up and published a brief report, "The Report of the Advisory Group on Economic Structural Adjustment for International Harmony." Whatever the policy recommendations in it, the Japanese economy subsequently went into a period of a bubble economy, followed by a "lost decade." From this perspective, Japan's Maekawa Commission exercise was a failed attempt at rebalancing.

On the other hand, as Korea was preparing to launch rebalancing in earnest in 1988, in the wake of the emergence of huge, current-account surpluses along with double-digit, export-led growth of the economy since the mid-1980s, then newly inaugurated Korean President Roh Tae-Woo appointed a "Presidential Commission on Economic Restructuring," chaired by former Prime Minister Yoo Chang-Soon, which prepared a report elaborating a vision of a rebalanced and restructured economy, as well as a comprehensive policy prescription for implementation. The policies for rebalancing prescribed therein began to be implemented and were continued until 1997, the year the Asian financial crisis broke out. Throughout this period, rebalancing was implemented and taking effect more or less as intended, although the rebalancing policies have been reversed to some degree after the crisis, back toward the old paradigm of export-led growth. The comprehensive reform measures so implemented during the rebalancing period have helped to soften the pressure on the won, the Korean currency, and thus to limit the extent of its appreciation, while facilitating the adjustment of the current account with continued liberalization of trade and encouraging the development of social services and the rural economy for improved well-being.

Rebalancing is already taking place in East Asia, but without being guided by some such vision and strategy. The Chinese government, for example, is making serious efforts to expand domestic demand, while implementing structural measures to enhance social safety nets and the services sector. But, the Chinese and other regional governments are engaged in rebalancing efforts without articulating, and committing to, comprehensive visions for their respective economies, as well as the attendant strategic, medium-to-long-term, policy prescriptions for the requisite structural reforms. Such a vision and policy prescriptions for structural transformation of an economy should be based on public consensus that is reinforced by well-informed expert opinion. Without such preparation, the pursuit of rebalancing risks being interrupted in the course of implementation, either because of flaws in the original policy prescription or because of political resistance to reform from vested interests. In addition, rebalancing efforts without an elaborated vision and strategy could be miscommunicated to the international community, resulting in international tension because of a consequent misunderstanding on the part of trade partners, for example, regarding management of current-account imbalances.

The above analysis is an argument for developing a vision for a rebalanced national economy, as well as a comprehensive structural reform strategy, for China and other individual economies in East Asia. Essentially, the same argument is applicable to the East Asian regional economy as a whole. Considering the close, multidimensional interdependence among the regional economies, rebalancing in East Asia will be more effective, with its impact maximized, for the individual economies and for the regional economy as a whole, if the rebalancing policies in the individual economies are closely coordinated with one another, and are all geared to a common vision of a rebalanced regional economy. The Asian Economic Outlook (2009) elaborates on the benefits of region-wide rebalancing.

The G20 is currently engaged in the framework exercise to promote global rebalancing, in order to ensure strong, sustainable, and balanced growth of the world economy, beyond the recovery from the global financial crisis. The G20 governments hope to agree on a set of national and international policy choices for this purpose by the time of the summit in Seoul. The success of this exercise depends critically on an effective collaboration on rebalancing policies in the United States on the one hand, and in China and other East Asian economies on the other hand. Such effective collaboration, in turn, requires that each government be convinced that the rebalancing policies will be conducive most of all to strong and sustainable growth in its national economy. The policies to be pursued should be optimal, involuntary, and not the result of external coercion.

In order to help East Asian people, as well as the American people, understand the need for rebalancing in their respective economies, and to communicate the policies that are required and need to be coordinated for this purpose, the G20 may appoint a private “New Vision Group for Asia-Pacific Growth,” consisting of visionary economists and policy experts, whose mandate would be to develop the visions and policy agendas for the individual economies, as well as for East Asia as a whole, on the one hand, and for the United States, on the other hand, with the goal of contributing to strong, sustainable, and balanced growth in the world economy. This group could meet around the time of the Canadian summit in June 2010 for brainstorming among its members, with officials as observers, and then hold a public conference, say, in September, for presentation of its final report to the public before submitting the report to the Seoul summit in November. Such private-sector discussion may enrich the G20 work on the framework, thus helping the politicians and officials to be more receptive to economic rationality and international policy coordination, thereby facilitating work on the framework.

DONGCHUL CHO

The Framework

The global community has succeeded in protecting the world from plunging into another Great Depression by taking unprecedentedly bold and coordinated policies. The global economy, having passed through the trough in the second half of 2009, is currently recovering, though the pace is bumpy and uneven across countries.

Now is the time to design strategies to smoothly exit from the crisis-response policies, while envisioning a new landscape of the post-crisis global economy we desire to construct. Clearly, the pre-crisis state is not a candidate for a desirable future. We do not want to go back to the over-heated state of demand driven by asset bubbles and over-leveraged financing. We do not want to re-expand the global imbalance over the course of demand recovery. We have to deal with the additional problem of public debt that has resulted from the crisis resolution. At the same time, however, we have to be sufficiently cautious in order to preserve the hard-earned recovery momentum.

The difficulty in solving this complex problem is reflected in the G20's *Framework for Strong, Sustainable, and Balanced Growth*. By recognizing the pre-crisis problems of the global economy, the adjectives "sustainable" and "balanced" can be easily substantiated and well-communicated with the market. However, the word "strong" might appear at first glance to indicate simply a rapid recovery, which does not go well with "sustainable." In order to avoid any possible miscommunication, it is better to clarify the meaning of the word "strong," and inform the market that its meaning is to close the GDP (or unemployment) gap over the years to come.

It may be well agreed as a general principle of the exit strategy that the intensity of demand-boosting policies should be gradually alleviated in line with the diminishing pace of GDP (or unemployment) gap. This principle, which considers the pre-crisis state of the economy as well, is conceptually superior to that focusing only on growth rates. While it is clear that the global economy is currently running substantially below potential, thereby requiring continued stimulus, the magnitude of GDP (or unemployment) gaps should differ across countries, reflecting different pre-crisis states as well as following dynamics. The gap may be relatively small for a country that had been over-heated prior to the crisis, in spite of a large fall in GDP (or a large increase in the unemployment rate) after the crisis.

Therefore, in order to better assess and coordinate exit policies, it is recommended to include the GDP gap estimate and/or the medium-term target rate of unemployment in the template that is being reviewed by the International Monetary Fund (IMF). Although it may be controversial to set appropriate medium-term targets in each country, the new GDP target should not be set at the level linearly extrapolated from the over-heated pre-crisis GDP, and the target unemployment rate should not be set at the exceptionally low pre-crisis level. This caution is particularly relevant to the countries in which current-account deficits are expanding and/or public debt is reaching an uncomfortable level. Setting appropriate targets is critical for designing sound exit strategies, and sharing the perceptions of other member countries' targets is important for drawing a constructive consensus at the G20.

Exit Strategies

A one-fits-all exit strategy does not exist. To the extent that economic situations differ across countries, each country should design its own exit strategy. For example, countries in which public debt remains at moderate levels, but inflation rates (and asset prices) are rising, should consider monetary normalization prior to fiscal consolidation. However, considering the overall situation of the global economy, it is necessary for the G20 to give top priority to the fiscal consolidation of advanced countries.

Top Priority for Fiscal Consolidation

The current size of public debt in many advanced countries is already immense, still rapidly rising, and politically difficult to unwind, whereas monetary expansion lies within a relatively manageable range.

The market already perceives fiscal sustainability as the biggest threat to the global economy, as evidenced by the case of Greece. Also, it is generally recommended (with due consideration to country-specific factors) to begin to withdraw fiscal stimulus as the economy recovers, while leaving monetary policy to flexibly react against the remaining country-specific uncertainties. Monetary policy, rather than inherently rigid fiscal policy, needs to cope with short-term fluctuations of capricious financial markets, and control medium-term inflation that will depend on different recovery rates across countries.

There are also several reasons that fiscal consolidation needs to be coordinated and thus discussed by the G20. First, fiscal tightening would directly transmit to other countries its negative effects on demand, unlike monetary tightening, whose negative spill-over effects can be neutralized to some extent by a resulting currency appreciation (if the exchange rate is floated). Insofar as their effects are directly transmitted to other countries, fiscal consolidations of large countries, in particular, should be of common concern to member countries. Second, there exists a *collective* danger associated with *simultaneous* increases in the fiscal burdens of advanced countries. If a monetary authority were faced with financial difficulties, a non-inflationary solution could be found, as long as the government has maintained fiscal soundness. Even if one of the governments in advanced countries were faced with financial difficulties, the global economy could still find a way out of a disastrous outcome through policy coordination among the other governments. However, *simultaneous* fiscal deterioration implies that the global economy is losing the “safeguard of last resort.” Insofar as it has an externality impact on the global economy, fiscal consolidation needs to be coordinated. Third, fiscal consolidation is an unpopular political agenda inside a country. Peer pressure can be utilized as leverage to help push through internal fiscal reforms.

In order to reassure the market about fiscal sustainability, it would be necessary to announce concrete and credible consolidation plans with definite timeframes. Among many others, a three-step approach can be considered by the G20:

(i) Set the eventual target of public-debt-to-GDP ratio below a specific level (60 percent, for example);
(ii) Ask the countries currently above the threshold to submit their own consolidation plans to attain the target by 2020. For countries that are projected to be unable to reach the threshold in the near future, ask for commitments to meet other conditions, such as ceasing to increase the debt ratio by 2020 or restoring the budget-deficit-to-GDP ratio back to the pre-crisis level by 2015; and
(iii) Review the feasibility of submitted plans at the G20.

While allowing individual countries to be flexible in designing their own consolidation plans, this approach will help increase the commitment levels of member countries to fiscal consolidation and contribute to alleviating the concern of the market.

The G20 can also take the initiative in enhancing the quality and consistency of public-debt statistics. As the concern grows, demands for the relevant statistics will increase. The supply of quality data will become more important for reducing uncertainties in the market, and will also help increase peer pressure on fiscal consolidation efforts by the G20. The agenda includes unifying definitions and coverage of the statistics across countries, collecting data for semi-public debts and contingent liabilities of the government, and so forth.

Exit from Ad Hoc Measures Prior to Traditional Policies

The crisis has invited many governments to introduce emergency policy measures. The government guarantee on foreign, short-term debts of private financial institutions was a typical example. The “quantitative easing” of monetary policy, particularly the extension of central banks’ operating instruments to risky assets, can also be regarded as examples of emergency measures.

While these measures have substantially contributed to relieving some of the pain caused by the crisis, some of them appear to be ad hoc and are likely to distort incentive structures if maintained for very long. Therefore, as the economy normalizes, it is generally advised (again, with due consideration to compelling country-specific factors) to withdraw ad hoc emergency measures and return to tried-and-true policy instruments. If some emergency measures are considered desirable, it will be better for reducing market uncertainty and moral hazards to explicitly institutionalize them than to indefinitely postpone terminating them.

An example of an emergency measure that might be institutionalized is the currency swaps among central banks. This measure was introduced at the height of the crisis, on a rather ad hoc basis, but greatly contributed to stabilizing foreign-exchange markets. A formal institutionalization of such measures will continue to be a stabilizing factor for the exchange markets of emerging countries, in particular, that cannot provide internationally convertible liquidities in response to currency crises. Strengthening the global liquidity provision mechanism also has an important implication for global rebalancing. Following the Asian crisis, many emerging economies have run large current-account surpluses and accumulated substantial amounts of foreign reserves for better self-insurance. Establishment of a strong, international liquidity provision system would alleviate their concern about a liquidity crisis and reduce the incentive to aggressively accumulate foreign reserves through current-account surpluses, eventually contributing to global rebalancing.

Suggestions

1. Inform the market that the meaning of “strong” is to close the GDP (or unemployment) gap *over the years to come*.
2. Gradually alleviate the intensity of boosting policies in line with the diminishing pace of closing the GDP (or unemployment) gap, instead of focusing only on growth rates.
   2.1. Include the GDP gap estimate and/or the medium-term target rate of unemployment in the template that is being reviewed by the IMF.
3. Give top priority to coordinating fiscal consolidation efforts.
   3.1. Note that the market already perceives fiscal sustainability as the biggest threat to the global economy, and that the

simultaneous fiscal deterioration can have a negative externality impact on other countries.

3.2. Prepare a framework that can increase the commitment levels of member countries to fiscal consolidation, while allowing individual countries to be flexible in designing their own plans.

3.3. Take the initiative in enhancing the quality and consistency of public-debt statistics.

4. Exit from ad hoc emergency measures prior to the status quo ante.

4.1 Explicitly institutionalize emergency measures that are considered desirable. The currency swaps among central banks is such an example, and can contribute to global rebalancing.

INTERNATIONAL FINANCIAL REGULATION AND REFORM

Gordon Thiessen

Sungmin Kim

GORDON THIESSEN

Introduction

Now that there are signs of recovery from the financial and economic crisis, the initiatives taken by the G20 to bring about an internationally coordinated reform of the financial system take on an even greater urgency. Regulatory reform is always a challenge, and as the concerns about the near-term stability of the financial sector start to ease, some of the will to act can diminish.

The G20 has set out a broad framework for regulatory reform, and, for the most part, has covered all the areas where change is needed. Substantial progress has already been made. The upcoming leaders' meeting needs to continue to press hard for progress on implementing the framework they have set out.

In my view, the most important initiative so far has been the establishment of the Financial Stability Board (FSB) at the London summit last April. The FSB is a restructuring of the previous Financial Stability Forum, with a broader membership and mandate. All G20 countries are now members. Given the spread of the crisis internationally, and the role in it of internationally active financial institutions, it is important to ensure that regulatory reform is as internationally coordinated as possible. The FSB is now, therefore, at the centre of all the initiatives to bring about international agreement on the specifics and practical implementation of the regulatory reforms requested by the G20. However, one must not forget that, while international coordination is important, putting in place regulatory reform in individual countries is critical.

There are a number of reforms that the G20 is pursuing that are related for the most part to some of the specific shortcomings that came out of the crisis. These are important to fix, but they are also where, in general, most of the progress has already been made. (A list of these reforms is attached to this presentation as an appendix.)

However, I would like to focus on those issues that need to be dealt with in order to reduce the risk of future crises, bearing in mind that no crisis is exactly like the previous one. In addition, I will examine the potential regulatory solutions that would respond to those issues and that would help the financial system to become more resilient in the face of potential crises that are bound to arise in the future.

Regulatory Changes to Make the Financial System Less Risky and More Resilient in the Face of Shocks in the Future

There are five regulatory areas where I think reforms are crucial. All but one of these is on the G20's regulatory agenda. At this stage, the G20 needs to set some priorities and devote more effort to find agreement on how best to proceed.

1. *Increased minimum capital levels.* It has become clear that financial institutions need to have larger capital buffers than they had on balance in the past, to ensure that they will be better able to absorb losses in the future when serious problems arise. This seems a straightforward and easily justified principle, but how large should those buffers be? If capital requirements are too high, the cost of financial intermediation may inhibit savings and investment and become a barrier to future productivity improvements. Moreover, it is possible that high capital requirements would push financial intermediation outside the regulated sector into a non-regulated "shadow banking system" or to offshore centres that do not adhere to any international accord on financial regulation. Moreover, this is an issue where international agreement is important. It is difficult for any individual country with internationally active financial institutions to raise capital requirements very far on its own.

   There is not, to my knowledge, a firm view of what optimal capital levels would be for the financial system. We know they are higher than they were in the recent past. The minimum, tier one, risk-weighted, capital requirement under the Basel agreement was four percent. Some of the analysis that I have seen suggests at least another four percent tranche of tier one capital on top of that for a total minimum capital ratio of about eight percent. That seems to me to be a reasonable place to start. I believe most institutions would have survived the crisis with capital at that level going into the crisis.

Contingent capital instruments should also be encouraged. These are instruments that start out as debt but get transformed into equity when the capital level of a financial institution falls to a certain minimum level. There is some concern that these will never be sufficiently attractive to investors to allow them to be issued in sufficient amount and at a reasonable price relative to equity to make them significant. But that does not mean they should not be encouraged.

It is important not to be too preoccupied about estimating optimal capital levels. And we want to avoid getting bogged down in a lengthy process in the Basel Committee of Bank Supervisors. The G20, perhaps through the FSB, should announce a new, higher, required capital level, and should do so soon. We can always adjust the level in the future, if there is reason to. I believe we can be more relaxed about the precise minimum-capital level because the following measures I will discuss will all help to make the financial sector more robust. We are not solely reliant on getting the required minimum-capital levels just right.

2. *The procyclicality of capital.* The second issue I feel needs resolution is the present procyclical nature of capital and capital requirements at financial institutions. In good economic times, when defaults and market volatility are low and asset prices are high, risk calculations can lead to diminished desired capital levels and to declines in required capital, when dependent on model-based calculations or rating agency assessments. These good times are when poor-quality assets are typically acquired by financial institutions, even as effective capital ratios are declining. Then, when an economic

downturn comes about, default risk goes up, asset prices fall, and markets become more volatile. In these circumstances, financial institutions may feel obliged, or be required, to shore up capital. That, in turn, discourages new lending and provides an incentive for financial institutions to demand more collateral for existing risky loans or to demand their repayment. In this way, the present capital arrangements exacerbate the booms in good times and the busts in bad times. If this issue is not dealt with, higher minimum-capital ratios will be needed.

The solution here is quite simple, in principal. Set up capital arrangements where additional capital is accumulated in the good times, thus moderating an overly rapid expansion of credit at these times. And then allow this additional capital to be drawn down in bad times to cover actual and potential losses without forcing a curtailing of credit availability to creditworthy borrowers during a recession.

The place to start is to shift, where possible, to using some through-the-cycle, average-risk measures in determining desired and required capital. After that, the solutions become more complicated in practice. An approach to implementation is to identify measures, typically some variants on the growth of credit, that provide a good indication of the cyclical circumstances when capital should be accumulated and when it should be allowed to run down. But even when such measures are identified, most regulators are understandably concerned that a mechanical approach is not sufficiently reliable or credible and would need to be supplemented by a more judgemental process by the regulatory agencies.

A further problem is to persuade markets of the merits of this proposal. As it is now, a bank accumulating capital in good times, rather than growing more rapidly or returning capital to shareholders through dividends and share buy-backs, would be heavily criticised by analysts and institutional investors. They would probably be equally unhappy to see a financial institution being prepared to let its capital ratio fall in the face of loan losses in more difficult times even if it had excess capital.

My view is that it might be easier to persuade large investors and market analysts to support measures that reduce the procyclicality of the current arrangements, and to make the measures more acceptable to regulators, if we were to use loan-loss provisions, rather than capital, as the main means for reducing procyclicality. There is already international agreement that loss provisions should be more forward looking and should be taken the moment the loan or other asset is acquired, with the provision calculated on the basis of the average loss experience of that asset category. That will help, but why not add some more general provisions at the same time to account for the cyclical concentration of losses during downturns in the economy? That would leave capital oriented to protecting the institution from less predictable "tail" events. I know there are tax and accounting implications in making more use of loan-loss provisions, but I do not see why we could not work out a solution acceptable to both governments and accounting-standard setters.

3. *Continuous funding markets.* Another problem during crises is that some crucial funding markets can seize up. This certainly happened in 2007-2008. When such markets do not work, liquidity problems are seriously exacerbated and can be transformed into problems of confidence in the financial stability of counterparties. This adds to contagion effects during a crisis. We need core-funding markets that operate continuously, even in difficult times. While, to my knowledge, this is not on the G20 work list, I think it should be. We spend a lot of time on the prudential regulation of financial institutions. Why not devote some effort to making at least crucial funding markets more robust with better infrastructure so that they will operate continuously even in difficult times? I am thinking here of central counterparty arrangements and

some sort of risk-proofing against the failure of a major participant, such as we have put in place for large-value payments systems.

4. *Systemic risks.* A fourth area of concern is systemic or sectoral stresses that can show up without any individual financial institution being the source of the difficulty. We used to think that if every regulated financial institution was in good shape, there was no further need for concern. However, it is now evident that there can be systemic or sectoral excesses, such as in the housing market, or from financial shocks from abroad, or from rapid credit growth more generally, that can lead to problems, even if initially they do not look all that serious for any individual bank. The regulatory reform required here is to set up a macroprudential monitoring process to identify potential systemic stresses and strains, and to find tools for dealing with them. A good example is the concern about the rapid expansion of residential-mortgage borrowing in Canada at the current low level of interest rates. The issue is the potential impact on the creditworthiness of borrowers when interest rates start to rise during the recovery period. Problems among overextended mortgage borrowers at that stage of the cycle might impede a fragile economic recovery. As a result, the government has chosen to impose some restraints on mortgage borrowing to limit the possible future risk. This is a good example of the systemic risk reduction that macroprudential monitoring can provide.

Much of the discussion on this matter has had to do with which agency should be responsible for macroprudential issues. Initially, many people thought it should be the central banks, which traditionally take a systemic view of economic and financial developments. But, ideally, any decision about what constitutes a macroprudential risk would take account of the expertise of all the regulatory agencies. Moreover, any regulatory action to limit the expansion of credit broadly, or in a given sector, affects the potential net worth of borrowers.

These are decisions that in a democratic society should be approved at the political level, where those affected can take advantage of political processes to debate the decision, and where there is accountability to the general public for the decision.

This is an area where much work remains to be done to identify indicators of systemic stress and tools that can be used to remedy the problems. While there is not a great deal of international coordination needed with respect to the regulatory processes involved, the G20 should press all major countries to institute arrangements to deal with macro-prudential issues, so that systemic excesses are less likely to spread across borders.

5. *Too big to fail, and moral hazard.* Perhaps the most difficult issue in trying to make the financial system more robust is the problem of financial institutions that are too big to fail or at least too big to wind up. The disastrous events of the autumn of 2008, along with the bailout of quite a number of large institutions by governments, have undoubtedly contributed to a view that systemically important institutions will not be allowed to fail in the future. Moreover, if such institutions operate internationally, winding up is even more complicated, and therefore probably regarded as unlikely. This provides these institutions to take on more risk, and that is, of course, the moral hazard problem.

A couple of regulatory measures have been proposed to deal with this issue. One solution that is being widely discussed is the so-called "living will." This is a requirement that systemically significant financial institutions set out a process that could be used to wind them up in the event of insolvency. It is hard for me to imagine that making the winding-up process smoother would really make it easier for authorities to avoid rescuing such an institution in the midst of a crisis, given the impact that failures can have on confidence in the financial system. That does not mean that this solution is not worth pursuing, because it could provide useful information, such as the degree of interconnectedness of institutions and the concentrations of exposure to particular counterparties. But it does not solve the problem.

Another solution that has been proposed is to restrict banks to traditional deposit-taking and lending. This would resurrect the old Glass-Steagle separation in the United States of commercial banking and investment banking. I fail to see enough merit to justify the major changes implied by this proposal. It would leave investment banking outside the closely regulated commercial banking system, and could increase the riskiness of investment banks. I doubt that the failure of a large investment bank would really leave commercial banks untouched by the impact. In Canada, we have all the major investment banks as part of a commercial banking group, and they are subject to supervision on a fully consolidated, worldwide basis. I believe this is a more prudent regulatory arrangement and should be encouraged.

So, I don't have a solution to the too-big-to-fail issue that I would strongly recommend at this stage. However, I am taken by a proposal recently made to resurrect problem institutions without a government bailout rather than wind them up. What this proposal requires is a change in bankruptcy law that would allow regulators to take over a failing institution, put in place new management, and resuscitate it over a weekend. Regulators would write down all unrealised losses, presumably wiping out the shareholders. To recapitalize the institution, preferred shares and subordinated debt would be converted to equity. And a sufficient portion of senior, unsecured debt would also be converted to equity, to ensure the institution would emerge well capitalised. The depositors, counterparties, and other secured creditors would remain whole.

This process would have to be complemented with a funding arrangement to ensure that the problem institution could survive in funding markets until it regained investor confidence or could be sold off. They suggest some sort of arrangement to which all members of the banking community would contribute when requested by regulators to provide the required funding.

This is not a miracle solution, but it is worthy of further study. There are difficult technical problems in amending the bankruptcy legislation, and it may be that this solution would make the unsecured debt of banks less attractive to investors and more costly for banks. However, it is likely to be less costly than liquidation, or ongoing bailouts, that contribute to moral hazard, and it is the most promising proposal I have seen so far.

These are the five issues that I think the G20 process needs to set as priorities, to ensure we continue to make progress on the most important problems, before some of the enthusiasm for regulatory change dissipates.

Conclusion

G20 coordination should be based on the following:

- Do not try to set up a single international regulator as some have suggested. Countries and their financial systems are different, and one size does not fit all.
- Having all major countries subject to the same, precise set of regulations moves in the direction of making risks even more highly correlated internationally in the future.
- The difficulties in reaching agreement among countries to cede some of their sovereignty to an international regulator imply a very long and likely unsuccessful process. We should not waste time over this.

In addition, I would advocate that the G20's international coordination activities, through the FSB, should focus on regulatory principles rather than rules. The detailed international negotiations that would be required to agree on specific rules would mean a much longer time delay to put them into effect.

More importantly, there is the broader question of the effectiveness of rules versus principles. Once rules are set out, the implication is that anything that is not covered by the rules is acceptable. A huge amount of activity is then devoted to finding ways around the rules. I know dealing with principles can be challenging for both the regulator and the regulated bank, but I think it is likely to lead to better outcomes.

APPENDIX

REGULATORY CHANGES TO DEAL WITH SPECIFIC PROBLEMS FROM THE RECENT CRISIS

This is a list of those G20 regulatory reforms that are related to some of the specific shortcomings that came out of the crisis. These are important to fix, but they are also where, in general, most of the progress has been made.

1. Reform of the Basel Capital Accord to reassess risk weights and role of models and rating agencies in setting risk weights. This will deal with some of the shortcomings in Basel I and II, including giving pillars 1 and 2, relating to supervisory oversight and market discipline, more emphasis.
2. Adding an overall leverage ratio to capital requirements that is calculated without the risk weights. This is to ensure that if the risk weights in item 1 turn out to be too light, there is still a limit on a bank's ability to expand.
3. Improving the quality of capital to limit tier-one capital to equity issues and retained earnings, predominately. Some of the preferred shares and subordinated debentures that were part of capital previously did not turn out to have the buffering effect one wants from capital.
4. Requiring a framework to ensure adequate and effective liquidity in financial institutions. The Basel Committee has set out its requirements to deal with potential short-term market stresses and longer-term structural issues. This reflects the greater reliance by financial institutions in the last number of years on wholesale funding and securitization to finance assets.
5. Revising requirements with respect to securitization to provide incentives for better monitoring of the ongoing credit quality of securitized loans and better initial credit assessments of loans destined for securitization. The revisions proposed are to improve the disclosure on assets behind securitized instruments, and to require that the originator of a loan to be securitized retain some portion of that exposure.

6. Improving derivative markets. These markets, which expanded so rapidly in the years leading up to the crisis, exacerbated the problems of confidence in the financial system because of the uncertainty that arose about the risk of dealing with many counterparties. The reform proposals are to have a much larger proportion of derivative instruments issued through a clearing house, or with a central counterparty, in order to reduce potential, counterparty concerns in difficult times and to increase disclosure.
7. Setting standards for sound practice in executive compensation at financial institutions. Apart from the proprietary trading operations at investment banks in particular, it is difficult to see where the incentives generated by compensation arrangements were one of the significant causes of the crisis or its spread around the world. However, executive compensation is a source of substantial popular resentment, especially towards financial institutions that have been bailed out by governments. The Financial Stability Board has set out a list of standards for sound practice in executive compensation, and national regulators are checking adherence to those standards in the institutions they regulate. National regulators will then compare results with their counterparts from other G20 countries to see if the standards need revision and where standards are not being met.

All these reforms are important and relate to specific shortcomings that emerged during the crisis. And the G20 needs to keep the pressure on the FSB and other agencies tasked with these reforms to ensure agreements are reached on the details of the proposed changes and their implementation, and then the FSB needs to start monitoring adherence.

SUNGMIN KIM[*]

Improving Risk Management

In the wake of the recent financial crisis, much energy has been devoted to regulatory reform – to improve risk management in the private sector, as well as on the policy making side. Efforts have focused on compensation reform and early warning exercises, among other proposals.

Despite these efforts, there are two, not-frequently-mentioned problems remaining to be dealt with, related to improving risk management. The first is associated with the identification of future crises applied in pre-crisis risk management, and the other with a behavioural tendency of risk managers, in both the private sector and policy making circles, toward tolerating "Type 1 errors" (and thus missing crises).

Regarding future crisis identification, there has not been any clear distinction made between risk and uncertainty in pre-crisis risk assessment. In this context, it is worth quoting a famous remark by Donald Rumsfeld, former Secretary of Defense in the Bush administration:

> … there are known knowns; there are things we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns – the ones we don't know we don't know.

I think Mr. Rumsfeld outlined an excellent way for us to structure our understanding of the world.

In academic circles, of course, there had also been many discussions of this specific issue, prior to Rumsfeld. Here, we need to go back to Frank Knight's definition of risk and uncertainty. According to Knight, risk is an event which has a stable and predictable

[*] The views expressed are those of the author and do not necessarily represent those of the Bank of Korea or the Korean government.

probability distribution, while uncertainty refers to an event with an unstable and unpredictable probability distribution. In the pre-crisis period, many of us believed we would be able to manage uncertainty, in addition to risk, as defined by Knight. However, the crisis showed us the incompleteness of certain of our risk models, and redirected our attention to the importance of uncertainty and judgement in risk assessment.

The behavioural tendency of risk managers to tolerate Type 1 errors reflects, to a large extent, their lack of personal incentives for giving warning against adverse events that are very likely, but not certain, to occur. Specifically, in both the private and the public sectors, risk managers are not rewarded ex-post for preventing adverse events, which then, of course, do not materialize, while such preventive actions, when taken, are at the same time not cost-free. The result is a situation in which risk managers currently pursue personal benefits at the expense of social ones.

A case in point, in this context, was the 1997 twin crises in Korea. At that time, we observed simultaneous symptoms of both a financial and a currency crisis. Tackling the former called for lowering interest rates, while tackling the latter required raising them. However, if, for instance, we had raised interest rates substantially to tackle the currency crisis *ex ante*, we might have been able to prevent it worsening, but the higher interest rates would have then obviously exacerbated the ongoing financial crisis. If people had subsequently evaluated our policy actions on an *ex post* basis, they might have blamed us for a serious policy mistake that contributed to a further worsening of the financial crisis, instead of praising our efforts to prevent further deterioration of the currency crisis. It is an uncomfortable truth, in this regard, that people tend not to give praise to policy actions that have prevented a crisis that does not then materialize. I think this tendency applies not only in public policy making but also in private-sector investment decision making, for the reason that hedging of a risk requires a cost.

To tackle the problem of future crisis identification, it is, of course, of utmost importance that risk managers in both the private and public sectors recognize the limitations of model-based risk management. At the same time, however, we need to also institutionalize a framework for looking at events from various angles with higher frequency. In order to deal with the behavioural problem, there is a strong case for correcting the incentive structure in favour of one encouraging the sounding of bold warnings. Specifically, while there is a need for corporate governance reform in the private sector, we must also examine the pros and cons of segregating policy implementation from the diagnosis of symptoms within our policy making bodies.

Building Sustainable Regulatory Reform in the Financial Sector

The ongoing regulatory reform reminds us of a "regulatory dialectic process." After experiencing a period of financial sector regulation until the early 1980s, we subsequently witnessed a period of deregulation. Since the financial crisis, however, we are now entering a period of re-regulation. The question is whether this is the end of the process. The answer to this depends critically on the sustainability of the current regulatory reform, in this environment of globally integrated financial markets.

One task in this context is ensuring that regulatory arbitrage, in particular cross-border regulatory arbitrage, does not jeopardize the effectiveness of tighter regulation. This calls for more coordination of and cooperation in regulatory reform at the international level. It should be emphasized in this regard that, in order to ensure a level playing field, broad principles of financial regulatory reform need to be discussed within a multilateral process led by the G20, rather than through separate unilateral processes.

Another task is to make sure that the pendulum does not swing back too far. As the financial markets have stabilized considerably, some critics have begun to question the sustainability of the current regulatory reform. In particular, they have argued that many of the reform measures rely too heavily on financial sector taxation in the forms of capital regulation, capital surcharges on systemically important financial institutions (SIFIs), and levies on the financial services industry. Going forward, they say, these measures could lead to a substantial increase in the cost of capital, even though the new norm for the global economy post-crisis does not appear likely to be very bright compared to the pre-crisis period.

While this argument appears to be somewhat legitimate, there is also a strong case for maintaining the momentum of regulatory reform in order to prevent future crises. To sustain the reform process, it is very important to strike a balance between the risk of over-regulation and that of under-regulation.

Here are some suggestions for a more balanced approach. First, before finalizing target levels for each item (capital regulation, capital surcharges on SIFIs, and bank levies), we need a comprehensive review to assess their collective impacts, considering the closely interconnected relationships among them. Second, in order to reduce the burdens on the private sector caused by tightened regulation, greater emphasis should be placed on the reform of public policy to prevent future crises. In particular, one urgent task is building a robust macroprudential policy framework that can prevent financial imbalances from acting as a root cause of future crises. Third, more efforts should be made to identify and correct institutional distortions which encourage financial leverage by all economic actors. In this case, one obvious distortion is preferential tax treatment for debt financing. In particular, given the weak fiscal balances of major advanced economies, there appears to be a very compelling case for elimination of such preferential tax treatment at this time.

Strengthening the IMF's Surveillance Function

The crisis has demonstrated clearly how the interlinked nature of the global economy, as well as the financial markets, can lead to development of a global crisis triggered by a crisis in one single country. A crisis in a "systemically important country (SIC)," in particular, can generate serious contagion effects across borders.

This provides strong justification for strengthening the bilateral and multilateral surveillance functions of international financial institutions, in particular the International Monetary Fund (IMF). At the same time, given the intertwined relationship between the macro-economy and the financial system, the IMF's financial sector surveillance should also be strengthened. This would require substantial collaboration with the Financial Stability Board (FSB) and other international institutions, and mutual understanding would be needed on a clear division of labour and responsibilities between these institutions. More effort at the G20 level should be devoted to determining an appropriate way forward in this regard.

Meanwhile, effective functioning of the IMF's bilateral and multilateral surveillance depends critically on the willingness of countries to comply with the policy recommendations made during its bilateral surveillance process. One critical question in strengthening the surveillance function of the IMF is whether there is scope for a "too-big-to-comply" problem. Such a problem, if it were to materialize among countries deemed to be SICs, could bring about very serious consequences to the global economy.

In order to reduce any too-big-to-comply problem and, hence, strengthen the IMF's surveillance functions, several issues need to be appropriately addressed. The first issue is how to enhance the legitimacy of the IMF's governance structure. More specifically, it is very important to ensure that the IMF quota allocation reflects the economic significance of each member in the global economy, while at the same time each member genuinely recognizes that receiving a larger quota is accompanied by greater responsibility for maintaining sustainable global economic prosperity. This issue also involves the needs for more diverse composition of the IMF staff and for merit-based appointments to top management posts within the institution. The second issue to be addressed is how to gain more political traction for complying with recommendations made through IMF surveillance. One way to secure such political traction is to establish an institutional setting that ensures more active participation by governors of member countries in the process of making important decisions, including those on surveillance. In this context, some options, including strengthening the functions of the International Monetary and Financial Committee (IMFC) and establishing a ministerial council, are currently being discussed. While each option has its own related pros and cons, more emphasis is still needed on finding ways to gain more political traction for IMF surveillance. The final issue to explore is whether there is any other factor that could potentially constitute an obstacle to the effective functioning of IMF surveillance, for example, including the voting scheme governing the IMF's important decision making.

Diversifying Instruments for Tackling "Sudden Stops" of Capital Flows

During the crisis, some countries, most notably many emerging market economies, suffered from serious deteriorations in foreign currency liquidity caused by "sudden stops" of capital inflows to them. The extremely capricious nature of international capital flows at that time reflected not only the growing integration of the global financial markets but also the urgent needs for large financial institutions in advanced economies to deleverage.

One major concern in this context is that such an event can encourage incentives for some emerging market economies to accumulate even more foreign exchange reserves, beyond their already high levels, for self-insurance purposes. However, given the remarkable expansion in the scale of capital flows and the large quasi-fiscal costs accompanying maintenance of huge, foreign exchange reserve volumes, self-insurance by means of foreign exchange reserve accumulation is obviously not a sustainable solution.

It must be emphasized, too, that provision of diverse instruments that can serve as alternatives to foreign reserves accumulated for self-insurance is a prerequisite for the successful implementation of the *Framework for Strong, Sustainable, and Balanced Growth* that we are all striving for. While the self-insurance motive is not the whole story behind foreign exchange reserve accumulation by some emerging market economies, it is possible that provision of such diverse instruments could weaken their rationales for further reserve accumulation for self-insurance purposes.

In this regard, we welcome the IMF's efforts to introduce new instruments to tackle "sudden stops," including the flexible credit line (FCL). At the same time, however, we also feel a need for more efforts focused on improving the existing instruments and on further diversifying instruments to tackle countries' temporary liquidity problems. In this process, it should also be mentioned that the issue of moral hazard needs appropriate addressing.

Regarding the improvement of IMF lending facilities, one concern is that some countries are reluctant to use them for fear of stigma effects associated with borrowing from the IMF. It is not yet clear, however, whether these stigma effects stem from economic or political reasons. The other concern is that the reliability of the FCL needs to be enhanced, and the criteria for eligibility for IMF lending need to be improved in terms of transparency and quantification.

In order to alleviate the concerns about stigma effects, more effort should again be put into enhancing the legitimacy of IMF governance. With regard to enhancing FCL reliability, there is a discussion now on establishing a system under which countries are automatically evaluated as to their eligibility for the FCL, up to a given limit. In dealing with the concerns about FCL eligibility criteria, it is important that the criteria be more transparent and quantified. In this regard, the suitable extents of transparency and quantification of eligibility criteria are open to further discussion. Greater transparency and quantification of eligibility criteria might give countries that are ineligible greater incentives to improve their macroeconomic performances for eligibility, while at the same time discourage speculative attacks on countries that are eligible.

Since each country's preference for each instrument depends upon its own circumstances, we need to explore from scratch the feasibility of various other tools. Such tools include the expanded use of swap arrangements between central banks, the greater integration of regional arrangements such as the Chiang Mai Initiative Multilateralization (CMIM) with the work of the IMF, and the introduction of multilateral insurance arrangements, such as a foreign liquidity insurance scheme.

ENERGY SECURITY AND CLIMATE CHANGE FINANCING

Suh-Yong Chung

SUH-YONG CHUNG

Climate Change

Limited Success of the UN Process in Copenhagen

Two years of negotiations on a post-Kyoto regime based on the Bali Action Plan have resulted in the Copenhagen Accord. According to paragraph 4 of the Copenhagen Accord, Annex I parties have committed to implement, either individually or jointly, the quantified economy-wide emissions targets for 2020 on a voluntary basis without any legally binding guidelines. Also, non-Annex I, or developing, countries made an agreement to implement mitigation actions on a voluntary basis. Their mitigation actions will be subject to domestic measurement, reporting, and verification (MRV) – the result of which will be reported through their national communications under the United Nations Framework Convention on Climate Change (UNFCCC) every two years. As of February 1, 2010, only 59 of 183 member states of the UNFCCC have reported their emissions targets or action plans to the secretariat of the UNFCCC.

The level of the agreed outcome on reducing greenhouse gas emissions may not be enough to maintain the 450 ppm level that the Intergovernmental Panel on Climate Change (IPCC) has recommended. The current, two-track approach of the UNFCCC, which only gives legally binding obligations to Annex I countries to reduce greenhouse gas emissions, seems to have posed some obstacles in establishing an effective framework to address climate change. Moreover, national interests of major developing countries, such as China, India, Brazil, Mexico, South Africa, and the Republic of Korea, often take advantage of a common but differentiated responsibility principle, putting them in difficult positions to commit themselves up to the level of developed countries. Lack of leadership in the negotiations to reach a more desirable level has also contributed to the low level of achievement in Copenhagen.

Despite the limited success of the Copenhagen meeting, it is still expected that the UN process would remain as an important forum in dealing with climate change. At this time, no other forum has secured as many memberships as the UNFCCC, which is crucial in terms of legitimacy.

Climate Change Financing under the Copenhagen Accord

One of the achievements in the Copenhagen climate change meeting through the Copenhagen Accord was an agreement made on climate change financing. In the accord, developed countries agreed on a fast-start fund to provide new and additional resources through international institutions, approaching US$30 billion for the period 2010 to 2012, with balanced allocation between adaptation and mitigation. For the longer term, developed countries also committed to a goal of jointly mobilizing US$100 billion per year by 2020.

The US$100 billion will be used to assist developing countries to address the issue of mitigation, as well as transparency on implementation. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance. Therefore, developed countries need to continue their efforts to mobilize various sources of funding. For this purpose, the Copenhagen Accord envisions the establishment of a high-level panel to study potential sources of revenue, including alternative sources of finance. In addition, the Copenhagen Green Climate Fund will be established as an operating entity of a financial mechanism of the convention to support mitigation activities of developing countries.

While the Copenhagen Accord contains some elements on climate change financing, it may not be sufficient to cover the full scale of such financing. Currently, the climate change financing scheme under the Copenhagen Accord does not have any clear guideline on how to allocate resources to assist developing countries. Climate change financing under the Copenhagen Accord aims to assist developing countries to implement their activities related to climate change. However, considering that mitigation efforts of developed countries may also need adequate climate change financing, it is necessary to ensure an appropriate climate change financing scheme for the implementation of activities of developed countries. Indeed, the current climate change financing mechanism of the Copenhagen Accord may not remain as the sole financing mechanism to address the various issues of climate change.

G20 as a Possible Forum for Climate Change among the Major Economies

Under these circumstances, it is reassuring that the G20 has already started discussions on the issue of climate change financing. At the London summit in 2009, the following was agreed by the G20:

> We agreed to make the best possible use of investment funded by fiscal stimulus programs towards the goal of building a resilient, sustainable, and green recovery. We will make the transition towards clean, innovative, resource efficient, low carbon technologies and infrastructure.

The leaders further agreed to "reaffirm their commitment to address the threat of irreversible climate change, based on the principle of common but differentiated responsibilities and to reach agreement at the UN Climate Change conference in Copenhagen in 2009."

Following the London summit, a further commitment was made by the G20 leaders in the Pittsburgh summit of September 2009. This summit noted the principles previously endorsed in July of the same year by the leaders at the Major Economies Forum in L'Aquila, Italy. In Italy, the leaders agreed to establish "a Global Partnership to drive transformational low-carbon, climate-friendly technologies," and to "dramatically increase and coordinate public sector investments in research, development, and demonstration of these technologies, with a view to doubling such investments by 2015, while recognizing the importance of private investment, public-private partnerships and international cooperation, including regional innovation centers." The leaders also recognized an urgent need to scale up financial resources for mitigation and adaptation, noting that "financing to address climate change will derive from multiple sources, including both public and private funds and carbon markets." Mindful of such principles, the G20 leaders also agreed to intensify their efforts to support the negotiations of the UN process. As a part of those efforts, the leaders requested that the finance ministers prepare possible plans on climate change financing prior to the scheduled Copenhagen meeting.

In response, the finance ministers met in St. Andrews in November 2009, and, among other international financial issues, discussed climate change financing options. The meeting addressed the threat of climate change and recognized the following:

- The necessity to increase significantly and urgently the scale and predictability of financial support required to implement an ambitious international agreement;
- The potential of public finance as a leverage of private investment;
- The importance of policy frameworks for countries and the depth of emission reductions for increasing the scope of carbon markets;
- The necessity of coordinated, equitable, transparent, and effective institutional arrangements for delivery of discussed financing options; and
- The assurance of coordination of support for country-led plans and reporting of this support across all financing channels – multilateral, regional, and bilateral.

Moreover, the finance ministers committed themselves to undertake further work on climate change financing and to define financing options and institutional arrangements.

Assessment

The G20 may support the implementation of the climate change financing scheme of the UNFCCC, since it has the capacity to develop a climate change financing mechanism in a broader global context. The G20 also seems to have an advantage as a forum for developing and implementing feasible climate change financing schemes, since most of the major economies are members of the G20. According to the submissions to the UNFCCC secretariat regarding their emissions targets and plans of action, the total emissions ratio of the G20 members represents approximately 80 percent of total global emissions.

However, it is also true that the G20 may not be able to replace the UN process as a major forum for negotiations on climate change. While the G20 can certainly stimulate discussion on climate change financing issues among the major economies, ultimate decisions need to be made in a forum such as the UNFCCC, where all the stakeholders of climate change are participants. This will ensure the legitimacy, transparency, and efficiency of the plans on climate change.

Recommendations

Summits may consider the following to stimulate further negotiations in designing practical and effective measures to address climate change:

- Define the role of the G20 as a supplementary and effective forum, along with the UN process;
- Identify a role for the G20 to develop an adequate climate change financing architecture among the major economies;
- Develop a coordination mechanism between the G20 and the UN process on the issue of climate change financing; and
- Develop detailed plans on stimulating private investment through public financing.

Energy Security

The G20 leaders have recognized and dealt with the issue of energy security in the 2008 Washington summit. As a part of the G20 leaders' commitment to an open global economy, the released text of the statement from the summit regarding energy security is as follows:

> We remain committed to addressing other critical challenges such as energy security and climate change, food security, the rule of law, and the fight against terrorism, poverty and disease.

The discussion on energy security was continued more extensively at the 2009 Pittsburgh summit. The leaders' statement from the Pittsburgh summit notes the *St. Petersburg Principles on Global Energy Security* announced in July 2006. The principles recognized the shared interest of energy producing, consuming, and transiting countries in promoting global energy security, and the leaders of the G8 accordingly committed to enhance global energy security through action in the following key areas: increasing transparency, predictability, and stability of global energy markets; improving the investment climate in the energy sector; enhancing energy efficiency and energy saving; diversifying energy mix; ensuring physical security of critical energy infrastructure; reducing energy poverty; addressing climate change and sustainable development. While in Pittsburgh, in line with such prior discussions on energy security, the leaders made commitments to increase energy market transparency and market stability, as well as regulatory oversight of the energy market.

Energy Subsidies

At the Pittsburgh summit, the G20 leaders also recognized the importance of energy efficiency in promoting energy security and fighting climate change. In particular, the problem of inefficient fossil fuel subsidies was emphasized by quoting the joint findings of the Organisation for Economic Co-operation and Development (OECD) and the International Energy Agency (IEA). The OECD-IEA modelling exercise to measure the benefits of eliminating subsidies to fossil fuels started out with the awareness that the existing environmentally harmful energy subsidies led to a negative carbon price. The removal of subsidies would be a first step to achieving a fair carbon price, as well as lowering the overall economic costs of meeting established mitigation targets. The report demonstrated that eliminating fossil fuel subsidies by 2020 would reduce global greenhouse gas emissions in 2050 by ten percent.

Currently, the magnitude of fossil fuel subsidies around the world is hard to accurately assess, as data are poor and limited, and without any organized reporting structure. However, studies carried out by IEA have assessed subsidies in 20 non-OECD countries to be approximately US$220 billion in 2005. For the same 20 non-OECD countries, the amount of subsidies increased to US$310 billion per year by 2007. From fossil fuels, oil products were the most heavily subsidized, reaching US$152 billion per year in 2007. For developing countries with low GDP per capita, more than two percent of their GDP consisted of consumption-related, fossil fuel subsidies.

Many experts are of the view that fossil fuel subsidies result in a net negative effect at both the individual and global levels. These subsidies alter fossil fuel prices, leading to market distortions. A study published by the International Institute for Sustainable Development (IISD) in 2010 investigated the economic, environmental, and social impacts of fossil fuel subsidies and found the following:

- *Economic impacts of fossil fuel subsidies:* Fossil fuel subsidies can increase energy consumption, reduce incentives for energy efficiency, and drain government finances through direct financial transfers from government budgets. They can also increase dependence on imports, while weakening investment in alternative energy sources and technologies.
- *Environmental impacts of fossil fuel subsidies:* The use of fossil fuels is directly related to greenhouse gas emissions. Therefore fossil fuel subsidies will allow the continuation of emission of such gases. The various greenhouse gases will inevitably lead to local air pollution, water pollution, and landscape destruction. Moreover, non-renewable, fossil fuel stocks will become depleted.
- *Social impacts of fossil fuel subsidies:* Fossil fuel subsidies may act to benefit the rich more than the poor, since the rich have more money to spend on energy and have greater access to energy. This may facilitate reduced energy availability to the poor. There is also the possibility that subsidies may not target types of energy that would be more beneficial to the poor. Fossil fuel subsidies may divert government money that could be more effectively directed to social programs.

The IISD study concluded that, from an economic perspective, "fossil fuel subsidy reform would result in aggregate increase in GDP in both OECD and non-OECD countries. The expected increase ranged from 0.1 percent in total by 2010 to 0.7 percent per year to 2050."

As for the environmental dimension of the subsidy, it was found that the reform of fossil fuel subsidies would reduce CO_2 emissions, estimates ranging from a 1.1 percent reduction by 2010 to as much as an 18 percent reduction by 2050. A 2009 study by Burniaux et al. concluded that, overall, world CO_2 emissions would be reduced by 13 percent, and GHG emissions would be reduced by 10 percent by 2050, if consumer subsidies for fossil fuels and electricity in 20 non-OECD countries were phased out. With respect to the social impacts of fossil fuel-subsidy reform, it was generally assessed that "impacts on the poorest of the poor would likely be neutral or positive." The saved expenditures from eliminating inefficient fossil fuel subsidies can be turned to social programs that target and improve the welfare of the poor.

In this context, it is notable that the Pittsburgh summit led to a commitment to rationalize and phase out inefficient fossil fuel-energy subsidies over the medium term, with the aim of improving energy security, encouraging investment in clean energy sources, promoting green growth, and freeing up resources to be used instead for pressing social needs, such as health, food security, and environmental protection. However, it was also recognized that support for clean energy, renewables, and technologies that can dramatically reduce greenhouse gas emissions will not be subject to reforms on eliminating fossil fuel subsidies.

In Pittsburgh, the G20 leaders requested that relevant institutions, such as the IEA, OPEC, the OECD, and the World Bank, provide an analysis of the scope of energy subsidies and suggestions for the implementation of this initiative. In response, the IEA has already held a workshop at its headquarters with relevant stakeholders and experts, in order to create a joint report to the G20.

Diversification of Energy Supplies

In order to diversify energy supplies and strengthen energy security, the G20 leaders recognized the importance of accelerated adoption of economically sound, clean, and renewable energy technologies, as well as energy efficiency measures.

Access to Energy for Developing Countries

The leaders acknowledged the importance of increasing access to energy, particularly for the most vulnerable in the developing world suffering from hunger, poverty, and lack of access to energy and finance. In order to ensure adequate access to energy, the G20 leaders made commitments to fund appropriate programs, such as the "Scaling Up Renewable Energy" program and the "Energy for the Poor" initiative.

Assessment

Despite the commitments to energy security by the G20 leaders, it seems there has not yet been much progress in furthering the discussions. One reason may be the lack of focus on urgent issues addressed by the G20 during the discussions. Another reason might come from the lack of consensus within the G20 in addressing a wide range of energy security issues.

Recommendations

Summits may consider the following to stimulate further negotiations in designing the practical and effective measures required to address the issue of energy security:

- Identify the most urgent issues of energy security that may be appropriately addressed in the context of the G20; and
- Develop more collaborative schemes with relevant organizations such as the World Bank, the OECD, the IEA, and relevant regional organizations.

RE-ENERGIZING THE TRADE REGIME

Wook Chae

John Weekes

WOOK CHAE

Introduction

The faster-than-expected pace of global economic recovery is a reflection of the fact that the global trade system is operating effectively under the multilateral World Trade Organization (WTO) regime. It is likely that trading activities would have contracted further in the absence of the WTO. According to the WTO, the damage caused by protectionism on the global economy was relatively small, and trading activity impacted by import restrictions put in place between October 2008 and October 2009 represents less than one percent of world trade.

In fact, swift decision making at the G20 summit seems to have made a vital contribution to minimizing headlong contraction of global trade through effective monitoring provided by the WTO against enactment of protectionist measures by various countries. Furthermore, the G20 summit in London resulted in successful promotion of trade financing measures, and generated additional momentum for Aid for Trade.

Prevention of double-dip recession in the global economy, and ensuring sustained growth, entails keeping protectionism in check through strengthening of the trade system and promotion of free trade. Outlined below are suggestions for inclusion in the agenda of the upcoming G20 summits: first, ideas for controlling protectionism and bolstering the trade system; second, actions and measures for reviving the Doha Development Agenda (DDA); and finally, responses to possible discriminatory measures related to discussions on climate change.

Combating Protectionism

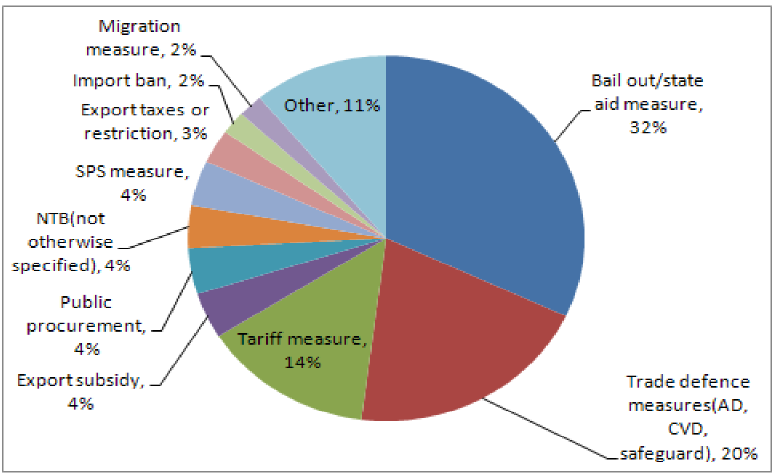
As the global financial crisis hit the global economy in 2008, many people recalled the upsurge of protectionism during the Great Depression. However, fortunately, the global economy seems not to have suffered much from the sudden rise of protectionism last year.

New import restrictions introduced between October 2008 and October 2009 cover only about one percent or less of global trade. Increase in applied tariff was rare across the whole WTO membership. The trade financing initiative, having mobilized more than US$250 billion after the G20 summit in London, was also reasonably successful. The United States, the European Union, Japan, Canada, Korea, and China have mobilized their export credit agencies to compensate for shortages of trade finance. Stimulus for aid for trade was also generated. The Netherlands, France, the United Kingdom, the United States, and Japan made new pledges for aid for trade.

However, we should be still cautious. Various types of discriminatory trade measures have been introduced since the first G20 summit. Protectionist measures raised during the previous year are of diverse types, including: trade remedies; increase of customs duties; new non-tariff barriers (NTBs); strengthening of food/sanitation and technical standards and regulations; and discriminatory stimulus packages/assistance for industries. Trade remedies, such as anti-dumping, countervailing duties, and safeguards, have rapidly increased. For instance, the number of antidumping investigations, which had been decreasing since 2001, increased sharply to a record 234 cases in total after the later part of 2008. Countervailing duties and safeguard measures (25 for the former and 32 for the latter) also increased during the same period. Based on a report by Global Trade Alert in December 2009, trade defence measures, such as antidumping, countervailing duties, and safeguards, consist of 20 percent of the total number of measures implemented since the first G20 crisis meeting that discriminate against foreign commercial interests (see Figure 1 below).

The gap between bound and applied tariff rates could be a potential problem, as the latter has risen during the global crisis. In the United States, the European Community (EC), and Japan, applied, most-favoured-nation (MFN) tariffs are generally at, or close to, bound rates. However, they could disguise the fact that agricultural products and textiles and clothing are subject to much higher average, applied, MFN tariff rates of 14.6 percent and 8.0 percent, respectively, in developed countries. Tariffs tend to be higher on average in developing countries, but they have been falling, and, in some cases, rapidly so. Since 1996, simple, average, applied, MFN tariff rates have been cut by between one-half and two-thirds in China, India, and South Africa, where they have reached 9.5 percent, 12.2 percent, and 8.1 percent, respectively. Despite these encouraging trends, tariffs remain an important obstacle to international trade and a factor in distorting competition. Tariff measures represent 14 percent of total trade discriminatory measures raised during the last year, as shown in Figure 1.

Figure 1: Top 10 implemented measures that discriminate against foreign commercial interest since the first G20 crisis meeting



Source: Global Trade Alert, December 2009.

According to Global Trade Alert's research, sanitary and phytosanitary (SPS) measures and non-tariff barriers, including technical barriers to trade (TBTs), account for about 8 percent of newly raised trade barriers since the first G20 crisis summit. Related to trade restrictions imposed on live pigs, pork, and pork products in response to the outbreak of the influenza A virus, it is known that about 60 countries have enacted measures of one kind or another. Regarding TBTs, the most invoked of the concerns is the need for more information and clarification about the measures at issue.

Moreover, various types of domestic subsidies and discriminatory regulations have proliferated. During last year, a total of 131 expansionary measures and 89 assistance measures were implemented. Subsidies to auto industries (the Big Three) and the so-called “Buy American” Act in the United States, restoration of export subsidies to dairy goods in the European Union, and financial support to the Shanghai Automotive Industry Corporation in China are part of a long list of worldwide domestic subsidies put in place during the global crisis.

Against this backdrop, consensus on the following pledges needs to be reached at the G20 summit in 2010. Prospects for collective action is good because countries will hesitate to remove measures unilaterally if they are not sure that other countries will do so. It can also be a signal to private firms that various discriminatory measures introduced during the crisis will not be maintained permanently.

First, the G20 should normalize domestic subsidies introduced as part of stimulus packages during the crisis, and prohibit additional subsidies that distort trade, as well as discriminatory government procurement activities. There are concerns about whether they will be kept in place even after the crisis. Especially, concerns have arisen in the case of government procurement programs involving long-term spending. Therefore, G20 members need to extend their anti-protectionism pledge explicitly to include new subsidies and discriminatory procurement, such as pledges to restrict trade-distorting subsidies and “buy local” regulations, as well as those to abolish previous protectionist policies.

Second, the G20 should pay more attention to WTO-consistent measures as well. For example, the G20 needs to take action on trade remedies, and antidumping measures in particular, by pledging to limit antidumping investigations into accusations that sales abroad are taking place at prices lower than in home markets. Also, the G20 will have to promise binding commitments not to raise their applied tariff rates above the level that prevailed during November 2008.

Third, the G20 should make an effort to share information concerning disguised cross-border trade barriers, such as SPS measures and TBTs, in a transparent manner. For example, although only five WTO Members made notifications to the WTO concerning nine import restrictions in relation to the influenza A virus, other sources reported that almost 60 countries have imposed some measures since the outbreak of the disease. The lack of transparency of NTBs has prevented members from discussing relevant issues with each other.

Reviving the Doha Development Agenda (DDA)

The Prospects for DDA Negotiations

Regarding the draft of the fourth amendment of the modality (agriculture and non-agricultural market access), which was distributed in December 2008, opinions nearly reached full consensus. However, in the end, due to different views about some issues, such as the Special Safeguard Mechanism (SSM),[1] sectoral liberalization,[2] and the cotton subsidy,[3] consensus on modalities was not achieved. Since the second half of 2009, those involved in the Doha Development Agenda (DDA)

---

[1] The SSM is a system that imposes additional tariffs to protect domestic industries when the import of agricultural products rapidly increases. Exporters, such as the United States, and importers/developing countries, such as India, are in conflict, expressing opposing opinions on what the extent of the additional tariffs imposed by the SSM should be, if the tariffs exceed the Uruguay Round bound tariff.

[2] The sectoral liberalization is a negotiation to eliminate tariffs on specific industrial products, other than general reduction of tariffs by formula. The United States and developing countries such as India and China are locked in confrontation over voluntary participation of developing countries.

[3] Regarding the cotton subsidy, cotton-producing countries in West Africa are insisting on the elimination of cotton subsidies. The US insisted that it would not reduce cotton subsidies if China assigns cotton as a Special Product (SP) for developing countries. The US has linked the issue of reducing its domestic cotton subsidies with reduction of China's tariffs on cotton, hence, eliciting opposition from West African cotton-producing countries' opposition.

talks have been engaged in technical negotiations on the revised draft of the modality, while making no significant progress in the first half of 2009. Bilateral and plurilateral consultations are being conducted simultaneously, e.g., the bilateral consultation between the United States and India, the United States and Brazil, and a plurilateral consultation under the leadership of the EU (G15).[4]

Political impetus for the completion of the DDA negotiations by the end of 2010 was already generated through several summit talks and ministerial conferences held in 2009 as follows:

- Informal DDA trade ministerial meeting (New Delhi, September 3-4, 2009): created momentum for reopening of the negotiations in earnest;
- The 3rd G20 summit (Pittsburgh, September 24-25, 2009): confirmed the goal to settle the DDA negotiations by the end of 2010;
- The APEC Economic Leaders' Meeting (Singapore, November 14-15, 2009): adopted the Leaders' Declaration that spurred the movement to settle the DDA negotiations by the end of 2010;
- The 7th WTO Ministerial Conference (Geneva, November 30–December 2, 2009): confirmed the goal to settle the DDA negotiations within the year 2010 and to hold a ministerial meeting in the first quarter of 2010 to check the progress (stock-taking) of the negotiations (chair's summary).

However, differences in opinion between member countries on the major issues have brought the process to a standstill: current prospects for progress on the negotiations are not optimistic.[5] Moreover the

---

[4] Australia, Brazil, Canada, China, Egypt, the EU, India, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, South Africa, the United States.

[5] The United States has taken a stand that the negotiation cannot come to a settlement without sufficient market opening of major developing countries such as China, Brazil, and India. On the other hand, Brazil and China expressed views that modification of existing negotiation texts and additional concessions by developing countries are not acceptable.

outlook for DDA negotiations is not very optimistic as of early 2010; e.g., as a result of conflicting opinions among member countries, the WTO failed to set a fixed date for the ministerial meeting in the first half of 2010. Pascal Lamy, Director-General of the WTO, suggested that a ministerial meeting be held in May 2010. The United States objected to the proposal, stating “it is not yet time” (the EU, India, Brazil, and Australia agreed). Particularly, the “stock-taking” that took place in March 2010 failed to offer any progress in changing the course of the negotiations.

In the future, factors that will have a major influence on the DDA negotiations will be the concentration of political power to bring about a settlement and political conditions in major countries – e.g., the off-year election in the United States in the second half of 2010; whether the Obama administration obtains trade promotion authority (TPA); and the presidential election in Brazil.

Plans for Resumption of the DDA Negotiations

For the settlement of the DDA within 2010, it is necessary to make a breakthrough in the negotiations, currently at an impasse, as soon as possible (in the first quarter of 2010). The DDA negotiations are currently making no progress due to conflicting opinions among major countries. Since most of the major countries of the WTO are G20 members, the efforts of the G20 countries are necessary if the DDA negotiations are to be settled.

First, as part of these efforts, it is suggested that G20 trade ministerial meetings be held before the G20 summit in Canada in June, and then before the G20 summit in Korea in November, to accelerate the DDA negotiations. Through the G20 trade ministerial meetings, a basis for narrowing differences of opinion among major countries could be achieved. The meeting would also facilitate necessary political decisions.

Second, it is proposed that a conclusion be confirmed at the Seoul G20 summit or, at least, the deadline for conclusion be postponed to February 2011, depending on the results of the stock-taking at the WTO and G20 trade ministerial meetings. In such a case, a conference of WTO ministers should be convened in February 2011 to announce the conclusion of the negotiations.

In the meantime, increased attention to the service sector[6] may be considered a feasible option for bringing the negotiations to a conclusion. The key factor in the potential breakthrough of the negotiations is whether advanced countries, such as the United States, and developing countries, such as China and India, could come to a compromise on major issues. The agreement on the modality will not be possible without mutual concessions from the two groups. In addition, the United States is currently exhibiting a lukewarm attitude to the negotiations, as it does not have much to gain. Therefore, greater attention seems to be due to the service sector; it may bring about a positive response from the United States to the negotiations and provide clues for reaching a conclusion. Regarding services, advanced countries (that demand additional opening) and developing countries (interested in specific fields such as Mode 4) exhibit great differences in their mutual positions. If there is greater liberalization in the service sector, it will be able to balance the agricultural and non-agricultural market-access (NAMA) sectors. It is necessary to find a middle ground for a compromise through mutual concession by the two groups: the United States and advanced countries may seek gains in the service sector, and developing countries in other sectors, such as agriculture.

Conclusion

In this paper, I presented several proposals to re-energize the international trade system:

- Cessation of domestic subsidies as a part of the stimulus package during the crisis;

[6] The service sector is one of three major areas of the DDA negotiations, along with agriculture and NAMA. It is influenced by progress of agriculture and NAMA negotiations: currently it has been reserved because modalities in agriculture and NAMA did not yet reach an agreement.

- Confirming DDA conclusions at the Seoul G20 summit or postponing the deadline to February 2011, depending on the results of the stock-taking; and
- Extending the scope and function of the “name-and-shame” mechanism, rewarding clean goods rather than penalizing dirty goods.

One may argue that some of proposals are too sensitive or too strong for the G20 to take in. However, we need to remind ourselves that further delays in DDA negotiations will seriously dampen the credibility of the WTO. Now is the time for the international community to provide decisive momentum. Paradoxically, the recent global economic crisis provides us with a chance to know how valuable the multilateral trade system is. Also, a successful avoidance of protectionism by the efforts of G20 countries during the crisis reminds us what the role of the G20 should be. The crisis may be still far from over, and no one needs to learn the same lesson twice by going through such an experience again.

JOHN WEEKES

Introduction

I consider the Pittsburgh leaders' statement to be the reference point for discussion on what that statement calls "An Open Global Economy," or, as our seminar agenda put it, "Re-Energizing the Trade Regime." In Pittsburgh, leaders made two commitments under this heading:

- To fight protectionism; and
- To bring the Doha Round to a successful conclusion in 2010.

These commitments belong in the context in which the leaders put them: "To maintain our openness and move toward greener, more sustainable growth."

Before turning to how the G20 members are doing on these tasks, I think it is important to reflect on a point that has been made emphatically in presentations during other panel sessions in today's seminar. Kevin Lynch in our first panel, and others subsequently, stressed the requirement to manage expectations, and noted that it was better to overachieve than for leaders to fall short of the promises made. This issue of credibility is vital across the board but has particular significance in the trade area.

The Fight against Protectionism

The relevant section of the leaders' statement provides:

> We will keep markets open and free and reaffirm the commitments made in Washington and London: to refrain from raising barriers or imposing 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 and commit to rectify such measures as they arise.

The scorecard here is satisfactory, particularly when we take account of the extraordinary pressures that governments have faced in the last 18 months. The March 8, 2010, joint *Report on G20 Trade and Investment*

Measures from the World Trade Organization (WTO), the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), and the United Nations Conference on Trade and Development (UNCTAD) notes:

> The trade and investment policy response to the global recession has so far been relatively muted. There has been no indication of a significant intensification of trade or investment restriction since the last Report to the G20 in September 2009. However, past experience shows that prolonged periods of job losses and unemployment are one of the main catalysts for more restrictive policymaking.

The report goes on to note that unemployment remains high and that there are uncertainties surrounding the prospects for global economic growth. It then emphasizes the:

> …need for G20 governments to remain vigilant in opposing protectionism, to devise and announce publicly as soon as possible exit strategies from any trade restrictions or other measures with trade restrictive or distorting effects.

There are three aspects to consider:

- First, the record on recourse, or better non-recourse, to trade and investment restrictions;
- Second, the importance of continuing to resist recourse to such restrictions; and
- Third, the issue of "rectifying such measures as they arise."

On the first, as already noted, the record is satisfactory despite some instances of trade restrictive measures. The largest proportion of these measures have been in the form of trade remedy actions that have been mandated in domestic law, consistent with trade agreement obligations and over which governments have only limited discretionary authority. The G20 pledge to resist protectionism, first made in Washington in 2008 can be considered to have been a success. The President of Korea deserves credit for having pushed the idea forward with his colleagues. Performance in this area has reinforced the credibility of the G20.

On the second, we are clearly not out of the woods yet. It will be critical for G20 leaders, at their meetings in Toronto and Seoul, to reaffirm their determination to resist protectionism. The political pressures on governments to find shortcuts to improving economic performance are still intense and, indeed, even growing on such issues as trade imbalances. Succumbing to such pressures would be a serious setback to global economic recovery. The G20 has the power to prevent this from happening and has a credible track record from its performance up to now. The pledge should be renewed with vigour.

On the third, some progress has been registered, but, in reading the *Report on G20 Trade and Investment Measures,* it is hard to categorize with confidence what has happened in winding down measures. Nonetheless, rollback of measures taken is important, and the pledge to do so should be reiterated and monitored. However, to strengthen this commitment might stretch credibility in part because many of these actions are, as already noted, trade remedy actions taken under well-established provisions in national laws that do not normally provide much room for governments to provide for their early termination. Leaders should be careful not to overshoot here and, thereby, risk not being able to deliver.

Further Trade Liberalization and Completing the Doha Round 2010

The relevant section of the leaders' statement provides:

> We remain committed to further trade liberalization. We are determined to seek an ambitious and balanced conclusion to the Doha Development Round in 2010.

Unfortunately, in this area, the track record of the G20 (and the G8 before it) is lamentable. In the body of their statement, leaders reaffirmed their commitment to further trade liberalization, and went on to say:

> We ask our ministers to take stock of the situation no later than early 2010, taking into account the results of the work program agreed to in Geneva following the Delhi Ministerial, and seek progress on Agriculture, Non-Agricultural Market Access, as well as Services, Rules, Trade Facilitation and all other remaining issues. We will remain engaged and review the progress of the negotiations at our next meeting.

At the WTO Ministerial Conference in December in Geneva, ministers, including G20 ministers:

> …reaffirmed the need to conclude the Round in 2010 and for a stock-taking exercise to take place in the first quarter of next year. There was support for asking Senior Officials to continue to work to map the road towards that point. Gaps remain on substance and there was wide acknowledgment of the need for leadership and engagement on the remaining specific issues over the coming weeks.

It was generally recognized, although not stated explicitly, that, if "modalities" for agriculture and non-agricultural market access (i.e., industrial products) were not agreed by the end of the first quarter, it would be impossible to conclude the Round in 2010. No significant further progress was made in the early part of this year, and ministers decided that the stock-taking meeting in Geneva at the end of March should be left to their senior officials (and this after both leaders and their ministers had pledged to remain "engaged"). At the time of the seminar, it was clear that agreement on "modalities" (or the basis for bringing the negotiations to a conclusion) would not be achieved in March and, consequently, that the Round itself could not be concluded in 2010.

Completing the Round remains important. However, it is quietly acknowledged by most observers and participants that the negotiations cannot be concluded without negotiators being given new instructions by their governments. There is a reason why repeated efforts to achieve the elusive breakthrough have not worked. It is also increasingly clear that to reach a successful conclusion WTO members are going to have to top up what is already on the table.

Leaders also committed themselves to further trade liberalization in a general sense. Here the picture is much brighter. We are seeing a lot of bilateral and regional trade negotiations involving G20 countries – some recently completed, others in progress, and some new ones that have just started. One example is the Canada-Korea negotiation towards a bilateral free trade agreement. Another example is the Trans-Pacific Partnership (TPP) agreement in which Australia, Brunei Darussalam, Chile, New Zealand, Peru, Singapore, the United States, and Vietnam are aiming to create a regional Asia-Pacific trade agreement. This development is noteworthy because it is the first initiative by the Obama administration to negotiate a trade-liberalizing agreement. We have also seen some unilateral trade liberalization moves, including by Canada, in the recent federal budget.

What should the G20 leaders do? Let's take the two aspects of trade liberalization in turn – first, the general point, and then the WTO's Doha Round.

On the commitment to trade liberalization, G20 leaders should note with satisfaction the number of trade-liberalizing initiatives, including negotiations underway amongst G20 members, and between G20 countries and other partners. Maintaining the momentum of trade liberalization helps to keep protectionist forces at bay.

The G20 should consider going further to express a willingness to extend to other countries, through further negotiations, the benefits of the agreements they reach. This would clarify that the purpose of their trade-liberalizing initiatives really is to liberalize trade and not to build discriminatory trading relationships.

On the commitment to finish the Doha Round in 2010, the leaders should take a deep breath and call a spade a spade. It is time to recognize that more than statements of political will are needed to bridge the differences separating the WTO member countries. WTO ministers were closer to a deal in July 2008 than at any time before or since. There is a reason why no further real progress has been made, despite valiant efforts. The impasse needs to be recognized, and WTO members need to conduct an honest search for ways to accommodate the interests of their trading partners.

It would be a serious mistake to simply offer more of the same by committing again to reach agreement by a certain date. The credibility of the G20 on committing to conclude the Doha Round is non-existent. To make the same pledge again would risk undermining the broader credibility of the entire G20 process. It would also risk doing grave harm to the credibility of the trading system. If the WTO is no longer seen as a credible forum for trade liberalization and rule making, respect for its current rules will be damaged. The role it plays in resisting protectionism and in resolving disputes would subsequently be at risk. Rules that were negotiated before 1995 cannot remain static forever. No court can survive without a legislature. The WTO dispute settlement system will not remain healthy if the WTO's legislative function atrophies.

The WTO negotiations do remain important. The G20 members are the central players in these negotiations; if G20 members could reach agreement on what to do, the way would be cleared to conclude the Round. Furthermore, as must be clear by now, these negotiations are not only politically difficult, but technically exceedingly complex. G20 leaders need to say something, but they should avoid delving into the detail.

I suggest G20 leaders consider the following approach:

At the Toronto meeting:

- Express continued support for the WTO and the Doha negotiations;
- Regret that it has not been possible to establish a basis for bringing these negotiations to a successful conclusion in 2010;
- Express a willingness to review in an honest and constructive manner why agreement has not been possible and to consider, if necessary, making adjustments in their

positions to ensure a mutually beneficial agreement is reached; and

- Instruct their ministers and senior officials to examine what specific actions could be taken to put the negotiations on track and to report to leaders at their November meeting in Seoul.

At the Seoul meeting:

- Make a statement on the importance of concluding the Round and, based on the report from ministers and senior officials, provide some guidance as to how that should be done.

To what extent are concerns about currency manipulation valid, and what, if anything, should be said about this?

This issue is incendiary. The big risk is that pressures in the US Congress and elsewhere could lead to trade-restrictive action that would be today's equivalent of the Smoot Hawley Tariff Act of 1930. Taking this matter up under the trade agenda means looking for "solutions" in the trade area. The tools being considered in the current debate are ones designed to restrict trade and to punish. These tools will not achieve the desired objective.

On the other hand, this issue is not going to go away. G20 leaders can perhaps help each other in trying to manage and defuse this problem. They all have challenging domestic political environments in which to operate. Whether this is possible or practicable is not an issue that should be considered on the trade agenda.

The issue should be looked at in the context of macro-economic policy cooperation. If G20 leaders could find some way of agreeing that this issue could be discussed together with other macroeconomic issues on their agenda, they might find a way to defuse the issue and gradually take it off the trade table.

Does the G20 or the WTO have a role in warding off discriminatory trade actions being contemplated as part of the climate change debate?

Certainly the G20 has a role. This is an international policy issue of the first order, so, by definition, the leaders of the G20 nations have a role to play. As for the WTO, any trade action taken in pursuit of climate change objectives will need to be judged against the WTO rules. These rules are quite strict, and the WTO dispute settlement system will relentlessly generate a finding if a case is brought forward. There is a real risk that such a development could lead to a finding that the “climate change” measure was illegal under the WTO. It is pretty obvious that it would be dangerous to put the WTO and efforts to protect the world from catastrophic climate change on a collision course. It would seem useful, therefore, to consider initiating a dialogue on these matters among WTO members. Given the breadth of its membership, and the fact that G20 members have significant differences on how to deal with climate change, the G20 could play an important role. Perhaps the proposed discussion could be cast in terms of considering the implications for WTO rules and disciplines of likely outcomes in the negotiations on climate change. Put another way, if G20 governments were able to agree on climate change, it seems logical to expect they would be able to agree on how to manage any consequences of that agreement for the WTO rules.

CANADA-KOREA G20 SEMINAR

Co-Sponsors

Norman Paterson School of International Affairs, Carleton University
Graduate School of International Studies, Seoul National University

Chair and Host for Canada Meeting

Mr. Derek H. Burney, former Canadian G7 Sherpa; former Canadian Ambassador to the United States

TUESDAY, MARCH 16, 2010

6:30 pm	Reception at the residence of **H.E. Chan-Ho HA**, Ambassador of the Republic of Korea to Canada 540 Acacia Avenue, Rockcliffe Park, Ottawa

WEDNESDAY, MARCH 17, 2010

	International Development Research Centre (IDRC) 8th floor Boardroom, 150 Kent Street, Ottawa
7:45 am	**Moderators meet with their respective presenters and discussants**
8:00-8:15 am	Introduction and Welcome **Mr. Derek H. Burney**, Chair **Dr. Yung Chul Park**, Co-Chair, Distinguished Professor, Korea University and former Senior Economic Advisor to the President of the Republic of Korea

8:15-10:15 am	SESSION 1: **Prospects and Challenges for the Global Economy: From Recession to Recovery** :· What progress has been made under the "Framework for Strong, Sustainable, and Balanced Growth" launched at Pittsburgh? :· What are the obstacles encountered in implementing the framework and how can they be overcome? :· What are the principles and mechanisms necessary to ensure a timely and coordinated exit from stimulus to fiscal balance? :· What steps should be taken to address unsustainable global imbalances and how should these be coordinated with exit strategies? Moderator **Hon. John Manley**, President and CEO, Canadian Council of Chief Executives Presenters **Mr. Kevin Lynch**, former Clerk of the Privy Council, Government of Canada **Dr. Wendy Dobson**, Professor and Co-Director, Institute for International Business, Rotman School of Management, University of Toronto **Dr. Soogil Young**, President, Korea National Committee for Pacific Economic Cooperation **Dr. Dongchul Cho**, Professor, Korea Development Institute School of Public Policy and Management
10:15-10:30 am	**Break**

10:30-12:00 pm	SESSION 2: **Energy Security and Climate Change Financing**
	:· What are the appropriate roles for the public sector and the private sector as work continues on the framework agreement?
	:· How can we promote investment in clean and renewable energy, and greater energy efficiency?
	:· Does the financial package agreed to in Copenhagen for the developing countries get us to where we want to go?
	:· Climate Change may make it harder to produce the food we want. How can the G-20 cooperate to tackle food security through new funding mechanisms?
	Moderator **Ms. Jodi White**, Distinguished Senior Fellow, Norman Paterson School of International Affairs, Carleton University
	Presenters **Hon. Greg Melchin**, former Minister of Energy, Government of Alberta; Chair, PPP Canada Inc. (Public Private Partnerships) **Dr. Suh-Yong Chung**, Professor, Division of International Studies, Korea University
	Discussants **Mr. Michael Martin,** Chief Negotiator and Ambassador for Climate Change, Government of Canada **Mr. Raekwon Chung**, Ambassador for Climate Change, Ministry of Foreign Affairs and Trade
12:00-1:00 pm	Lunch

1:00-3:00 pm	SESSION 3: **International Financial Regulation and Reform** :· What regulatory changes are required in the financial sector in order to reduce the risk of a future financial crisis and achieve greater financial stability? :· What elements of these financial regulatory changes require international coordination in order to be effective? :· What specific and realistic policy initiatives does the G20 need to pursue in the area of financial regulation? :· What specific changes to the governance, operations and financing of the IMF, World Bank, and regional development banks are required to deal with the current crisis and reduce the risk and damage of future economic crises? <u>Moderator</u> **Hon. Michael Wilson**, former Canadian Ambassador to the United States; former Minister of Finance <u>Presenters</u> **Mr. Gordon Thiessen**, former Governor of the Bank of Canada **Dr. Sungmin Kim**, Director General, G20 Affairs Office, Bank of Korea <u>Discussants</u> **Dr. Jack Mintz**, Palmer Chair in Public Policy, University of Calgary **Mr. Je-Yoon Shin**, Deputy Minister for International Affairs, Ministry of Strategy and Finance
3:00-3:15 pm	**Break**

CANADA-KOREA G20 SEMINAR

3:15-4:45 pm	SESSION 4: Re-Energizing the Trade Regime :· What is needed to give more bite to the anti-protectionist pledge and to energize the trading system? :· What attention should be given to resuscitating the Doha Round? :· To what extent are concerns about currency manipulation valid and what, if anything, should be said about this? :· Does the G20 or the WTO have a role in warding off discriminatory trade actions being contemplated as part of the climate change debate? Moderator **Mr. Tom Bernes**, A/Executive Director and Vice-President – Programs, Centre for International Governance Innovation (CIGI) Presenters **Hon. Michael Fortier**, Partner, Ogilvy Renault LLP; former Minister of International Trade, Government of Canada **Dr. Wook Chae**, President, Korea Institute for International Economic Policy Discussants **Mr. John Weekes,** former Canadian Ambassador to the WTO **Dr. Taeho Bark**, Dean, Graduate School of International Studies, Seoul National University; Chairman, Korea International Trade Commission
4:45-5:00 pm	Concluding Remarks **Dr. Fen Osler Hampson**, Director, Norman Paterson School of International Affairs, Carleton University **Dr. Taeho Bark**, Dean, Graduate School of International Studies, Seoul National University; Chairman, Korea International Trade Commission

SPECIAL GUESTS

Hon. Barbara J. McDougall, Chairman of IDRC and former Secretary of State for External Affairs and Minister of State (Finance)

Dr. Jae Yoon Park, former Minister of Finance, Republic of Korea

Presenters, please be advised that you have 15-20 minutes to deliver your remarks. **Discussants** have 5-10 minutes.

BIOGRAPHICAL NOTES

CANADIAN DELEGATION

Chair

Derek H. Burney was Canadian Ambassador to the United States (1989 to 1993) and served as Chief of Staff to the Prime Minister (March 1987 to January 1989). Mr. Burney was directly involved in the negotiation of the Canada-U.S. Free Trade Agreement. He was the Prime Minister's personal representative (Sherpa) in the preparations for the Houston (1990), London (1991), and Munich (1992) G7 Economic Summits. After a distinguished career in the foreign service, he served as CEO of Bell Canada International and CAE Inc. He is currently Senior Strategic Advisor at Ogilvy Renault LLP, Senior Research Fellow at the Canadian Defence and Foreign Affairs Institute (CDFAI), and Senior Distinguished Fellow at the Norman Paterson School of International Affairs (NPSIA), Carleton University. He is also Chair of the Selection Committee for the "Canada Excellence Research Chairs" programme of the Government of Canada. From October 2007 to February 2008, Mr. Burney served on the Independent Panel on Canada's Future Role in Afghanistan, appointed by Prime Minister Stephen Harper.

Presenters and Discussants

Thomas A. Bernes is Vice-President of Programs and Acting Executive Director at the Centre for International Governance Innovation (CIGI). Prior to joining CIGI, Mr. Bernes was Director of the Independent Evaluation Office at the International Monetary Fund (IMF). Before that, he was Executive Secretary of the joint IMF-World Bank Development Committee and Deputy Corporate Secretary of the World Bank. From 1996 to September 2001, Mr. Bernes was the IMF Executive Director for Canada, Ireland, and the Caribbean. He has been Assistant Deputy Minister of Finance and G7 Finance Deputy in Canada and served as the senior international economic official representing Canada at high-level meetings. In addition to holding various senior finance, foreign affairs, and trade policy positions within the Canadian government, Mr. Bernes served as head of the General Trade Policy Division, Organization for Economic Cooperation and Development (OECD), in the mid-1980s. He is a graduate of the University of Manitoba.

Dr. Wendy Dobson is Professor and Director at the Institute for International Business, Rotman School of Management, University of Toronto. She is a former Associate Deputy Minister of Finance in Ottawa and has served as President of the C.D. Howe Institute, Canada's leading independent economic think tank. Dr. Dobson is a non-executive director of several public companies engaged in international business, and participates in several international research and policy networks. Her research focuses on international economics and international business. She has published numerous monographs and articles on international economics and international business. Her work on international economic integration includes a prize-winning volume entitled *Multinationals and East Asian Integration* (1997). Dr. Dobson's latest book, *Gravity Shift: How Asia's New Economic Powerhouses Will Shape the Twenty-First Century*, was published in October 14, 2009. Ms. Dobson received a Ph.D. in Economics from Princeton University.

Michael Fortier is a Partner in the business law group at Ogilvy Renault LLP and Senior Advisor with Morgan Stanley in Canada. He also sits on the boards of several companies. Mr. Fortier first joined Ogilvy Renault in 1985, until he left in 1999 to become Managing Director of Credit Suisse First Boston. In 2004, he became Managing Director of TD Securities' investment banking operations in the province of Quebec. In 2006, Mr. Fortier was invited by Prime Minister Stephen Harper to join the federal cabinet as Minister of Public Works and Government Services and Minister responsible for Greater Montreal. In 2008, Mr. Fortier was appointed Minister of International Trade, leading the Canadian delegation at the World Trade Organization Doha Round meetings in July 2008. He also participated in the launch of free trade discussions between Canada and the European Union in October 2008.

Dr. Fen Osler Hampson is Chancellor's Professor and the Director of The Norman Paterson School of International Affairs (NPSIA), Carleton University, Ottawa. Dr. Hampson is also Senior Advisor to the United States Institute of Peace, member of the Board of Directors of the Pearson Peacekeeping Centre, and member of the Social Science Foundation Board at the University of Denver. Dr. Hampson is the author/co-author of eight books and more than eighty articles and book chapters on international affairs, as well as editor/co-editor of more than twenty-eight other volumes. He is the past recipient of various awards and honours, including a Research & Writing Award from the John D. and Catherine T. MacArthur Foundation and a Jennings Randolph Senior Fellowship from the United States Institute of Peace in Washington, D.C. He has also taught at Georgetown University as a Visiting Professor. Dr. Hampson is a frequent contributor to the national and international media, including the *Washington Post*, *The Globe and Mail*, *Foreign Policy Magazine*, the *National Post* and the *Ottawa Citizen*. He is a frequent commentator on the CBC, CTV, and Global news networks. He holds a Ph.D. from Harvard University where he also received his M.A. degree (both with distinction). He also holds a M.Sc. (Econ.) degree (with distinction) from the London School of Economics and a B.A. (Hon.) from the University of Toronto.

Kevin G. Lynch was Clerk of the Privy Council, Secretary to the Cabinet and Head of the Public Service of Canada (March 2006 to June 2009). Mr. Lynch began his career at the Bank of Canada in 1976. He has held a number of senior positions in the Finance and Industry departments, including the post of Deputy Minister of Industry (1995 to 2000), and Deputy Minister of Finance (March 2000 to September 2004). In 2004, he moved from Ottawa to Washington, D.C., to serve as Executive Director for the Canadian, Irish, and Caribbean constituency at the International Monetary Fund. Mr. Lynch was born in Cape Breton, Nova Scotia. He graduated with a B.A. in economics from Mount Allison University, received an M.A. in economics from the University of Manchester, and holds a Ph.D. in economics from McMaster University.

Lawrence Lederman is an international consultant providing advice on doing business in Canada and abroad, specifically in Latin America. He assists firms wishing to gain access to decision makers at the highest levels of government and industry. He also specializes in event management and teaches courses on protocol and event management to foreign senior diplomats and bureaucrats at the Norman Paterson School of International Affairs (NPSIA), Carleton University, Ottawa. Mr. Lederman is fluent in English, French, and Spanish. He was awarded the Canadian Peacekeeping Medal (2002) and is listed in the book *Canadian Who's Who*. Mr. Lederman is a member and former President of the Rockcliffe Lawn Tennis Club, member of the Retired Canadian Heads of Mission Association (RHOMA), Distinguished Senior Fellow and Chair of the Ambassadors' Speakers Series at NPSIA, and board member of the Canada-Chile Business Association in Toronto. In July 2009, he was responsible for coordinating the visit of Their Majesties the Emperor and Empress of Japan to Carleton University.

The **Honourable John Manley** is President and Chief Executive of the Canadian Council of Chief Executives (CCCE) and a former Deputy Prime Minister of Canada. He was first elected to Parliament in 1988, and re-elected three times. From 1993 to 2003 he was a Minister in the governments of Jean Chrétien, serving in the portfolios of Industry, Foreign Affairs, and Finance, in addition to being Deputy Prime Minister. After a sixteen-year career in politics, Mr. Manley returned to the private sector in 2004. From 2004 to 2009 he served as Counsel to McCarthy Tétrault LLP, a leading Canadian law firm. Since leaving government, Mr. Manley has continued to be active in public policy, as a media commentator, speaker, and adviser to government. In 2003, Ontario Premier Dalton McGuinty asked him to lead a review of the province's electricity sector. In 2005, he co-chaired the Independent Task Force on the Future of North America for the Council on Foreign Relations, a non-partisan think tank based in New York City. In 2007, Prime Minister Stephen Harper named Mr. Manley to chair an Independent Panel on Canada's Future Role in Afghanistan.

Michael Martin was appointed Canada's Chief Negotiator and Ambassador for Climate Change in May 2008. Born in Edmonton, Alberta, Mr. Martin received a bachelor's degree in Asian Studies from the University of Victoria in 1982 and studied subsequently as a graduate fellow in East Asian Languages and Literatures at Yale University. Mr. Martin joined the Department of External Affairs and International Trade in 1984. Over the following twenty-two years he served in progressively senior positions in Ottawa and overseas in Islamabad, Tokyo, and Beijing. In 2006, he was appointed Assistant Deputy Minister for Strategic Policy at Canada's Department of Environment, with responsibility for climate change, water, and sustainable development.

The **Honourable Greg Melchin** is the Chair of PPP Canada Inc. (Public Private Partnerships) and former member of the Legislative Assembly of Alberta for Calgary-North West (1997 to March 2008). While in the legislature, Mr. Melchin held a number of ministerial positions, including Minister of Seniors and Community Supports, Minister of Energy, and Minister of Revenue. His previous experience includes serving as Chief Financial Officer for Karl Oil & Gas/Cumorah Construction, Vice-President of Finance for Torode Realty Ltd., and Senior Accountant for Peat, Marwick, Mitchell & Co., Chartered Accountants. He is also a director on five other corporate boards. Mr. Melchin is a graduate of Brigham Young University, Provo, Utah, where he obtained a B.Sc. degree, with a major in Accounting. He has received his Chartered Accountant designation (1980) and Fellow Chartered Accountant designation (2004).

Jack Mintz is the appointed Palmer Chair in Public Policy at the University of Calgary (since January 2008) and former President and CEO of the C.D. Howe Institute (1999 to 2006). Mr. Mintz has held the position of Professor of Business Economics at the Rotman School of Business, University of Toronto (1989 to 2007); Visiting Professor at New York University Law School (2007); Clifford Clark Visiting Economist at the Department of Finance, Government of Canada, Ottawa; Chair of the federal government's Technical Committee on Business Taxation (1996 and 1997); and Associate Dean (Academic) of the Faculty of Management, University of Toronto (1993 to 1995). He was founding Editor-in-Chief of *International Tax and Public Finance,* published by Kluwer Academic Publishers (1994 to 2001), and recently chaired the Alberta Financial and Investment Policy Advisory Commission reporting to Alberta Minister of Finance. Mr. Mintz was also the recent research director of the Federal-Provincial Territorial Minister's Working Group on Retirement Income Research.

Gordon Thiessen was appointed Governor of the Bank of Canada on February 1, 1994, for a term of seven years, retiring on January 31, 2001. Mr. Thiessen studied economics at the University of Saskatchewan and received an Honours B.A. and an M.A. He also lectured in economics at the University. Thereafter, he attended the London School of Economics, from which he received his Ph.D. in Economics. He joined the Bank of Canada in 1963 and worked in both the Research and the Monetary and Financial Analysis Departments of the Bank. Mr. Thiessen spent the period from 1973 to 1975 as a visiting economist at the Reserve Bank of Australia. In 1996, the government of Sweden awarded Mr. Thiessen the Order of the Polar Star in recognition of the assistance provided by the Bank of Canada to the Swedish central bank. In 1997, Mr. Thiessen received a honourary Doctor of Laws degree from the University of Saskatchewan, and in 2001 a honourary Doctor of the University degree from the University of Ottawa. He became an Officer of the Order of Canada in 2003. In 2002, Mr. Thiessen became the Founding Chair of Canada's new auditor oversight agency, the Canadian Public Accountability Board. He served in that position until 2008. He has also served on the boards of corporations, a university, and a research organization, as well as a number of investment committees.

John M. Weekes is an Ottawa-based independent international trade policy adviser to business and government clients and he is a 38-year veteran in the field of trade policy and negotiations. From 2003 to July 2009, Mr. Weekes was Senior International Trade Policy Adviser at Sidley Austin LLP, based in the firm's Geneva office, and continues to act as Senior International Trade Policy Adviser to the firm. Prior to joining the firm, he was Chair of the Global Trade Practice at APCO Worldwide, an international public affairs and communications consultancy. Mr. Weekes was Canada's Ambassador to the WTO from 1995 to 1999 and Chair of the WTO General Council in 1998. He served as Canada's Chief Negotiator for the North American Free Trade Agreement (NAFTA), including the side agreements on environmental and labour cooperation. He was Ambassador to GATT during the Uruguay Round negotiations and Chair of the GATT Council in 1989 and then of the GATT Contracting Parties in 1990. In the 1970s, he participated in the Tokyo Round of GATT negotiations. Mr. Weekes is an active member of the Board of the Alberta Livestock and Meat Agency and serves on the board of or as adviser to a number of non-profit organizations. He is a frequent speaker on the challenges facing the trading system and related political issues, participates regularly in conferences, and contributes articles to newspapers and magazines.

Jodi White is Distinguished Senior Fellow at Carleton University's Norman Paterson School of International Affairs (NPSIA) and Arthur Kroeger School of Public Affairs. She is principal at Sydney House Consultants and the former president of the Public Policy Forum. Ms. White's career combines experience in journalism, politics and government, the private sector, and international affairs. Her experience in government and politics includes positions as Chief of Staff to the Minister of External Affairs (1984 to 1988) and Chief of Staff to the Prime Minister (1993). Ms. White was Vice-President, corporate affairs, at Imasco Ltd. in Montreal (1994 to 2000) and a public policy scholar at the Woodrow Wilson Center for International Scholars in Washington (2009). Ms. White has been and continues to be an active participant on a number of boards, including Chair of the National Theatre School, Woodrow Wilson Centre's Canada Institute Advisory Board, the Canadian International Council, the Southern Africa Education Trust Fund, Bishop's University, and the Ottawa General Hospital.

Michael Wilson was Canadian Ambassador to the United States from 2006 to 2009. Prior to taking up his position in Washington, Ambassador Wilson was Chairman of UBS Canada, an operating division of UBS AG, one of the world's leading financial institutions. Prior to joining UBS in July 2001, Ambassador Wilson was responsible for RBC Financial Group's institutional asset management business. He also served as a Vice-Chairman of RBC Dominion Securities. In 1979, Ambassador Wilson was elected to the House of Commons. In 1984, he was appointed Minister of Finance and remained in that position until May 1991. He then became Minister of Industry, Science and Technology and Minister for International Trade. During his tenure as a member of the Cabinet, Ambassador Wilson represented Canada at the IMF, IBRD, OECD, GATT and the G7 Ministers' meetings.

KOREAN DELEGATION

Co-Chair

Dr. Yung Chul Park is a distinguished professor in the Department of International Studies at Korea University. Prior to current his post, Dr. Park spent three years (2005 to 2008) at Seoul National University's Graduate School of International Studies as a research professor and Director of the Center for International Commerce and Finance. He previously served as a member of the Central Bank of Korea's Monetary Board (1984 to 1986), as the President of the Korea Development Institute (1986 to 1987), as the chief economic adviser to the President of the Republic of Korea (1987 to 1988), and as the President of the Korea Institute of Finance (1992 to 1998). He also worked for the International Monetary Fund (IMF) from 1968 to 1974. Dr. Park has written and edited several books, including *China, Asia, and the New World Economy* (Oxford University Press, 2008).

Presenters and Discussants

Professor Taeho Bark is Dean of the Graduate School of International Studies (GSIS) at Seoul National University and serves as the Chairman of the Korea International Trade Commission. Dr. Bark received his Ph.D. in Economics from the University of Wisconsin and taught at Georgetown University. He worked in the Office of the President of the Republic of Korea and was the Vice-President of the Korea Institute for International Economic Policy (KIEP). Recently, Dr. Bark taught at Stanford University as a visiting professor and offered consultation to the International Monetary Fund (IMF) and the World Bank. Dr. Bark has written numerous books and articles on international trade policy.

Dr. Wook Chae was named President of the Korea Institute for International Economic Policy (KIEP) in May 2008. He is currently a member of the Presidential Council on National Competitiveness. He has also been a member of the Policy Advisory Committee of the Ministry of Foreign Affairs and Trade; a member of the Trade Policy Advisory Committee of the Trade Minister's Office, Ministry of Foreign Affairs and Trade; Commissioner of Korea Pacific Economic Cooperation (KOPEC); Vice-President of KIEP; and a member of the Presidential Advisory Commission on Policy Planning. Having received a Ph.D. in Economics from the University of Michigan, Dr. Chae has published numerous articles and books, including *Principles of International Economics* (Pakyoungsa, co-authored in Korean).

Dr. Dongchul Cho is a professor at the KDI School of Public Policy and Management and a member of the Presidential Council of Future and Vision. His major areas of interest include macroeconomics and international finance. From 2005 to 2006, Dr. Cho was the senior counsellor to the Deputy Prime Minister and head of the Macro Policy Advisory Team at the Ministry of Finance and Economy. He also served as a member of the Policy Advisory Committee for the Prime Minister in 2004 and the Presidency Undertaking Advisory Committee in 2003. Before he joined the KDI in 1995, Dr. Cho was a professor of Economics at Texas A&M University in the United States. He graduated from Seoul National University and holds a Ph.D. in Economics from the University of Wisconsin-Madison.

Ambassador Raekwon Chung is the chief negotiator for climate change issues representing the Republic of Korea since May 2008. Ambassador Chung has been involved in international environmental negotiations for climate change since the early 1990s and participated in the Rio Earth Summit of 1992. He was a leading author for an Intergovernmental Panel on Climate Change (IPCC) special report on technology transfer. He served as a counselor at the Korean Missions to the UN and the OECD and as Director General for International Economic Affairs at the Ministry of Foreign Affairs and Trade of Korea before joining UN ESCAP (Economic and Social Commission for Asia and the Pacific) as Director of the Environment and Sustainable Development Division in August 2004.

Dr. Suh-Yong Chung is an Associate Professor in the Department of International Studies at Korea University and is an expert on sustainable development law and policy. His most recent works focus on the internationalization of Green Growth policy and post-2010 climate change regime formation. Dr. Chung is a member of the Compliance Committee of the UN Basel Convention, and has worked with various international organizations, including UNIDO, UNDP, and UNESCAP. He has also advised bureaus of the Korean government, such as the Presidential Committee on Green Growth, the Ministry of Foreign Affairs and Trade, and the Ministry of Environment. Dr. Chung holds degrees in law and international relations from Seoul National University, the London School of Economics, and Stanford Law School.

Dr. Sungmin Kim currently serves as Director General of the G20 Affairs Office at the Bank of Korea. He has previously worked in the Research Department, the International Department, and the Monetary Policy Department of the Bank of Korea. Dr. Kim also worked at the Central Asia Department of the International Monetary Fund (IMF) in the early 1990s and subsequently was appointed as an advisor to the IMF's Monetary Affairs and Exchange Department on various occasions between 1998 and 2005, to provide technical assistance to other central banks, in countries such as China and the Philippines. Dr. Kim has written numerous papers and books on monetary policy, corporate finance, and financial markets.

Dr. Jae Yoon Park is a visiting scholar at the University of Utah's David Eccles School of Business. He is currently working on a book about the self-development of the younger generation. Dr. Park received his PhD in Economics from Indiana University and taught at Seoul National University as a professor of Economics for twenty-five years. He has also served the Korean government as Senior Secretary to the President for Economic Affairs, Minister of Finance and Minister of Trade, Industry, and Energy. Dr. Park has been the President of both Pusan National University and Ajou University. Dr. Park has written several books and articles on money and banking, international trade, and university administration.

Mr. Je-Yoon Shin was appointed Deputy Minister for International Affairs of the Ministry of Strategy and Finance in March 2008. He has been participating in G20 Finance Deputy Ministers' Meetings and this year, in particular, he holds the chairmanship. He has been playing a key role in regional cooperation schemes including ASEAN+3, and his dedication and efforts culminated in the establishment of the Chiang Mai Initiative among ASEAN+3 countries. Previously, as Director General for the International Finance Bureau (2007 to 2008), he was in charge of monitoring and managing exchange rates, advancing domestic foreign exchange systems, and ensuring stability in financial markets in the aftermath of the sub-prime mortgage crisis. He was also the chief financial sector delegate for the Korea-US FTA negotiations.

Dr. Soogil Young is President of the National Strategy Institute (NSI), an independent Seoul-based think tank on Korea's reform agenda for long-term economic development, and concurrently serves as a member of the Presidential Commission on Green Growth; Chairman of the Korean National Committee for Pacific Economic Cooperation (KOPEC); Chairman of the Green Investment Forum Korea; and Vice-Chair of the Seoul Financial Forum. For twenty years after earning his Ph.D. in Economics from Johns Hopkins University, Dr. Young worked as a senior fellow at the Korea Development Institute (KDI) and as President of the Korea Institute for International Economic Policy (KIEP). He served as Korea's Ambassador to the OECD from 1998 to 2000.

NPSIA
The Norman Paterson School of International Affairs
Carleton University

GSIS
The Graduate School of International Studies
Seoul National University

The co-sponsors gratefully acknowledge the financial support provided by the International Development Research Centre (IDRC) for this initiative.

IDRC CRDI