

The Role of Korea in the G20 Process and the Seoul Summit¹

Wongi Choe, (Assistant Professor, IFANS, Korea)

wongichoe@gmail.com

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Introduction

The global financial crisis, which was set off by the collapse of the one of the world's largest investment banks, Lehman Brothers, on September 15 in 2008, drove the world economy into the deepest recession since the Great Depression. However, in response to the crisis, historically unprecedented joint actions of the major industrial and emerging economies were mobilized to stabilize the global economy by organizing massive counter-cyclical deficit-spending and injection of huge amounts of liquidity into weakened financial sectors. The Group of Twenty, or G20, represents this unprecedented international policy coordination and emerged as the central forum for international cooperation over the last year. The emergence of G20 as the centerpiece of global governance system represents both a fundamental shift in the distribution of power in the global political economy and a set of new challenges for the reconfiguration of global governance system so far dominated by the G7 countries.

While G20 is an informal forum, not a formal multilateral organization, it has brought in the major emerging economic powers from the Global South, on a par with the established industrial economies, to the center of global economic governance. As a result, G20 largely replaced the G7 as the key forum for international economic governance. The participation of major emerging economies and developing countries along with advanced countries in G20 provides a good opportunity to bring out a more effective international response to the pressing global problems such as economic development, poverty reduction, environmental problems and climate change, and global imbalances, etc. Compared to G8, G20 is more representative of the world economy and have a stronger basis of legitimacy in addressing global economic challenges and reform of international economic governance.

However, the future prospect of G20 is not quite clear yet. To the extent G20 is an ad hoc, makeshift group to cope with the financial crisis, the momentum and *raison d'être* of G20 could diminish rapidly as the world economy recovers from the crisis. The diversity of interests and heterogeneity of policy preferences of G20 member countries also pose a daunting challenge for the management of policy coordination in the G20 process. Furthermore, the informal and ad hoc nature of institutional foundation of G20 renders credible implementation of commitments not an easy task.

Given the positive roles and usefulness that G20 has demonstrated in the process of crisis management, the challenge now is how to solidify its position as the premier forum for international economic cooperation and coordination. In order to strengthen momentum of G20 beyond crisis management, modalities and processes of G20 should be institutionalized.

This paper is organized as follows: First, I briefly examine the political economy consequences of current global financial crisis. I discuss some of the important

changes in the international political economy after the global financial crisis focusing on G20. Second, I examine some of the major institutional characteristics of G20 and suggest directions for consolidating the institutional foundation of G20 as a global steering committee. Finally, I discuss the role of Korea as the chair of the Seoul summit.

Global Financial Crisis and the Emergence of G20 Process

The global financial crisis that erupted in the fall of 2008 signifies three important changes in the international political economy: the shifting balance of power in international political economy; shift in the economic policy paradigm away from neo-liberal consensus; and emergence of G20 as a central vehicle of international economic cooperation.

First, the current financial crisis has revealed a shifting balance of economic power from the advanced countries to the emerging economies such as China, India, and Brazil. As the result of the rise of the emerging economic powers over the years, any effective and legitimate global policy coordination cannot be accomplished without involving a wider group than the traditional G7 countries.² The US-China relationship, the G2, has emerged as the most important bilateral relationship that might have a decisive influence in addressing the pressing global issues of global economic recovery, global imbalances, and climate change, etc.³ The shift in the composition of major economic powers implies that any international policy coordination efforts will be associated with a higher level of political transaction costs. The Plaza Accord, a major currency realignment among the US, Japan and Germany in 1985 to rectify global imbalances, was facilitated not only by the preponderance of the American power but also by the political security bond among them. However, such kind of positive 'security externalities' do not anymore exist among the Western countries and emerging powers like China, India, and Brazil, rendering future policy coordination much more difficult.

Second, the power of neoliberal economic paradigm that has emphasized the importance of deregulation and economic liberalization is now significantly weakened as US cannot anymore credibly claim the virtues of neoliberal economic policies.⁴ The official communiqué of the London G20 summit made it clear that "major failures in the financial sector and in financial regulation and supervision were fundamental causes of the current financial crisis." New proposals for financial reform such as "Volcker Rule" or "Obama Tax" emphasize the importance of market stability and the need to strengthen regulatory power of financial authorities to minimize moral hazards by market actors. Also a number

² Randall D. Germain, "Global Financial Governance and the Problem of Inclusion," *Global Governance* 7 (2001), 411-426.

³ Geoffrey Garrett, "G2 in G20: China, United States and the World after the Global Financial Crisis," *Global Policy*, Vol. 1, Issue 1, (January 2010), 29-39.

⁴ Kevin Gallagher, "The death of the Washington Consensus?", *Guardian*, Friday 3 April 2009.

of countries have adopted policy measures that include fiscal expansion, trade and financial protectionism, nationalization of private enterprises, leading to greater government economic intervention in the market. Especially, the extent of government control has been greater in those countries that have a long tradition of state capitalism.⁵ All of this suggests that the neo-liberal convergence of economic paradigm, as well as market-oriented reform in developing countries, will be slowed down and weakened, and international economic cooperation will continue to be hampered by divergent, and even conflicting, visions and approaches.

Third, G20 now replaced G7 as the central vehicle for the international cooperation for crisis management and reshaping the global economic governance. While it is expected that G8 still continue to remain in the foreseeable future, it is not likely to take the center stage of international governance anymore.⁶ The achievements and performance of the G20 after three rounds of summit meetings are overall commendable. The international policy coordination through G20 process has been the primary factor that kept the current crisis from turning into another "Great Depression." The success of G20 as the "crisis committee" provides a positive prospect for its future. In so far as G20 is able to continue to manage policy consultation and coordination and deliver tangible outcomes in the near future, it could grow into a new model of international cooperation between the developed and developing countries. While it is debatable whether G20 represents a new cooperation model in which developed and developing countries work together on an equal footing, or it is just another, disguised tool for the industrial West to maintain economic dominance over the rest of the world,⁷ the very fact that a number of developing countries are able to participate in the process of global economic 'rule-making' alongside with developed countries marks a new stage of international economic cooperation.

Institutional Characteristics of G20 Process

It is not yet clear whether G20 will remain as an effective tool of global governance in the coming future. The long-term prospect of the G20 as the "global steering committee" for the world economy is uncertain.

Some suggest a pessimistic view that G20 format is not suitable for an effective international action since there are too many countries participating in the G20. The political differences and divisions between Western and non-Western members of G20 are fundamental, and they have been only submerged over the years under the pressing need for consensus on more immediately operational

⁵ Ian Bremmer, "State Capitalism Comes of Age: The End of Free Market?" *Foreign Policy*, May/June 2009.

⁶ John Kirton, "Coexistence, Cooperation, Competition: G Summits," *Aspenia*, April 2010.

⁷ Mark Beeson Mark, and Stephen Bell, "The G-20 and International Economic Governance: Hegemony, Collectivism, or Both?" *Global Governance*, 15, 2009.

priorities to cope with the financial crisis.⁸ As the urgent need for crisis management fades out, the underlying differences and divisions could inevitably reemerge to the surface, but there is no clear indication from the three rounds of summit meetings of how G20 could address these major political differences in the coming years. If G20 is not going to be able to deliver them in the years to come, G20 might be taken over by a much smaller format like G8 or G13.

On the contrary, others argue that the size of the participants should be expanded to include a much larger number of countries, especially those in the developing world, in order to enhance its legitimacy and regional representation. There are various proposals and discussions on the expansion of the membership based on regional representation or universal participation with constituency-based approach.⁹

However, various proposals that aim to alter the existing format of the G20 in one way or another, in my view, are not likely to be realized in the foreseeable future. There is a strong sense of consensus widely shared in the international society that international cooperation based on the G20 is the only available and effective tool to deal with the economic crisis and beyond. To date, G20 is the “only game in town” and there exist no alternatives to it. Of course, it is too early to ‘put all the eggs’ in G20 even if G20 leaders agreed to designate it as the premier forum for international economic cooperation.¹⁰

The skepticism about the prospect of G20 as a new foundation of future global governance stems from its institutional weaknesses. One of the most distinctive institutional characters of G20 is that it is an ad hoc, informal forum, not a treaty-based institution that typically involves international legal obligation on the part of participating countries.¹¹ The informal institutional nature of the G20

⁸ Laura Tedesco, and Richard Youngs, *The G20: A Dangerous ‘Multilateralism*, Policy Brief No.18, September 2009, FRIDE.

⁹ For example, Will Straw, Matt Browne, Sabina Dewan, and Nina Hachigian, *The Case for Leadership: Strengthening The Group of 20 to Tackle Key Global Crisis*, Center for American Progress, March, 2009; Marc Saxer, *The Comback of Global Governance: Ways out of the Crisis of Multilateral Structures*, FES Briefing Paper 4, April 2009, Friedrich Ebert Stiftung ;Vanu Gopala Menon, "Letter dated 11 March 2010 from the Permanent Representative of Singapore to the United Nations addressed to the Secretary-General," United Nations General Assembly Document No. A/64/706.

¹⁰ Even the US seems ambivalent about the future of G20 since the US seems to adopt issue-based multilateral approach, the “variable geometry,” in dealing with global issues. For an analysis of the US view on G20 and future of multilateralism, see Stewart Patrick, "Prix Fixe and a la Carte: Avoiding False Multilateral Choices," *The Washington Quarterly*, 32(4), October, 2009; Thomas Wright, "Toward Effective Multilateralism: Why Bigger May Not Be Better," *The Washington Quarterly*, July 2009; Alan S. Alexandroff, "Challenges in Global Governance: Opportunities for G-x Leadership," Policy Analysis Brief, The Stanley Foundation, March 2010.

¹¹ Ulrich Schneckener, *The Opportunities and Limits of Global Governance by Clubs*, SWP Comments 22, German Institute for International and Security Affairs, 2009; Leonardo Martinez-Diaz, and Ngaire Woods, "The G20: The Perils and Opportunities of Network Governance for Developing Countries," Briefing Paper, Global Economic Governance Programme, The Department of Politics and International Relations, University of Oxford, November 2009; Kermal Dervis, "A Way Forward: Formal and Informal Aspects of Economic Governance," in *Re-Defining the Global Economy*, Occasional Papers No.42, April 2009.

process is given by design in that it was deliberately chosen to be informal from its inception.¹² Informal agreements are preferred when countries want to avoid formal and visible pledges, typically manifested through ratification, retain the ability to renegotiate or modify previous agreements as circumstances change, or reach agreements quickly. Informal agreements take a variety of forms ranging from executive agreements and nonbinding treaties to joint declarations, final communiqués, agreed minutes and memoranda of understanding. When countries want speed, simplicity, flexibility, and privacy in their international cooperation and agreements, the negotiating outcomes usually take the form of informal agreements. In this respect, G20, as an ad hoc, crisis-management-forum, is a variation of the informal agreements.¹³

The informal nature of the G20 can be further analyzed in terms of the five institutional dimensions as suggested by proponents of “rational design of international institutions”: membership rules, scope of issues covered, centralization of tasks, rules for controlling the institutions, and flexibility of arrangements.¹⁴

First, in terms of membership, G20 is both exclusive and restrictive in that only a selected number of countries that are deemed “systemically important” in international economic and financial system were invited to be its members. From the beginning, G20 was a self-appointed club that did not aspire to be based on a universal membership. While there was no clear set of criteria for the membership selection when the G20 ministerial process was established in 1999, the founders of G20 emphasized that the prospective member countries should be “systemically important to the global economy and have the ability to contribute to the global economic and financial stability.”¹⁵ One of the key considerations was that the size of the group should be small enough to allow frank and open discussion among member countries so that it would “help foster close working relationship and raise the level of trust among its members.”¹⁶

Second, in terms of the issue coverage, the agenda of the G20 process has been expanding from the single issue of organizing an urgent international policy coordination to respond to the global financial crisis to a set of diverse global issues including climate change, food and energy security, global imbalances, etc. When it was first summoned in November 2008, G20 summit primarily focused on impending policy issues to fend off the expansion of the financial crisis and the primary issues on the table were such short-term issues as fiscal stimulus, trade protectionism, and measures that would stabilize financial markets.

¹² For an excellent historical account of the formation of G20, see G20 Secretariat, *The Group of Twenty: A History*, (2008), p.20.

¹³ For a theoretical account of formal and informal agreements in international cooperation, see Charles Lipson, “Why Are Some International Agreements Informal?,” *International Organization*, 45(4), Autumn 1991; Kenneth W. Abbott, and Duncan Snidal, “Hard and Soft Law in International Governance,” *International Organization*, Volume 54, Issue 3, August, 2000.

¹⁴ Barbara Koremenos, Charles Lipson, and Duncan Snidal, “The Rational Design of International Institutions,” *International Organization* 55(4) Autumn, 2001.

¹⁵ G20 Secretariat, *The Group of Twenty: A History*, 2008, p.20.

¹⁶ *Ibid.*

However, throughout the three summit meetings, G20 agenda have been expanded to cover a wide range of global issues.

Third, in terms of centralization of tasks, G20 has been primarily focusing on reaching a political consensus without a solid implementation mechanism or bureaucratic organization. In contrast to formal institutions such as IMF, OECD, or WTO which are formed by an official international agreement and have a permanent office with staffs performing ongoing tasks, the policy coordination and operation in the G20 process have not been carried out by a permanent secretariat or staffs. The secretariat services are provided by the chair countries called Troika or steering committee.

Fourth, in terms of 'control,' or institutionalized decision making rules, G20 agreements are made on a broad-based, informal consensus, lacking a clearly codified mechanism of decision-making rules. Without a charter, votes, or legally binding decisions, members interact as equals and the outcomes of summit meetings are announced in the form of "communiqué."

Finally, the fifth element of institutional dimensions of international institutions is flexibility. It basically refers to how well institutional rules and procedures can accommodate new circumstances. Arrangements like "escape clauses" and sunset provisions in international agreements are examples of limited flexibility that allows members to respond to unanticipated shocks and to renegotiate if situations change. In this regard, G20 is very flexible in that there are no binding procedures or limitations that would constrain members in their interactions and commitments.

The informal nature of G20 process underlies both its advantages and weaknesses. The institutional flexibility without any domestic or international legal constraints, small group setting, and face-to-face summitry allow policy consultation and coordination in an agile and effective manner. However, exclusive membership and lack of enforcement mechanism in G20 generate its weaknesses in terms of legitimacy/representation and effectiveness. G20 includes only a tiny fraction of countries among the more than 190 countries in the world.¹⁷ The overrepresentation of European countries is one of the major concerns because European countries take up five of the 20 slots (Germany, France, Italy, UK, and EU) with Spain and Netherlands additionally invited to all three G20 summits even though they are not official members.¹⁸ The interests and concerns of developing countries, particularly those least developing countries in Africa, are not well represented since there is no mechanism of regional representation in G20.¹⁹ In this sense, G20 could be little more than "a

¹⁷ Yulius Purwadi Hermawan, "Global Governance, or 'Global Clubbing': Can an Exclusive Club Deliver Benefits for All Nations?" Paper prepared for 8th FES-SWP North-South Dialogue, "Global Governance for Global Markets: Moving Beyond G8," Berlin 17, June 2009.

¹⁸ For a recent view on this, see Amar Bhattacharya, "Europe's Governance Stalemate Causes Gridlock for Global Governance Reform," Brookings, May 14, 2010.

¹⁹ Ngaire Woods, "Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?" *Global Policy*, Vol. 1, Issue 1, (January 2010), 51-63.

re-jigged great powers' format" that empowers only big powers to the detriment of genuine multilateralism.²⁰

Also, the accountability of the G20 has been seriously questioned in that there is no enforcement mechanism that would provide a solid institutional basis of enforcing and implementing agreements and commitments made at the summit meetings. For now, there exists no binding institutional mechanism that could hold G20 countries accountable to their commitments except for peer pressure, or "naming and shaming"

The challenge ahead is to maintain momentum of G20 and solidify its position as the premier forum for international economic cooperation and coordination. It is a foremost important task for G20 to strengthen its momentum and sustainability beyond crisis management. In order to solidify the momentum of the G20 process and its place in the global governance system, the ways in which policy coordination is carried out in the G20 process need to be institutionalized. This does not mean that G20 process should be transformed into a formal international organization in the near future, which is unfeasible, undesirable, and unnecessary. Rather, institutionalization refers to innovating and improving the modalities of G20 process with a set of additional operational arrangements that would improve effectiveness and reduce the transaction costs associated with policy consultation, coordination, and implementation.

Followings are some of suggestions that need to be considered in improving the modalities of G20 process.

- Institutionalization should focus on improving legitimacy, effectiveness, and accountability of G20 process.
- Group identity and cohesion need to be strengthened to develop a sense of "ownership" among G20 members while retaining the advantages of flexibility and agility of concerted actions arising from the informal nature of G20 process.
- In order to take a full advantage of small group setting, the restricted membership of G20 should not be altered. Keeping the current members is important for solidifying the group identity and cohesion and developing a sense of ownership. Broadening participation by inviting additional countries to join or change of membership by adopting a rotation of regional representatives would not help.
- To improve representation and legitimacy of G20, G20 should develop a robust mechanism of consultation and outreach to non-G20 countries, representative international organizations like UN, and global civil society.
- In order to improve institutional density and stability of G20 process, G20 policy network should be expanded beyond the current finance ministers meeting to include multi-level and multi-ministerial participation. The first step would be to establish a G20 foreign ministers meeting in order to

²⁰ Laura Tedesco, and Richard Youngs, *The G20: A Dangerous 'Multilateralism*, Policy Brief No.18, September 2009, FRIDE.

- facilitate dealing with cross-cutting issues that require political and diplomatic considerations.
- Also, in order to facilitate members to follow through on the commitments from previous summits, the “front end” and “back end” of the G20 process need to be corroborated.

The Role of Korea as the chair of the Seoul G20 Summit

For Korea, the success of G20 as the key global steering committee is very important for its international standing and interests. G20 is the major global “rule-making” group in which Korea participates as a regular member for the first time. The timing of G20 Seoul summit in November 2010 is critical as the world economy is highly likely to recover and the pressure for international cooperation created by the urgency of crisis situation might disappear by then. Korea’s leadership at the G20 summit in this year would represent a critical test of whether the momentum of G20 could be sustained in the post-crisis era and G20 could continue to play the role of “premier forum” for the management of global economy in the coming future. As the chair of Seoul summit, Korea should be able to provide a constructive and proactive leadership.

First, as the chair of the G20 summit in Seoul this coming November, Korea should play the role of an honest broker by mediating different interests and positions of participants, especially between developed and developing countries. In contrast to G7 countries who have a long history and experience of cooperation and comparatively similar policy preferences, G20 is a heterogeneous group whose members have radically different views and interests on some of the core issues of G20 agenda. To accommodate diverse and conflicting interests of G20 members, Korea needs to exert a proactive leadership in brokering and mediating.

Second, Korea needs to be able to provide constructive inputs and propose a set of new agenda that would not only accommodate the diverse interests of participating countries but also help strengthen the deliverability and momentum of G20 process. Level of ambition for the success of the Seoul summit should not be set too high; it is important to come up with a set of pragmatic, feasible, and uncontroversial agenda that could be acceptable to G20 members. Fundamental and controversial issues that might cross-cut the interests of G20 members might not help. In addition to the agenda on delivering previous commitments, Korea is expected to propose a new set of agenda regarding “global financial safety nets,” economic developments, and poverty reduction.²¹ In approaching these issues, it is important to maintain pragmatic stance.

²¹ For Korea’s position on the agenda of Seoul Summit, see Lee Myung-bak, “Seoul G20 Summit: Priorities and Challenges,” Davos Forum Special Address, Switzerland, January 28, 2010; Il Sakong, “Major Tasks of the G20 Seoul Summit,” Keynote Address, The 11th International Financial Forum, April 28-29, 2010, Dynasty Hall, Shilla Hotel, Seoul, Korea.

Third, “institutionalization” of G20 modalities and process to carry on its momentum beyond crisis management should be one of the top priorities for the Seoul summit. As I pointed out earlier, it is utmost important to devise ways to solidify a sense of ownership among G20 members and strengthen the policy networks in G20 process. In particular, the logistical procedures of summit meeting need also be reformed to maximize advantages of informal forum.²²

Finally, outreach to non-member countries and engagement with global civil society is necessary to improve the perception of international society about the legitimacy, transparency, and accountability of G20. In this respect, Korea needs to work to develop a mechanism of consultation and communication with both governmental as well as non-governmental actors whose voices and concerns are not represented in G20 process.

²² For example as a practical matter, Korea has to decide whether Seoul summit will again have 55 seats at the table, which was the case with the Pittsburgh Summit, or a different setting with much less seats. It is needless to say that having 55 seats at the summit table virtually makes it impossible to have close and effective discussion.