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The Korean G20 Presidency and Evolving Global Governance

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The Group of 20 nations (G20) has effectively replaced G7/8 as the world’s premier forum on economic cooperation after the global financial crisis revealed how much the world is inter-connected from trade and finance to environment and democratized with the surge of middle powers. The G20 proved its capability to respond to a crisis as the member countries harmonized their stimulus packages and the IMF tripled its lending resources to stave off currency shocks. The world is now witnessing the evolution of the G20-centered hierarchical multilateral system, with the G20 providing a flexible problem-solving framework for global governance.

But skeptics predict the eventual dissolution of the G20 in doubt of its political will and leadership to enforce any agreements under the current structure. The coming years will test the sustainability of the G20 as it moves towards the transition from an emergency crisis committee to a standing global steering committee to reshaping the global economic order and leading the reforms of international financial institutions. Global public goods are quickly expanding beyond traditional issues such as security, financial stability and market opening to terrorism, climate change, environment, epidemics, poverty and organized crime, and they all require higher level of international cooperation and governing rules. Many experts agree that the G20 can succeed if it offers comprehensive agenda and leadership reflecting broader interests with some institutional consolidation, effective decision-making and legitimacy.

The G20 reflects the dramatic changes in the distribution of power since the end of the Cold War and represents a more democratized world on international economic issues. It provides an open stage where major emerging and advanced nations discuss pressing global issues on an equal footing, unlike international organizations either with a two-tiered arrangement or weighted voting system. At the same time, however, the G20 is vulnerable to gridlock stemming from the polarization of interests between advanced and developing countries. Therefore, the success of the G20 largely depends

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1 Background note prepared for discussion at the Asan Institute for Policy Studies and Hills Governance Center at Yonsei University conference on G20 and Global Governance Reform, at Asan Institute for Policy Studies, October 11-12, 2010
on the foresight and leadership of leading developed and developing countries. It also helps if there are honest brokers or neutral arbiters between the two groups. There are only a few countries who can take the role as a middle power belonging to neither of the two camps of large developed and developing countries. Possible candidates are Spain, the Netherlands, and the Scandinavian countries in Europe, Korea and Australia in the Asia Pacific, Turkey in the Middle East, Mexico and Argentina in Latin America. But the European countries have little incentives to drive the global governance reforms as they have to give up some of their influence at the international institutions to rising states. The Latin American countries have always championed the interests of developing countries while Turkey is beginning to find its global role. The circumstances present more opportunities and challenges to Korea and Australia as a middle power. Korea, in particular, is well-positioned to mediate between the two camps as it has risen from one of the poorest countries in the world to a wealthy member of the OECD. Furthermore, only a few countries - Korea, Australia, the U.K., namely - see the G20 as the ideal platform for global cooperation. Many other members are less optimistic or even apathetic.

Against the backdrop, Korea becomes the first non-G7 country to host and chair the G20 summit. Korea makes every effort for its success as this is the first official debut as an active and responsible player in the global decision-making stages. Many participants in the G20 meetings have cheered Korea's leadership in terms of agenda-setting, coordination and mediation, global communication, and organizational capacity.

Korea has contributed significantly to the G20's establishment and evolution. It determined from the very first beginning to aggressively lead the global discussions on ways to fight the global financial crisis as it was one of the biggest victims in the 1990s. President Lee Myung-bak called for a standstill on trade protectionism at the first G20 summit in Washington two years ago. Korea's contributions have been particularly noteworthy in the areas of common interests both for the developing and developed countries as it defines its role as a bridging power between the two camps. Korean initiatives at the Seoul summit include global financial safety net and development for the poor countries. The idea of the financial safety net designed to help shield the emerging economies from external shocks has attracted strong interest from those vulnerable to international capital flows. Korea has propelled the IMF's efforts to get rid of the stigma effect destroying the credibility of borrowers and shift its mandate from a post-crisis bailout fund to a pre-crisis prevention insurer. The IMF recently enhanced its
existing Flexible Credit Line (FCL) and introduced a Precautionary Credit Line (PCL), hoping the moves will help facilitate the efforts for global rebalancing by reducing the need for emerging countries to accumulate foreign reserves as self-insurance against volatile global capital flows. Korea is seeking the ways for the IMF lending facilities to link up with various regional arrangements such as the Chiang Mai Initiative in Asia.

Korea’s presidency of the G20 also presents an opportunity to bring development issues to the table. With its vivid memories of successes and failures, Korea has already pushed for development agenda and multi-year action plan, including a pledge to duty-free, quota-free market access for low-income countries. The initiatives could make the G20 summit a much more inclusive and relevant event for the entire world as it can bring more than 170 non-member countries into the G20 arm.

In addition to agenda-setting and coordination, the Korea government has demonstrated its commitment to effective consensus-building and global communication in the run-up to the G20 Seoul Summit. It hosted the World Bank and IMF conferences alongside the meetings of finance ministers and central bank governors in Korea and invited most top government officials from Africa to hear their opinions about the G20 agenda and build up a consensus on the development issue. It also plans a gathering of more than 100 chief executive officers from Fortune 250 companies during the Seoul summit in a bid to reflect the private-sector views when political leaders discuss the global issues and concerns. The "business summit" may become a regular sideline event of the annual G20 summit as France, the next chair, is to host a similar meeting.

The Seoul summit also aims to achieve macroeconomic coordination with detailed policy recommendations for each individual member country to develop the Framework for Strong, Sustainable and Balanced Growth. The uneven and slowing global economic recovery sparks a currency war, with the U.S., China and Japan beefing up the battle to grow through exports. Another key agenda is to overhaul the IMF, especially the shift of 5 percent in quota to underrepresented members from the over-represented countries. Korea as the chair works hard to hammer out agreements on most of the controversial issues by November.

Despite the impressive efforts, Korea still faces many challenges in establishing its leadership in the global community. Its vision and strategy on the G20 and global governance is not yet clearly articulated and communicated. Korea supports the need of and an international agreement on the reforms but its vision about global governance is ambiguous. It needs to pursue global public goods more than its own national interest in
order to effectively show its leadership as a middle power and secure international reputation as a fair player in everybody’s interest. Korea also has to provide soft-power leadership with knowledge and services for others. The government and private-sector experts should take more active roles in the global negotiation tables while research institutes and civil groups contribute to the global knowledge market. The task requires long-term investment. The government should take the initiative in building knowledge capacity on international organizations and nurturing experts and specialists.

As a mediator, Korea would better not take any side but instead approach to every issue in a balanced and flexible manner. But balance and rationality become useless in the absence of principles and vision. A leadership without principles and vision cannot obtain trust from others.

Korea should provide strategic guidance, showing the way where the G20 should be headed for. The G20 lends a rare chance to make international organizations more accountable. Global governance can improve significantly if the G20 works as an effective steering committee for international financial organizations, assessing their managers and holding them accountable. The current loose system cannot bring about a breakthrough to the international bodies. The G20 should not rely excessively on the IMF for administrative works when it leads and oversees the reform. The G20 needs its own secretariat or investigative body. Korea should lead the G20 into becoming a global governance watchdog as part of its efforts to institutionalize G20.