

The Seoul G20 Summit: Opportunity for and Challenge to Strengthening US-Korea Relations by Marcus Noland

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A major, largely overlooked development of the recent financial crisis has been the emergence of the G20 as the informal steering committee of the world economy. In recent decades that function had been played by the G7, a group of rich industrial democracies. The shift from the G7 to the G20 signals the growing pluralism of world affairs and the rising influence of Asia.

Faced with the most serious global financial crisis since the Great Depression, in November 2008 the G20 met in Washington and initiated a series of semi-annual summit meetings to address the critical issues facing the global economy. The upcoming November 2010 Seoul G20 Summit will mark the first time that the group has been convened by an Asian and non-G7 host, and Seoul is determined that the meeting be a great success. The critical issue facing the group will be executing a transition from crisis management, which has dominated the group's earlier meetings, to systemic management. Diplomatically the key issues will be whether the European participants are willing to give up their historically privileged position and whether the "new" non-G7 members would assume systemic management responsibilities. The United States has a huge stake in the success of the effort, due both to its alliance relationship with Korea, as well as in the context of continuing tepid economic performance, its own material self-interest. And while Washington is enormously supportive of Seoul in its efforts as host, the two do not see eye to eye on every single issue.

The Korean hosts are organizing the agenda around six themes. The first three – strong, sustainable, and balanced growth; financial sector reform; and reform of international economic institutions such as the International Monetary Fund (IMF) – represent the continuing agenda from previous meetings. Korea has added three more items to the mix: global financial safety nets, trade, and development. A seventh issue—climate change—could elbow its way into the discussions.

Two controversies are likely to dominate discussions of "strong, sustainable, and balanced growth." First, many advanced countries face significant long-run fiscal challenges associated with publicly financed pension and health care costs. And although there is broad consensus about the desirability of reining in long-term social expenditures, there is less consensus with regard to advisable short-term fiscal policy. Some G20 policymakers believe that the improvement

in confidence associated with short-term fiscal consolidation would induce sufficient private-sector activity to more than fully offset the fiscal drag, while others adhere to more traditional Keynesian notions of expansionary short-run demand management.

Where the rubber is really likely to hit the road, however, is on the second issue of exchange rates and the Chinese exchange rate in particular. External imbalances, which had been shrinking due to the recession, are once again growing and threaten to undermine the "balanced" aspect of the G20 program. China is Korea's largest trade partner, and the hosts are reluctant to confront China over its policy. This will not sit well with much of the rest of the membership, most notably the United States, which is once again considering punitive legislation in response to Chinese exchange rate policy.

Likewise, the issue of financial regulation will put the Korean hosts in a quandary and possibly raise tensions with the US. The G20 effectively subcontracted the development of improved international financial regulations to the multilateral Basel Committee; in September the group released a new banking standard that is considered by many to be insufficient to prevent another crisis. Korea has plainly been hoping that the Basel agreement would take the issue off the agenda in Seoul; what remains to be seen is how forcefully the US and others will push for further strengthening of regulations, a move opposed most prominently by some European governments and Japan.

Similarly, Seoul has hoped that internal timetables at the IMF would generate agreements on the most contentious aspects of IMF reform before the Seoul summit. This outcome still might eventuate. But it seems as likely that the controversies—concerning the magnitude of IMF resources, size, and membership of its executive board, and the weights accorded individual countries in its weighted-voting scheme—will still be live issues in Seoul. On the issue of IMF reform, the parsimonious instincts of the US Congress come into conflict with the desire by Seoul and others to double IMF resources.

To this prodigious agenda, the hosts have added three more items for emphasis. The first is the so-called "Global Financial Safety Net." The Koreans argue that even well-managed economies like Korea were hurt in the financial crisis and want to build an expanded formal system of bilateral, regional, and global financial agreements to help countries in crisis.

On trade, the hosts appear to be grasping for ideas and do not seem to have come up with much more than the now incantatory commitment to complete the Doha Round trade negotiations under the auspices of the World Trade Organization. One idea is to re-emphasize services liberalization to break the Doha logjam.

The elevation of development to a major agenda item is arguably inadvisable: development is multifaceted and lends itself to diffuse foci, and as a consequence, can enable distraction from difficult core agenda items on which the participant governments should be held accountable. Seoul is thankfully focusing the discussion on growth and resilience. While growth is not a sufficient condition for sustained poverty alleviation, it is certainly a necessary one.

Finally, the Korean hosts have not promoted climate change as a major agenda item. But, with the Seoul summit coming just before the December 2010 UN Cancún ministerial – which is supposed to pick up the pieces after the Copenhagen debacle – other participating members may want to use the summit for pre-Cancún consultation. While there is little scope at present for the G20 to take on climate change diplomacy, the group can do a great deal to advance climate change action. The existing G20 agenda has the potential to reduce global emissions, accelerate the deployment of clean energy technology, and mobilize public and private finance for mitigation and adaptation.