

Institute for Global Economics
20th Anniversary Conference

Major Economies Under New Leadership: Policy Priorities and Challenges

Program Book

Date

October 31, 2013

Venue

Grand Ballroom (B1)
The Plaza Hotel

Co-organized by



北京大学国家发展研究院
National School of Development

Supported by



IGE 20th Anniversary Conference

**Major Economies Under New Leadership:
Policy Priorities and Challenges**

Date

October 31, 2013

Venue

Grand Ballroom (B1), The Plaza Hotel

Co-organized by

Institute for Global Economics (IGE)
Peterson Institute for International Economics (PIIE)
Bruegel
China Center for Economic Research (CCER)

Supported by

HYUNDAI MOTOR GROUP

Invitation

Twenty years ago, the Institute for Global Economics was established with the conviction that it is especially important for Korea to know the world in setting its national agenda and choosing business strategy. In celebration of its 20th anniversary, the Institute for Global Economics has organized an international conference, “Major Economies under New Leadership: Policy Priorities and Challenges”, in collaboration with the Peterson Institute for International Economics, the Bruegel and the China Center for Economic Research. The HYUNDAI MOTOR GROUP sponsors the conference. Distinguished speakers from home and abroad will be participating in the conference, including the Deputy Prime Minister and the Minister of Strategy and Finance Oh-Seok HYUN, the Minister of Trade, Industry and Energy Sang-Jick YOON, the Governor of the Bank of Korea Choongsoo KIM, Dominique STRAUSS-KAHN, former Managing Director of the IMF, and Dennis SNOWER, President of the Kiel Institute in Germany.

We cordially invite you to this timely conference.

Thank you.

Il SaKong
Chairman
Institute for Global Economics
October 2013

Program

	<u>Opening Remarks</u> II SAKONG , Chairman, IGE
09:00-10:00	<u>Congratulatory Remarks</u> Oh-Seok HYUN , Deputy Prime Minister & Minister of Strategy and Finance
	<u>Special Address</u> Dominique STRAUSS-KAHN , Former Managing Director, IMF
<hr/>	
	<i>Political Leadership Changes and Future of Global Economic Order</i>
	<u>Presenter</u> Colin BRADFORD , Senior Fellow, Brookings
10:00-11:00	<u>Moderator</u> II SAKONG , Chairman, IGE
	<u>Discussants</u> John KIRTON , Professor, Munk School of Global Affairs, University of Toronto Jianguo XU , Associate Professor, Beijing University Thomas HALE , Research Fellow, Oxford University Isabelle MATEOS Y LAGO , Mission Chief for Korea, IMF
<hr/>	
11:00-11:10	Break
<hr/>	
	<i>The Global Economy: State and Prospects</i>
	<u>Keynote Speech</u> Dennis SNOWER , President, Kiel Institute for the World Economy
11:10-12:30	<u>Moderator</u> Joon-Kyung KIM , President, Korea Development Institute
	<u>Presenters</u> Edwin TRUMAN , Senior Fellow, PIIE Jianguo XU , Associate Professor, Beijing University Yukiko FUKAGAWA , Professor, Waseda University
<hr/>	
12:30-14:00 Luncheon	<u>Special Address</u> Sang-Jick YOON , Minister of Trade, Industry and Energy
<hr/>	

The Future of Global Trade

Presenters

Jeffrey SCHOTT, Senior Fellow, PIIE

Miaojie YU, Associate Professor, Beijing University

14:00-15:10

Moderator

Tae-Ho BARK, Former Minister for Trade of Korea

Discussants

Yukiko FUKAGAWA, Professor, Waseda University

Nakgyoon CHOI, Senior Research Fellow, KIEP

15:10-15:20

Break

The Future of Global Finance

Keynote Speech

Choongsoo KIM, Governor, The Bank of Korea

Moderator

15:20-16:30

Yoon-Je CHO, Professor, Sogang University

Presenters

Edwin TRUMAN, Senior Fellow, PIIE

Dennis SNOWER, President, Kiel Institute for the World Economy

Guntram WOLFF, Director, Bruegel

Roundtable Discussion

Moderator

Il SAKONG, Chairman, IGE

16:30-17:00

Panelists

Edwin TRUMAN, Senior Fellow, PIIE

Dennis SNOWER, President, Kiel Institute for the World Economy

Guntram WOLFF, Director, Bruegel

Jianguo XU, Associate Professor, Beijing University

Opening Session

Opening Remarks

II SAKONG

(Chairman, Institute for Global Economics)

Congratulatory Remarks

Oh-Seok HYUN

(Deputy Prime Minister & Minister of Strategy and Finance)

Special Address

Dominique STRAUSS-KAHN

(Former Managing Director, IMF)



Il SAKONG is the Founder and Chairman of the IGE, a private non-profit research institute based in Seoul since 1993. He served in the government of the Republic of Korea as Minister of Finance, Senior Secretary to the President for Economic Affairs, Senior Counselor to the Minister of Economic Planning Board, and Senior Economist of the Council on Economic & Scientific Affairs for the President. He previously spent nearly 10 years at the Korea Development Institute. More recently, Dr. SaKong led Korea's endeavor for the G20 Summit in 2010 in Seoul. As the chairman of the Presidential Committee for the 2010 G20 Seoul Summit, he was wholly responsible for the preparation and coordination for the Seoul G20 Summit. Simultaneously, he chaired the Korea International Trade Association from February 2009 to February 2012.



Oh-Seok HYUN is the Deputy Prime Minister and Minister of Strategy and Finance. From March 2009 to February 2013, he served as the President of the Korea Development Institute (KDI), Korea's leading think tank. He is a member of the Presidential Council on National Competitiveness, Presidential Committee on Green Growth, Advisory Council on Presidential Committee for G-20 Summit, and Prime Minister's International Development Cooperation Committee. Also he is further partaking in the international development and cooperation as a member of Knowledge Advisory Commission of the World Bank. Hyun's extensive experience in policy making and research in the public sector is a unique career path for a government official in Korea. Dr. Hyun served as Deputy Minister of Finance and Economy, and Special Advisor to Deputy Prime Minister and Minister of Finance and Economy. He worked as Secretary for Economic Affairs at the Office of the President, and an Economist at the World Bank. Dr. Hyun received his Ph.D. in Economics from University of Pennsylvania in 1984. His pursuit in teaching and research rewarded him for a professorship at the Korea Advanced Institute of Science and Technology (KAIST) and an experience as the Dean of the National Tax College.



Dominique STRAUSS-KAHN, now CEO of a consulting firm, is the former Managing Director of the International Monetary Fund (2007-2011). Previously, he served as a member of the French National Assembly and professor of economics at the Institut d'Etudes Politiques of Paris (2000-2007). He began his career as an assistant professor and later professor of economics at the University of Paris. Then he was appointed as Deputy Commissioner of the Economic Planning Agency (1981-1986). Afterwards he was elected for the first time at the National Assembly (86) and has chaired the finance committee of the House from 1988 to 1991. He has served as minister of Industry and International Trade in the Cresson (1991-1992) and Beregovoy (1992-1993) cabinets. In 1995 he was elected mayor of the city of Sarcelles. He served then as minister of economy, finance and industry of France from June 1997 to November 1999.

Opening Remarks

II SAKONG

Chairman, Institute for Global Economics

Congratulatory Remarks

Oh-Seok HYUN

Deputy Prime Minister & Minister of Strategy and Finance

Special Address

Dominique STRAUSS-KAHN

Former Managing Director, IMF

Session 1

Political Leadership Changes and Future of Global Economic Order

Presenter

Colin BRADFORD
(Senior Fellow, Brookings)

Moderator

II SAKONG
(Chairman, Institute for Global Economics)

Discussants

John KIRTON
(Professor, Munk School of Global Affairs, University of Toronto)

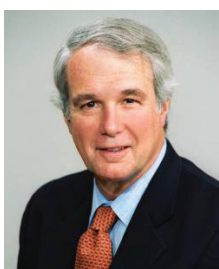
Jianguo XU
(Associate Professor, Beijing University)

Thomas HALE
(Research Fellow, Oxford University)

Isabelle MATEOS Y LAGO
(Mission Chief for Korea, IMF)

Session1

Biographies



Colin BRADFORD is an international economist and a Non-Resident Senior Fellow in the Global Economy Program of the Brookings Institution in Washington, D.C., where he has worked on international institutional reform, G20 Summits and global economic issues. He is well known for his leadership in the global debate on the East Asian Miracles in the 1980s and 1990s, in the emergence of the International Development Goals (IDGs) in the OECD DAC in the mid-1990s and in the fusion of the IDGs and the Millennium Declaration goals into the Millennium Development Goals (MDGs) in 2001, and for his push for a shift toward G20 Summits since 2003 and advising G20 Summit host governments since 2008, including Korea in 2010. Prior to Brookings, Dr. Bradford has worked as a U.S. government official in the U.S. Senate, the U.S. Treasury Department, and the U.S. Agency for International Development; as an international civil servant at the World Bank, the OECD, and the Committee for the Alliance for Progress of the Organization of American States.



John KIRTON is a professor of political science and the director of the G8 Research Group, and co-director of the G20 Research Group, the Global Health Diplomacy Program and the BRICS Research Group, all based at Trinity College at the Munk School of Global Affairs at the University of Toronto. During his 2012–13 sabbatical, he served as a visiting fellow at the Balsillie School of International Affairs in Waterloo, Canada, and a visiting professor at Kwansai Gakuin University in Nishinomiya, Japan. He is the author of *Governance for a Globalized World* (2012), and *Canadian Foreign Policy in a Changing World* (2007), and co-editor of the Global Finance series and Global Environmental Governance series published by Ashgate. Kirton is co-editor of several publications published by Newsdesk Media, including *G20, G8 and BRICS summit publications, including the 2010 G20 Seoul Summit (Shared Growth Beyond Crisis)*.



Thomas HALE is a Postdoctoral research fellow at the Blavatnik School of Government, Oxford University. His research seeks to explain how political institutions evolve—or not—to face the challenges raised by globalization and interdependence, with a particular emphasis on environmental and economic issues. He holds a PhD in Politics from Princeton University, a master's degree in Global Politics from the London School of Economics, and an AB in public policy from Princeton's Woodrow Wilson School. A US national, Hale has studied and worked in Argentina, China, and Europe, and currently lives in London. His most recent book is *Gridlock: Why Global Cooperation Is Failing when We Need It Most*.

Session1

Biographies



Isabelle MATEOS Y LAGO is an Assistant Director in the Asia and Pacific Department of the IMF, where she oversees vulnerability assessments, coordinates cross-country work, and heads the missions to Korea. She led the task force that produced the 2013 Spillover Report, which analyzed the cross border impact of the policies of the five largest economies in the world. She has been working at the IMF since 1999, holding various positions, most recently as Advisor to First Deputy Managing Director David Lipton, and prior to that in the European Department, the Strategy, Policy, and Review Department, the Executive Board, and the Independent Evaluation Office. During that time, her work has focused on the architecture of the international monetary system, IMF governance, policies and operations, and their impact. She previously worked at the French Ministry of Economy and Finance on a broad range of economic policy issues. She is a member of France's Inspection Générale des Finances, and a graduate of *Ecole Nationale d'Administration*, the University of Cambridge, and *Sciences Po* Paris.

Presenter

Political Leadership Changes & the Future of the Global Economic Order

Colin BRADFORD
Senior Fellow, Brookings

Political Leadership Changes & the Future of the Global Economic Order

Colin I. Bradford*

The Global Economy & Development Program, the Brookings Institution
Washington, DC

The global financial crisis of 2008 revealed major “fault lines” in economic thinking and a void in global political leadership. The eight G20 Summits since November of 2008 have been efforts to combine the forging of economic policy responses to the crisis along with filling the vacuum in global political leadership through the new mechanism of G20 leaders-level summitry. Korea’s presidency of the G20 in 2010 constituted a deliberate effort to both generate policy responses and strengthen global leadership through the G20 leaders process at the same time. Nonetheless, today doubts remain as to whether the G20 has delivered adequate policy responses and filled the void in global leadership.

This essay will evaluate (1) the degree to which the period since 2008 has been characterized by new forces and factors which have revealed shifts in global politics which impact on the potential for coordinated economic policy responses to the crisis and (2) the degree to which the political leadership during this period has been responsible for the perceived limited extent of global action, or reflects the new forces at work in the global politics that can inform our perspectives on the future of the global economic order in the years immediately ahead.

I. A Maximalist Vision of G20 Summitry and Global Leadership

The rise of emerging market economies (EMEs) has transformed the global economy which in turn has challenged the existing system of international institutions and governance mechanisms to reflect the changing world economic order. The G20, which was created at finance minister level in the late 1990s to deal with the Asia financial crisis, was pressed into service at leaders level to deal with the global financial crisis in a way that reflected and embodied the changes in the global economic order. The growing importance of Asia, the stunning dynamic growth of China, the need to include EMEs from all regions and from distinctive cultural perspectives, especially Islamic countries, made the G20 grouping a fitting, if incomplete, answer to the need to have a more representative body address the global crisis. Six Asian countries are in the G20 instead of just one in the G8; three Islamic countries (Indonesia, Saudi Arabia and Turkey) are in the G20 whereas none were members of the G8; there was, and still

is, interest in many capitals in embedding the US-China relationship in a broader grouping of significant countries.

There was also a view that this new summit grouping could provide new leadership for the global economy that would be based on the imperatives of global interdependence revealed by the crisis itself and the pressing longer-term challenges of financial stability, poverty, energy, water, climate change, job growth and rising inequality in which the major economies have determining influence. Skepticism now abounds due to the fact that the global politics driving the dynamics of the new global order seem to manifest as much about conflicting perspectives as about cooperative outcomes and putting national interests ahead of the global common good.

The question is does the history of the world's efforts to deal with the global financial crisis from 2008 until now reveal a failure on the part of leaders to lead and to generate cooperative outcomes or does that history reveal a new force-field driving national and global politics which has penetrated and dominated the global economic concentration effort undertaken by the G20 Summits since 2008?

*** A Thought-Experiment

One way to evaluate the degree to which the responsibility is with leaders and their leadership is to engage in a thought experiment in which we ask what would the world have been like if there had been a convergence in time of the most internationalist leaders in power in their respective countries. One possible configuration of leaders with strong international vision and experience would be the following. Since there is a possibility that Kevin Rudd will be participating in this conference, it is interesting to speculate on what would have happened if others of his experience and involvement in international affairs and finance were to have been in power simultaneously. This imaginative array of leaders might include:

Keven Rudd in Australia.

Fernando Henrique Cardoso in Brazil.

Paul Martin in Canada.

Dominique Strauss-Kahn in France.

Montek Ahluwalia in India.

Mario Monti in Italy.

Dmitry Medvedev in Russia.

Trevor Manuel in South Africa.

Tony Blair in the U.K..

Would this constellation of internationalists and technocrats-technopols (Dominguez) have been sufficient to change the dynamics of G20 summitry to create a context in which more cooperative and coordinated outcomes were more likely?

II. Dominant Drivers of the Global Economic Order

Even an avowed maximalist would have to say that there are powerful reasons why the world does not have a strong configuration of internationalist leaders. It is not so much bad luck or poor campaigning on the part of internationalists but that the **primordial facts of political life** in this period seem to be that:

- (A) the dominance of domestic politics over global engagement,
- (B) the rise of real politique foreign policies over international cooperation and coordination, and
- (C) cultural “difference” and systemic diversity,

are 21st century foundations of international relations..

These are the principal drivers which reduce the likelihood that internationalist leaders will be elected and that internationalist –multilateral approaches will gain ground over more competitive nationalist assertions of interest in global forums.

These drivers of the current era would seem to require us to move our expectations back from a maximalist-internationalist perspective on what constitutes successful global leadership to a less ambitious and more realistic prism for managing, understanding and interpreting global leadership efforts in the G20 and elsewhere. What we seem to need now, and I am talking to myself as well as to you in this regard, is a new mindset for understanding global leadership in addressing global challenges and for understanding international cooperation efforts by the G20 and other mechanisms, forums and institutions. It is not so much that new political leaders in some major economies have shifted the paradigm for understanding the shape of the future of the global economic order as that the dominance of domestic politics, rising realism in foreign policy and systemic diversity require us to come to terms with the limits, as well as the opportunities, of advancing global leadership and global approaches to global challenges.

A. The Primacy of Domestic Politics in Global Politics

We live now in a world of pulverized communications, polarized politics and paralyzed policy-making in most major economies. *Pulverized communications* brought on by new technologies and social media reduce the capacity of leaders to project a message

which is convincing and consensual when everyone has their own opinions and has a means of expressing their views. *Polarized politics* arises due to niche politics eliciting ideological views which push opinion out to the fringes of the political spectrum rather than toward the center. *Paralyzed policy-making* occurs as a result, weakening the ability of leaders to lead by taking centrist approaches which generate consensus decision-making combining elements from the main streams of political thought.

The dominance of domestic politics undermines the potential for political leaders to develop a narrative which weaves together a consistent and convincing set of linkages between domestic interests and global problem solving. The constraints on leaders are to assert domestic priorities over global ones rather than explain how global cooperation can enhance domestic opportunities. David Cameron arrived at a recent summit only to announce to the media as he got out of his car: “I am here to advance British interests and British business.” If every leader walks into the summit with that kind of agenda, it will be hard to agree on cooperative outcomes which demonstrate success against David Cameron’s metric.

Hence, as nice as it might be to imagine that with a different set of leaders the world might experience a better set of global outcomes, this thought-experiment seems to suggest that the main drivers of global politics are *not* likely to lead to elections of a broad set of internationalist leaders from major economies *nor* would those drivers permit those leaders, even if successfully elected, to forcefully arrive at international cooperative arrangements and coordinated outcomes which might appear to move back from the frontiers of maximum national advantage.

B. The Return of Realism in Foreign Policy

The post-world war II era was shaped by a concept of liberal internationalism in which the United Nations, the World Bank and the International Monetary Fund were established. These institutions embodied the values of rule of law, human rights, sovereignty, democracy and security. The rise of the Soviet Union as a nuclear power infused strategic tension into this emergent liberal international order providing a sobering realism as an offset to the idealism of the new order itself. The Korean War and the Cold War manifested the prominence military and geopolitical security dimensions in relation to the institutional, economic and legal dimensions of post-war period. Western values provided the ideational underpinnings of this period, and the predominance of the trans-atlantic powers in Europe and North America, along with Japan provided the necessary weight to assure that these ideals prevailed.

Fast-forward to the 21st century and to 2013, we have massive shifts in the current and prospective relative weights of the West and the Rest, with the rise of not only China, India and Brazil as economic powers, but also the globalization of communications and

awareness of global pluralism and heterogeneity which reduces the universalist reach of the West. The liberal institutional order of the post-war period is severely challenged to adequately address 21st century global challenges and legitimately reflect the increasing complexity of the global discourse.

In this context, the notion of international cooperation and coordination, using the post-war international institutions as the vehicles to advance it, is up against the return of foreign policy realism in the form of the assertion of national geopolitical and economic interests. The increasing military strength of China, the U.S. “pivot to Asia”, the recent actions of both the U.S. and Russia in relation to Syria, the European effort to manage their debt problems themselves, the revelations regarding U.S. intelligence and the reactions of Brazil and other countries to them make clear that major countries are taking actions in behalf of what they regard as their national strategic interests.

This is not the Cold War but the global context is now laced with military-security factors to a degree that alters the balance between cooperation and competition among major countries.

C. “Difference” and Systemic Diversity as Foundations of Our Era

For some time now, there has been an appreciation in some academic circles of the degree of diversity in the structure, behavior and complexity of different national economies. The theory is that since countries have different cultures, those cultures generate different institutions which in turn define distinctly different economies. Michel Albert in *Capitalisme contre Capitalisme* (1991) postulated different varieties of capitalism as manifested in the Anglo-Saxon version in America and the United Kingdom, “the Rhine model” in Germany, and the Japanese more dirigiste way of organizing their economic system. The great debate in the 1980s and 1990s over the East Asian Miracles led inevitably and eventually to the realization that there was not a single East Asian model at all but that Singapore was different from Hong Kong, that Korea was different from Taiwan and that none of them were exactly the same. In 2003 Bruno Amable published *The Diversity of Modern Capitalism* in English which appeared in French in 2005 as *Les Cinq Capitalisme: Diversite des systemes economiques et social dans la mondialisation* which postulated market-based capitalism, social-democratic economies, Asian capitalism, continental European capitalism and Mediterranean capitalism as distinct variants.

However much this sense of the diversity of economic systems may have been present within the economics discourse, it was not front and center as a priority issue, nor was the mainstream in American economics convinced that these variants were important enough to warrant a re-examination of Anglo-Saxon principles and fundamentals of market driven economies.

It was not until the aftermath of the global financial crisis in 2008 that prominent voices in economics began to acknowledge not only that there were “fault lines” in the Anglo-Saxon version of capitalism but that other economic systems with different characteristics were less vulnerable to financial shocks and less likely to generate them. The G20 brings the world’s major economies face-to-face in their diversity which is there for all the world to witness. *The diversity of economic systems in the world is now a fact of life and a foundational feature in the global economy, not a minor theme in the global debate.*

*** Financial Regulatory Reform Reveals Systemic Diversity

The financial regulatory reform agenda promulgated at the London G20 Summit in April of 2009 is crucial to reversing history in countries with faith in hands-off financial capitalism and in self-regulating financial markets. Global financial stability sits at the center of the global challenges agenda, determining outcomes in many of the other major dimensions. Financial shocks have been severely and brutally disequalizing, hitting the marginal, the vulnerable and the poor more than the wealthy. The massive energy investments required in the world between now and 2050 require stable capital markets that provide incentives for long-term investment in productive capacity instead of favoring speculative, short-term investment in financial instruments. Economic recovery in most countries depends on a greater emphasis on investment-led growth than consumption led-growth. Most countries are now aware of how crucial infrastructure investment is to private sector growth and their future prospects as a society. *Financial regulatory reform is central to enhancing equality, global poverty reduction, energy security, environmental sustainability, and global growth.*

Nothing makes clearer the diversity in economic systems in the world than how financial regulatory reform is being undertaken in the major economies. The variety of regulatory regimes is immense with the complexity of this issue multiplying the number of possible variants. The degree of mixture between private and public banks, the role and independence of the central bank, the relationship among regulatory agencies, the role of the legislature in the regulatory process, the degree of organization of private financial institutions as a group in influencing government, all play critical parts in defining the nature of national financial regulatory regimes. Even though Anglo-Saxon countries had a very simplistic and even ideological view of financial markets as self-regulating, they are now engaged in national and global debates on how to create effective systems and institutions for the oversight, supervision and regulation of financial markets and institutions.

This new reality confronts governments with the complexity of private-public sector relationships in which simplistic, ideological formulations inevitably have to give way to pragmatic, practical, empirically-verified measures which are adopted for their

effectiveness rather than their liberal or conservative tint. This makes the international work at the Financial Stability Board (FSB), the International Monetary Fund (IMF), in the G20 Summits and ministers of finance (MOF) meetings as well as in national capitals more professional than political. Rather than looking for “one-size-fits all” solutions, the conversation is more about differentiated but equivalent measures which fit the national institutional context and that are most likely to be effective rather than debating which measures are more state-centric or more market-friendly.

The West is no longer in a world of market-fundamentalism, and the East is no longer in a world of state-capitalism; both West and East are looking for regulatory regimes that work to prevent financial bubbles, shocks and disruptions which wreck havoc on the economic security of their people.

As a result, the major economies are now all operating within a mixed-economy space which is not a single line spectrum between fully liberalized markets on one end (the right, presumably!) and state owned enterprises and state run economies on the other (the left?). Rather all economies are now navigating in a three dimensional, volumetric space where combinations of instruments, configurations of institutional arrangements, and constellations of policies will each differ and which together will define differentiated economic systems for the future, especially in the financial regulatory regime domain. Systemic diversity means governments have more options, not less.

D. Implications of Systemic Diversity for Global Leadership and Cooperation

This diversity of economic systems is not only now a fundamental feature of the global economy but also a major determinant of the global politics of leadership and of international strategic relationships. This “difference” in economic systems is inextricably linked to the institutional and cultural context and as a result is deeply rooted in the histories of each of the major economies. The global economy and the G20 as a microcosm of it bring this “difference” to the fore in the way that the post-world war II world and the G8 did not. This systemic “difference” drives policy divergence and overt policy conflicts which have been consistent and continuous parts of the history of G20 Summits from London to St. Petersburg. (Bradford and Linn)

This new fundamental feature has three implications for our understanding of the dynamics of the new global order. One is how global cooperative efforts are approached and perceived. Instead of an international system in which “like-minded” countries dominate, we are now living in a global system in which “difference” is fully manifested, policy conflicts are domestically based and in which divergence is a natural part of the landscape. Instead of anticipating cooperative and coordinated outcomes from the G20, the more appropriate mind-set is one which accepts the realities of “difference”, respects those differences and moves from there to how to manage them rather than

how to dismiss or ignore or defeat them. (Rachman, 2010) *Conflicting national perspectives are a natural part of 21st century global politics.*

The second implication is regarding the content of conclusions and agreements of global cooperative efforts. In a world of systemic “difference”, the most that can be hoped for is that international agreements will *incorporate* different perspectives into a mosaic of disparate elements which embody “differences” rather than that negotiations will yield compromises between linear, dichotomous trade-offs which end up in the supposed mid-point of the two sides of the debate. International negotiations seen as the *incorporation* of diverse perspectives and disparate elements rather than as compromise and consensus, blending differences into bland mid-points, is a major shift in approach which is required by the systemic diversity of the new global order.

Finally, this combination of the forces and factors defining the new global context make it clear that *the world needs to move beyond a values-based to more pragmatic interest-based international system.* The West will diminish its influence by insisting that Western forms of government and market-based economies are the unique combination that will lead to civility and prosperity. The return of realism to prominence in international relations means that the Western post-war vision of a liberal global order needs revision *to a more eclectic, pluralistic and inclusive approach which respects diversity* in values, cultures and political and economic systems. Persisting with the promotion of universal values which in the end are Western values, especially to non-Western peoples, is now out-of-date and counter-productive.

Charles Kupchan puts it well: “Under American leadership, the West has propagated a conception of order that equates political legitimacy with liberal democracy. If a new rules-based order is to emerge, the West will have to embrace political diversity rather than insist that liberal democracy is the only legitimate form of government.” (Kupchan, page 187)

This notion is a major departure from traditional Western and U.S. vision of the global politics, but it is an essential one in a world of systemic diversity. It constitutes a shift from the liberal post-war vision to a less ideological, less value-laden and more pragmatic by accepting *pluralism* as a basic principle of global governance, which has been of domestic political history in the West.

“To acknowledge that different kinds of polities can practice different forms of *responsible* governance is to respect diversity....Clearing the way for a more inclusive global order entails recognizing that there is no single form of *responsible* government.” (Ibid, page 190, emphasis added.) “This redefinition of international legitimacy”, Charles Kupchan argues, “does not violate Western values, but instead draws heavily on the West’s own experience. Compromise, tolerance, and pluralism were all vital to the West’s rise...The rise of the West was in many respects the product of the readiness of Europeans to countenance change and welcome a religious and political diversity that

overturned the economic, political and ideological status quo.” (Ibid, pages 192 and 205, emphasis added.)

Giving up the pretense of Western universalism and moving to a more pragmatic, interest-based international system is a major and necessary step for the West to take to encourage the emergence of a more inclusive, pluralistic and complex rules-based system for the future. If these steps are taken by the West, the rest of the world would need to respond by taking this shift a face-value and negotiate in good faith as collaborators in a common enterprise rather than adversaries in a purely competitive endeavor. People everywhere have a stake in these negotiated outcomes.

III. The 21st Century Context for Global Leadership and G20 Summits

These three implications, down-grade expectations and criteria for evaluating outcomes from global cooperation efforts for reasons of realism and accepting the facts of life of global politics in the 21st century. They take into account reappraisals of the G20 Summits, which have been criticized for failing to deliver cooperative outcomes, to resolve policy conflicts and to force recalcitrant issues forward, but provide an alternative template for assessing them.

Without doubt the most significant summit in the history of G7/8 and G20 summitry was the London G20 Summit in April 2009 when major actions were taken to (i) stop the drop and stimulate economic growth, (ii) fund and reform the IMF, and (iii) establish a financial regulatory reform agenda for G20 nations, reconstituting the Financial Stability Forum (FSF) into a broader and more significant Financial Stability Board, with all G20 countries as members. From there, serious consideration was given to how to transition G20 Summits from being the global crisis committee to becoming the *global steering committee*. (Bradford and Lim, KDI) There was hope that the G20 Summit mechanism would not only replace the G8 but become *the peak focal point* of global economic cooperation efforts.

The European crisis intervened in 2011, the year of the French presidency of the G20, to overwhelm the G20 global agenda with the urgency of the European crisis which continued through the Mexican G20 presidency in 2012. The Russian St. Petersburg G20 Summit in September 2013 was in turn overwhelmed by the Syrian crisis which overshadowed the economic agenda. This sequence has led some observers to conclude that since the crisis is no longer as urgent, the G20 has failed to deliver concrete progress and has turned into a “talk shop” rather than a global steering committee.

What this critique seems to ignore is the G20 process which goes on month-to-month over the course of the year and generates a work stream led by Sherpas, G20 finance ministry deputies as well as G20 finance ministers themselves and others. This work

stream leads to specific cooperative working groups and reporting schedules that entail continuous contact among senior officials from all 19 G20 member countries plus EU/EC officials.

The critique in fact focuses excessively on the G20 Summits themselves through a 20th century lens of observing G7/8 Summits in which fewer leaders from “like-minded” countries were indeed able on occasion make significant coordinated steps forward, especially in exchange rate intervention and monetary policy coordination, most notably at the Louvre and Plaza summits in the 1980s. Now, there is a strong work stream across a range of issues on which officials from 19 diverse countries engage their governments to arrive at conclusions for G20 Summits and recommendations for further work, including that by the international institutions. *In a very real sense, this G20 work stream is systemic governance of the global economy* by orchestrating the work of the governments of the largest major economies and guiding relevant work by the international financial institutions, in particular the IMF.

This G20 process involving concerted work by senior officials meshes with the fact that *the G20 is in reality one among many venues* in which global economic issues are discussed, debated and decided. The other venues are the semi-annual ministerial level meetings of the IMF and the World Bank every fall and spring, the meetings of the Basel Committee, the FSB, and the regional development banks of Asia, Africa and Latin America, among others. In addition, there are regional summits not only in the European Union but also of the African Union, in Asia (APEC and ASEAN Plus Four), and the Summit of the Americas, to name a few. As much as it might be beneficial in the eyes of some to have the G20 be an apex summit, the fact is that at best it is *primus-entre-pares* and in reality one summit in a year-long sequence of high level meetings and venues in which global economy issues are dealt with.

These two factors ---the G20 work stream and the view of the G20 in a sequence of global economy leadership moments---simultaneously lower the profile of the G20 in terms of conventional metrics but *increase the consequence of the G20 process when viewed through time instead of as a peak moment in time*. These factors diminish the impact of the critique as well as provide a more balanced means of appraising the worth of the changes that the elevation of the G20 to leaders-level has brought to the global economy and its governance.

IV. Moving Forward in a Constrained Global Context

The truth is that the globalization of the world economy has generated a public backlash in many countries. These public reactions have created significant constraints on the possibilities for internationalist leaders to emerge and on the ability of elected leaders to fully and robustly develop national narratives that convincingly relate cooperative global approaches to global challenges to the immediate domestic interests and anxieties of their people, even though the domestic impact of global challenges is rising not declining.

Dani Rodrik's trilemma illustrating the stark trade-offs between hyper-globalization, the nation-state, and democracy ruefully concludes that "the democratic legitimacy constraint virtually ensures that global governance will result in the lowest common denominator, a regime of weak ineffective rules." (Rodrik, 2011)

Despite these constraints, governments of major economies are working together and leaders are meeting and discussing approaches to global issues. In addition, there is a large set of constituencies of leaders from business, to finance to trade to labor to academics to think tank experts to civil society organizations to youth which are involved in the public discourse on how to address global challenges. Many of these constituencies are now directly involved in the G20 process, which is significantly more open and involving of the public participation and input than the G7/G8.

We are not in the world of great political leaders of the past who were able to articulate a vivid internationalist vision for their people. *We are in a world of hurt*, in the wake of the global financial crisis of 2008, in which the livelihoods of people everywhere were impacted by the crisis. The political fallout from the crisis actually makes it more difficult for leaders to forge effective responses to it, because of the intensity of domestic political reactions to the social impact of it.

In this new era of the primacy of domestic politics, rising realism in foreign policy and systemic diversity, effective global leadership by national leaders acting in concert is more likely to be effective if it moves forward gradually, pragmatically and inclusively rather than attempts to generate grand strategies, quantum leaps forward or stunning innovations. If 21st century summits are judged by 20th century metrics, they will consistently fall short.

Nevertheless, *leaders must still lead and be perceived to lead.* (Brookings-CIGI "National Perspectives on Global Leadership".) Hence, there is a great need now for leaders to not only embrace the anxieties of their publics but also provide them with a vision of a better future within a realistic understanding of the global context. *More deliberate efforts by leaders to lead and to communicate their leadership* more clearly will help guide their people to define their future in a complex global economy in which there are opportunities as well as challenges.

Trilemmas illustrate policy trade-offs. In the economic version, policy makers are forced to choose *only two* of the three desired policies of stable exchange rates, autonomous monetary policy and open capital accounts. In Rodrik's political version, publics and leaders are forced to choose *only two* of the three desirable systems of (hyper)globalization, the nation-state, and democracy. In fact, it was market fundamentalism that pushed policy makers to choose fully autonomous monetary policy and open capital accounts with the resulting volatility of exchange rate markets in the Asian crisis, in particular. And it was a commitment to hyper-globalization that pushed national policy makers to adopt the "golden straightjacket" of conformance to global market incentives and standards to attract foreign capital, weakening the nation state.

There is political and policy space in which to act. Whereas the mechanics of these trilemmas are helpful in elucidating stark policy and political choices, the real solutions reside in the space within the triangles not along the edges. "Extreme policy stances in the corners, such as completely open capital accounts, fully autonomous monetary policy or fixed exchange rate regimes force policy choices on to the lines connecting the corners of the triangle, meaning that one of the three options is foregone. Pragmatic policy stances of selective capital controls, some monetary policy autonomy (and constraint) and managed exchange rate regimes create a policy space within the triangle in which different policy combinations can be developed." (Bradford, 2005.)

Similarly, *hyper*-globalization does indeed impose "the golden straight jacket" of a fully liberalized domestic economy which weakens the nation-state. There are less extreme, more moderate options. More pragmatic approaches to national economic policy management and to opening and managing the national economy's relationship to the global economy can strengthen the nation-state and widen the options for democratic policy choice. There is policy space in which all three goals can be realized, both in the economic and the political trilemmas.

In fact, the economic and political forces converge; the systemic economic diversity illustrates larger ranges of economic policy choices along multiple dimensions which actually enhance national governance. At the same time, their spillover effects contribute to a more eclectic array of global regulatory and policy options. These strengthen the global economy, the international institutions and the coordination mechanisms, even as the issues become more complex.

The ideological false dichotomies and simple trade-offs loaded with latent political meaning are left behind for the new 21st century terrain of effective, pragmatic and intelligent *choice*. For these policy and political transitions to occur, strong national *leadership* is needed to articulate national visions that connect domestic realities and requirements to global challenges and imperatives.

CONCLUSIONS: Global Leadership, the G20 and the Global Economic Order

In this constrained global context for global leadership, several guidelines for the future seem to emerge from recent experience and from this analysis of it.

*** The global economy and the world are better off with the G20 than with the G8 and are better off with the G20 than without it. *A world without the G20 leaves the global economy without a guidance mechanism.*

*** The work stream of the *G20 process* throughout the year among high level officials from 19 countries and the EU, together with their linkages with on-going work in the IMF, the FSB, the OECD, the World Bank and other key international institutions, has intrinsic and practical value for global economic outcomes.

*** There is a need to strengthen the G20 Summits by developing more opportunities for *distinctive action by G20 leaders themselves* which is visible to their publics and which is *differentiated* from the G20 work stream and especially from the agenda and issues addressed by G20 ministers of finance.

*** There is a need to *prioritize “deliverables”* resulting from G20 Summits *both* by and for the work stream *and* by the leaders. There is a danger of the trees obliterating the forest in the public mind, in market perceptions and in the media.

*** There is a need to *professionalize the communications* process of G20 Summits. Differentiating the leaders track from the work stream tracks is an essential ingredient.

Beyond this, considerably more attention is required in developing key messages, having those key messages thoughtfully developed beforehand along with a *communications plan* for each G20 Summit which includes messaging throughout the Summits, not just at the end with the release of the communiqué and its attachments when leaders and the press are heading for the airports. (See Blustein in Bradford and Lim, 2011.)

Much more attention needs to be given to *explaining the meaning* of what is happening, the issues being dealt with and the outcomes rather than focusing only on the content of the agreed upon wording of the G20 Summit documents. (See National Perspectives on Global Leadership, Brookings-CIGI project, at www.cigionline.org.)

*** The G20 Summit process is more than its official tracks, though they are the primary focal points and arenas for action. Given the complexity of global challenges, the now *informally institutionalized engagement of leaders* from business, finance, labor, civil society, think tanks, academics, and youth establishes the G20 as a significant forum for advancing the global agenda in society beyond governments. The intensity, breadth

and depth of this engagement is significantly greater than the G8 and reveals the seriousness which social actors and private sector leaders attach to the urgency of addressing global challenges themselves as well as for their governments. Without G20 Summits this relationship of leaders from society with leaders of governments from the world's major economies would not exist. G20 Summits are “idea shops”, not just “talk shops”. In the sequence of global meetings, *G20 Summits are stepping stones toward advancing the global agenda in the world at large, not just in the global economy.*

*** National and global politics need to embrace the underlying shifts in the global economic order and rearticulate a less value-laden vision for the future that accepts systemic diversity as the underlying dynamic of not only the global economy but the global age in which we are all now living. Ideological debates of the last century need to be left behind. A new pragmatic, eclectic, and pluralistic mindset is needed, especially in the West, to navigate the new global economic order as it is evolving now and to anticipate the future.

Bibliography

Charles A. Kupchan (2012), *No One's World: The West, the Rising Rest, and the Coming Global Turn*, New York: Oxford University Press.

Mark Leonard (2013), "Why Convergence Breeds Conflict: Growing More Similar Will Push China and the United States Apart", *Foreign Affairs*, (September-October).

Kishore Mahbubani (2013), *The Great Convergence: Asia the West and the Logic of One World*, New York: Public Affairs.

Ian Morris (2010), *Why the West Rules—For Now: The Patterns of History, and What They Reveal about the Future*, New York: Farrar, Straus and Giroux.

Gideon Rachman (2011), *Zero-Sum Future: American Power in an Age of Anxiety*, New York: Simon and Schuster.

Gideon Rachman (2010), "The G20's seven pillars of friction", *Financial Times*, November 8, 2010.

Raghuram G. Rajan (2010), *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton: Princeton University Press.

Dani Rodrik (2011), *The Globalization Paradox: Democracy and the Future of the World Economy*, New York: W.W. Norton and Company.

Foreign Affairs Special Anniversary Issue (2012), "The Clash of Ideas: the Ideological Battles that made the Modern World and will shape the Future", January-February, 2012.

David Shambaugh (2013), *China Goes Global: The Partial Power*, New York: Oxford University Press.

Manjari Chatterjee Miller (2013), "India's Feeble Foreign Policy: A Would-Be Great Power Resists Its Own Rise", *Foreign Affairs*, May-June.

Jorge I. Domínguez (Editor) (1996), *Technopols: Freeing Politics and Markets in Latin America in the 1990s*, Pennsylvania State University Press.

Colin I. Bradford and Wonhyuk Lim (2010), *Toward the Consolidation of the G20: From Crisis Committee to Global Steering Committee*, Seoul: Korea Development Institute.

Colin I. Bradford and Wonhyuk Lim (2011), *Global Leadership in Transition: Making the G20 More Effective and Responsive*, Washington: The Brookings Institution Press.

Colin I. Bradford and Johannes F. Linn (2011), "A History of G20 Summits: The Evolving Dynamic of Global Leadership", *Journal of Globalization and Development*, Volume 2, Issue 2, Article 8.

Colin I. Bradford, Jr. (2005) *Prioritizing Economic Growth: Enhancing Macroeconomic Policy Choice*, G-24 Discussion Paper Series, No 37, Geneva: United Nations, April 2005, www.g24.org/TGM/brad0904.pdf.

Michel Albert (1991), *Capitalisme contre Capitalisme*, Paris: Editions du Seuil.

Bruno Amable (2003), *The Diversity of Modern Capitalism*, New York: Oxford University Press.

Bruno Amable (2005), *Les Cinq Capitalismes: Diversite des Systemes Economiques et Sociaux dans la Mondialisation*, Paris: Editions du Seuil.

Brookings-Centre for International Governance Innovation (CIGI), *National Perspectives on Global Leadership* (NPGL), Washington and Waterloo, 2009-2012.

This Brookings-CIGI project examined how leaders looked to their publics at five G20 Summits and one G8 Summit through the lens of national newspapers in a dozen G20 capitals as observed by resident think tank experts. The "National Perspectives on Global Leadership" (NPGL) project has posted the results of these "soundings" from a dozen capitals of G20 countries for the London G20 Summit, the L'Aquila G8 Summit, the Toronto G20 Summit, the Seoul G20 Summit, the Cannes G20 Summit and the Los Cabos G20 Summit on the website of the Centre for International Governance Innovation (CIGI) in Waterloo, Ontario, Canada at www.cigionline.org. Search: "Sounding Series" for the NPGL "Sounding Series: Summitry and Public Perceptions for London", L'Aquila, Pittsburgh, Muskoka and Toronto, and Seoul. And, Sounding Series No. 6 for Cannes and No. 7 for Los Cabos.

***This paper is being written as a background paper for a presentation at the 20th Anniversary Conference of the Institute for Global Economics in Seoul, Korea, on October 31, 2013.**

The IGE conference is on "Major Economies Under New Leadership: Policy Priorities and Challenges" and is co-organized by the Bruegel, the European think tank located in Brussels, Belgium,, the China Center for Economic Research (CCER) at Peking University in Beijing, China, and the Peterson Institute for International Economics in Washington, D.C., USA. The presentation by Colin Bradford at the IGE conference is the keynote for Session 1 on "Political Leadership Changes and the Future of the Global Economic Order", chaired by Il SaKong, Chairman of IGE and former Chair of the Korea Presidential Committee for the Seoul G20 Summit held in November of 2010, as well as former Finance Minister of Korea. Discussants will be John Kirton, Professor at the Munk School of Global Affairs at the University of Toronto, Jianguo XU, Associate Professor at Beijing University and Thomas Hale of Oxford University.

Discussants

Political Leadership for Effective G20 Systemic Governance

John KIRTON

Professor, University of Toronto

Political Leadership for Effective G20 Systemic Governance

John Kirton

co-director and founder, G20 Research Group

October 31, 2013

In “Political Leadership Changes and the Future of the Global Economic Order,” Colin Bradford offers a most welcome, all-too-rare, systematic, well-developed, balanced and realistic account of contemporary global economic order and governance and one that properly puts the Group of Twenty (G20) and its financial regulatory reform agenda in first place (see also Bradford and Linn 2011).

In brief, Bradford argues that in evaluating the G20’s performance since the great global financial crisis of 2008, analysts need to set aside earlier hopes for visionary, personal, political, global leadership in favour of a less ambitious, more realistic, new mindset that takes full account of the new forces at work in the twenty-first century world.

On this basis, Bradford argues, the G20 has not been failing, or even been seriously in decline from its 2009 London Summit peak, but has performed adequately in a more professional process of continuous work and outreach, of intrinsic and practical value, to make the world better off than it would be without the G20 summit or with the old G8 alone. Driving this performance have been three new twenty-first century forces: the dominance of domestic politics, the return of realist foreign policies, and the prominence of global cultural difference and systemic diversity. Bradford concludes with several insightful suggestions for strengthening G20 summitry, namely visible distinctive action by leaders, deliverables from them and those below, professional communications, reliance on multiple civil society engagement and the development of a new vision with systemic diversity at its core.

The Cadence of G20 Governance

This analysis enriches and extends in several ways the analysis found in my own book, G20 Governance for a Globalized World, published earlier this year. Bradford’s analysis is one of the few accounts to argue, accurately, that G20 summit performance is not in

decline but is at least staying at the same level or even increasing in a few important ways. However, his analysis might actually understate the summit's rising success. Even when measured on the standard, high-standard, peak-to-peak summit performance, as distinct from the continuous invisible work at levels before and beyond, there is strong evidence of a performance rise (Kirton 2013a, 2013b). Careful measurement of summit performance across the six basic dimensions of global governance — most of which have been incorporated into Bradford's analysis under different names — shows increasing output from the first summit at Washington in 2008 through to the eighth at St. Petersburg in 2013 (see Appendix). Toronto and Seoul were not the start of a post-crisis decline but the G20's rise as a steering committee. This is confirmed by the spike in deliberation and in decisions reached at the eighth summit, the St. Petersburg Summit on September 5-6, 2013. This spike reflects the 2013 summit's steady advance across its broad economic agenda, including financial regulation, and its status at the first summit Kirton: Political Leadership for Effective G20 Systemic Governance 2 not consumed by a present or prospective financial crisis in an American-initiated or European-erupting form. St. Petersburg confirmed that the G20 summit had passed from being an effective global financial crisis response committee to acting as an effective global financial crisis prevention committee, by containing the Euro-crisis in its regional home.

St. Petersburg spectacularly showed that the G20 summit has also, at the same time, become an effective global steering committee, by addressing and advancing the central security issue of the day — the use of chemical weapons by a state against its own people with the attack by the Syrian government on August 18, 2013. At the very last minute the summit flexibly took up this new issue, called G20 foreign ministers to the summit to help, had leaders themselves collectively deal with the issue on the first day in an extended, spontaneous, free-flowing dinner discussion where all leaders spoke, and inspired the bilateral Putin-Obama bilateral the end of the summit that led to Syria agreeing to destroy all its chemical weapons without force being used. This was an immediate response to a security crisis outside G20 members as well as the prevention of any more chemical weapon attacks from anyone in Syria (especially once the weapons have all been destroyed) and a longer-term steering to reinforce the principle of a taboo against chemical weapons.

The St. Petersburg success on Syria showed not only the growth of the sub-summit institutionalization of the G20, but also the need for active guidance by the leaders. This was the second time G20 foreign ministers (if not actually all of them) had met, following their first pre-summit gathering in the lead-up to the 2012 Los Cabos Summit. At St. Petersburg the foreign ministers worked in parallel with their leaders. It was two foreign ministers — Lavrov and Kerry — who followed up publicly immediately after

the summit to forge the actual disarmament deal. Yet the discussions on Syria in the Putin-Obama bilateral at St. Petersburg, and that at Los Cabos in 2012, were essential to the disarmament deal's success. This is also evident in the G20 practice, unlike that of the G8 since 1998, in having finance ministers alongside their leaders at the summit table for the G20 plenary session, and now having their foreign ministers working in parallel on site.

Bradford importantly points to the growing array of G20 working groups that provide continuous G20 governance out of the public eye. There is much skepticism about how well they are working, especially the core Framework Working Group created at Pittsburgh and the Development Working Group created at Korea's initiative in 2010. However, a close look at the working groups' operations suggests a more positive evaluation and one that supports Bradford's view. The study group created in the spring 2013 helped produce the St. Petersburg success on financing for investment has been a clear success. The Framework Working Group itself is slowly making progress, cumulatively coming a considerable way from its pro forma start in 2009-10.

Arguably the greatest working level success has come from the international institution that the G20 helped to create and now dominates. This is the Financial Stability Forum from 1999 converted into the Financial Stability Board by the G20 summit in 2009.

The Causes of G20 Governance

This rising performance has been produced by the G20's increasing tendency to create winning coalitions that cross the established-emerging country divide and even the cultural, religious, "civilizational" divide that Bradford properly identifies as a critical test (Schirm 2012). This was the case on many economic and financial issues, notably the successes on reform of the International Monetary Fund (IMF) and Basel III banking regulations at the Seoul Summit. It was also true on the potentially divisive security issue of Syria at St. Petersburg, where emerging Turkey and Saudi Arabia with their Muslim majorities stood with most established G7 members on one side, while emerging Indonesia with its Muslim majority stood on the other side of a relatively equal initial divide. And all supported the disarmament deal that was eventually reached. The outstanding question is whether the driving force behind these cross-cutting alignments and ultimate results was solidarity with sectarian co-religionists, perceived national interests or disagreements on how best to produce the shared global good of a Syria not using chemical weapons. Another outstanding question is how the G20 can produce a regime for financial regulatory reform that gives full expression to the successful, distinctive features of Islamic finance.

Bradford's trilogy of core causes also seems correct but also incomplete. The poisonous partisan politics inside the beltway in Washington matter a great deal. They have thus far prevented the successful implementation of the great success of the Seoul Summit — the agreement on IMF voice and vote reform. And two days before the October 17 deadline for raising the debt ceiling in the United States, those politics have already led G20 finance ministers, unusually, to chastise the U.S. publicly, and are doing longer-term damage to the stability of a global financial system that has long held the faith and credit of the U.S. government at its core. The outstanding question is whether effective G20 governance will depend on credible, responsible U.S. leadership and thus the dynamic of the hyper-partisan domestic politics of the U.S., or whether G20 leadership will pass to any of the other G20 members that are not so afflicted, starting with second-ranked China, third-ranked Japan and fourth-ranked Germany.

The return of realist politics is also apparent, although perhaps not the dominant force. Just as the shock-activated vulnerability of the September 11 terrorist attacks on America created interpersonal unity at the G20 finance ministers' meeting in November 2001 and propelled the G20 into effectively governing terrorist finance, so too the recent shock of chemical weapons in Syria had a similar effect at the G20 leaders' level. And if realist politics were destined to dominate G20 outcomes, the Seoul Summit would not have produced its historic agreement on IMF reform — the ultimate zero-sum game in which realists expect defensive positionalism and loss aversion from prospective losers to prevail.

The prominence of global cultural difference and systemic diversity is a third new causal force that Bradford rightly recognizes as being brought by globalization to centre stage. Yet globalization has also brought a need for a single, high-standard, globally harmonized regime — a difficult goal to real as the case of accounting standards shows. The initial test within the G20 in harmonizing the historically embedded approaches of the United States and the European Union suggests that slow, steady, if agonizing, progress is possible.

More broadly, the Westphalian world where only the relative capability of countries counted and the globalized world that has brought domestic diversity into much greater contact has been replaced by a system in which intensive connectivity among countries and their societies has become a dominant feature. This generates not only a case of diversities but also a common vulnerability among G20 countries, compounded by the uncertainties and complexities that characterize a tightly wired world. G20 leaders, who are at the table because of their countries' "systemic importance," are increasingly aware

of their common, interconnected vulnerabilities and common fate, and increasingly acting on this basis, at least just enough, just in time.

The Future of G20 Governance: Prospects and Possibilities

The G20 is not only the best available place to conduct global governance, but it is also the only place to go. Based on this conclusion, Bradford properly suggests how G20 governance can be strengthened, through a well-chosen list of reforms. By far the most important is the first: visible distinctive action and deliverables by leaders. To do so G20 leaders should return from half-time to full-time work, by meeting twice a year as they did up to and including 2010, rather than meeting only once a year at ever longer intervals, as they have since. When they do meet, they should do so for longer than the less than 24 hours that is the G20 summit norm. The extended dinner discussion St. Petersburg shows what can be accomplished if there is more time. An even longer summit would have allowed time to discuss the items destined for that dinner but discarded for Syria.

Bradford's first reform rightly recognizes that, in the end, G20 governance is about and from the leaders themselves. It is thus too soon to abandon altogether the high ideals of political leadership that Bradford inspired G20 analysts to set for so many years. The task is to find a way — through civil society engagement and other reforms of the G20 process — to live up to those high ideals for collective political leadership that today's world badly needs.

References

- Bradford, Colin I. and Johannes F. Linn (2011). "A History of G20 Summits: The Evolving Dynamic of Global Leadership." *Journal of Globalization and Development* 2(2): 8. doi: 10.1515/1948-1837.1239.
- Kirton, John (2013a). *G20 Governance for a Globalized World* (Farnham: Ashgate).
- Kirton John (2013b). "Growing G20 Governance for a Globalized World" [in Chinese] *Global Review*. September. <http://www.sjis.org.cn/index.php?m=content&c=index&a=show&catid=110&id=509>. [English version forthcoming.]
- Schirm, Stefan A. (2012). "Global Politics Are Domestic Politics: A Societal Approach to Divergence in the G20." *Review of International Studies*, pp. 1–22. doi: dx.doi.org/10.1017/S0260210512000216.

Appendix: G20 Summit Performance

Julia Kulik, October 9, 2013

	Attend-ance	Domestic Political Management ^a		Deliberation ^b			Direction Setting ^c			Decision Making ^d	Deliv-ery ^e	Development of Global Governance ^f			
		# of compl-iments	% members compl-imented	# days	# docu-ments	# words	Demo-cracy	Lib-erty	Total	# commit-ments	Compli-ance score	Internal		External	
												# Refer-ences	Spread	# Refer-ences	Spread
2008 Washington	100%	0	0%	2	2	3,567	10	2	12	95	0.53	0	4	40	11
2009 London	100%	1	5%	2	3	6,155	9	0	9	88	0.42	12	4	116	27
2009 Pittsburgh	100%	0	0%	2	2	9,257	28	1	29	128	0.28	47	4	117	26
2010 Toronto	90%	7	15%	2	5	11,078	11	1	12	61	0.28	71	4	171	27
2010 Seoul	95%	3	15%	2	5	15,776	18	4	22	153	0.50	99	4	237	31
2011 Cannes	95%	11	35%	2	3	14,107	22	0	22	282	0.54	59	4	251	29
2012 Los Cabos	95%	6	15%	2	2	12,682	31	3	34	180	0.56	65	4	143	22
Total	N/A	28	N/A	14	22	72,622	129	11	140	987	N/A	353	28	1,075	173
Average	96.42%	4	12.14%	2.00	3.14	10,375	18.4	1.57	20	141	0.44	50.4	4	154	24.71
2013 St. Petersburg	90%	2	10%	2	11	28,766				232 ^g	N/A	114	5	272	32

Notes:

N/A=Not Applicable

- Domestic Political Management: 100% attendance includes all G20 members and at least one representative from the European Union and excludes those invited on a summit-to-summit basis. Number of compliments includes all explicit references by name to the full members of the summit that specifically express the gratitude of the institution to that member. The % of members complimented indicates how many of the 20 full members received compliments within the official documents.
- Deliberation refers to the duration of the summit and the documents collectively released in the leaders' name at the summit.
- Direction Setting: the number of statements of fact, causation and rectitude relating directly to open democracy and individual liberty.
- Decision Making: the number of commitments in all official documents as identified by members of the G20 Research Group in collaboration with the International Organisations Research Institute at the State University Higher School of Economics in Moscow.
- Delivery: compliance scores are measured on a scale from -1 (no compliance) to +1 (full compliance). A commitment is fully complied with if a summit member succeeds in achieving the specific goal set out in the commitment.
- Development of Global Governance: internal references refers references to G20 institutions in official documents; spread indicates the number of different institutions within the G20 system; external references refers to references made to institutions outside the G20; spread indicates the number of different institutions mentioned.
- Data drawn from the first 2 of 11 official documents from the St. Petersburg Summit. Identification is ongoing.

Discussants

Political Leadership for Effective G20 Systemic Governance

Thomas Hale

Research Fellow, Oxford University

Political Leadership for Effective G20 Systemic Governance

Dr. Thomas Hale

Blavatnik School of Government, Oxford University
Outline of comments at Institute for Global Economics conference

October 31, 2013

1. Global governance is in a state of gridlock. Across issue areas, the need for international cooperation has grown, even as the ability of the multilateral system to facilitate it has diminished. The world has not been able to negotiate a new global trade deal for 19 years. After 21 years of climate talks, we have yet to find a way to reduce meaningfully the amount of carbon pouring into the atmosphere. And just 5 years after the worst financial crisis since the 1930s forged enormous political will to reduce the risks created by global financial flows, regulation is increasingly balkanized and, in many places, far too weak.
2. It is crucial to understand that the causes of these blockages are not idiosyncratic, or particular to a certain issue area. Rather, they are *systemic* trends that manifest across issue areas.
 - a. Multipolarity
 - b. Institutional inertia
 - c. Harder problems
 - d. Fragmentation
3. Ironically, all of these pathways to gridlock are to some degree “second-order problems.” They stem from a process of self-reinforcing interdependence over the postwar period, in which successful international cooperation allowed globalization and globalization created demand for cooperation. Eventually, however, the resulting level of interdependence proved too deep for the institutional “technology” that had given rise to it in the first place.
4. Recognizing that the problems global governance faces are both historically contingent and systemic is important because it suggests that “solutions” are likely to be similarly long-term. There are no silver bullets.
5. A number of promising trends

Institute for Global Economics 20th Anniversary Conference

- a. New forms of global governance, including plurilateral groupings of countries and initiatives that involve sub- and non-state actors.
 - i. But can these amount to more than partial solutions?
 - b. New social movements
 - i. But these have yet to institutionalize power.
6. What role can changes in national leadership play? I argue, pessimistically, that domestic politics in the major countries are unlikely to allow any of them to play a greater leadership role in the provision of global public goods.
- a. US: political polarization likely to remain into foreseeable future.
 - b. EU: suffers from form of internal gridlock
 - c. Japan: stalled economic reforms?
 - d. China: consumed by efforts to rebalance the economy
 - e. India and Brazil: will be dominated by domestic development agendas
7. In sum, great power leadership is an unlikely path out of gridlock. We need to think more innovatively about new coalitions, perhaps involving middle powers.

Session 2

The Global Economy: State and Prospects

Keynote Speech

Dennis SNOWER

(President, Kiel Institute for the World Economy)

Moderator

Joon-Kyung KIM

(President, Korea Development Institute)

Presenters

Edwin TRUMAN

(Senior Fellow, Peterson Institute for International Economics)

Jianguo XU

(Associate Professor, Beijing University)

Yukiko FUKAGAWA

(Professor, Waseda University)



Dennis SNOWER is President of the Kiel Institute for the World Economy and Professor of Economics at the Christian-Albrechts-University of Kiel. He is Director of the Global Economic Symposium and Research Fellow at the Center for Economic Policy Research (London), at IZA (Institute for the Future of Work, Bonn), and CESifo (Munich). He is an expert on labor economics, public policy and inflation-unemployment tradeoffs. As part of his research career, he originated the “insider-outsider” theory of employment and unemployment with Assar Lindbeck, the theory of “high-low search” with Steve Alpern, and the “chain reaction theory of unemployment” and the theory of “frictional growth” with Marika Karanassou and Hector Sala. He has made seminal contributions to the design of employment subsidies and welfare accounts. He has published extensively on employment policy, the design of welfare systems, and monetary and fiscal policy.



Joon-Kyung KIM is currently the President of the Korea Development Institute (KDI) and the KDI School of Public Policy and Management. Previously, Dr. Kim was the Senior Vice President of KDI and a Professor at the KDI School. He established the Development Research and Learning Network at KDI where he oversaw research and knowledge sharing initiatives on Korea's development experience. Dr. Kim has held senior policymaking positions in government, serving in the President's Office of Economic Affairs for Financial Policy. He was a co-chair of the Financial Supervision Reform Committee and a member of the Presidential Economic Policy Advisory Council. Dr. Kim had held teaching positions at Virginia Tech, Columbia University and University of Hawaii at Manoa. He was also a consultant at the World Bank and contributed in the preparation of "The East Asian Miracle."



Edwin TRUMAN, senior fellow since 2001, served as assistant secretary of the US Treasury for International Affairs from December 1998 to January 2001 and returned as counselor to the secretary March–May 2009. He directed the Division of International Finance of the Board of Governors of the Federal Reserve System from 1977 to 1998. From 1983 to 1998, he was one of three economists on the staff of the Federal Open Market Committee. Truman has been a member of numerous international groups working on economic and financial issues. Truman taught at Yale University (1967-74) and has been a visiting economics lecturer at Amherst College and a visiting economics professor at Williams College. He has published on international monetary economics, international debt problems, economic development, and European economic integration.



Jianguo XU is an Associate Professor of Economics of the National School of Development/CCER at Peking University. He received his BSc degree in mathematics at Peking University and MSc degree in Economics at the same university. He continued to study economics at Duke University and achieved his PhD degree there. From 2005 to 2007, Dr. Xu served as an Assistant Professor to teach finance at University of Hong Kong. From 2007 to 2009, he worked as an Assistant Professor at McGill University. His research area focuses on macroeconomics, finance, and international economics.



Yukiko FUKAGAWA is a Professor of Waseda University. She has a long career in studying economic development in Korea and other East Asian countries both as a practitioner as well as an academician. After graduating from Waseda, she worked for Japan External Trade Organization (JETRO), and Long-Term Credit Bank Research Institute (LTCBR) before joining the faculty member of Aoyama Gakuin University and the University of Tokyo. She has engaged in many consultations for the government, including “Asia Gate Way Strategy Meeting” for Prime Minister Abe. She holds M.A. from Yale, and finished Ph.D. program at Waseda University. She has also studied at Korea Institute for Industrial Economics and Trade (KIET), Columbia University, and Korea University, as a visiting fellow.

Keynote Speech

The Global Economy: State and Prospects

Dennis SNOWER

President, Kiel Institute for the World Economy

The Global Economy: State and Prospects

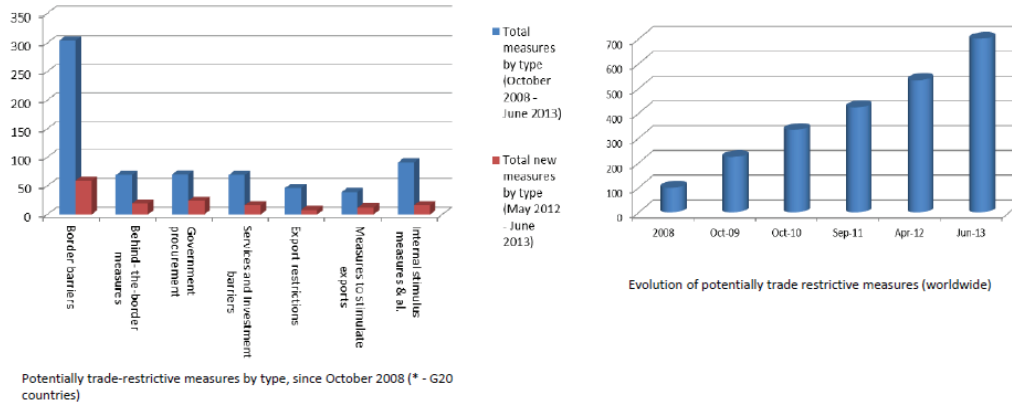
Dennis J. Snower
President, Kiel Institute for the World Economy
Institute for Global Economics: 20th Anniversary
Conference,
31 October 2013

The Globalization Slow-Down

- The declining role of world trade
- Selective protectionism
- Flows of goods and services, labor and financial capital

2

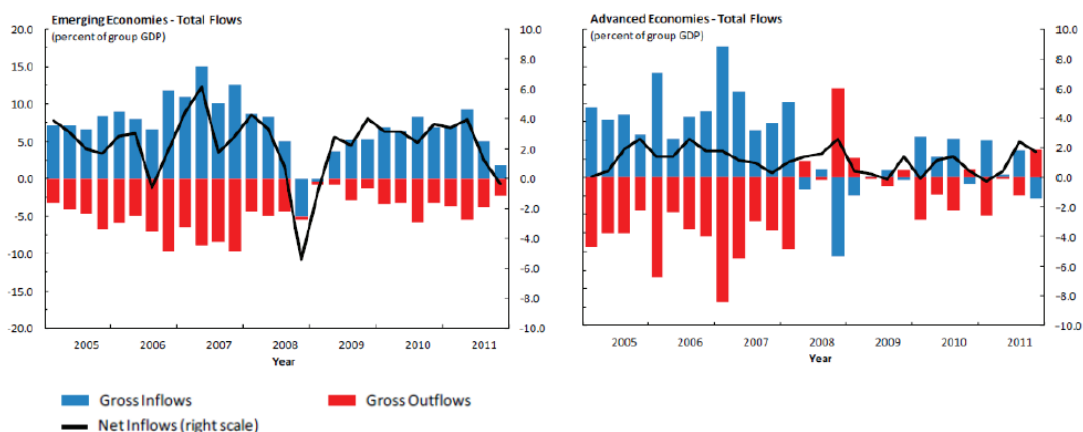
Protectionism



Source: Tenth Report on Potentially Trade-Restrictive Measures (2013), EU-Commission.

3

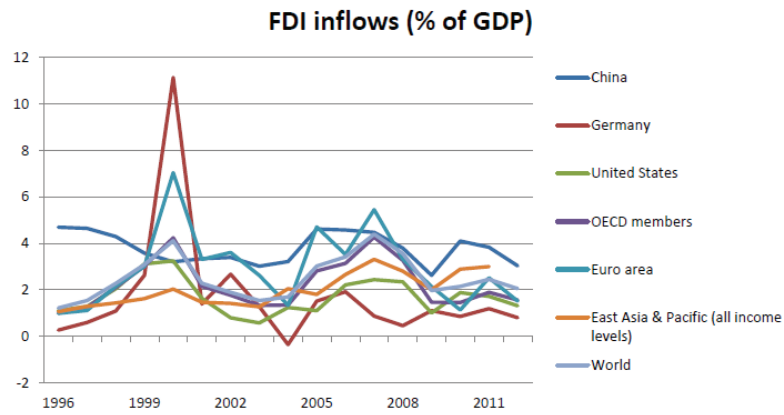
International capital flows



Source: Bluedorn et al. (2013), Capital Flows are Fickle: Anytime, Anywhere, IMF Working Paper 13/83.

4

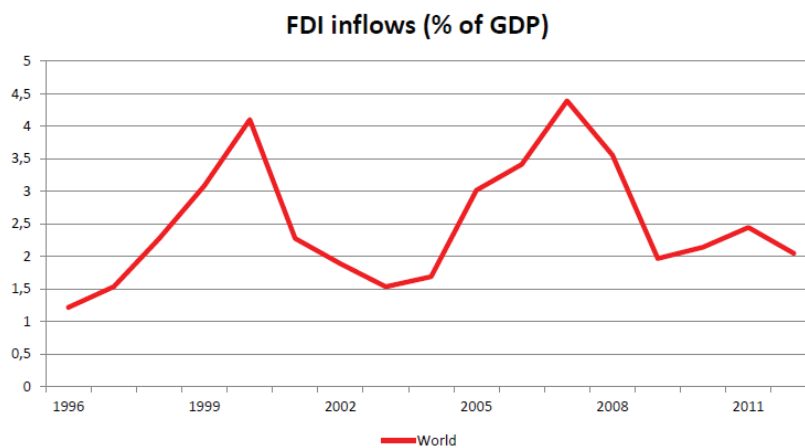
Foreign direct investment (selected regions)



Source: The World Bank, World DataBank

5

Foreign direct investment (only global data)



Source: The World Bank, World DataBank

6

Policy Challenges

- Fiscal policy sustainability
- Financial market sustainability
- Monetary policy sustainability
- Sustainability of growth

7

Presenter

The Global Economy: State and Prospects The U.S. Economy

Edwin TRUMAN

Senior Fellow, Peterson Institute for International Economics



The Global Economy: State and Prospects

The U.S. Economy

Edwin M. Truman

Senior Fellow

With thanks to David J. Stockton

Major Economies Under New Leadership

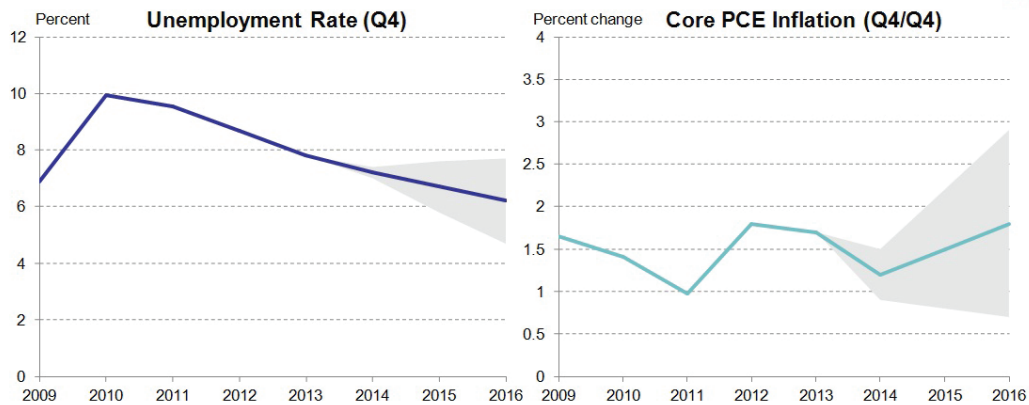
Institute for Global Economics

Seoul, Korea

October 31, 2013

Peterson Institute for International Economics | 1750 Massachusetts Ave., Washington, DC 20036 | www.piie.com

Slow Improvement



Forecast	2012	2013	2014	2015
Real GDP Growth (Q4/Q4)	2.0	1.9	2.9	3.2
Unemployment (Q4)	7.8	7.2	6.7	6.2
PCE Price Inflation (Q4/Q4)	1.7	1.2	1.4	1.7
Core PCE Price Inflation (Q4/Q4)	1.7	1.2	1.5	1.8

Note: Gray-shaded areas represent 70% confidence bands. ¹

Forecast Comparison

Forecast	2012	2013	2014
Real GDP Growth (Q4/Q4)			
Stockton (Oct. 2013)	2.0	1.9	2.9
FOMC (Sept. 2013)	2.0	2.1	3.0
<i>FOMC (Dec. 2012)</i>	1.8	2.7	3.2
WEO (Oct. 2013)	2.0	1.9	3.0
Inflation (Q4/Q4)			
Stockton – PCE deflator	1.7	1.2	1.4
FOMC – PCE deflator	1.7	1.1	1.6
<i>FOMC (Dec. 2012)</i>	1.6	1.6	1.7
WEO – CPI	1.8	1.2	1.7

2

The Global Outlook

WEO Forecast	2012	2013	2014
October 2013	3.2	2.9	3.6
September 2012	3.3	3.6	4.2
October 2011	4.0	4.5	4.7
October 2010	4.5	4.6	4.6
Change 2013-2010	-1.3	-1.7	-1.0

NOTE: IMF staff appear to have revised estimated potential global growth potential **down by about 1.0 percentage point**, somewhat more for EMDCs.

3

U.S. Fiscal and Monetary Policies



Fiscal policy

- Fiscal restraint continues at a reduced pace

Monetary policy

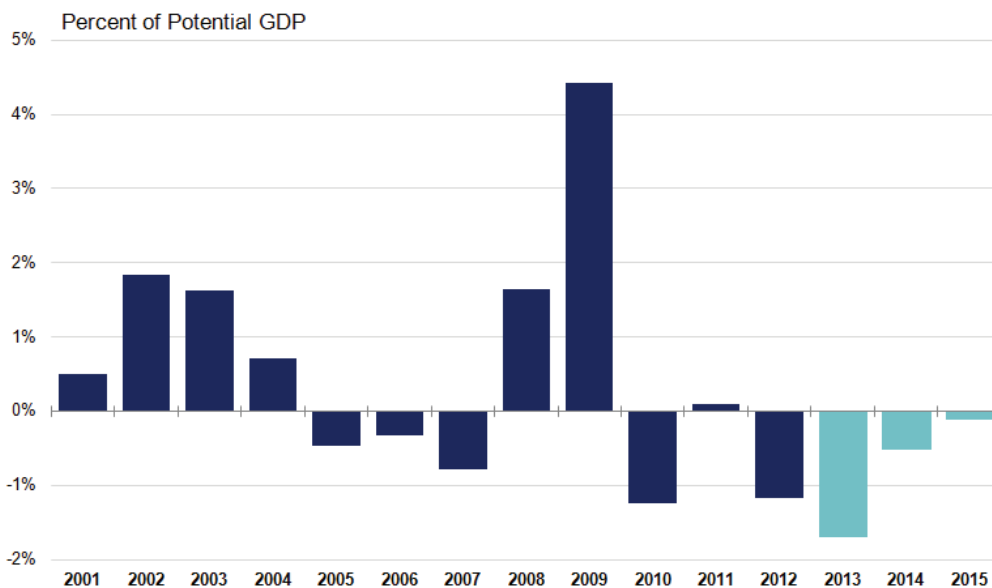
- Provides an offset that will be tapered in due course

US Congress

- Remains in unfortunate gridlock

4

Fiscal Drag Beginning to Wane



5

Fiscal Dysfunction Remains



Government Shutdown

- Reduces Growth in 2013:Q4 (at an annual rate) *
 - -0.3 percent for a 2-week shutdown
 - **-0.5 percent for a 3-week shutdown**
 - -0.7 percent for a 4-week shutdown
- Growth boosted by roughly same amount in 2014:Q1

The Debt Ceiling

- A binding debt ceiling would have imposed immediate and substantial fiscal restraint
 - Financial volatility and heightened uncertainty
 - Depressed household and business confidence
 - A major, global macro systemic event

The Drama could be repeated but with low probability

*MacroeconomicAdvisers Estimate

6

US Fiscal Dysfunction: Long-Run Consequences?



1. Not positive for the United States or the world
2. The evolution toward a more multicurrency financial system is continuing
3. The events of October 2013 gave this trend a modest boost
4. But most of the contemporary complaints were defensive and devoid of content
5. A “de-Americanized” world and financial system will emerge, but it is an open question whether it will be an improvement

7

Monetary Policy

Asset Purchases

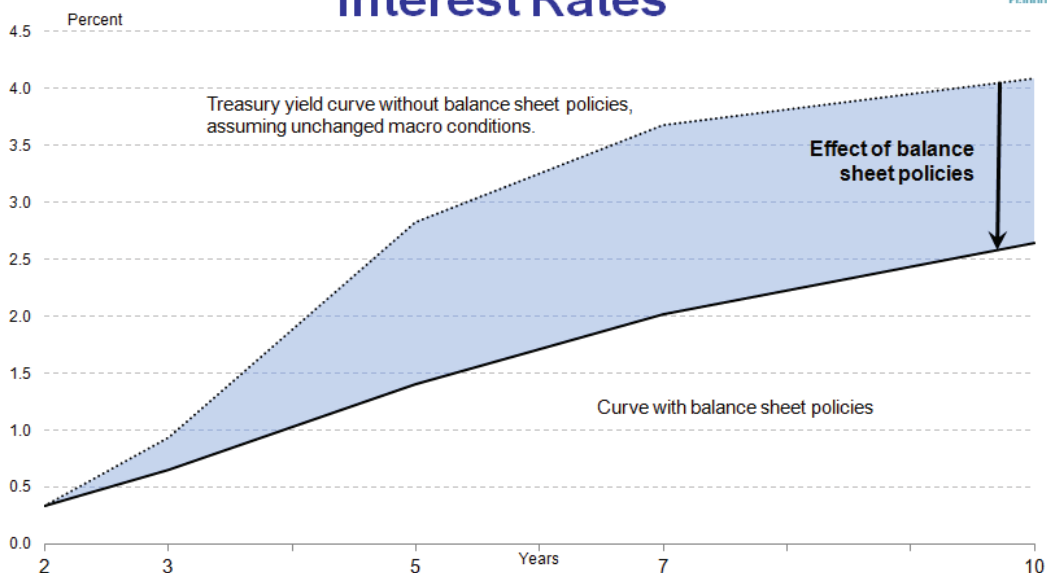
- Asset purchases will be scaled back gradually, with purchases ending by the end of 2014.
- **QE3 purchases will total somewhat more than \$1.5 trillion.**
- Assets will not be sold, but will be allowed to gradually run off the Fed's balance sheet.

Federal Funds Rate

- FOMC thresholds for a rate hike:
 - Unemployment rate goes below 6.5 percent,
 - Inflation one to two years ahead is projected to exceed 2.5 percent.
- **In the Stockton forecast, unemployment crosses 6.5 percent in Spring 2015.**

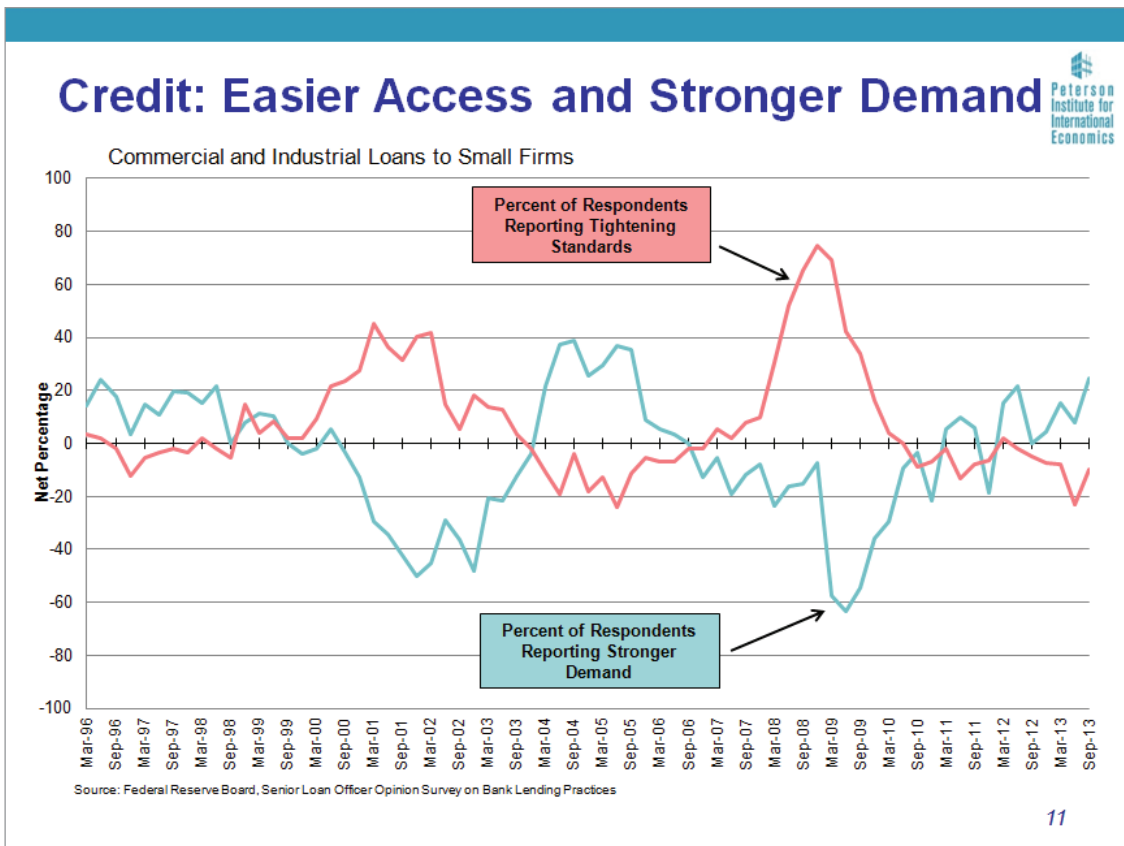
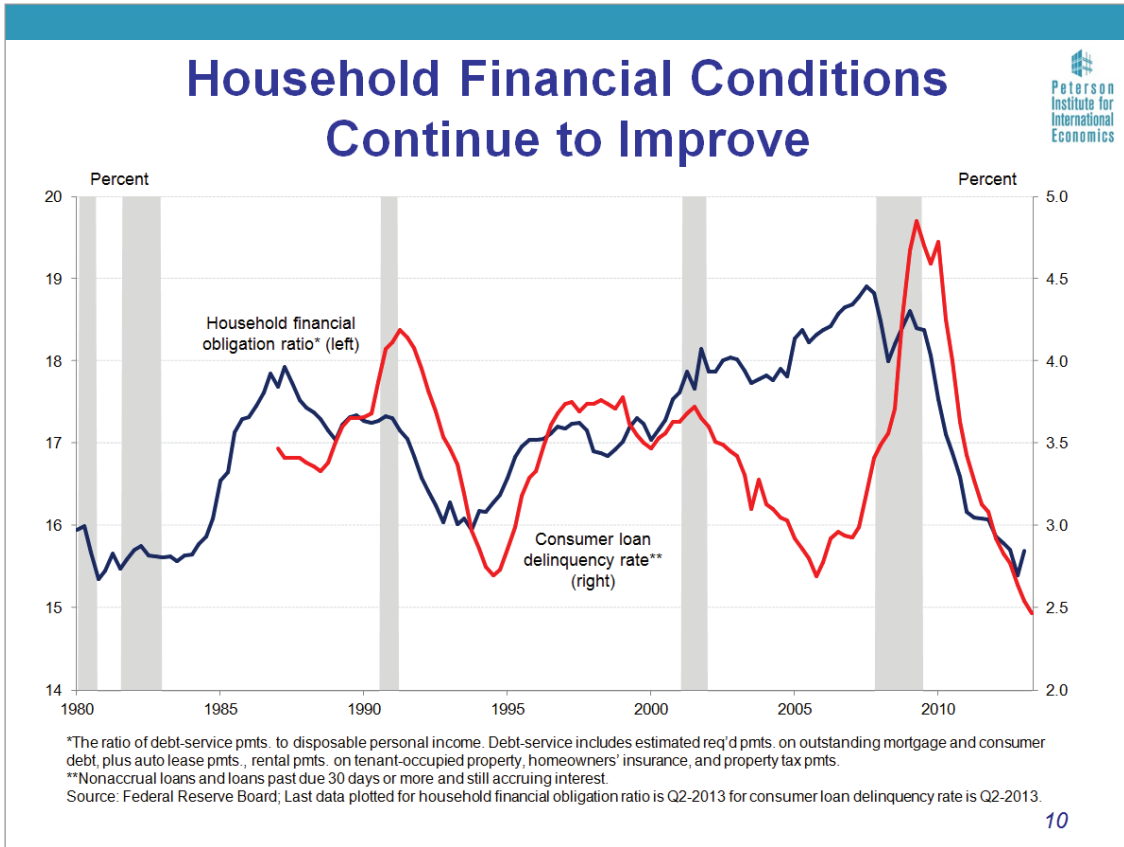
8

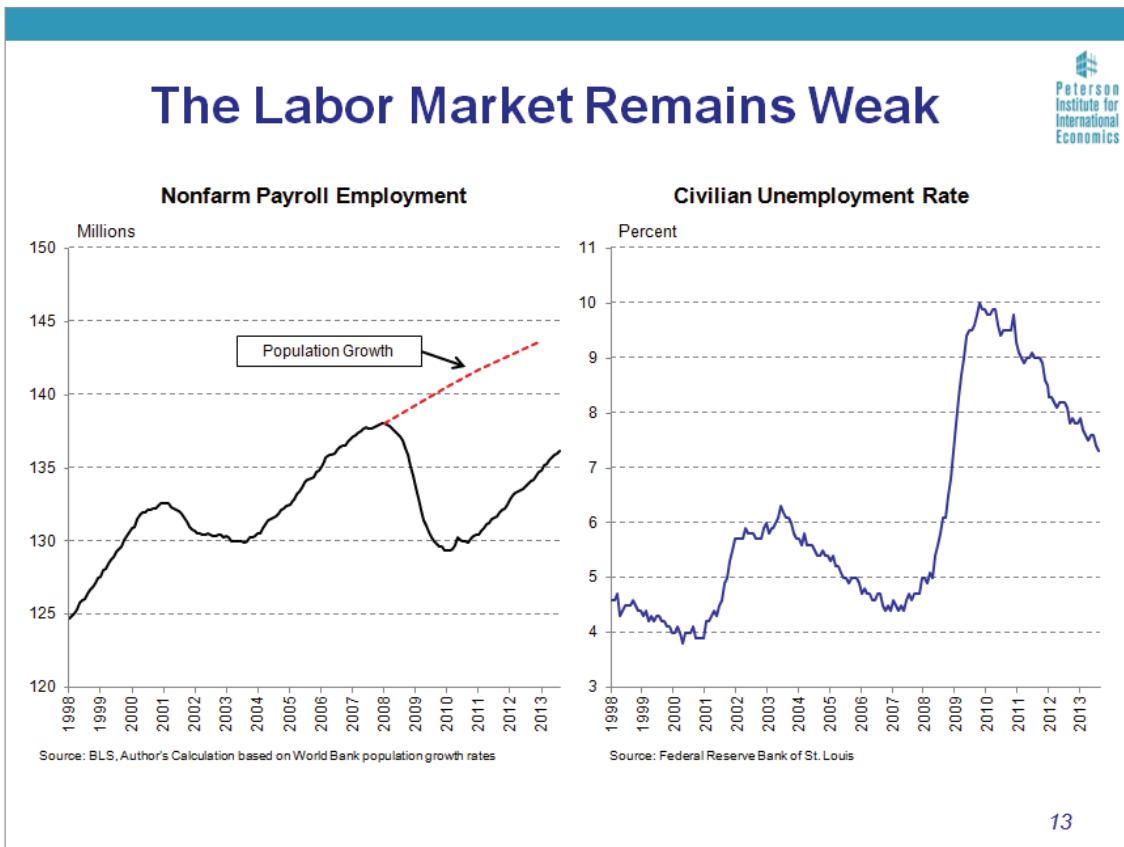
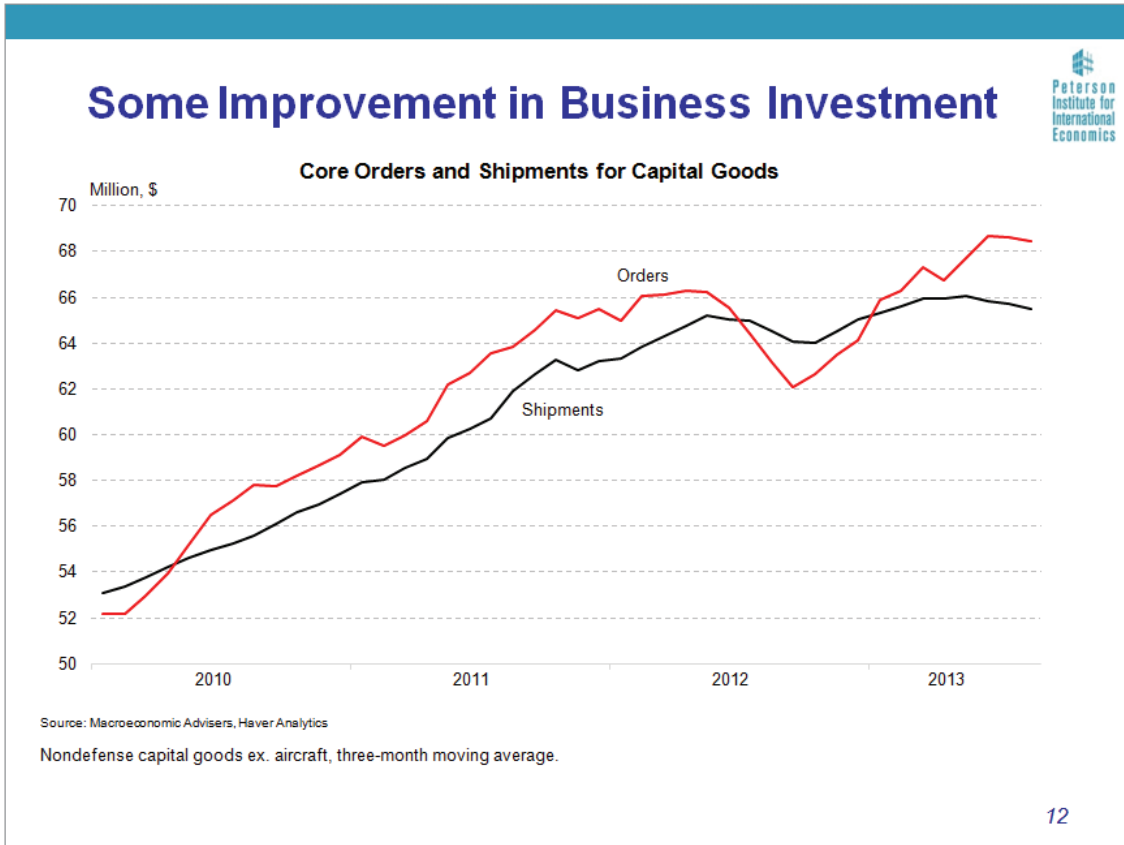
Balance Sheet Policies Have Lowered Interest Rates



Sources: Macroeconomic Advisers. Note: Par yield curve.

9





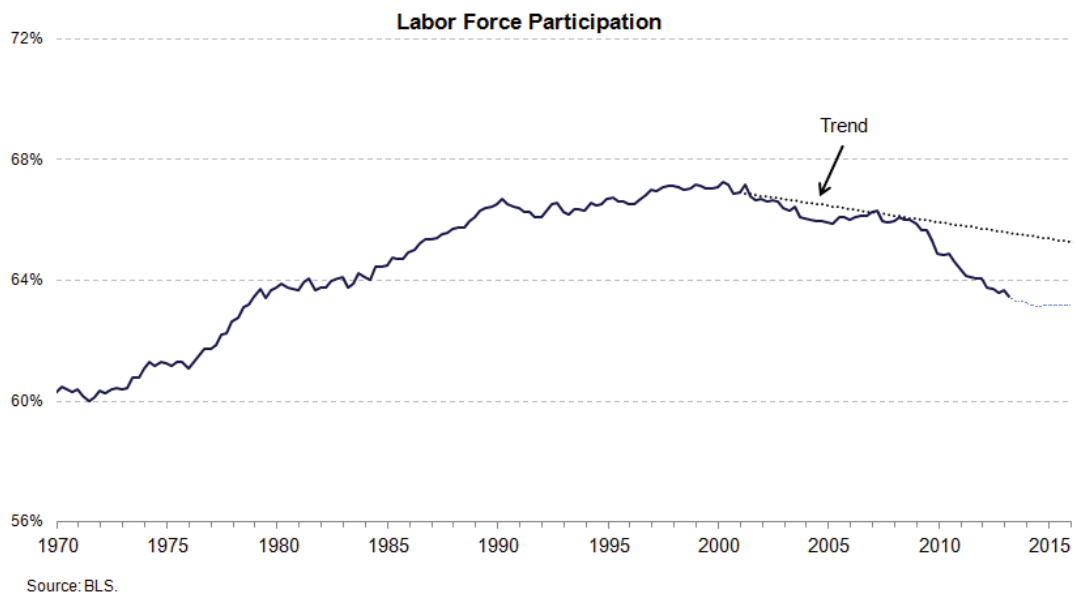
Has Structural Unemployment Increased? A Reason to be Concerned



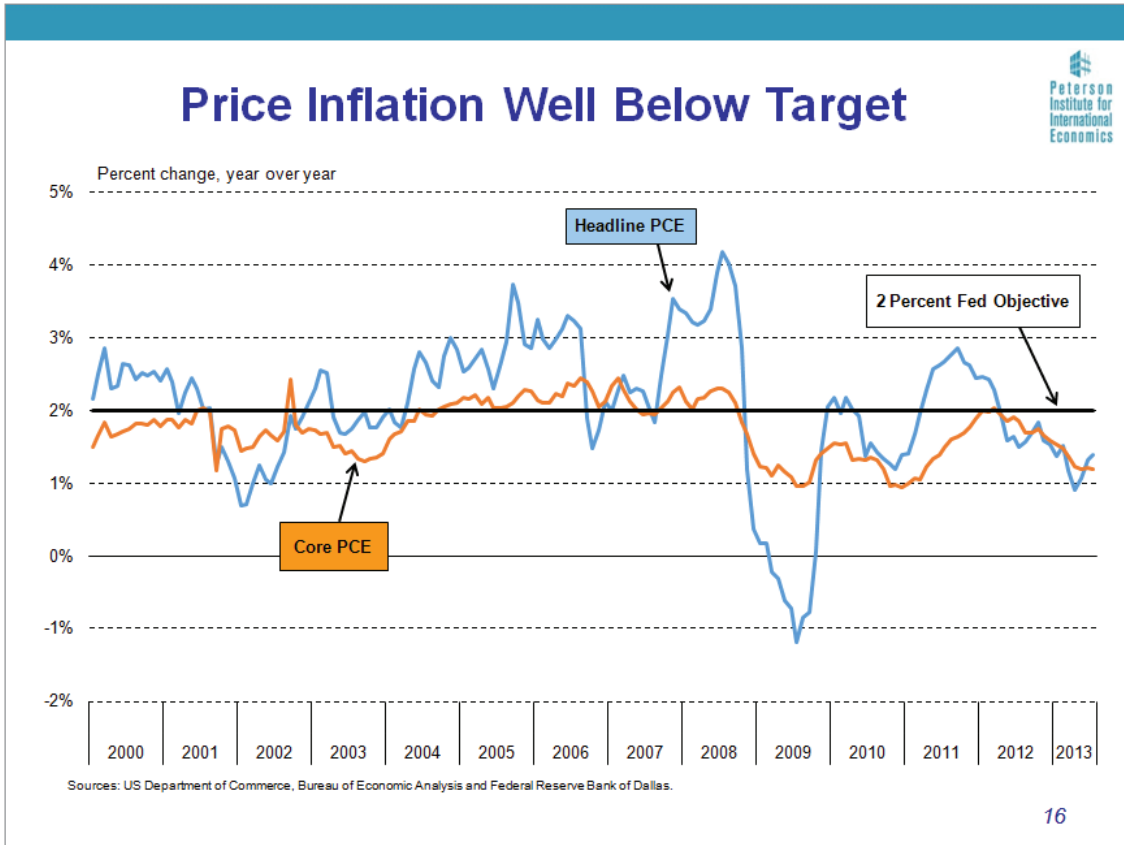
- Deterioration of job skills
- Weakening attachment to labor force... reduced intensity of job search

14

The Decline in Labor Force Participation: Both Secular and Cyclical

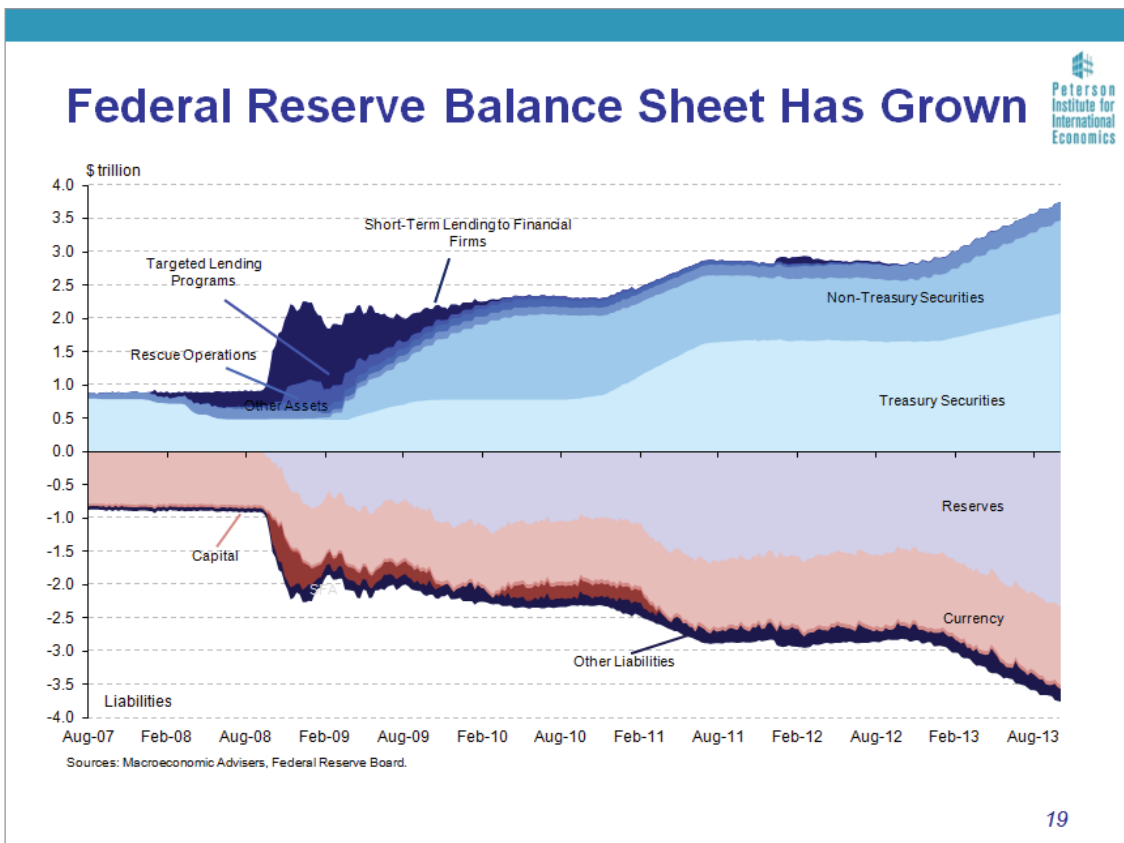
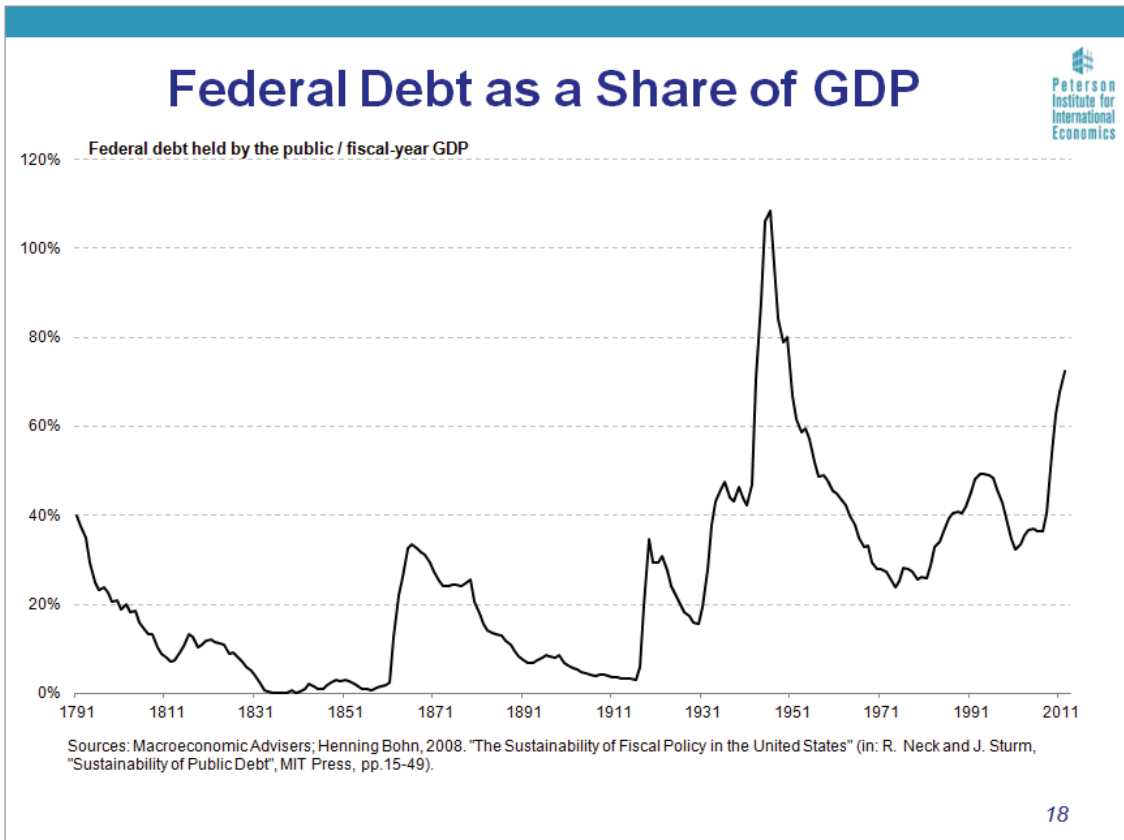


15



Three Challenges Ahead for the United States

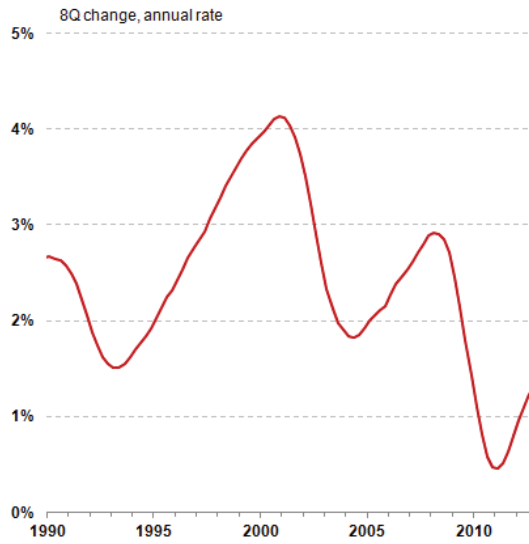
17



Productivity Has Slowed

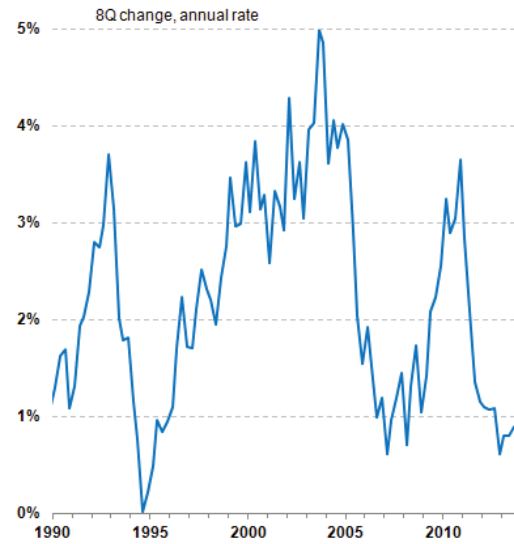


Growth of the Business Capital Stock



Source: Haver Analytics

Growth of Nonfarm Business Labor Productivity



Presenter

Waiting for the Uncertainty to Resolve

Jianguo XU

Associate Professor, Beijing University

Waiting for the Uncertainty to Resolve

Jianguo Xu*

National School of Development
Beijing University

October 31, 2013

Abstract

China economy is slowing down from hyper growth. This is because the earlier period has stolen some growth from the later period and possibly from the future. The earlier period also creates and leaves unsolved problems. The change of leadership increases the uncertainty in economic reform and business activities. Understanding the economic forces underlying future change may help resolving the uncertainty that hang over.

1. Stealing of Growth from Future

Figure 1 shows the China GDP growth from 2000Q1 to 2013Q2. The sudden plunge and fast recovery of growth in 2008 and 2009, the V-shaped turnaround, is probably the most eye-catching observation. However, the more important observation another inversed V shape turnaround in growth rate: the upward trend from 2000 to 2007 and the downward trend afterwards. At its very top, the GDP growth rate is an astonishing 15%. It quickly decreases to 7.5 in 2012Q2. The inversed V-shape is slightly clouded by the V-shape turnaround in 2008-2009, but it is still very obvious. To understand future evolution of China economy, we must understand this turnaround in growth trend, especially the fast slowing down since 2007:Q2.

My starting point is a simple average of the long run growth rate. If we calculate the growth rate from 2000 to 2012, it is around 10%. It is a large number but not an astonishing number, especially that we have similar numbers from the earlier experience of Japan and Korea. So one way to look at the strong pattern is that the

* Preliminary draft. Comments welcomed. Email: jgxu@nsd.pku.edu.cn. Phone: 86-10-62759293. Postal: National School of Development, Beijing University, Beijing, China 100871.

former half has stolen the growth from the second half. Since the long run growth rate is determined by the production side, which is constrained by factor endowments and productivity growth, the faster growth in the first half period lead to slower growth in the second half period.

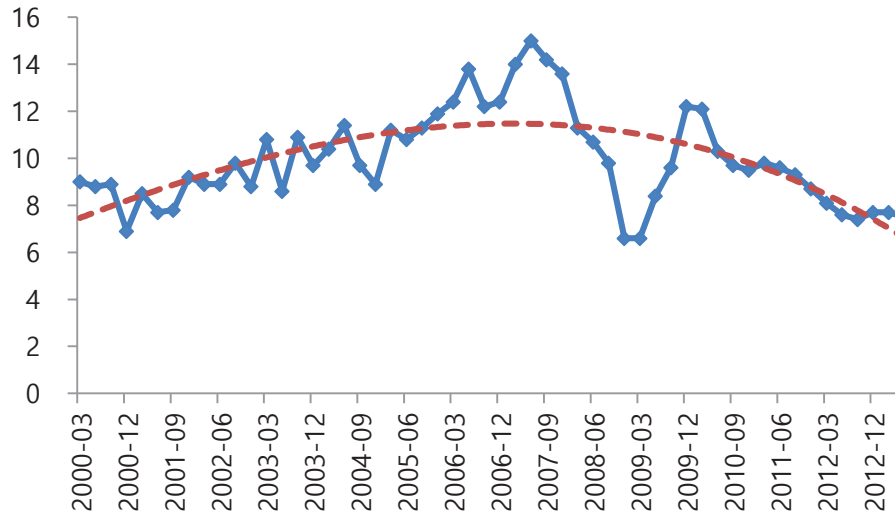


Figure 1: China GDP Growth Rate: 2000 Q1-2013Q2.

Two thieves are mainly responsible for the stealing. The first is exchange rate. After fast improvement in productivity since late 1990s, there has been an upward pressure on RMB exchange rate. RMB appreciation is delayed until 2005 and is conducted in a controlled, gradual manner. Consequently, RMB is undervalued for quite some time by quite large a margin, which leads to large amount of net export (Figure 2). This contributes to fast GDP growth in the 2004-2007 period.

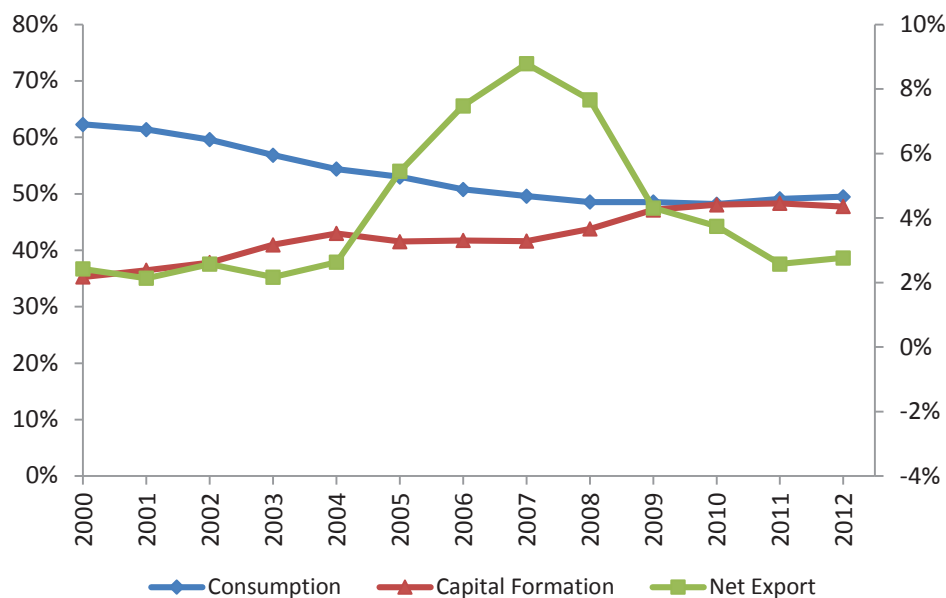


Figure 2: Share of Consumption, Investment, and Export in GDP (2000-2012).

The second thief is the low or even negative real interest rate. If we look at the fast growth period from 2003 to 2012, the average real interest rate on one-year deposit is -0.4%. The average 1-year loan rate is 2.8%. The low real interest, together with improvement in productivity, contributes to a high rate of return to capital (Figure 3). Consequently, the investment share in GDP increases (Figure 2). In recent years, the investment share in GDP is around 50%.

In fact, when the real loan interest rate is negative such as during the high inflation period of 2007-2008, it effectively implies an arbitrage opportunity to whoever can borrow money. This is one key reason credit constraint is imposed. When the real interest rate is negative, the potential demand for money is infinite. Credit constraint such as loan quota and high reserve ratios must be imposed.

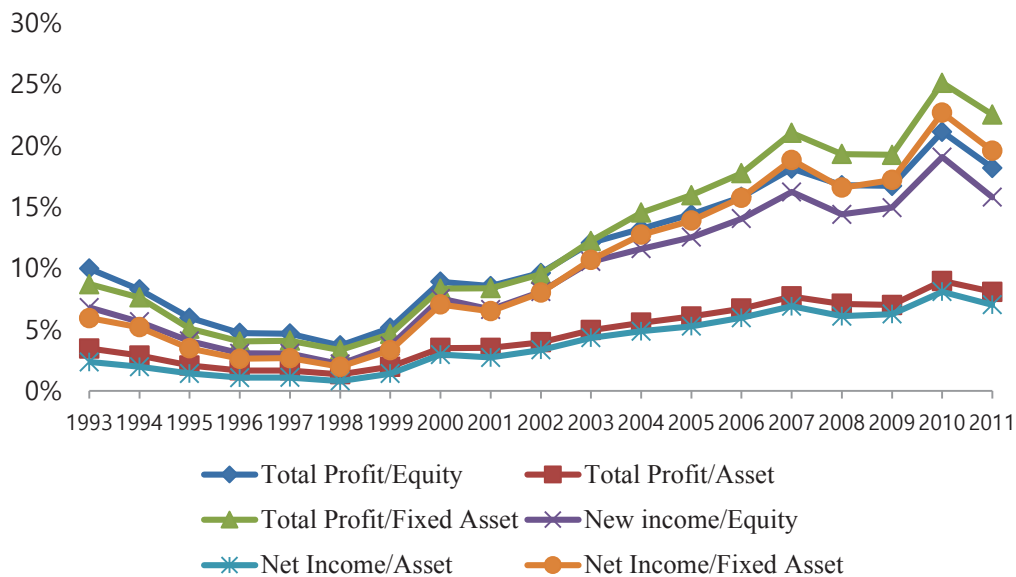


Figure 3: Capital return in China (1993-2011).

When there are two big thieves, we cannot expect the growth to be stable, balanced, coordinated, or sustainable. It has to be noted that the two big thieves are to a large extent our warmly invited guests. It is us who host them so happily. We enjoyed the fast growth earlier. Now we have to face their leftovers, including but not limited to, decreasing growth rate, distorted income distribution, redundant production capacity, and most devastatingly, terrible pollution and resource exhaustion. Corruption is also a related phenomenon.

That the growth is unstable, unbalanced, uncoordinated, and unsustainable has long been recognized. The above four words are actually borrowed from the former premier

Wen Jiabao. Unfortunately, the former leadership has not been able to done very much to solve the problem. If anything, the appreciation of RMB beginning in 2005 is probably the most substantial reform during the earlier 10 years. Although it came much later than expected by many observers, it finally happened. With the exchange rate approaching a much more reasonable level, the economic structure will adjust accordingly.

2. The Supply Side

The slowing down can also be understood from the production side. The hyper growth is largely driven by the manufacturing and construction sector (figure 4). When net export and investment slow down, these two sectors will slow down. A larger part of growth will depend on the service sector. Naturally, the service sector grows slower than the secondary sector. Therefore, the overall growth rate will be significantly lower.

We can examine the supply side of the economy a bit more closely. The share of the primary sector decreases steadily from 27% in 1990 to about 10% in 2012. The decrease in the primary sector is compensated by the increases in the secondary (manufacturing and construction) and tertiary sectors. The short-term fluctuations in these two sectors are largely due to changes in real effective exchange rate (REER), such as during 1993-1996 and 2003-2006. During these periods, the REER of RMB depreciates and the share of manufacturing sector increases.

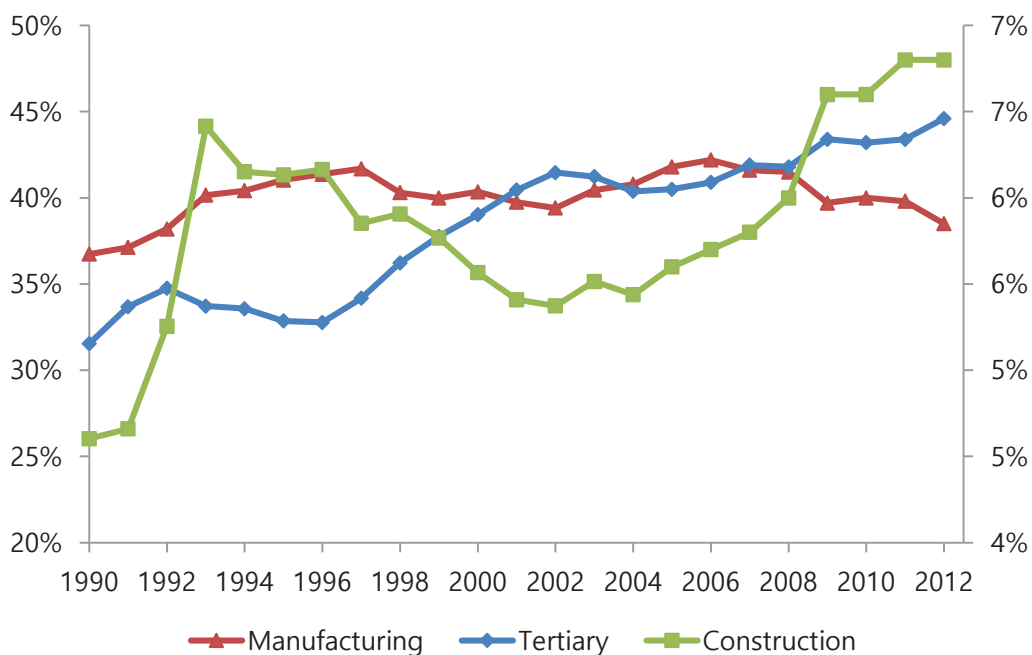


Figure 4: Manufacturing, Construction, and Service Sectors in GDP (%)

The contrast between manufacturing and construction after 2008 is interesting. The share of construction increases quickly in recent years after 2008. This is in clear contrast with the declining of manufacturing sector. It seems that the large-scale economic stimulus in 2008-2009 has been much more effective on the construction sector than on the manufacturing sector. The decline in the manufacturing sector coincides with the global recession. It also happened after significant RMB appreciation since 2005. If not for the increases in construction, the performance of the economy will be even worse.

3. The Prolonged Waiting

The economic life in China since 2011 is best characterized by “waiting”. From 2011, people are waiting for the 18th National Congress of the Communist Party of China (CCP). After the meeting, the new leadership has not been very clear about what reform measures will be taken. Then people begin to wait for the Third Plenary Session of the 18th Central Committee of CPC forthcoming in November 2013. However, it has been said that this meeting will only lay down general principles rather than concrete policy measures. For concrete policy measures we will have to wait until the Central Economic Work Conference, which will be held early next year.

The long waiting is due to two reasons. First, the government still has very strong influence on the economy. People are waiting for the policy orientation to become clearer to make business decisions, especially investment decisions. Examples of such governmental influence on economy include governmental approval of major (investment) projects, strong control of key factor supplies and factor prices. Despite more than 30 years of market oriented economic reform, key production factors and prices are still controlled or strongly influenced by the government, such as interest rate, exchange rate, land supply, energy price, and water price. Pollution control does not have an explicit price, but obviously government plays an important role here. Further changes in these areas often mean business opportunities, or evaporating of them.

Second, the problems facing the economy have become more complicated. The overall size of the economy is much bigger than earlier. The interaction of different economic activities and sectors becomes more complicated. It takes time to figure out the policy measures, their consequences, side effects, etc. Nested interest groups and other political obstacles will further complicate the path of reforms. At this moment, we have to be patiently waiting for the uncertainty to resolve.

The good news is that the service sector begins to pick up quickly since 2006. In the sense of Granger causality, we can say that RMB appreciation causes the increase in the share of tertiary sector in GDP. The implication is that the significant change in RMB has been causing changes in the economic structure. This can also be seen in Figure 2, in which we can see that the consumption share in GDP has stabilized since 2008. However, since the service sector naturally grows slower, it also means that future natural growth rate will be lower.

4. Driving Forces of Future Changes

While waiting, it is meaningful to figure out possible paths of future evolution. Toward this end, we need to examine the key forces underlying future changes.

The fundamental source of China's growth is the market-oriented reform. The release of market power from central planning and governmental control is underlying all the economic miracles China has achieved so far. Future economic achievements will also be due to the release of market power from the reins of government controls. Here are some important areas that deserve attention.

First, land tenure reform. The current land tenure system is characterized a dual system. Urban lands are state owned. The usage right can be transferred. Rural lands are collectively owned by village members rather than by individuals in the villages. Their rights cannot be transferred easily to people outside the village unit. When cities expand, local governments expropriate rural land at prices much lower than urban land. The income from selling rural land to urban developers constitutes a large proportion of local government income, often referred to as land fiscal income or even second fiscal income in the recent past.

Land fiscal income has played an important role in China's development in the recent past, especially when the share of local government in fiscal income is significantly reduced while their expenditure has not. Effectively, land income has helped financing of China's city expansion. I do not use the word urbanization because it is not exactly the usual sense of urbanization, which refers to the clustering of people into cities.

However, the side effects have also been significant. The dual land system exploits the rural residents, increases urban-rural inequality, and causes social instability. All these

effects have been intensively discussed. In addition, the segmentation of urban and rural factor markets is probably equally if not more fundamental. Land usage is wasteful when local governments can sell other people's land (rural collective land). Ghost cities best illustrates such wastes. The effective supply of land is limited such that the price is artificially elevated. Accessibility of land resource for normal commercial and residential developing is limited. Rural land is also inefficiently employed because they cannot be transferred to those who can use them most efficiently. A dominant large proportion of agriculture land is still operated by households who cannot profit from scale economy. The rural collective owning system also impairs labor mobility. Rural residents still stick to the land for the fear of losing their land, which is an important part of their property income.

One possible direction for future reform is to break the rural collective land owning system. According to this line of argument, rural land should be divided to rural households and allow them to sell the land to urban residents and developers. An urban-rural uniform land market should be developed. The market mechanism should play a dominant role on land usage. A complete land titling process should be conducted for the land market to function well.

Such a reform will be critical for further urbanization, which ideally should be characterized by clustering of people into cities and release of their land to more efficient usage by specialized farmers and agricultural companies. Such a process will be accompanied by further labor specialization, productivity improvement, and income growth. The reform of the Hukou system, if accompanied, will further improve labor mobility. More infrastructure investment will be demanded when people move to larger cities. Besides, because the consumption propensity of rural households is still high, the potential demand for traditional manufacturing goods will be large. The traditional manufacturing sector of the economy still has some profitability space if they transform their production capacity for domestic demand.

Second, overseas direct investment (ODI). The accumulation of large amount of foreign reserves is another big side effect of the former exchange rate depression. Right now China's foreign reserve has accumulated to an astonishing 3.66 trillion USD. Such a huge reserve will have some effects on future development.

One possibility is that overseas direct investment (ODI) may speed up when the international purchasing power of RMB becomes much larger than earlier and domestic

Institute for Global Economics 20th Anniversary Conference


entrepreneurs seek overseas opportunities. This is also a desirable diversification of China's foreign reserve when the value of dollar and euro are not so stable. If China's ODI is successful, it can lead to another round of globalization that re-shuffles the global production structure.

For successful ODI, the capital control has to be somewhat loosened for timely international business operations. This is probably a driving force for China's capital account liberalization.

Presenter

The Global Economy: State and the prospects The Japanese Economy

Yukiko FUKAGAWA
Professor, Waseda University



The Global Economy: State and Prospects

The Japanese Economy

Yukiko Fukagawa
Waseda University

Institute for Global Economics
Seoul, Korea
October 31, 2013



Outline

- .ABEconomics since April, 2013
- .Political change
- .Early success
- .Skepticism (1): Fiscal Sustainability
- .Skepticism (2): Growth Strategy
- .Skepticism (3): Political Distraction
- .Temporary conclusion

ABEnomics since 2013

.The Package of Three Arrows

Arrow 1. Monetary easing (Inflation targeting & QQE)

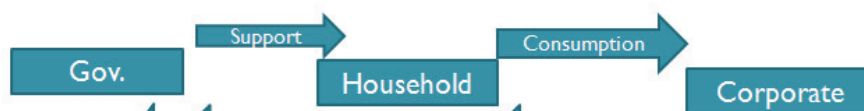
Arrow 2. Fiscal stimulus (2013Q1-Q2)+
VAT rate increase (Apr.2014)

Arrow 3. Growth policy (Serious reform and deregulations)

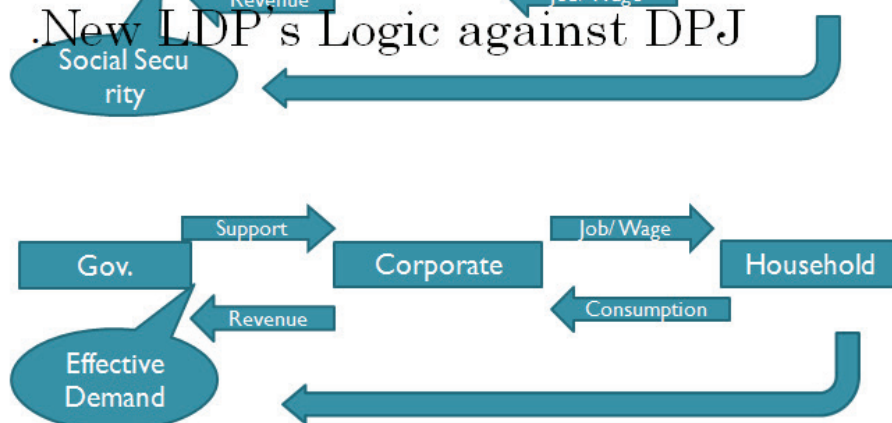
⇒ **Jump from deflationary trap to normal equilibrium**

Political logic of “Abenomics”

.DPJ’s Logic against LDP



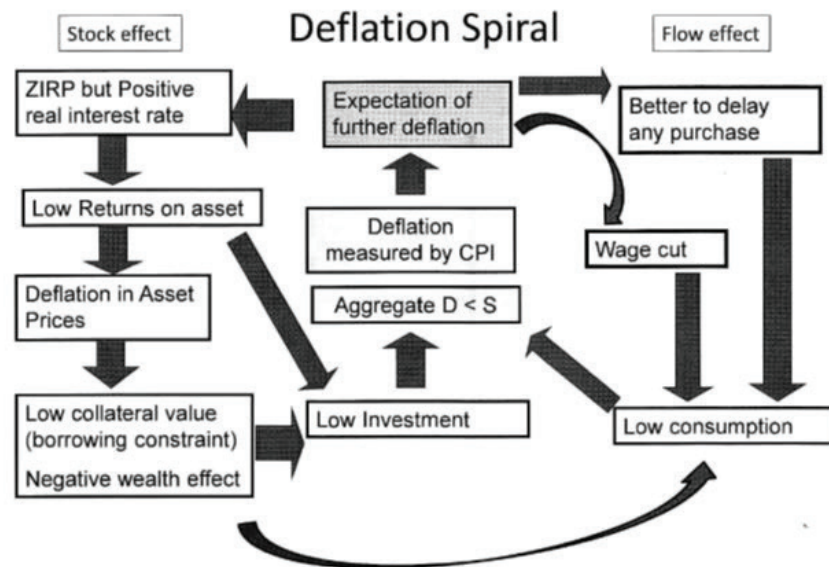
.New LDP’s Logic against DPJ



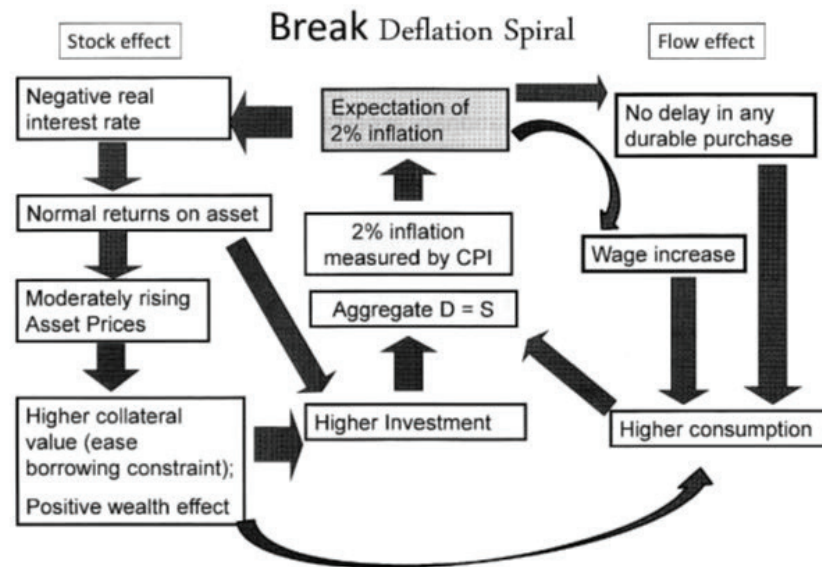
Arrow 1: Fighting back against the Deflationary Trap

- .Deflationary spiral (1998-2013)
(BOJ failure, Political environment)
- .Deflation discouraged I and C
- .Supply > Demand gap continued
- .Devastating appreciation of Yen
- .Wage declined
- .Prevailing deflationary expectation

Deflationary Trap (Ito(2013))



Breaking the Trap (same as the previous slide)



Arrow 2: Fiscal Stimulus and Consolidation

- .Short-term stimulus + Mid-term Consolidation (VAT rate ↑)
- .Stimulus (2013Q1-2) : “Resilience” against natural disasters
- .Decision to raise VAT (Oct. 2013): JGB by domestic holding (Household + Corporate)

Arrow 3: Growth Policy

Mid to Long-term Japan needs: Consumption and Investment, Productivity gains, Wage increases, Market-driven growth

The Direction: “Japan Revitalization Strategy”
(Jun.2013)

1. Private sector dynamics (Structural reform)
2. Mobilizing all human capital (Labor reform)
3. Create new frontiers (Innovation, SEZ, Healthcare, Energy and Environment, Agriculture, IT....)
4. Global outreach (TPP and other EPAs, SMEs..)

(1) Structural reform

- .Promoting business restructuring and reorganization
- .Stimulating investment (Corporate tax cut, Location advantage...)
- .Reforming venture capital and venture business
- .Promoting outbound and inbound FDI
- .Globalizing SMEs

(2) Mobilizing human resources

- .Enhancing labor mobility
- .Promoting labor participation by women
- .Diversifying working styles
- .Labor participation by elderlies and young generation
- .University reform and language education
- .Taking in foreign talents and skilled laborers

(3) New Frontiers

- .SEZ reform
- .Privatization, PPP/PFI, infrastructures
- .Location competitiveness
- .Streamlining public and quasi-public funds
- .New energy and energy distribution reform
- .Globalizing SMES and local firms
- .Deregulation creating the market: Healthcare, Agriculture, Tourism, Culture...

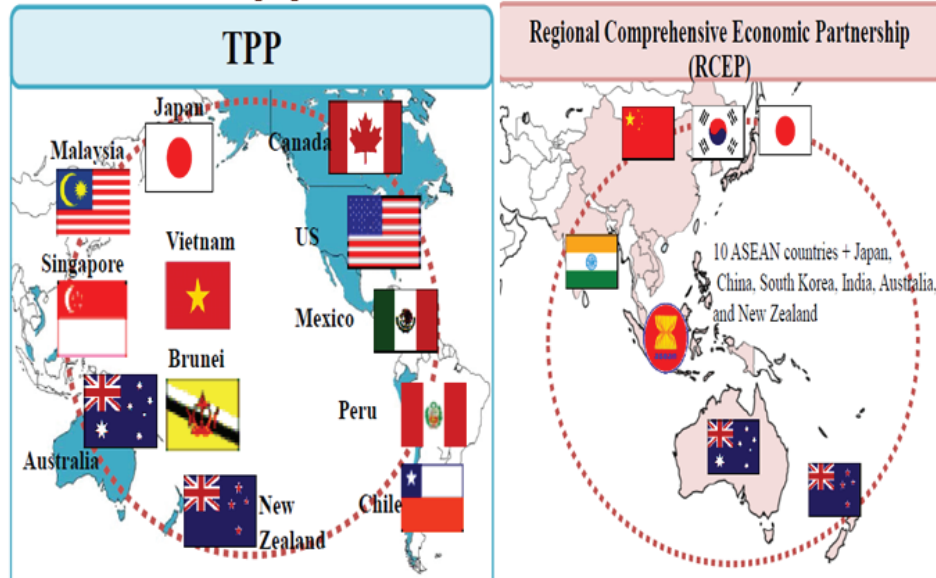
(4) Significance of Trade Policies

- .Competitive environment for Agriculture, Healthcare, SMEs and other Services in domestic market
- .Pluri-lateral and Comprehensive agreements for Global supply chains (Roo, Logistics, Enhancement, IPR, MRA...)
- .Participation in rule setting in FDI (ISDs), Competition policies, Movement of persons...

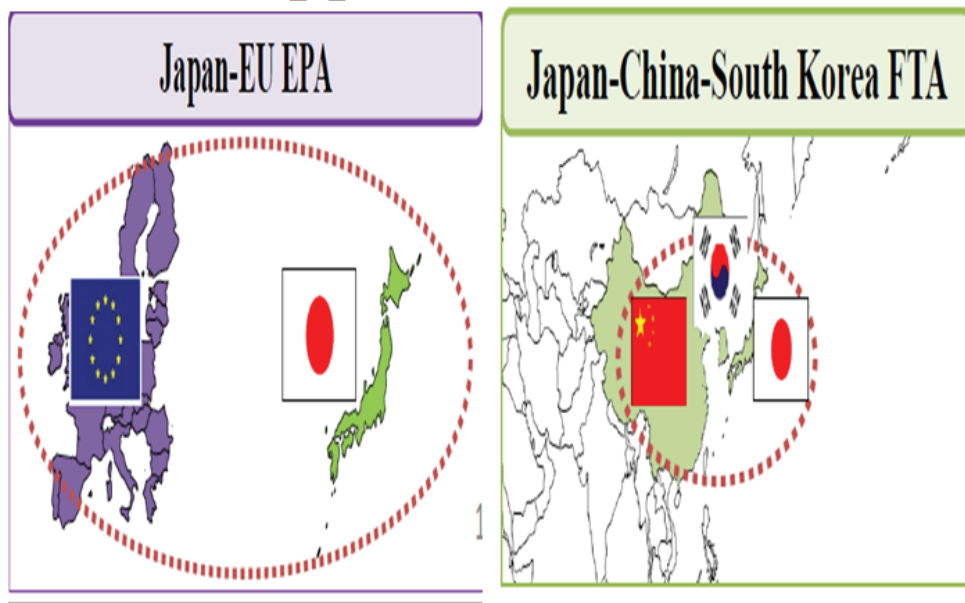
TPP as the break-through

- .Finally “High-standard FTA”?
- .Japan’s tariff lines: 9018
Sensitive sector lines: 586 (Rice, Wheat, Beef and Pork, Dairy products, Sugar)
- .Leverage for other FTAs: EU, RCEP, CJK
- .Economic pact with security/ Diplomatic context
- .Energy/Food security basis?

Catching-up FTA/EPAs: Pluri-lateral approach



Catching-up FTA/EPAs: Pluri-lateral approach (2)



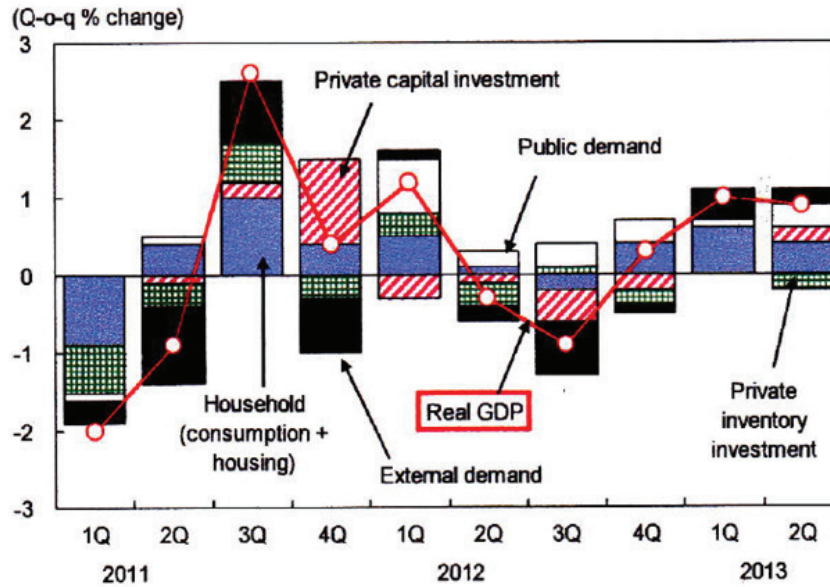
Early Success(1)

- .Rapid depreciation of Yen: ($\$=78\text{¥}$ to 98¥)
(Corrected over-appreciation as the safe haven)
- .Stock price hike
- .GDP picked up (1Q +0.6% q-o-q +2.6%, → 2Q+0.9%, +3.8%)
- .Stock price pushed private demand (Consumption, Investment,)
- .Positive cycle between C and I
(ex. Olympic 2020)

Early Success (2)

- .Economic agenda set by the initial success:
Energy plans, Export promotion, SMEs
- .Political commitment will be sustained
(Election in July)
- .Decision-making political basis/ Unfortunate
“Disciplines” for economic reform through
political frictions

Growth has come back....



Positive contribution for the Global Economy in 2013/14

(Y-o-y % change)

Calendar year	2011 (Actual)	2012 (Actual)	2013 (Forecast)	2014 (Forecast)
Total of forecast area	3.8	3.2	2.8	3.3
Japan, US, Eurozone	1.4	1.4	0.9	1.6
US	1.8	2.8	1.5	2.2
Eurozone	1.6	-0.6	-0.3	0.8
Japan	-0.6	2.0	2.0	1.6
Asia	7.5	6.1	5.8	5.8
NIEs	4.1	1.7	2.3	3.0
ASEAN5	4.4	6.1	4.9	4.9
China	9.3	7.7	7.4	7.2
India	7.5	5.1	4.5	4.7
Australia	2.4	3.7	2.5	2.8
Brazil	2.7	0.9	2.3	2.0
Russia	4.3	3.4	2.5	3.5
Japan (FY)	0.3	1.2	2.9	0.7
Crude oil price (WTI, \$/bbl)	95	94	101	96

(Source: IMF Forecast)

Skepticism (1): Fiscal Sustainability

.VAT increase: “This time is different from 1997”?
(EU experience, Accountability)

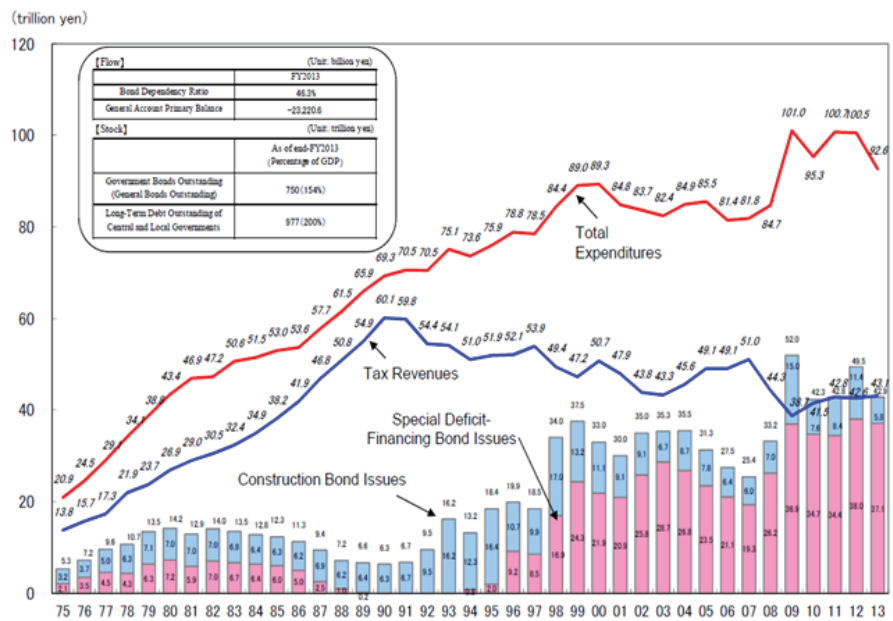
.Fiscal space for mid-term consolidation

.Going back to public works again?

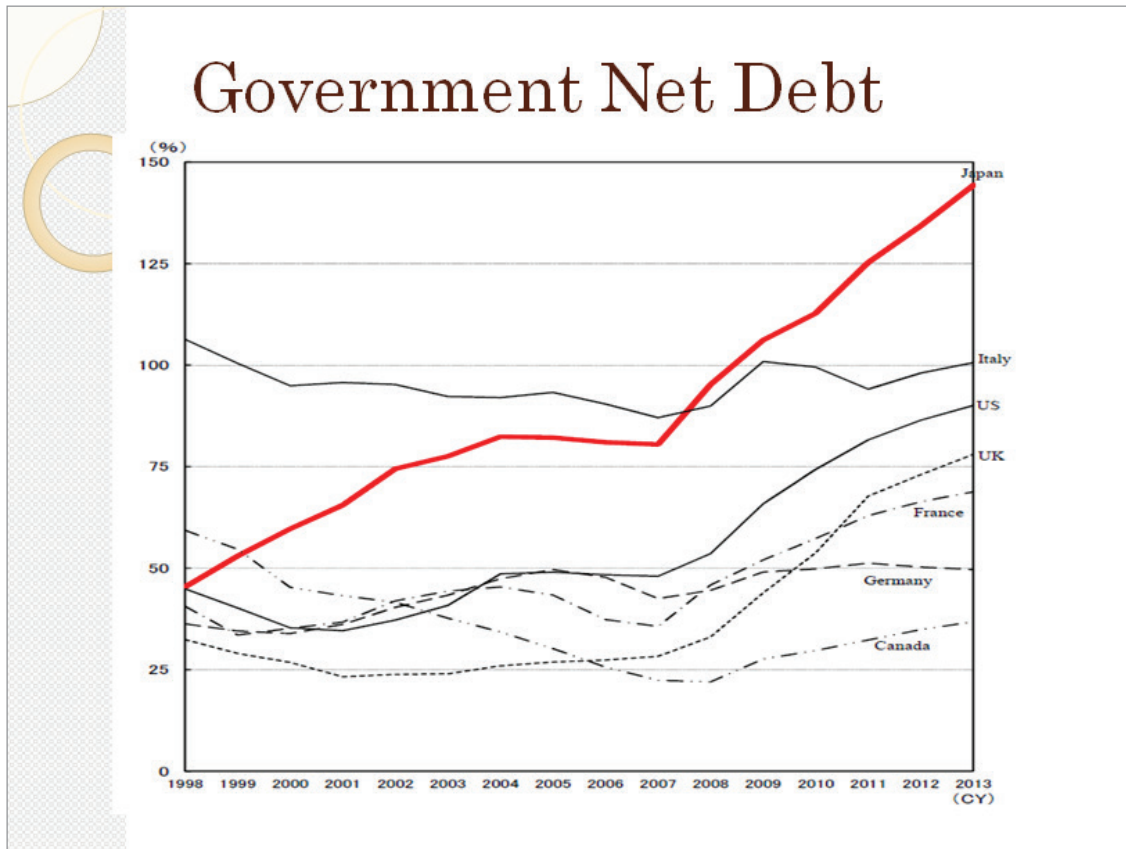
(Quick effects and supports, Heritage from Koizumi reform)

- ↳ DPJ’s failed experiences
- ↳ Controlling MOF?
- ↳ Social security cut debates

Japan’s Fiscal Condition



(Source: Ministry of Finance (Jan. 2013))



Skepticism (2): Growth Policy

.Full of vested interests: Agriculture, Healthcare, Construction, SMEs, Labor market....

.Bureaucracy never dies?

.Demographic pressures: Why do we have to do more?

- ↳ DPJ's failed experience
- ↳ Globalism, TPP and other outside pressures
- ↳ Integrated policies and sequences

Skepticism (2): Political Distraction

- .Coming back of egalitarianism?
(Corporate tax cut/ VAT increase)
- .Social security spending cut
- .Anti-globalism
 - ↳ Focus: Wage and Employment
 - ↳ DPJ's failed experience (Only communist party)
 - ↳ Exuberance for the “decision making politics”

Temporary conclusion: Muddle through until 2014

- .ABEconomics is working fine, so far
 - Arrow 1 was right in the target
 - Arrow 2 works fine in the short run
- .Significance of “Normal” equilibrium for growth:
Market will function
- .Focus will shift into Arrow 3:
 - (1) Ready to realize the long list of ideas:
JUST DO IT!
 - (2) Market pressures: TPP as the start
 - (3) Sense of deadline: Demographic change

Special Address

Sang-Jick YOON
Minister of Trade, Industry and Energy

Special Address

Biographies



Sang-jick YOON is a Minister of Trade, Industry and Energy in Republic of Korea. In 2000, he joined Ministry of Commerce, Industry and Energy (MOCIE) in Korea and served as a Director of Export, Digital Electronics Industry, Foreign Investment Policy, and Industrial Policy Divisions. From January 2005 to January 2006, he was an Assistant Secretary to the President for Industrial Policy at the Office of the President. Between August 2007 and February 2008, he worked as a Director General of the Presidential Committee on Northeast Asian Cooperation Initiatives. In March 2008, he joined the Ministry of Knowledge Economy (MKE) in Korea whose name is now changed into the Ministry of Trade, Industry and Energy. Minister Yoon was a Standing Commissioner of Korea Trade Commission from August 2009 to February 2010. Most recently, he served as a Vice Minister for Industry and Technology at the Ministry of Knowledge Economy (MKE) from May 2011 to March 2013.

Session 3 The Future of Global Trade

Presenters

Jeffrey SCHOTT

(Senior Fellow, Peterson Institute for International Economics)

Miaojie YU

(Associate Professor, Beijing University)

Moderator

Tae-Ho BARK

(Former Minister for Trade of Korea)

Discussants

Yukiko FUKAGAWA

(Professor, Waseda University)

Nakgyoon CHOI

(Senior Research Fellow, Korea Institute for International Economic Policy)



Jeffrey SCHOTT joined the Peterson Institute for International Economics in 1983 and is a senior fellow working on international trade policy and economic sanctions. During his tenure at the Institute, Schott was also a visiting lecturer at Princeton University (1994) and an adjunct professor at Georgetown University (1986–88). He was a senior associate at the Carnegie Endowment for International Peace (1982–83) and an official of the US Treasury Department (1974–82) in international trade and energy policy. During the Tokyo Round of multilateral trade negotiations, he was a member of the US delegation that negotiated the GATT Subsidies Code. Since January 2003, he has been a member of the Trade and Environment Policy Advisory Committee of the US government. He is also a member of the Advisory Committee on International Economic Policy of the US Department of State.



Miaojie YU is an Associate Professor of the China Center for Economic Research (CCER) at Peking University. Currently, he also works as an Advisor at the Ministry of Finance in China, and as a Consultant of the United Nations Industrial Development Organization (UNIDO) and of the Asian Development Bank Institute (ADB). From June to August 2005, he began to teach economics as a Lecturer at University of California-Davis where he achieved his PhD degree. From September 2005 to August 2006, he served as a Visiting Assistant Professor of the School of Economics and Finance at University of Hong Kong. In September 2006, he joined the CCER at Peking University and worked as an Assistant Professor until July 2010. Meanwhile, he was a Project Director of the World Economy Database of Ministry of Commerce in China from 2007 to 2008. His current research interests include processing trade, firm productivity, credit constraint, political economy, and Chinese economy.



Tae-Ho BARK is a Professor of the Graduate School of International Studies at Seoul National University, and has taught at the same university since 1997. After receiving his MA and PhD degrees in economics at University of Wisconsin-Madison, he started to teach economics as an Assistant Professor at Georgetown University in 1983. He then worked as a Research Fellow of the International Trade Division at Korea Development Institute (KDI) from February 1987 to October 1989. In November 1989, he joined Korea Institute for International Economic Policy (KIEP) as a Senior Economist and became a Vice President in 1994. From March 1993 to June 1994, professor Bark was a Senior Economist at the Office of the Economic Secretary to the President. At Korea International Trade Commission, he served as a Commissioner from 1995 to February 2004 and later as a Chairman from June 2007 to June 2010. He was also a former Minister for Trade in Korea from December 2011 to March 2013.



Yukiko FUKAGAWA is a Professor of Waseda University. She has a long career in studying economic development in Korea and other East Asian countries both as a practitioner as well as an academician. After graduating from Waseda, she worked for Japan External Trade Organization (JETRO), and Long-Term Credit Bank Research Institute (LTCBR) before joining the faculty member of Aoyama Gakuin University and the University of Tokyo. She has engaged in many consultations for the government, including “Asia Gate Way Strategy Meeting” for Prime Minister Abe. She holds M.A. from Yale, and finished Ph.D. program at Waseda University. She has also studied at Korea Institute for Industrial Economics and Trade (KIET), Columbia University, and Korea University, as a visiting fellow.



Nakgyoon CHOI is a Senior Research Fellow at the Korea Institute for International Economic Policy (KIEP) and a Commissioner at the Korea Trade Commission. He was a senior research fellow at Korea Institute for Industrial Economics and Trade (1991-2000) and served as an advisor to the Minister of Trade, Industry, and Energy (1995-1997). He was a Vice President of Korea Institute for International Economic Policy (2005-2006) and a visiting scholar at Johns Hopkins University (2006-2007). Dr. Choi has been actively involved in formulation of Korea’s trade policy, and is currently a policy advisor to relevant Ministries including the Ministry of Strategy and Finance; Ministry of Trade, Industry, and Energy; Ministry of Foreign Affairs; and Fair Trade Commission. His primary research interests are in the areas of international trade theory and policy. His current work focuses on global value chains, trade liberalization, DDA, and FTAs.

Presenter

Whither the World Trading System?

Jeffrey SCHOTT

Senior Fellow, Peterson Institute for International Economics

Whither the World Trading System?

Jeffrey J. Schott
Senior Fellow
Peterson Institute for International Economics

Presented at the Institute for Global Economics 20th Anniversary Conference
“Major Economies Under New Leadership:
Policy Priorities and Challenges”
Seoul, 31 October 2013

1

The World Trade Organization (WTO) is in trouble.

- Success of the GATT era has not been replicated.
- Though the WTO has attracted many new members, including China and Russia, and the WTO's dispute settlement mechanism (DSM) has worked well:
 - WTO negotiations have produced only minor results.
 - The DSM is vulnerable to overload.
- The Doha Round has effectively collapsed and major trading nations have refocused negotiating efforts on regional arrangements.

2

WTO Diagnosis

- The system suffers from:
 1. Malnutrition -- lack of political will.
 2. Self-inflicted wounds -- tactical blunders and new/augmented protectionist policies.
 3. Poisoning -- deliberate foot-dragging by countries seeking to avoid implementing trade reforms.
 4. Sino-phobia -- both Chinese competition and globalization pressures writ large.
- As a result, WTO negotiators never pursued a Doha package that was “ambitious and balanced.”

3

Cost of Doha Round Failure

- Reluctance to pursue multilateral initiatives going forward.
- Frozen WTO legislative function will erode support for compliance with WTO dispute rulings.
- Expansion of discriminatory regional trading arrangements (RTAs) that potentially cut non-members out of global supply chains.
- Negotiation of Mega-Regionals as potential “Plan B”:
 - Trans-Pacific Partnership (TPP), since March 2010.
 - Transatlantic Trade and Investment Partnership (TTIP), since July 2013.
 - Regional Comprehensive Economic Partnership (RCEP) linking ASEAN with China, Korea, Japan, India, New Zealand and Australia, since May 2013.

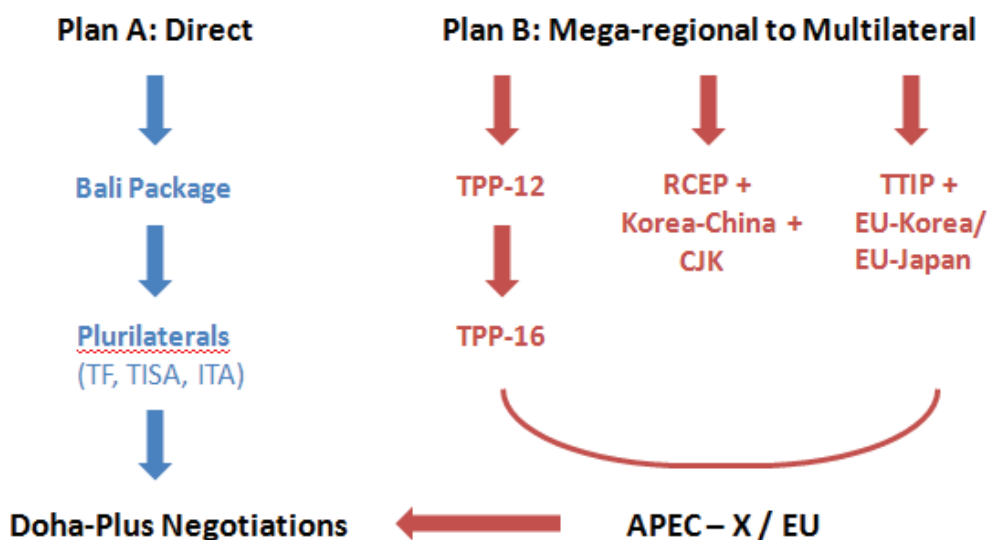
4

The Rise of “Mega-Regional” Trade Partnerships

	TPP	TTIP	RCEP
Number of countries participating	12	29	16
Aggregate share of world GDP (%)	38	46	29
Aggregate share of world exports (goods + services) (%)	24	25	30

Source: IMF, Direction of Trade Statistics (DOTS), 2013.

Two Options for WTO Recovery



Plan A: Direct

- The Doha Round is not a lost cause, but the Bali Ministerial in December is critical to demonstrate that WTO talks can produce results.
- The Bali deal needs to be a solid down payment on a more ambitious and balanced WTO Recovery Package that could be negotiated immediately after Bali.
- Progress is needed on at least some plurilateral deals coupled with specific benefits for the Least Developed Countries (LDCs). Big trading nations need to lead these talks:
 - For US and EU, means real constraints on farm subsidies and real new access for LDC exports.
 - For China, means committing to broader liberalization than other developing countries.
 - For all the BRICs, means advancing services negotiations as a means to unblock the negotiating impasse on agriculture and NAMA.

7

WTO Recovery Package – Global Payoffs

Agenda topic	Export gains (billions)	GDP increase (\$ billions)
1. Trade facilitation	1,043	960
2. International services	1,129	1,039
3. International digital economy	178	147
4. DFQF market access	8	7
5. Agricultural subsidies	5	5
6. Food export controls*	n.a.	45
7. Environmental goods and services	10	9
Total	2,374	2,212

n.a. = not applicable

*GDP gains calculated as losses averted.

Source: Hufbauer and Schott (2013).

8

Global Payoff from Big Deals

- Bali will be a success if the TF agreement is reached; TISA and ITA could advance quickly in 2014 with constructive participation of the BRICs.
- **Trade Facilitation Agreement**
 - Moving goods quickly and cheaply means more trade and higher incomes. Average world tariffs 5% *ad valorem*, but average trade costs 10% *ad valorem*.
- **Trade in Services Agreement**
 - Expanded services trade should drive world commerce but is hindered by high barriers. Shifting resources to services in developing countries would unlock substantial gains.
- **Expanded Information Technology Agreement**
 - Trade in IT products has been key driver of global economic growth, with global IT exports tripling in value between 1996 and 2010. Expanding ITA coverage and membership would further augment these gains.

9

Plan B: Mega-regionals to Multilateral (M2M)

- Multilateral agreements always had been developed in GATT/WTO rounds. Could a similar result emerge from the convergence and linkage of bilateral and mega-regional pacts?
- Could the TPP, TTIP and RCEP – each of which represents a sizeable share of world output and trade – catalyze a M2M process that revives WTO negotiations?
- But what features link or set the mega-regionals apart?

10

Distinguishing Features

- 1. Complementary initiatives but not common content:**
 - TPP and TTIP: much like KORUS FTA with comprehensive liberalization of goods/services and WTO-plus rules on investment, competition, regulatory issues, etc.
 - RCEP: less ambitious re scope and depth of trade reforms; special preferences and exceptions for poorer members.
- 2. Different time zones:**
 - TPP-12 nearing completion.
 - TTIP/RCEP just starting multi-year negotiations.
- 3. Overlapping membership:**
 - 7 of 16 RCEP countries in TPP; 4 others interested (Indonesia, Korea, Philippines, Thailand), so could result in TPP-16 in the medium term.
 - But membership restrictions – TPP limited to APEC; RCEP to ASEAN FTA partners; TTIP to US/EU, then “open enrollment”.
- 4. Interlinked by bilateral FTAs:** in the medium term,
 - TPP + TTIP + RCEP bridged by KORUS/EU-Korea/EU-Japan.
 - TPP + RCEP bridged by China-Korea/CJK?

11

What Will China do?

- China now the world's top trading nation.
- Interested but not ready to participate in TPP.
- Re-engaging in WTO plurilaterals, especially TISA/ITA will help improve readiness for TPP.
- Deepening pacts with Asian neighbors:
 - CJK investment pact shows willingness of China to commit to incremental but substantive economic reforms in regional pacts.
 - China-Korea FTA could bring China closer to KORUS FTA standards than RCEP or other Chinese pacts
- Will China ask to join TPP in the next few years?

12

Conclusions

- The WTO is in deep trouble. Successful multilateral negotiations are crucial for a well-functioning WTO.
- Two options could revive interest and support for comprehensive, new WTO negotiations:
 1. **Plan A:** builds on the results from Bali to reinvigorate WTO negotiations in 2014. WTO members should agree on at least a down payment toward an ambitious and balanced WTO Recovery Package.
 2. **Plan B:** charts a novel but more uncertain progression of talks, building on mega-regional initiatives and the bilateral pacts that link them together.
- Plan B draws heavily on the framework constructed by the Korean and American architects of the KORUS FTA. Perhaps they can help build a new wing of the WTO.

13

Presenter

The Future of Global Trade

Miaojie YU

Associate Professor, Beijing University



The Future of Global Trade

Dr. Miaojie Yu

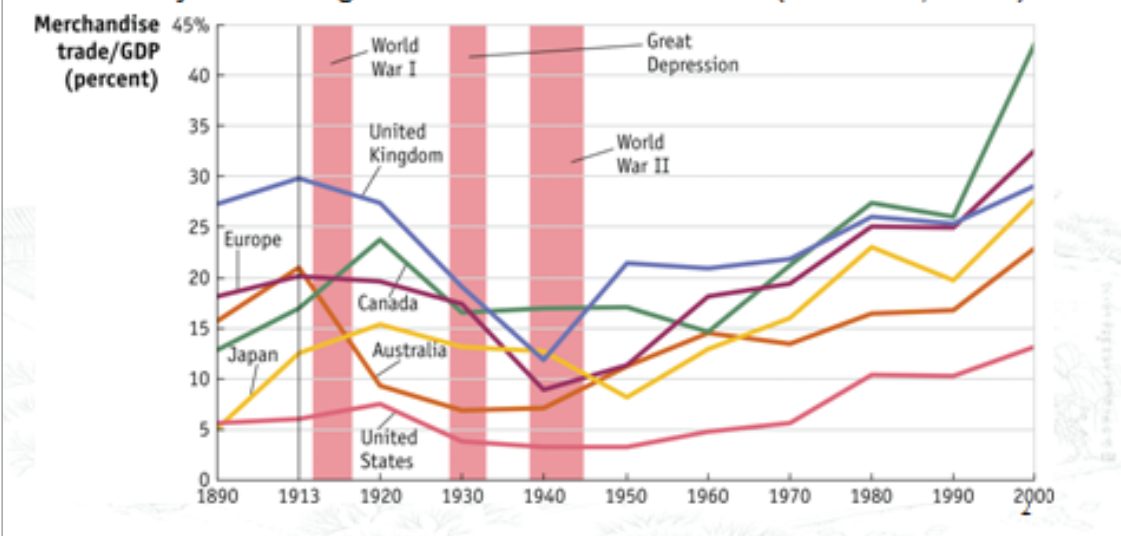
mjyu@nsd.pku.edu.cn

China Center for Economic Research (CCER)
National School of Development
Peking University

October 31, 2013

Feature of Current Global Trade

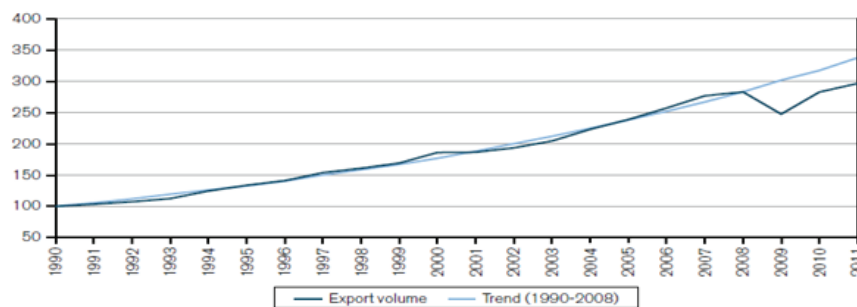
- International trade plays a key role in foster world GDP.
 - a considerable increase in the trade/GDP ratio before WWI.
 - took years to regain the same level of trade (Feenstra, 1998).



Feature of Current Global Trade

- International trade plays a key role in world economy.
 - World trade volume in 2011 is \$18.2 trillion
 - Surpassing previous peak in 2008 with \$16.1 trillion.
- Since WWII, international trade grew dramatically.
 - In the past two decades, world exports increase three times.

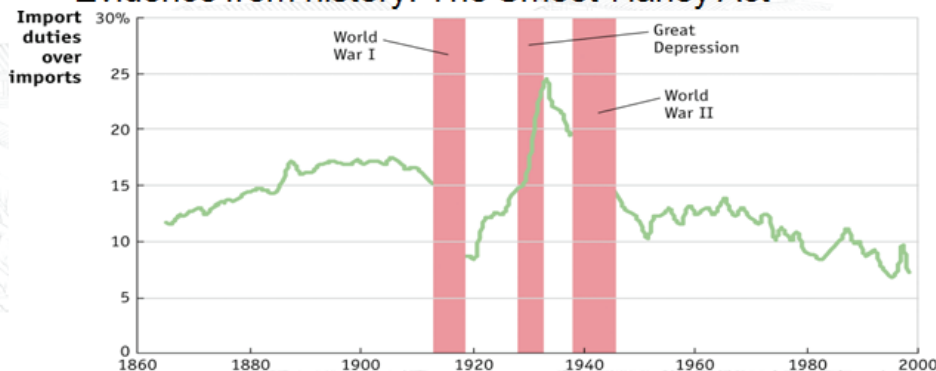
Figure 1.2: Volume of world merchandise exports, 1990-2011
(Indices, 1990=100)



Source: WTO Secretariat.

Why Does Trade Grow?

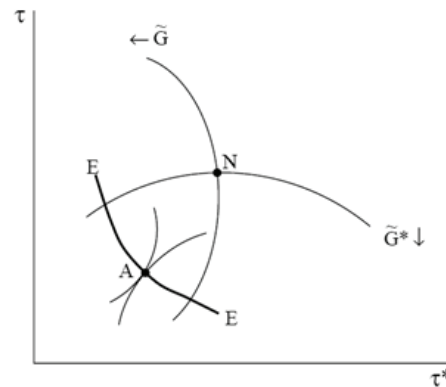
- Three reasons (Baier-Bergstrand, 2001):
 - Growing GDP (2/3)
 - Deepening Trade liberalization (1/4)
 - Declining Transport Costs (1/12)
- Trade liberalization is more important than reduction in transport costs.
 - Evidence from history: The Smoot-Harley Act



4

Trade Talk & Trade War

- With GATT/WTO, at the Nash-equilibrium, bilateral/multilateral trade liberalization raise the welfare.
- GATT/WTO can avoid the prisoner's dilemma.
 - Dispute Settlement Mechanism serves as “credible threat”
 - WTO thinking (Krugman, 1999)
 - Trade War and Trade Talk (Grossman-Helpman, 1996)
 - New World Trading System (Bagwell-Staiger, 2002)



5

Global or Regional Trading Blocs

- Can WTO increase trade?
 - Yes, strongly but unevenly by industry (Wei and Sub, 2007)
 - Maybe Not! (Rose, 2004)
 - If not, why trade growth? → Regional Trade agreement
- Regional Trade Agreements
 - It enjoys the exemption of the WTO non-discrimination rule.
 - MFN requires every WTO member can enjoy the same duty treatment if importer set non-zero tariffs against its trading partners
 - Except zero tariffs
 - The root of regional trade agreements
- Relationship between WTO and RTA:
 - The Doha round seems to be endless, if not hopeless for the sensitive trade topics
 - NAFTA, EU, ASEAN10+6, TPP, TTIP, CJK

6

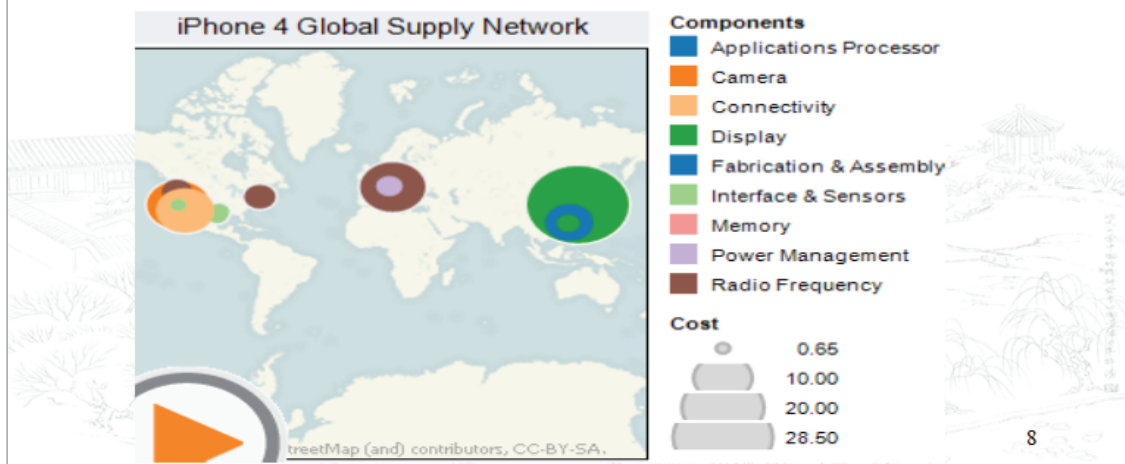
Global or Regional Trading Blocs

- Relationship between WTO and RTA is still controversial.
 - Substitute or complement?
- The RTA fosters globalization
 - Baldwin (1995)
 - Levy (1997): Heckscher-Ohlin
- The RTA hampers globalization
 - Krishna (1998)
 - McLaren (2002)
 - Levy (1997): product substitutable; consumer's love of variety
- Inter-industry trade or intra-industry trade?
 - If intra-industry trade is more prevalent than inter-industry, then firms trade for larger international market, not mainly because of factor endowment difference.

7

Feature of Current Global Trade

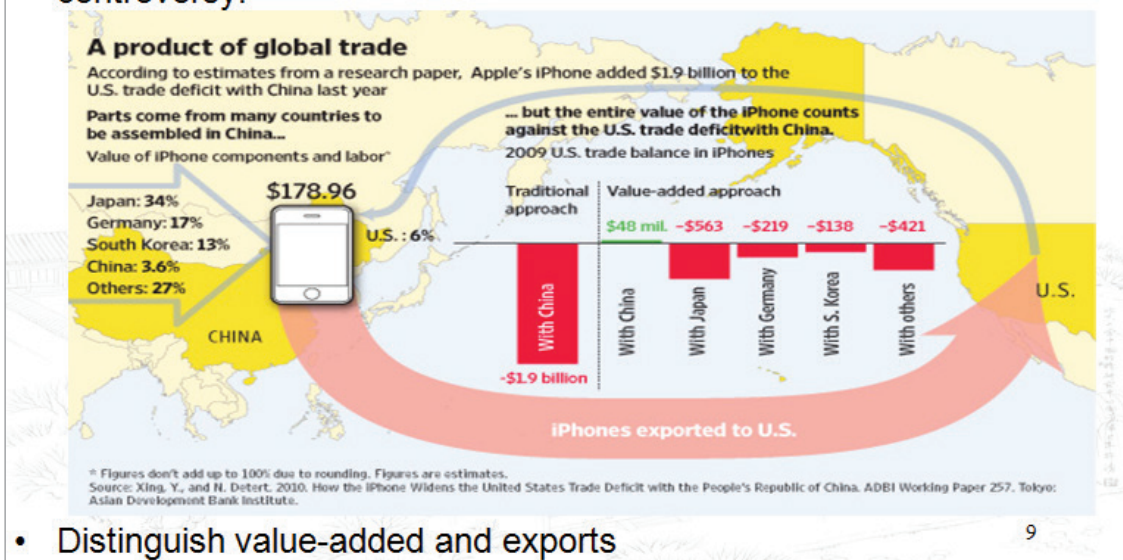
- Trade integration & production disintegration are the two most important feature of current global trade. (Feenstra, 1998)
- Iphone4: an example of global value chain



8

Feature of Current Global Trade

- Outsourcing or vertical integration (Feenstra-Hanson, 1996) makes aggregated trade statistic misleading and caused undue controversy.

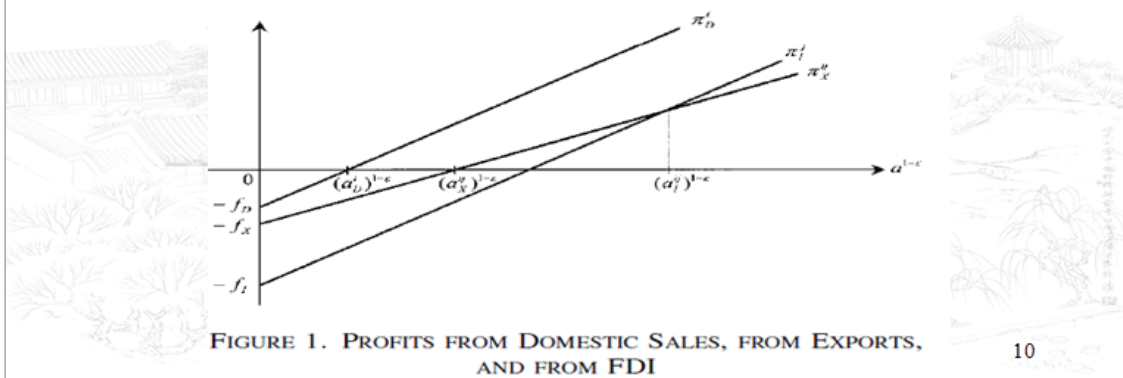


- Distinguish value-added and exports

9

Predictions of Future Global Trade (I)

- Firm's efficiency determines its production and sales location choice
- Low productive firms can only sell products domestically; high productive firms sell in the domestic market and export; even higher productive firms sell products at home, export, and even outward FDI (Helpman, Melitz, and Yeaple, 2004)



10

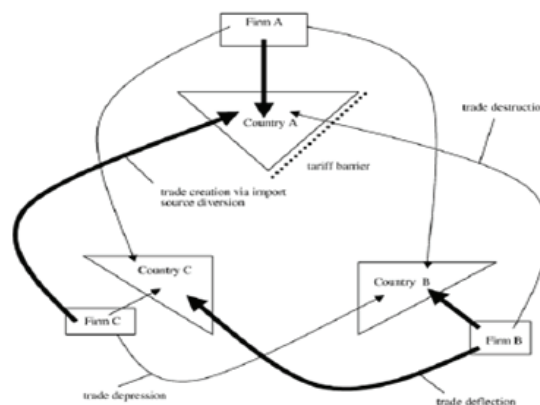
Predictions of Future Global Trade (II)

- Trade and Finance will interact more deeply
 - Trade clash during the recent financial crisis (2008)
 - Credit constraints provide a key role to affect firm's export (Feenstra-Li-Yu, 2013)
- Firms will not export much varieties, but would focus on its most competitive products.
 - With domestic tariff cuts, firms will reduce its export scope
 - With foreign tariff cuts, firms are not necessary increase its export scope (Qiu-Yu, 2013)
 - Softer export barriers (good for larger scope)
 - Tougher export competition (bad for larger scope)

11

Predictions of Future Global Trade (III)

- Global trade war seems avoidable
 - Gains from free trade
 - Comparative advantage works
- Regional and temporary trade frictions may persist for years.
- NTB such as Temporary trade barriers, but not tariffs, play a key role (Bown-Crowley, 2007)
 - Anti-dummy,
 - Special safeguard,
 - China Special safeguard.

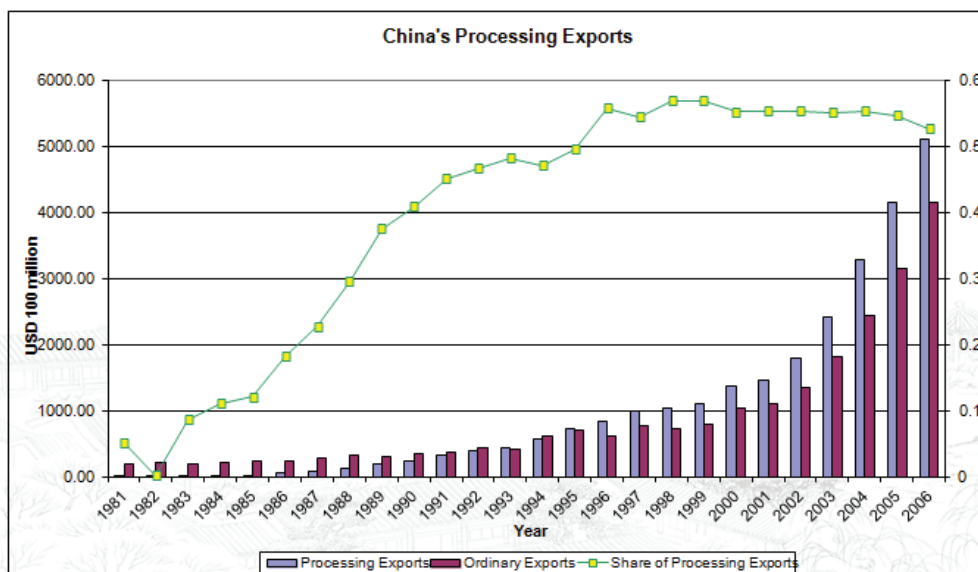


China Growing Role in World Trade

- Currently largest exporters in the world.
- Enjoy the significant gains from free trade since WTO accession in 2001.
- A large open economy which relies much on external demand.
- Processing trade accounts for half of China's trade.
- Future reform on foreign trade
 - Change main export destination from triads to emerging economics
 - The proportion of processing trade decreases by increasing more R&D inputs on processed products (Dhingra, 2013);
 - No longer needing processing trade to reduce trade uncertainty.

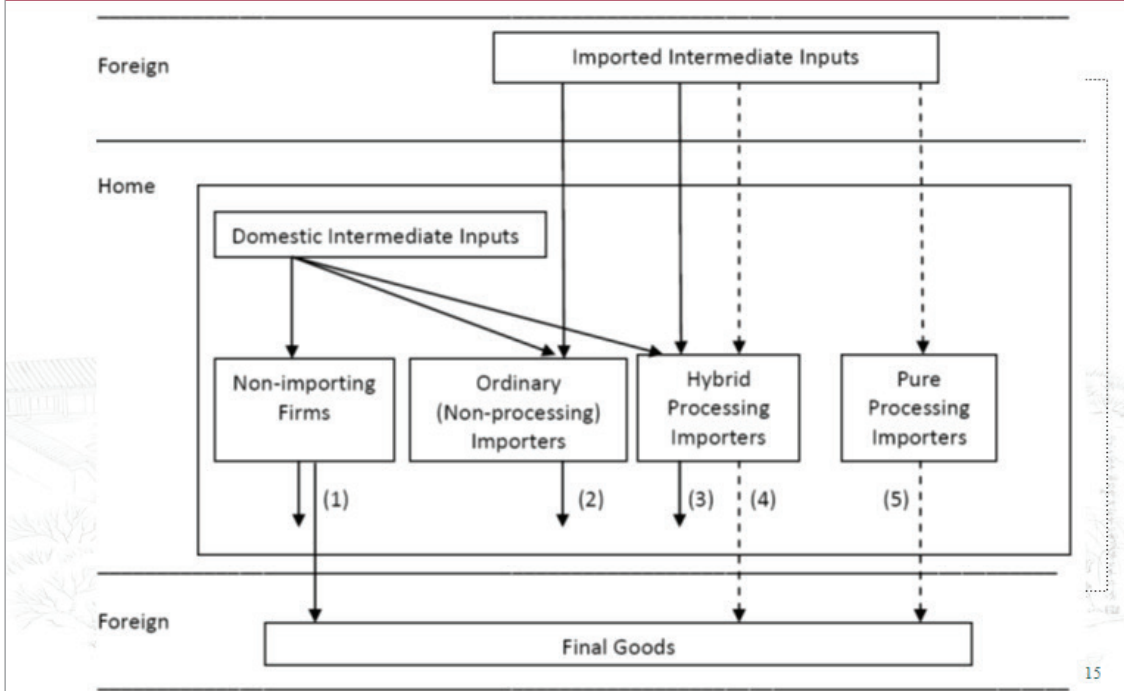
13

Processing Trade accounts for one-half of Total Trade

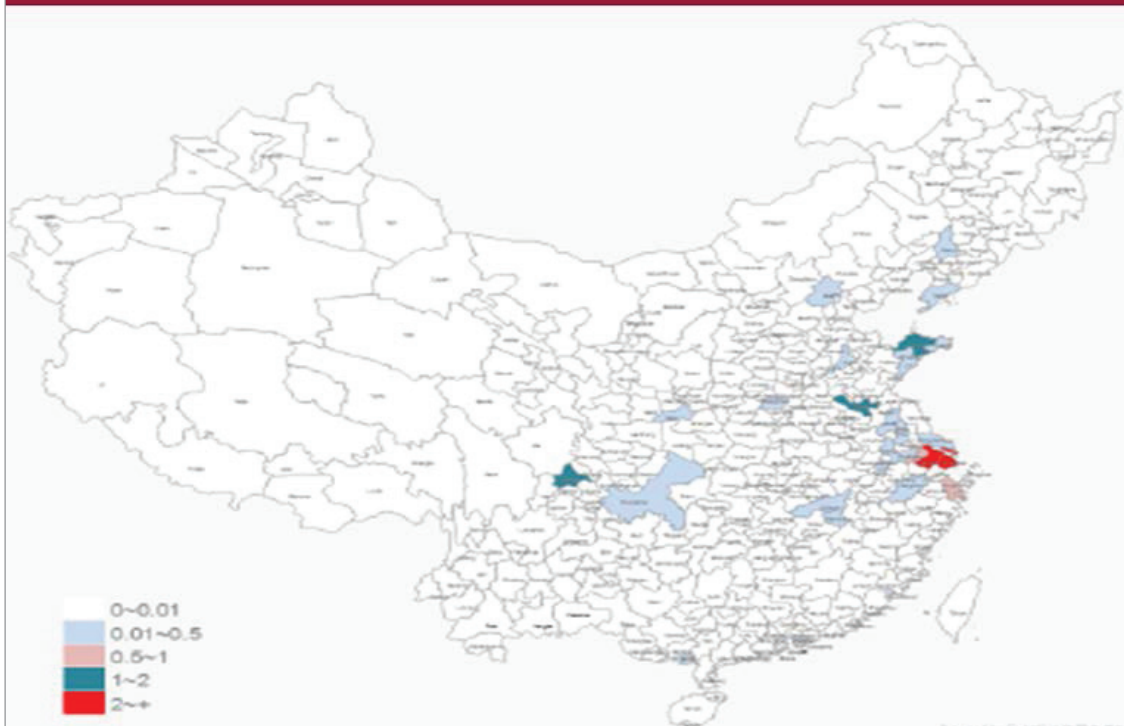


14

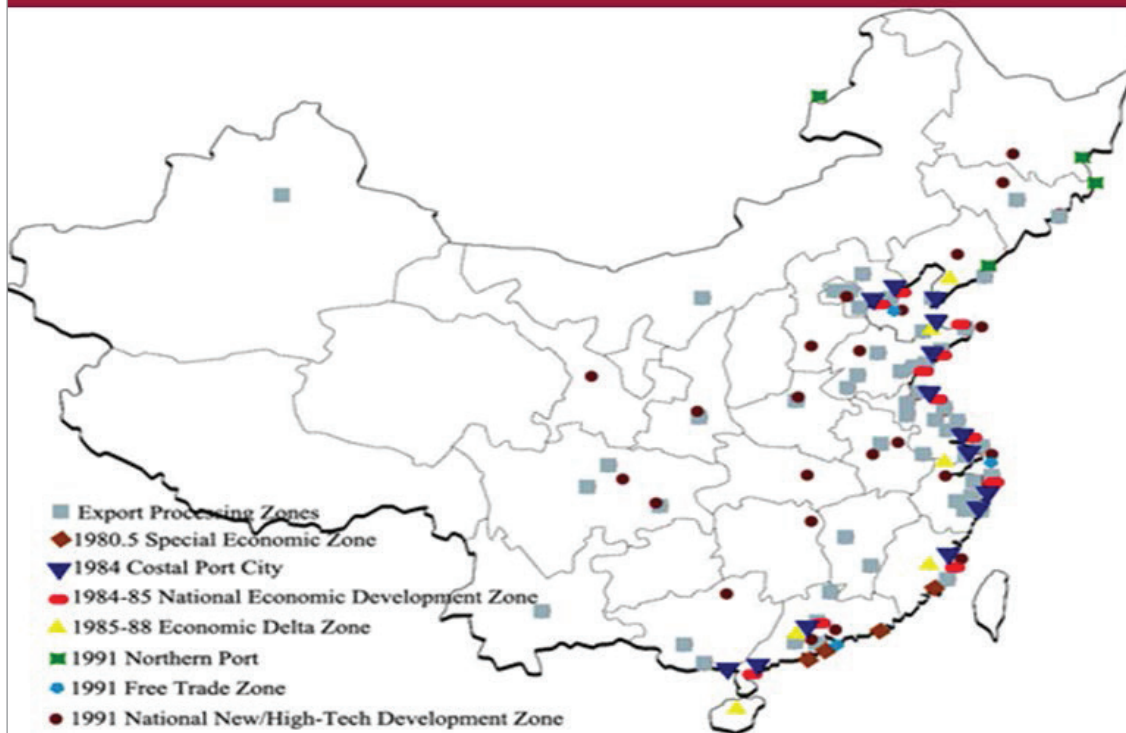
Processing Trade



Geographic Distribution of EPZs



Special Economic Zones and EPZs



Conclusions

- Further trade liberalization is needed to promote global trade and increase standard of livings.
- Regional trade agreements seem to be an applicable and doable way to go.
- Vertical integration and trade globalization are irreversible direction of future trade.
- Firm selection is crucial to play a role
- Trade and finance will more interact each other
- Global trade war avoidable but more efforts should put on reducing temporary trade barriers.

Session 4 The Future of Global Finance

Keynote Speech

Choongsoo KIM

(Governor, The Bank of Korea)

Moderator

Yoon-Je CHO

(Professor, Sogang University)

Presenters

Edwin TRUMAN

(Senior Fellow, Peterson Institute for International Economics)

Dennis SNOWER

(President, Kiel Institute for the World Economy)

Guntram WOLFF

(Director, Bruegel)



Choongsoo KIM is the Governor of the Bank of Korea since April 2010. In 1973, he started his career as a Research Assistant at Korea Development Institute (KDI). In 1993, he served as a Secretary to the President for Economic Affairs at the Office of the President of the Republic of Korea. In 1995, he worked as a Minister and Head of the OECD Office at Korean Embassy in Paris. In March 1997, He was an Assistant Minister and Special Advisor to the Deputy Prime Minister at the Ministry of Finance and Economy and he became the President of Korea Institute of Public Finance in August 1997. The next year, he served as a Dean of the Graduate School of Pan-Pacific International Studies at Kyung Hee University. In 2002, Governor Kim became the President of Korea Development Institute and in 2007, the President of Hallym University in 2007. In February 2008, he was a Senior Secretary to the President for Economic Affairs at the Office of the President of the Republic of Korea. In September 2008, he became an Ambassador as a Permanent Representative of Korea to the OECD.



Yoon-Je CHO is Professor of economics at the Graduate School of International Studies (GSIS) of Sogang University. His previous positions include Chief Economic Advisor to the President of the ROK, ROK's Ambassador to the United Kingdom, Dean of GSIS of Sogang University, Vice President of the Korea Institute of Public Finance, and Senior Counselor to the Deputy Prime Minister and Minister of Finance and Economy. He worked at the World Bank and the International Monetary Fund (IMF) as an economist before he returned to Korea in 1993. He also taught at Georgetown University as an Adjunct Professor. In 2011, he served as a Member of High Level Panel for Infrastructure Investment for the G20 Summit Meeting. Professor Cho received his B.A. in economics from Seoul National University and Ph.D. in economics from Stanford University. Professor Cho has published widely in the areas of the liberalization of the financial system, financial crisis, financial sector development and reforms, and Korean economic development.



Edwin TRUMAN, senior fellow since 2001, served as assistant secretary of the US Treasury for International Affairs from December 1998 to January 2001 and returned as counselor to the secretary March–May 2009. He directed the Division of International Finance of the Board of Governors of the Federal Reserve System from 1977 to 1998. From 1983 to 1998, he was one of three economists on the staff of the Federal Open Market Committee. Truman has been a member of numerous international groups working on economic and financial issues. Truman taught at Yale University (1967-74) and has been a visiting economics lecturer at Amherst College and a visiting economics professor at Williams College. He has published on international monetary economics, international debt problems, economic development, and European economic integration. He has an A.B. from Amherst College and a PhD from Yale University in economics.

Session 4

Biographies



Dennis SNOWER is President of the Kiel Institute for the World Economy and Professor of Economics at the Christian-Albrechts-University of Kiel. He is Director of the Global Economic Symposium and Research Fellow at the Center for Economic Policy Research (London), at IZA (Institute for the Future of Work, Bonn), and CESifo (Munich). He is an expert on labor economics, public policy and inflation-unemployment tradeoffs. As part of his research career, he originated the “insider-outsider” theory of employment and unemployment with Assar Lindbeck, the theory of “high-low search” with Steve Alpern, and the “chain reaction theory of unemployment” and the theory of “frictional growth” with Marika Karanassou and Hector Sala. He has made seminal contributions to the design of employment subsidies and welfare accounts. He has published extensively on employment policy, the design of welfare systems, and monetary and fiscal policy.



Guntram WOLFF is the Director of Bruegel. He is also a member of the French prime minister's Conseil d'Analyse Economique. He currently teaches at Université libre de Bruxelles and he serves on the advisory board of the European Studies Center of Corvinus University Budapest. His research focuses on the European economy and governance, on fiscal policy, global finance, Germany, France and Japan. He joined Bruegel from the European Commission, where he worked on the macroeconomics of the euro area and the reform of euro area governance. Prior to joining the Commission, he was coordinating the research team on fiscal policy at Deutsche unesbank. He also worked as an adviser to the International Monetary Fund.

The Future of Global Finance

Choongsoo KIM
Governor, The Bank of Korea

The Future of Global Finance

Edwin TRUMAN

Senior Fellow, Peterson Institute for International Economics

The Future of Global Finance

Edwin M. Truman
Senior Fellow

Major Economies Under New Leadership
Institute for Global Economics
Seoul, Korea
October 31, 2013

Peterson Institute for International Economics | 1750 Massachusetts Ave., Washington, DC 20036 | www.piie.com

The Future of Global Finance

Past: Where have we been?

Present: Where are we?

Future: Where might we be going?

1

The Past of Global Finance



1. The international financial system is increasingly integrated
2. A multicurrency system is emerging
3. The expansion of global finance may be a mixed blessing

2

The Present of Global Finance



1. Efforts are underway to reinforce and constrain global finance
2. Nevertheless, reform remains controversial
3. We need: more analysis, transparency, and cooperation

3

The Future of Global Finance



1. The multicurrency financial system is here to stay and will continue to evolve
2. A single system of global finance is a distant hope
3. Constructive reform should be promoted, for example, an institutionalized global swap network

4

The Future of Global Finance

Dennis SNOWER

President, Kiel Institute for the World Economy

The Future of Global Finance

Dennis J. Snower
President, Kiel Institute for the World Economy
Institute for Global Economics: 20th Anniversary
Conference,
31 October 2013

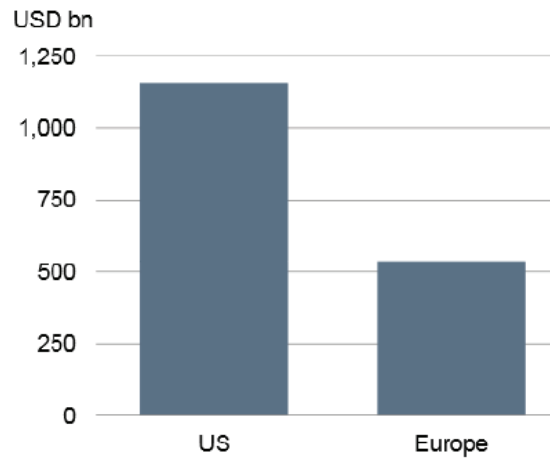


Challenges: Insufficient Policy Progress

- Monetary policy
- Financial market reform
- Dangers from shadow banking
- Reasons for inaction

2

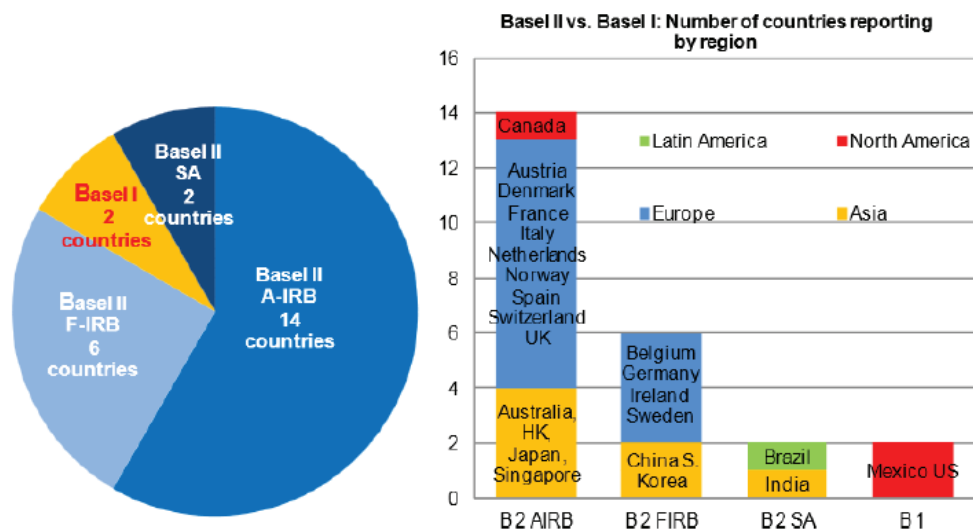
Writedowns of financial institutions during the financial crisis (2007-10)



Source: Bloomberg

3

Different regulation schemes



Source: Leslé and Avramova (2012), Revisiting Risk-Weighted Assets, IMF working paper 12/90.

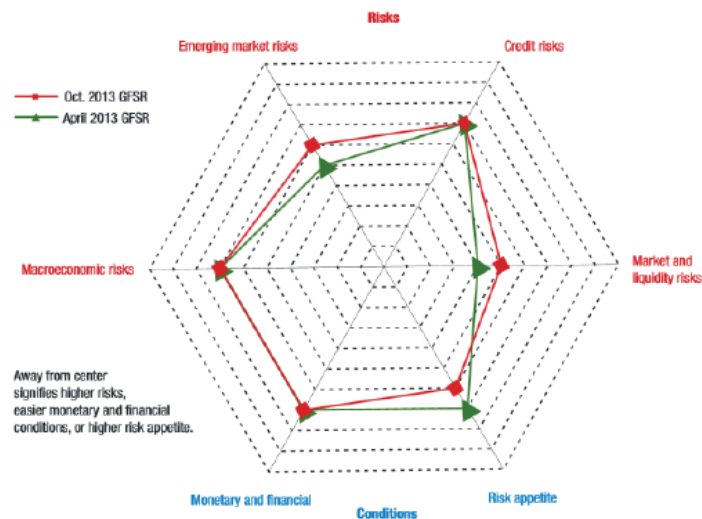
4

Sources of the last Crisis Remain

- Surge of debt
- Ill-understood interconnections of securitized finance
- Uncertainty about the government safety net

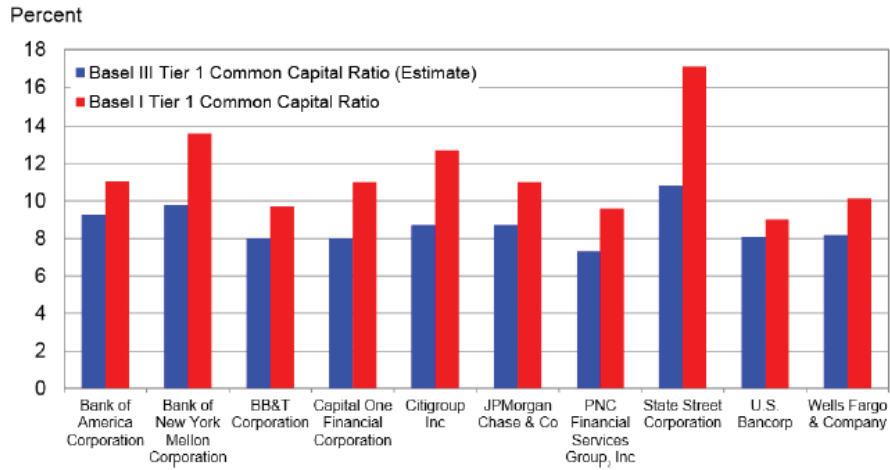
5

Global Financial Stability Map



6

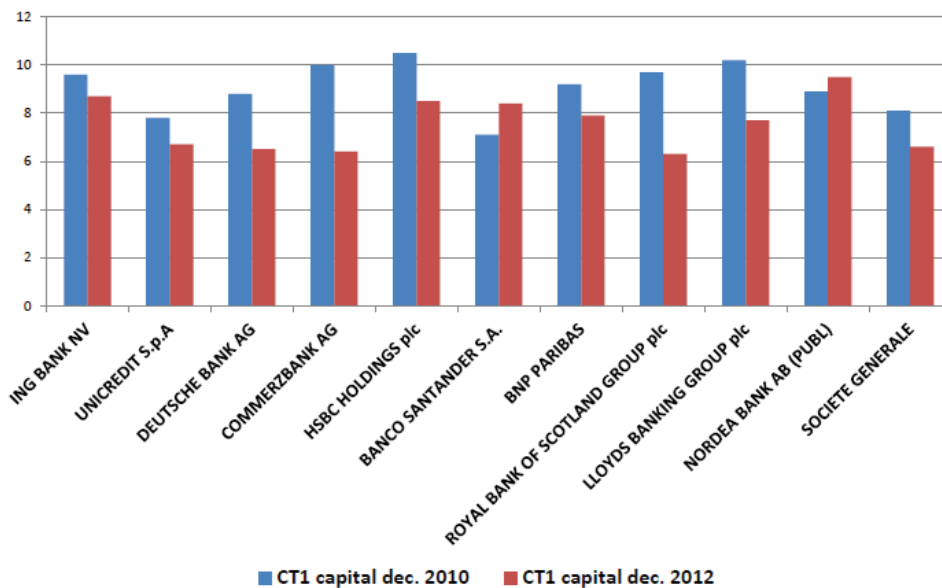
Basel I and Basel III Tier 1 Common Capital Ratios for Large U.S. Banking Organizations



Source: Boston Fed, 2013

7

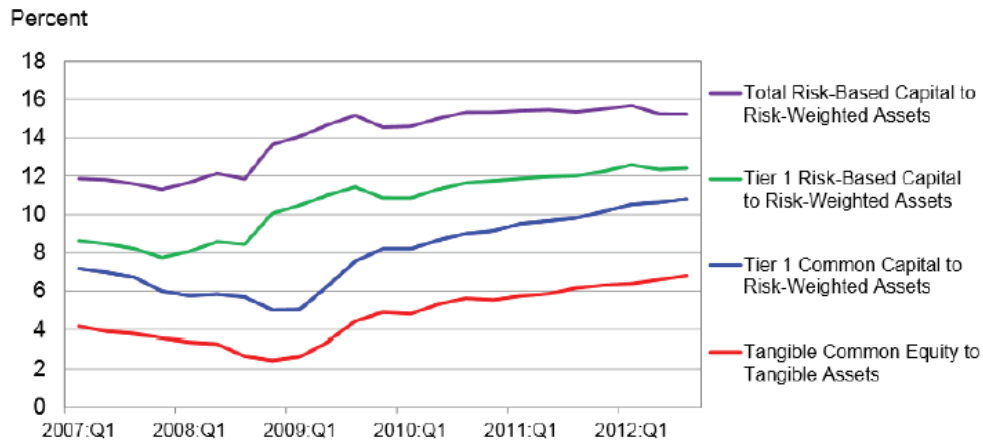
Tier 1 capital ratios for large European banks



Source: European Banking Authority

8

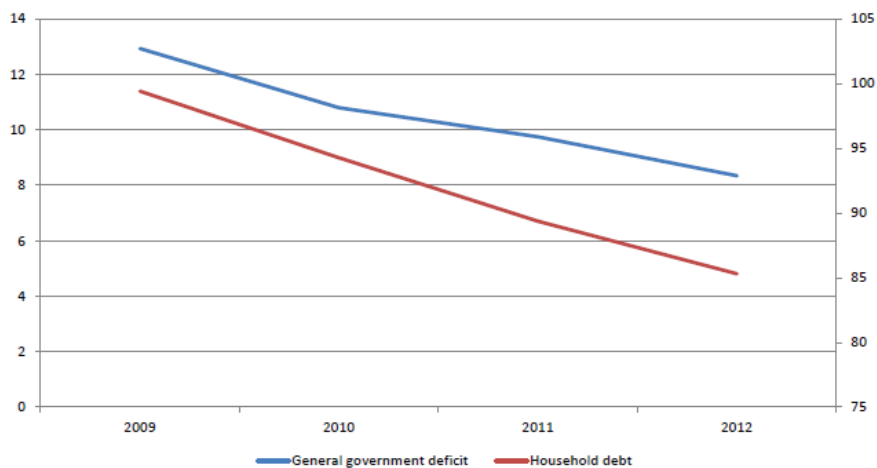
Capital Measures for Large U.S. Banking Organizations



Source: Boston Fed, 2013.

9

Government Deficit and Household debt (% GDP)



Source: IMF World Economic Outlook Database and St. Louis Fed.

10

Sources of Vulnerabilities

- Eurozone
- U.S.
- Japan
- Emerging economies

11

Future of Financial System: Euro Area Financial System Reform

Guntram WOLFF
Director, Bruegel

Future of financial system: Euro area financial system reform

Seoul

31th October 2013

Guntram B. Wolff

Global financial system

- **The EU banking system is very large compared to US & Japanese banking system**
- **Structural reforms and new regulations will impact the entire global banking system**
- **2014 may become defining year of the banking system in Europe**
- **Europe's capital markets are underdeveloped**

EU banking sector is much larger than those of US and Japan

Size of EU, US and Japanese banking sectors (2010)

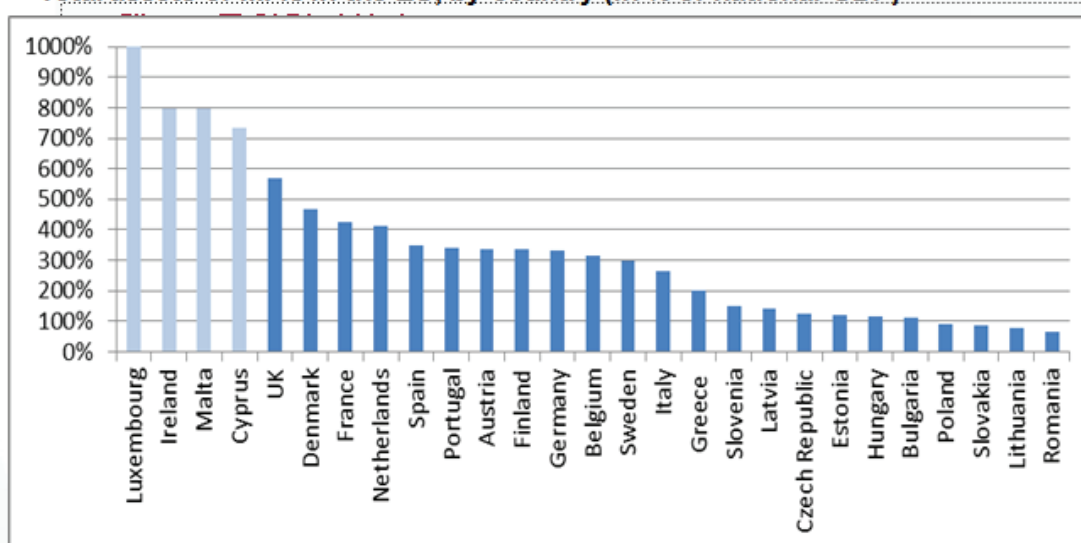
	EU	USA	Japan
Total bank sector assets (€ trillion)	42.9	8.6	7.1
Total bank sector assets/GDP	349%	78%	174%
Top 10 bank assets (€ trillion)	15.0	4.8	3.7
Top 10 bank assets/GDP	122%	44%	91%

Notes: Top 6 banks for Japan. Source: European Banking Federation (2011).

3

Size of banking sector in EU27

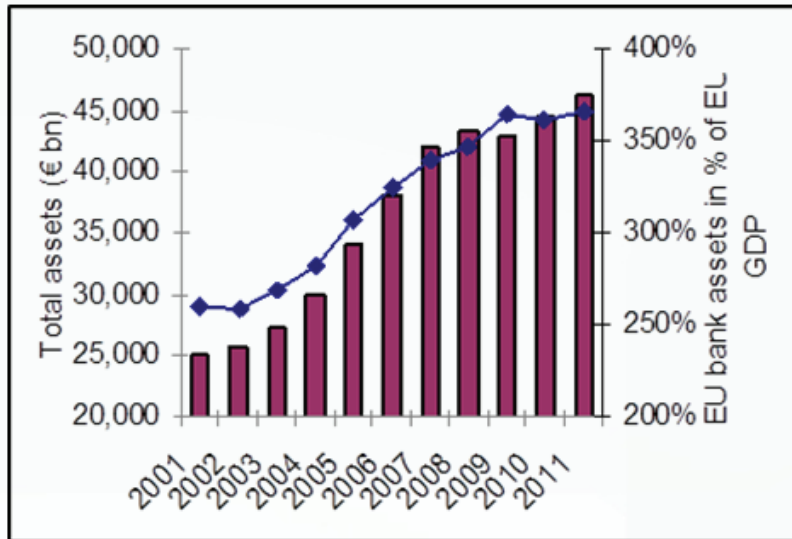
Total assets of MFIs in the EU, by country (in % of national GDP)



Notes: Assets as of March 2012; GDP data for end 2011. Based on aggregate balance sheet of monetary financial institutions (MFIs). Vertical axis cut at 1000% (ratio for Luxembourg is 2400%).⁴Data on MFI includes money market funds. Source: ECB data. Eurostat for GDP data.

Rapid growth in the EU banking sector

Total assets of MFIs in EU 2001-2011

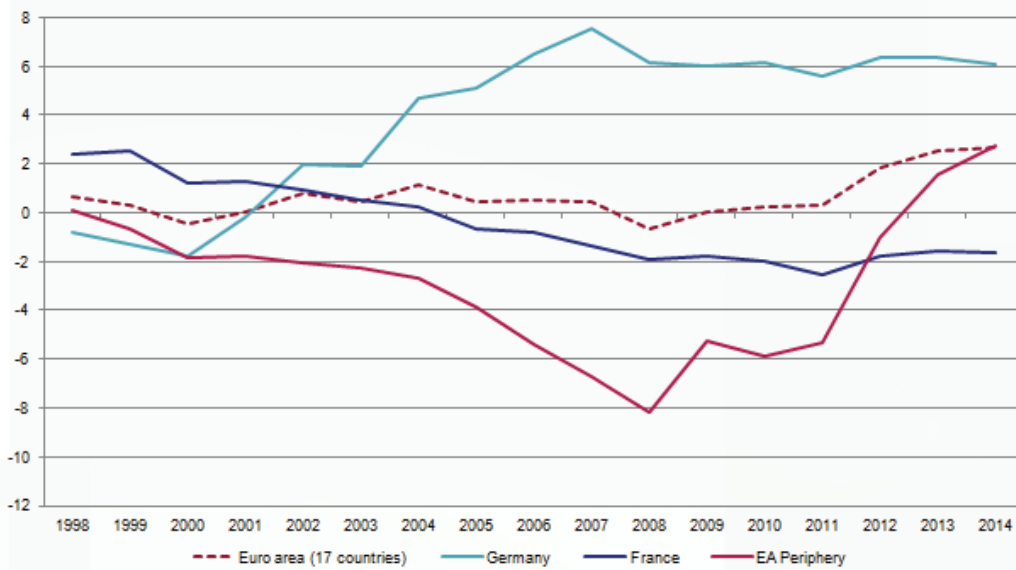


Note: Bar charts show total assets, dotted line shows assets in % of GDP.
Source: ECB data.

5

The macro problem

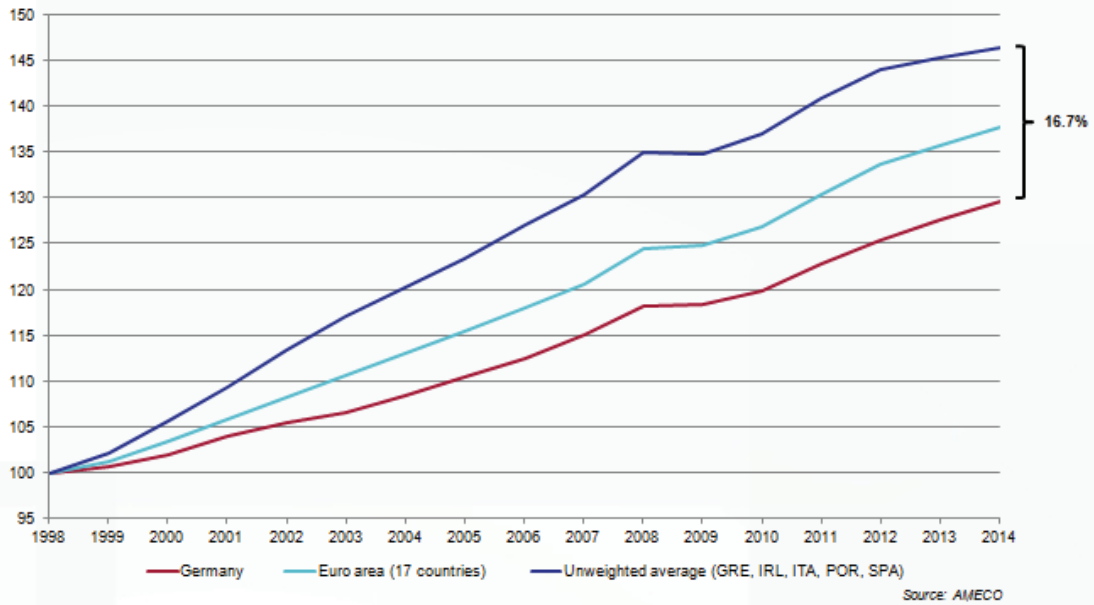
CA in percentage of GDP



Source: AMECO

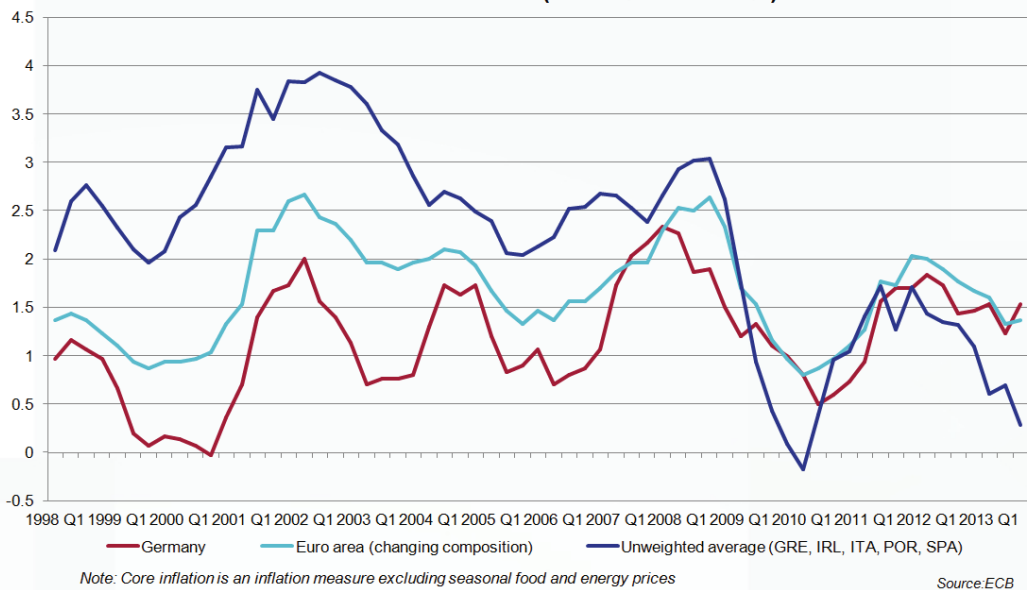
Inflation

Harmonised consumer price index



Core inflation

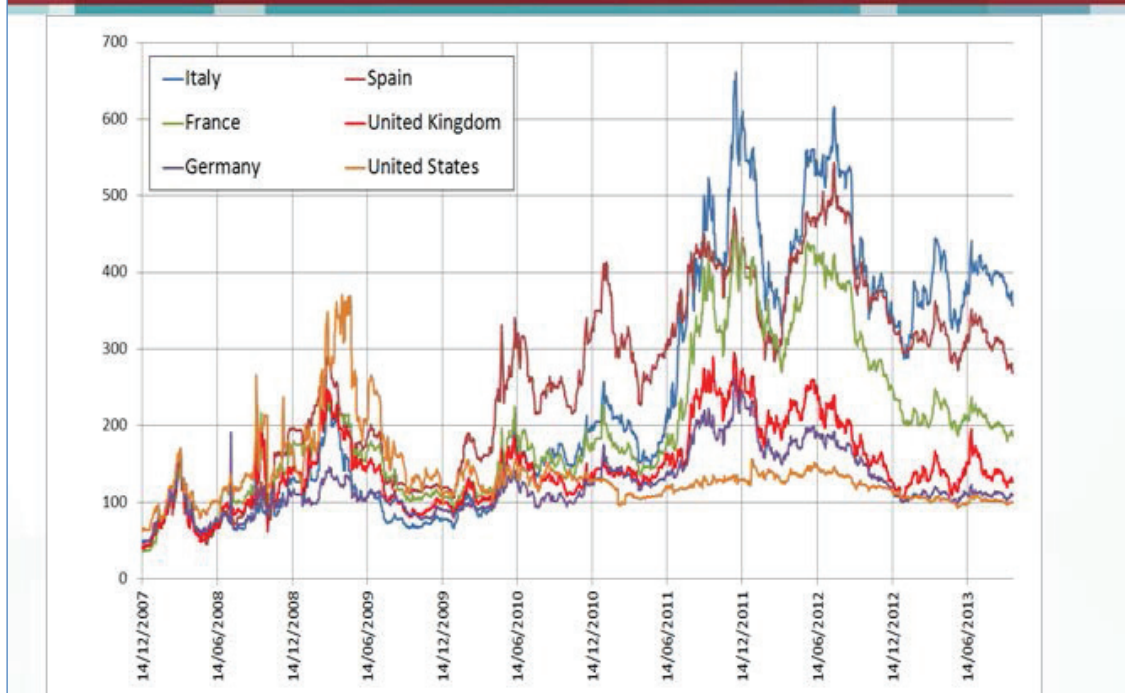
Evolution of core inflation (1998 Q1 – 2013 Q3)



Financial system structure, where to?

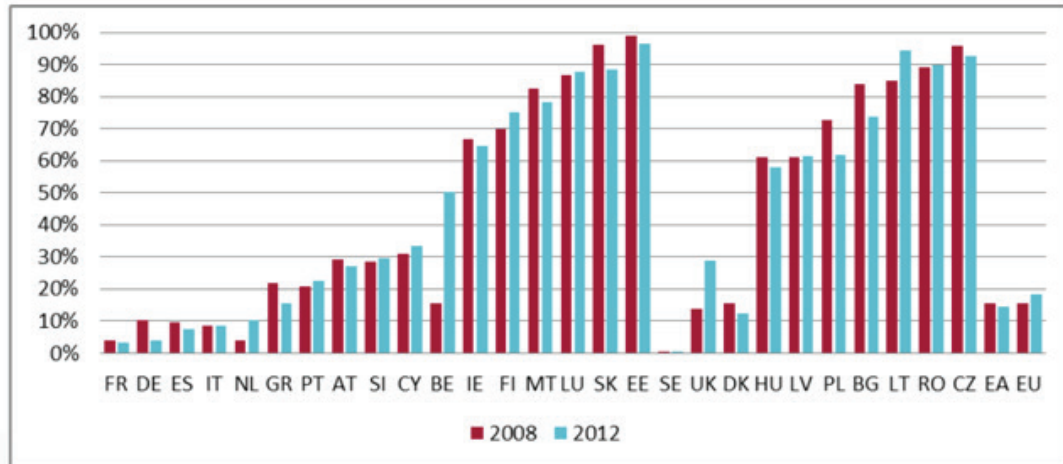
- **Financial system at core of euro area crisis**
- **It proved unable to properly price risk before crisis and during crisis stopped being a risk absorption mechanism**
- **Financial integration far from complete**
 - Interbank market integrated after the € was established
 - The crisis undid most of the interbank market integration
 - Retail banking is still mostly national
 - Underdeveloped capital markets with little cross border dimension
- **Two track approach:**
 - Restore banking system to soundness and create a truly European banking system
 - Start a reform process to develop the capital markets
- **See also Sapir and Wolff (2013)**

Banking risks (CDS risk premia)



Stylized fact 1: Low cross border retail banking

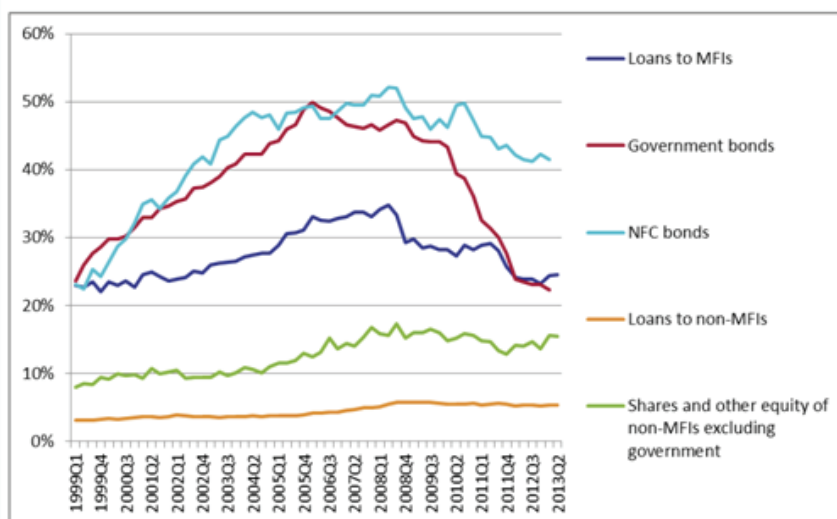
Figure 1: Percentage of the banking system that is foreign owned



Note: This percentage is calculated as the total assets of foreign owned subsidiaries/branches as % of total banking system assets
Source: Bruegel based on ECB data

Stylized fact 2: wholesale banking integrated before 2008

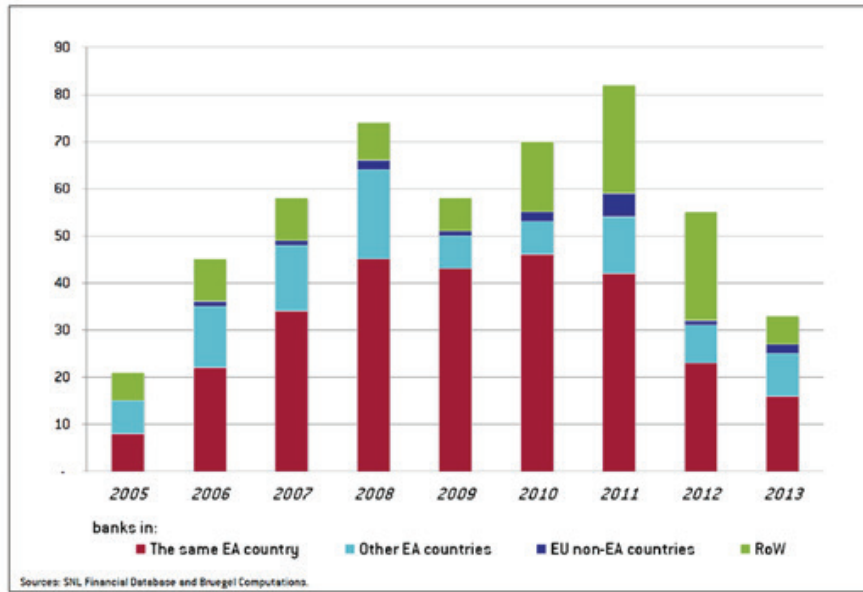
Figure 2: Share of cross-border holdings of assets of euro-area MFIs in total assets



Note: The lines measure the share of intra-euro area cross-border holdings in total euro-area holdings.
Source: Bruegel based on ECB data.

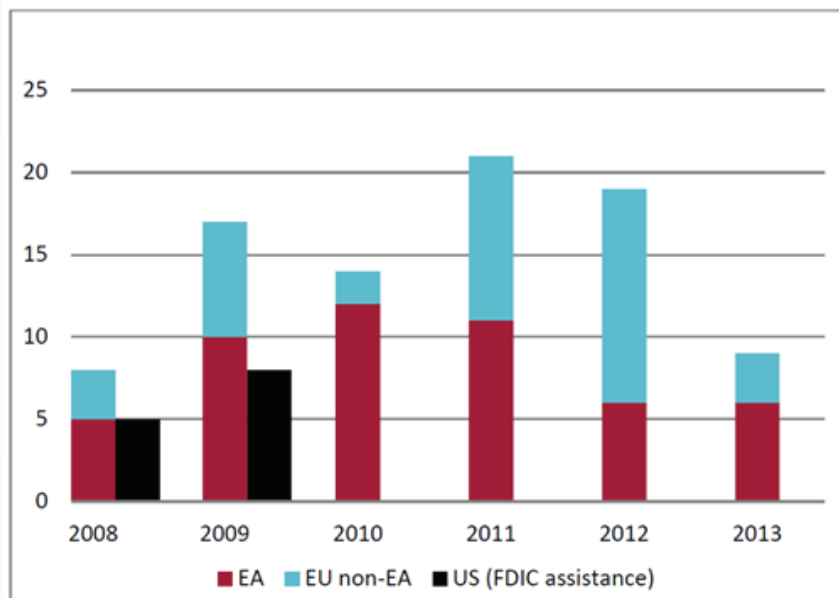
Stylized fact 3: Cross-border banks M&As are low

Figure 3: Total number of EA17 banks being bought by



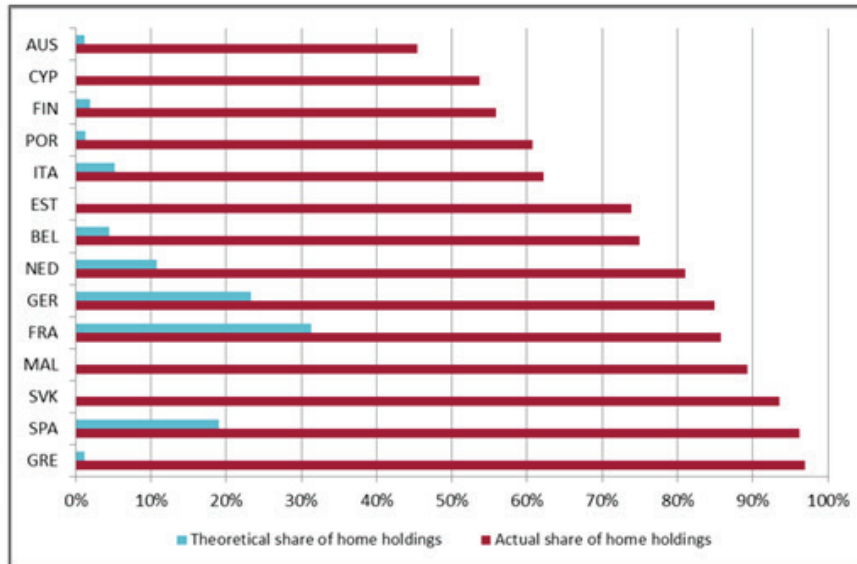
Stylized fact 4: EU has many support programs, but few bank closures

Figure 4: Number state aid bank support cases (other than just guarantees)



Stylized fact 5: Equity markets have a strong home bias

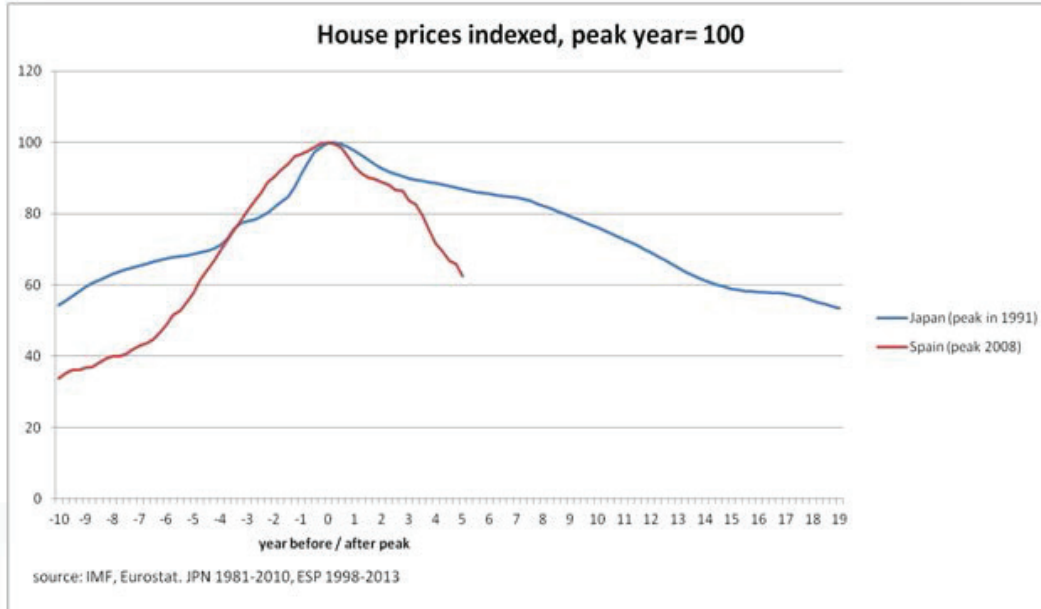
Figure 5: Proportion of equity held in euro-area countries that is of domestic origin, 2010



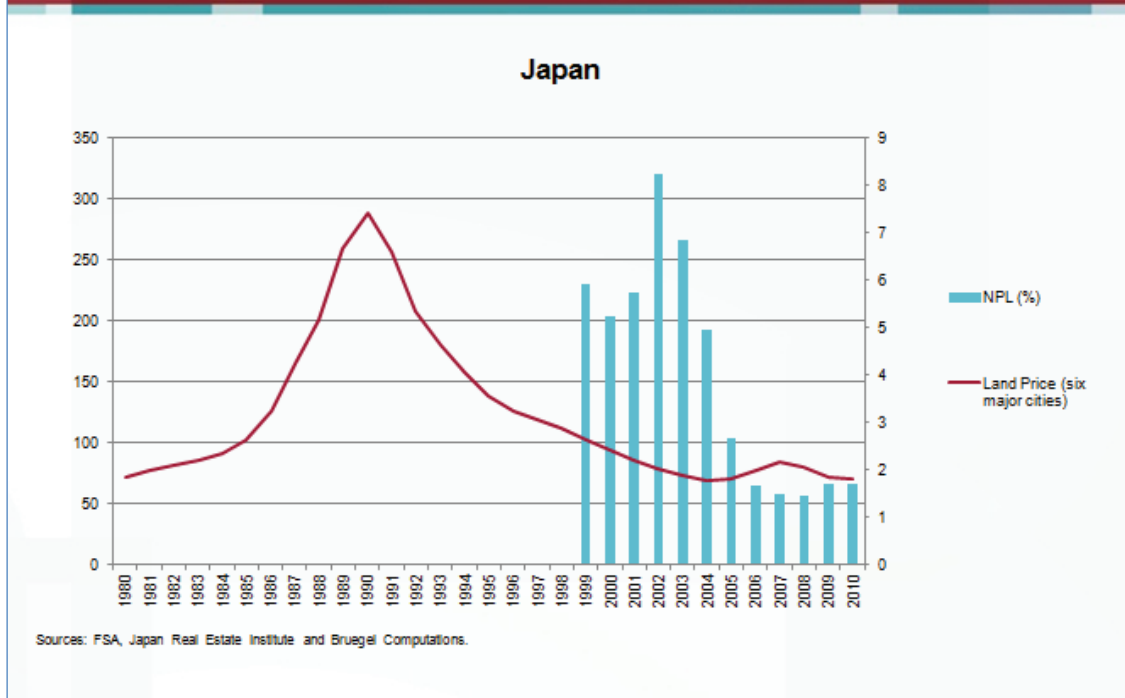
European banks – lessons from Japan (ongoing research with Ashoka Mody and Yoichi Matsubayashi)

1. Long lag between pricking of bubble and bad loans & bankruptcies of financial institutions
2. Small- and medium-sized financial institutions constituted a large share of bankruptcies

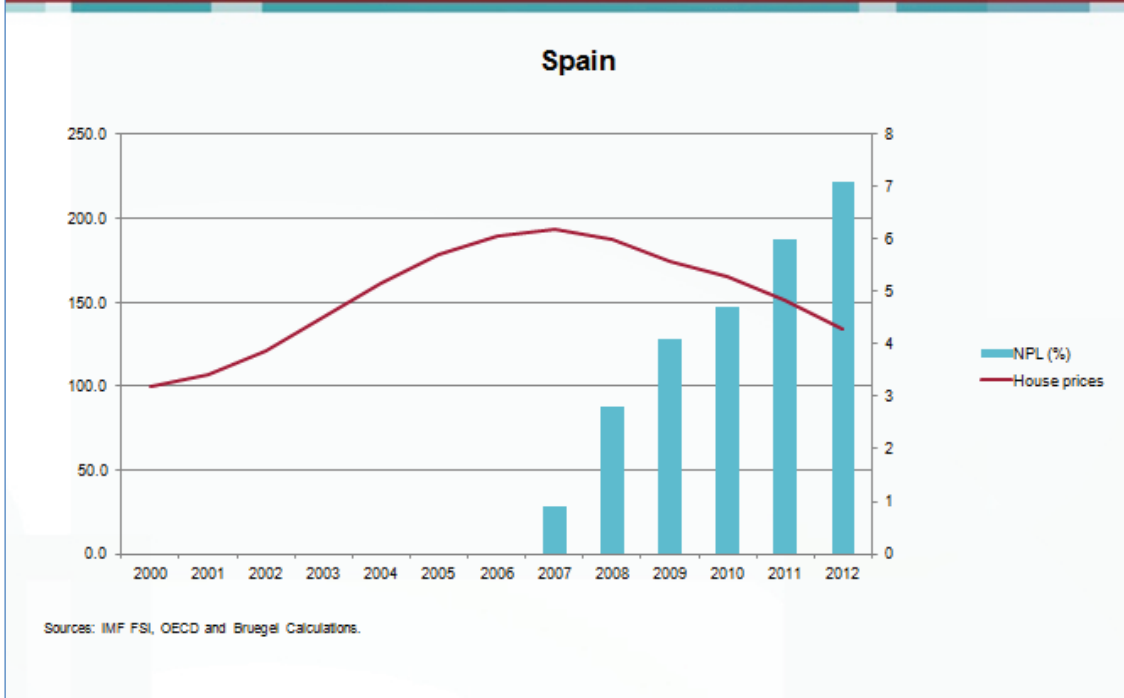
House price shocks compared



Lesson 1: 10-year lag between land price turn and bad loans



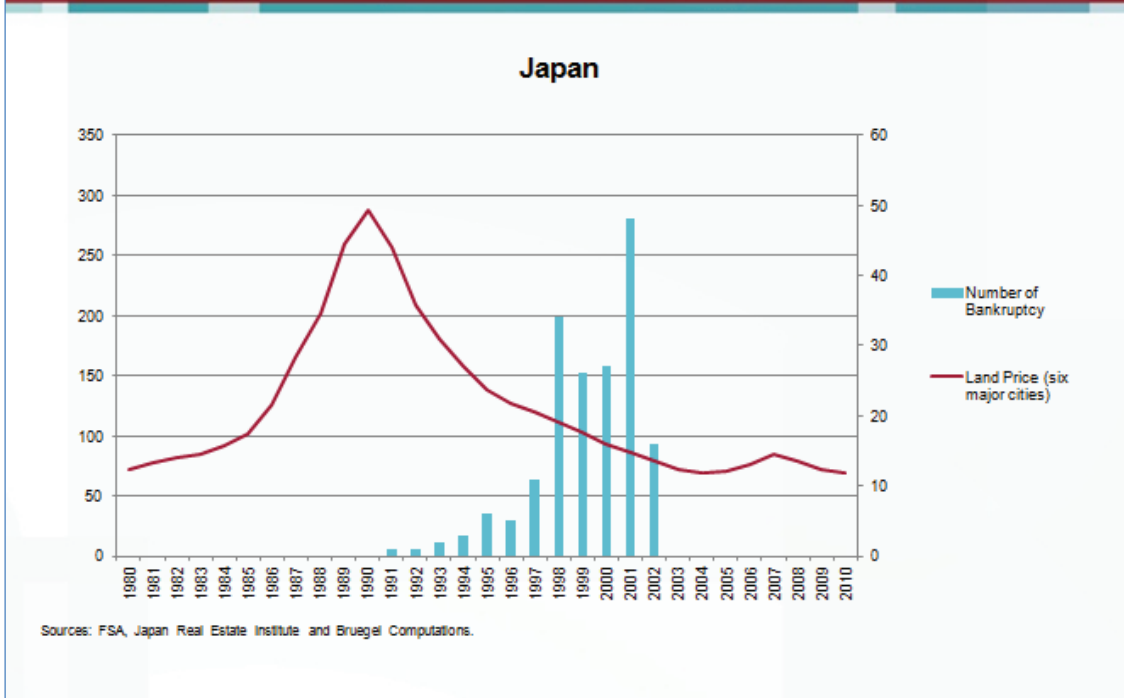
Lesson 1, Spain



Lesson 1, Ireland

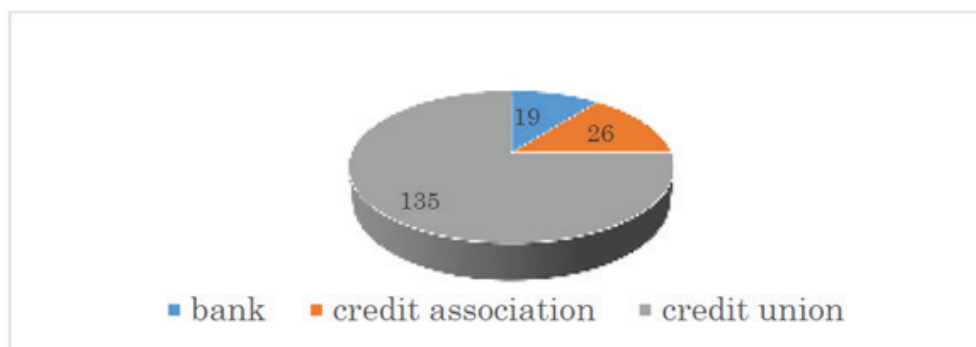


Lesson 2: 10-year lag between the peak in land prices and the one in financial institution bankruptcies



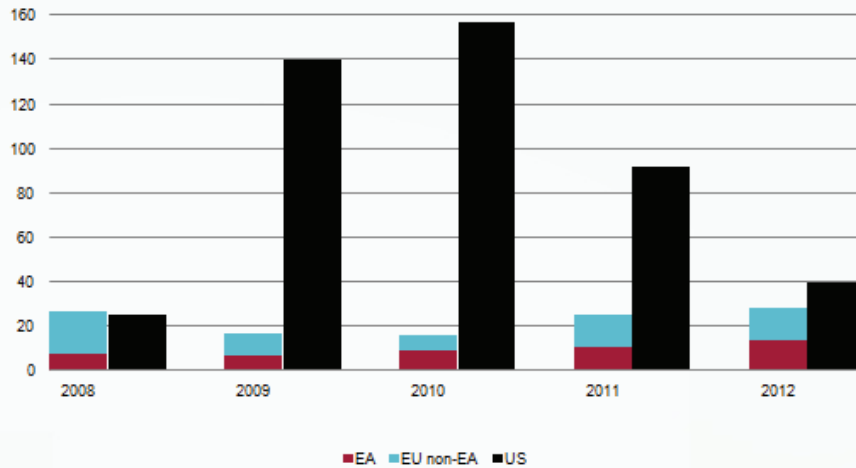
Lesson 3: Small- and medium-sized financial institutions constituted a large share of bankruptcies

Figure. 3 Type of financial institution



EU-US comparison

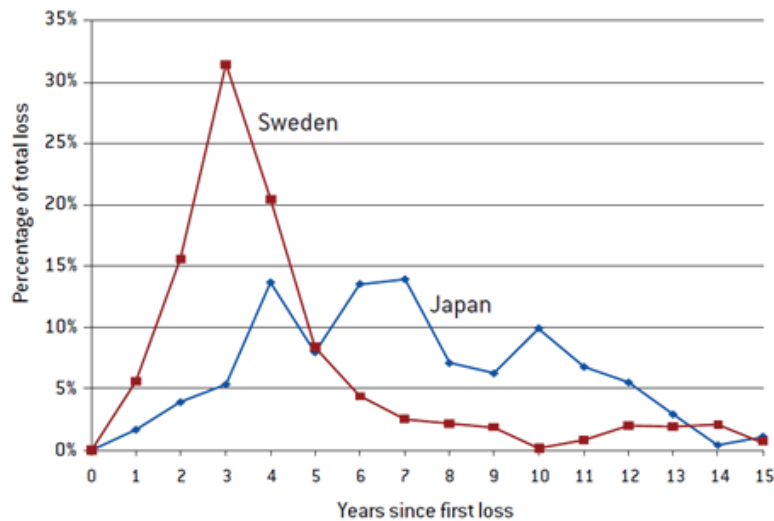
Number of bank failures



Sources: FDIC and Failed Banks Tracker (not complete, likely to be slightly underestimated)

Speed of the Bank restructuring, Sweden and Japan compared

Figure 6: Distribution of bank losses in the Japanese and Swedish banking crises in the early 1990s



Source: Jean Pisani-Ferry and Bruno van Pottelsberghe (2009) 'Handle with care! Post-crisis growth in the EU', Policy Brief 2009/02, Bruegel.

Summary & conclusions

- **Real economic re-balancing well underway but asymmetric**
- **This poses risks to deleveraging process and increases financial risks**
- **Financial fragility has come down substantially since summer 2012**
- **It depends on upcoming policy choices whether Europe will follow a Japanese scenario or Swedish/US scenario**
- **Upcoming balance sheet assessment of ECB is important opportunity to re-structure Europe's banking system**
- **Key question is less about who bears losses but on European vs national approach → banking system structure**
- **Longer term agenda should aim at deepening and Europeanizing capital markets while simultaneously improving policy framework**

Roundtable Discussion

Moderator

II SAKONG

(Chairman, Institute for Global Economics)

Panelists

Edwin TRUMAN

(Senior Fellow, Peterson Institute for International Economics)

Dennis SNOWER

(President, Kiel Institute for the World Economy)

Guntram WOLFF

(Director, Bruegel)

Jianguo XU

(Associate Professor, Beijing University)

