

# THE G-20 AND ASIA

RSIS-ROK EMBASSY JOINT WORKSHOP REPORT

27 OCTOBER 2010  
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**S. RAJARATNAM SCHOOL  
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A Graduate School of Nanyang Technological University

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## EXECUTIVE SUMMARY

The S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University, Singapore, and the Embassy of the Republic of Korea in Singapore hosted a joint workshop titled "The G-20 and Asia". Ambassador Barry Desker represented the RSIS and the Korean Embassy delegation was led by Ambassador Oh Joon. The objective of the workshop was to tap into the insights of experts and policymakers so as to illuminate the various issues concerning the G-20 meeting. The key interest is to ensure Asian representation and register Asian perspectives and voices in the G-20 institutional mechanism.

The workshops comprised two sessions. In the first session, three presenters shared their views on the theme of Asian perspectives on the G-20. Mr. Changho Kim, Director of the G-20 Affairs Office at the Bank of Korea, spoke on the 2010 G-20 Agenda and Future Prospects. Among the key perspectives of the 2010 G-20 agenda were, firstly, to ensure the recovery of the global economy and facilitate economic growth led by the private sector. Mr. Kim explained the processes and expectations of the Korean government on the G-20 in general. Another presenter, Dr. Pradumna B. Rana, was in the opinion that the G-20 provided an unprecedented opportunity for Asian countries to be heard on matters related to international economic policies. In addition, he shared his thoughts on strengthening the G-20 process. He divided his presentation into four parts: the pre-Global Economic Crisis G7-led global economic architecture, the post-Global Economic Crisis G-20-led global economic architecture, the future global economic architecture and strengthening the G-20 process.

Dr. Alistair Cook presented on the G-20 and non-traditional security issues. It is often said that in order for the G-20 to be invigorated as an institution with some enforcement mechanisms, it must be able to address and demonstrate its ability to suggest policy alternatives on global governance issues. He outlined the non-traditional issues besetting the world today, such as climate change, pandemics, resource scarcity, natural disasters, irregular migration, financial inclusion, food shortages and trans-national crime. One of the main concerns of non-traditional security experts is the problem of corruption. The problem of corruption ranks among the top five challenges, together with pollution, aids/diseases, illegal drugs and crime. Thus the G-20 leaders' summit in the years

2008–2010 has shifted towards a more comprehensive mechanism to address global challenges.

Session two began with the theme of G-20 and global governance. Dr. Kiwoong Yang's presentation addressed the issue on whether G-20 could provide genuine mechanisms for cooperation and inclusion or simply become instruments of G7. Dr. Kiwoong mentioned that G-20's lack of operational implementation capabilities, limited number of ministerial meetings (only once a year) and the lack of a permanent secretariat were among G20's limitations. Among G-20's strength were it had equipped G-20 to have capacity to foster low-key open discussion. It also could deal with more contentious issues than that of the G7.

Dr. J. Soedradjad Djiwandono began his presentation by giving a reminder that, conceptually, finance existed to provide service to the real sector in an economy. Thus the justification was that monetary or financial policy objectives were the targeted achievements in the real sector. However, there had been a decoupling process for quite sometime. Some indicators, like the finance's nominal value, were several times the value of the real sector, an indication that finance had life on its own, separated from the real sector. The last speaker, Dr. Richard Carney, addressed the question of how one should regulate banks so as to avert a recurrence of the recent global financial crisis. In the previous G20 summit in Toronto, the IMF proposed a new global tax on financial institutions as well as a tax on banks' profits and bonuses. Dr. Carney also explained the reason for the mixed responses from the G20 presidents and finance ministers, prior to providing his alternative proposal.

In his closing remarks, Mr. Kwa Chong Guan summarised that this workshop had established two approaches on how to register Asian voices: (i) how Korea could achieve that, as there were opportunities for Korea to insert more Asian voices; and (ii) how Asia could play a role in the G-20 architecture reform to achieve a similar goal. Mr. Kwa reiterated that the Asian agenda and ongoing reforms are the two issues to be explored further. As mentioned by Dr. Rana in his presentation, decentralisation could be chosen as an option in order to give a greater role to the Asian economies within the organisation.

## OPENING REMARKS

Ambassador Barry Desker opened the session by welcoming Ambassador Oh Joon of the Korean Embassy in Singapore, as well as the attendees, to the workshop. He said that the G-20 meeting in South Korea was important to Singapore because the concerns that the G-20 meeting would raise on the global economy would have relevance on Singapore, which was a major global financial centre. Furthermore, Prime Minister Lee Hsien Loong of Singapore had been invited and would attend the meeting, which underlined Singapore's important position. Ambassador Desker elaborated that the events that had happened in the last decade pointed to the necessity to discuss issues that were inter-state, intra-state and transnational, as the process of globalisation continued to evolve. One of the key issues in the G-20 Summit in Seoul was the exchange rate policy and the impact of external imbalances. The world is witnessing increasingly complex structural problems that may hinder global growth. Arising from the near meltdown of the global financial system in 2008, there are new demands for a new global architecture, including an enforcement mechanism for an oversight of the financial aspects of global governance. Additionally, Ambassador Desker raised another issue that had emerged: legitimacy and efficiency. Some of the countries that are not part of the G-20 process may have legitimate concerns that their voices are not properly heard. Therefore, it is important for G-20 to establish an institution of global governance that meets the aspirations and expectations of people beyond its immediate membership. To Ambassador Desker, G-20 should be an advocate of global interests and not only that of the powerful states. G-20 is in the process of refinement, development and fine-tuning. Hence the need to identify the challenges that are besetting the G-20 as it plays a rising role in global governance. As such, the RSIS International Political Economy programme would be keen to research on economic issues facing the world today. RSIS has expanded its study to include the current and future work of G-20. Ambassador Desker said that RSIS was therefore pleased to have organised the workshop with the Korean Embassy in Singapore and thanked the Ministry of Finance of Singapore and Korean Embassy for organising it. Ambassador Desker then invited Ambassador Oh Joon to give his opening remarks.

Ambassador Oh Joon began his speech by thanking RSIS for hosting the workshop. He said that Korea was the chair

of G-20 and the 12–13 November Seoul Summit would be the first summit to be held in Asia, as well as the first to be held in the developing part of the world. Singapore had been invited as a non-member invitee and it deserved to be invited due to its status as a key global financial centre. Furthermore, there had been great expectations to Singapore's contributions to the discussion on development and financial issues in the G-20 Summit in Seoul. Singapore was able to represent the voices and opinions of non-G-20 countries, especially the small states. On the process of G-20, Ambassador Oh Joon pointed out that the proliferation of global groupings such as G7, G8 and G13 demonstrate the absence of world governance. Even though the United Nations aimed to be a representative of global governance, it had not played that role since. In fact, Ambassador Oh Joon mentioned that states were not equal due to the differences in military and economic powers. When the United Nations came into existence in 1945, it attempted to deflect the problem of different military power by forming the UN Security Council, which was supposed to provide world security by preventing the differences in military power of states to be that main denomination of inter-state relations. However, economically, a UN Security Council-type of set-up is absent. Therefore, the economically more powerful countries set up informal processes such as G7, G8 and APEC. These informal processes play a complementary role to institutional organisations such as the United Nations. However, attitudes towards these informal groupings differ. Finally, Ambassador Oh Joon thanked the attendees and urged them to make the workshop as well as the summit a successful one.



*Speakers of the opening session (from left to right):  
Ambassador Barry Desker, Ambassador Oh Joon and  
Mr. Kwa Chong Guan*

## BACKGROUND: AGENDA BRIEFING AND ASIAN PERSPECTIVE ON G-20



*From left to right: Dr. Pradumna Bickram Rana, Mr. Changho Kim and Dr. Tan See Seng*

Mr. Changho Kim, Director of the G20 Affairs Office at the Bank of Korea, spoke on the 2010 G-20 Agenda and Future Prospects. Among the key perspectives of the 2010 G-20 agenda are: (i) to ensure the recovery of the global economy and facilitate economic growth led by the private sector, (ii) to establish a new post-crisis global economic paradigm such as a framework for strong, sustainable and balanced growth as well as global financial safety nets, (iii) to reap deliverable results at the G-20 Seoul Summit in November 2010, among which are deliverable policy options reflecting a balance between the positions of both advanced and emerging economies, and (iv) to actively reflect the positions of the 172 nations that are non-G-20 members, so as to boost the credibility and legitimacy of G-20. With the above follow-up agenda still relevant, the G-20 meeting in Seoul has to contend with global financial safety nets and development issues as well.

According to Mr. Kim, under the framework for strong, sustainable and balanced growth, in the first phase, specific policy directions would accompany the second phase of comprehensive policy action for each country. Korea, France and Canada would continue to ensure the comprehensive policy action in the post November 2010 summit. With regards to the reform of financial institutions, the International Monetary Fund (IMF) quota would increase by 100 per cent despite differences in the quota shifts. G-20 is also seeking agreement on the various issues relevant to the IMF governance reform. Thus, the Seoul Summit will achieve the IMF quota and governance reform. On the aspect of financial regulatory reform, Mr. Kim pointed out that the financial market must be renewed by increasing its credibility, transparency, responsibility to prevent the recurrence of another financial crisis and support sustainable growth. One of the discussions on financial regulatory reform involves

the stronger regulation of hedge funds as well as ways to improve accounting standards and compensation systems. Furthermore, it is also a positive move to establish a macro prudential policy framework so as to effectively identify and respond to systemic risks.

Mr. Kim pointed out that at the G-20 Summit in Seoul, the G20 leaders would therefore review the details of the financial regulatory reform discussed to date and deliver meaningful results. On global financial safety nets, the aim was to minimise the economic impacts from sudden swings in capital flows and to relieve excessive accumulation of foreign reserves with the intention of stabilising the global financial system. External Lendings will be pursued at a multi-layered approach with the IMF lending facilities being the key policy option supported by regional and national institutions. At the Seoul Summit, leaders must agree to the global financial safety nets agenda. Besides that, G-20 also endeavours to keep protectionism on a standstill. It must prevent countries from building trade barriers out of protectionism, which would hinder the recovery of the global economy and maintain free trade environments that could support economic growth in all countries. The G-20 leaders would review the progress of the WTO Doha Development Round and discuss future directions in this regard. Additionally, the Organisation for Economic Cooperation and Development (OECD), the International Labour Organisation (ILO), the World Bank (WB) and the World Trade Organisation (WTO) would be filing reports on how effectively trade liberalisation supported growth and employment.

On the issue of energy subsidies, Mr. Kim noted that fossil fuel subsidies had encouraged inefficient energy consumption, distorted the market, hindered investment in clean energy, and frustrated responses to climate change. Thus it became necessary to rationalise and phase out fossil-fuel subsidies so as to protect the global marine environment. The G-20 summit will therefore review the implementation of member countries' previous commitments. With regards to financial institutions, he mentioned that improving access to financial services for small-to-medium enterprises and the poor would both contribute to the economic growth as well as wealth enhancement. An action plan would be adopted in the Seoul Meeting and the winning proposal would

be announced. On development issues, by supporting economic development and relieving poverty in developing and low income-countries, development and income gaps among countries can be narrowed. This is an important role in global rebalancing, in securing sustainable and balanced growth, and in achieving the Millennium Development Goals (MDGs). A multi-year action plan fit for each development issue will be agreed in the Seoul Meeting.

Mr. Changhao Kim believed that the 2010 November Seoul Summit was the very first G-20 Summit to be held in an emerging market country within G-20. It illustrated how important emerging economies, including those in Asia, had become in global finance and real economy. To Mr. Kim, based upon its experience of economic development and recovery from past crises, Korea had shown strong leadership as the 2010 G-20 chair, serving as a bridge between advanced and developing economies and also by laying out emerging economic issues in international discussions. He hoped that the G-20 leaders would reach tangible achievements at the Seoul Summit on issues that would help emerging economies. After 2010, Korea will continue to participate actively in the discussions in G-20 meetings on emerging economies' issues so as to maintain its status as the premier forum for global financial and economic issues. G-20, however, must continue its discussions on ways to enhance its credibility and legitimacy other than holding multilateral discussions on ways of effectively reflecting the perspectives and opinions of emerging economies—including those of Asia—in future G-20 discussions.



*Associate Professor Ralf Emmers*

## STRENGTHENING THE G-20 PROCESS



*Dr. Pradumna Bickram Rana*

Pradumna Bickram Rana shared his thoughts on strengthening the G-20 process. He divided his presentation into four parts: the pre-Global Economic Crisis G7-led global economic architecture, the post-Global Economic Crisis G-20-led global economic architecture, the future global economic architecture, and strengthening the G-20 process. First, Rana alluded to the existence of the pre-Global Economic Crisis G7-led global economic architecture such as the International Monetary Fund (IMF), the World Bank (WB), the Asian Development Bank (ADB) and the World Trade Organisation (WTO). Each of these global financial institutions covered areas such as open trading system, macroeconomic stability, development, finance and poverty reduction. To Rana, these institutions did not reflect the economic rise and political power of emerging markets, particularly those in Asia (e.g. China and India) and therefore lacked legitimacy. They were also inflexible as they had quotas, charters and voting rights, and placed strict restrictions on membership. Thus these financial institutions were today dwarfed by private capital.

Second, in the post-Global Economic Crisis, the G-20-led global economic architecture upgraded the finance and central bank officials' forum, which was started in 1999 but kept under the shadow of G7. G-20 appointed itself as the premier forum for international cooperation and President Barack Obama announced that G-20 would replace G7, as the Global Economic Crisis had eroded the legitimacy of the Washington Consensus. One of the strengths of G-20 was that it had addressed the legitimacy issue partially by systematically including important emerging markets. However, G-20 was not inclusive

and still lacked legitimacy. Only 4.2 billion of the world's population and 31 out of the 192 countries was covered by the grouping. G-20 had limited success in reforming international economic institutions such as the reform of "chairs and shares" at the IMF. Moreover, the emerging markets were still aloof in reform proposals. Besides that, G-20's approach was incremental and informally network-based rather than rules-based. It had a huge mandate but no permanent secretariat. It had a huge agenda that needed prioritisation, and thus focused only on stimulus/exit strategies, financial regulatory reforms and limited reform of international economic institutions.

To Rana, the future of the global economic architecture lay on decentralisation, which meant a senior global organisation working together with regional institutions linked together by rules and regulations. The governance reforms of international economic institutions could continue but flexible regional institutions should complement. This arrangement, after all, was more compatible with the political realities of a multi-polar world. It was also flexible to both membership and agenda. Other advantages of a decentralised global economic architecture included the provision of public good, which was relevant to a region with a regional entity. Large regional countries might be willing to take the lead in regional bodies, ahead of global institutions. Rana opined that decentralised global economic architectures did not have to lead to closed economic blocs of the 1930s, given the integrated nature of the global process, as pointed out by the renowned economist Heilleiner. According to Rana, Joseph Stiglitz further opined that regional monetary funds could be effective in preventing crisis in one country that could affect others in the region.

On the fourth part of his presentation, Rana opined that the G-20 process could be strengthened by enhancing the inclusiveness and legitimacy of G-20. Here, he pointed out two proposals. The first one was by the renowned economist Joseph Stiglitz, which was to set up a Stiglitz Commission, with the main idea of bringing G-20 under the United Nations umbrella so that a variable geometry could be applied. The second proposal was that of a Singapore-led Global Governance Group (3G) convened under the United Nations consisting of 28 members, six of which would be from Asia. G-20 and the United Nations

could co-exist amicably but G-20 had to be consultative, inclusive and transparent so that its recommendations could be implemented effectively. Additionally, G-20 must hold consultations with non-G-20 members before and after their summits, formalise the participation of the United Nations Secretary General in G-20, regularise the participation of the various chairs of the regional groupings and use the variable geometry approach for non-members. This Singapore-led Global Governance Group (3G) idea could help to convert the G-20 Summit from a self-selected to a universal and unquestioned premier grouping for international cooperation in overseeing global economic governance.

Furthermore, the G-20 process could be strengthened by moving from a network-based to a rules-based system. By forming a Global Economic Coordination Council (GECC), as proposed by Joseph Stiglitz, and a World Finance Organisation (WFO), as proposed by Eichengreen, the rules-based G-20 was realisable. However, for now, unless the increase in financial crisis was met with increasing political will, the G-20 would remain network-based and the premier organisation. Thus, marginal changes were expected at the international economic institutions levels. For the G-20 Seoul Summit, the priorities were to implement global financial safety nets, restart the DOHA round, initiate actions on fostering economic development as well as good governance, adopt the Singapore-led 3G ideas and take actions on the emerging international currency wars.

Another presenter, Alistair Cook presented on G-20 and non-traditional security issues. He outlined the non-traditional issues besetting the world today, such as climate change, pandemics, resource scarcity, natural disasters, irregular migration, financial inclusion, food shortages and transnational crime. Due to the nature of non-traditional security issues, which challenged the survival and well-being of people and states, countries had to cooperate for their own sake. One of the main concerns of non-traditional security experts was the problem of corruption. This problem was ranked among the top five challenges, together with pollution, aids/diseases, illegal drugs and crime. Thus the G-20 leaders' summit in the years 2008–2010 had shifted towards a more comprehensive mechanism to address global challenges.



*Dr. Alistair Cook*

Among the priorities of the G-20 Seoul Summit were development issues, energy security and climate change, food security, the rule of law, the fight against terrorism, poverty, diseases, microfinance and balancing economic growth with social resilience. To overcome these challenges, Cook opined that an integrated approach of multiple stakeholders, multi-level governance and international cooperation would be critical to the objective of reducing the problems besetting the world today. Referring to non-traditional security analysis across and between levels of governance, Cook mentioned that transparency, responsiveness, consensus-oriented, equity and inclusiveness, effectiveness and efficiency, accountability, participation and rule of law were the areas that must be covered in order to achieve a comprehensive approach in dealing with these challenges.

Therefore, for the G-20 Leaders' Summit to gain institutional legitimacy, it had to be linked to the United Nations as well as ensure regular consultation through the UN and its regional commissions. Currently, many countries recognise the initiative of the Republic of Korea to reach out to non-G-20 countries through the UN and its regional commissions as well as the move to regularise this. Assisted by G-20-UN formal representation and cooperation, the UN regional commissions to assist in the G-20 Leaders' Summit preparation would identify clear channels of communication between the G-20 secretariat and the wider public and civil society. Furthermore, more emerging countries were now holding the chairs at the IMF.

Cook also raised the issue of the Millennium Development Goals (MDGs). With access to education and financial services among the main objectives of the MDGs, Cook said that access to education and financial services would improve the lives of many low-income and poor people in developing countries. With only a third of the people in developing countries having access to education and a quarter having access to loans and financial services compared to developed countries, G-20 can work towards closing this gap so as to achieve the MDGs.

The role of G-20, therefore, was to create a global partnership for financial inclusion or microfinance. It could carry out data collection and analysis, promote agriculture, development, and knowledge sharing with states experienced in microfinance initiatives and recognise the importance of deposits as well as credits. Additionally, G-20 countries can also collaborate on anti-corruption actions, food security and environmental concerns. On food security, there were countries that had bought land in other countries to cultivate food for their people but ended up displacing the population. G-20 can look into these areas as part of achieving the MDGs.

## DISCUSSION



*From left to right: Mr. Mushahid Ali and Mr. Tan Seng Chye*

The first question was raised by Mushahid Ali, a senior fellow from RSIS. Mushahid asked about the need for an institutionalised G-20 and the formation of a permanent secretariat. He also inquired whether there had been any progress made. Mr. Changho Kim replied that there was no detailed process to institutionalise and to form a secretariat in G-20. Currently, G-20 was more focused on

economic matters rather than institutionalisation. G-20 was focused on global economic stabilisation rather than institutionalisation. Rana opined that there were many working groups led by known people who did not have permanent secretariats, as they were network-based only. The renowned economist Joseph Stiglitz once proposed for a Global Economic Consortium (GEC). This proposal, however, was difficult to institutionalise. Moreover, networking was a much better option, as it was inclusive.

Li Mingjiang asked about the state of the current currency dispute between the United States and China. He also asked about the intended outcomes on the currency issue in the G-20 Seoul Summit. Mr. Kwa commented on the inscribing of the “Asian Voice” in G-20. He felt that once the G-20 meeting moved to France, it would be more focused on Western agenda. Thus, he asked about measures to ensure that the “Asian Voice” would be included and also ways to move away from a hierarchical world system.

Tan Seng Chye provided a perspective that the reform of economic recovery would be difficult without a formal and rules-based organisation. He also felt that the shift of chairmanship from Asia to Europe would cause Asia to lose the agenda. He also asked whether the Sino-U.S. agenda would dominate the G-20 Seoul Summit. Mr. Changho Kim said that there was no currency war between the United States and China but there was competitive currency devaluation instead. G-20 would discuss in detail policy matters such as rules-based and institutionalisation of the organisation. He again reiterated that there was a currency war between the United States and China. G-20, however, would promote external sustainability and pursue the full range of policies as well as maintain a current account balance. G-20 member countries would also discuss concrete outlines and look forward to the summit. He ended his comments by saying that G-20 represented 85 per cent of the world’s gross domestic product and two-thirds of the world population. Thus, G-20 is a legitimate institution.

Finally, Rana opined that the United States and China would agree on non-competitive devaluation and that China would be a willing participant to it. He also added that national sovereignty was an issue to all states and therefore supranational institutions were not respected, more so with loose networking. Thus, the use of moral persuasion to implement policies was also about how to make G-20 more inclusive and representative.

## GLOBAL GOVERNANCE AND ASSESSMENT



*From left to right: Dr. J. Soedradjad Djiwandono, Dr. Kiwoong Yang, Dr. Chang Youngho and Dr. Richard Carney*

Kiwoong Yang's presentation addressed the issue on whether G-20 could provide genuine mechanisms for cooperation and inclusion or simply become an instrument of G7. According to the first view, G-20 helped G-7—crafted by the core economies under the U.S. leadership—to dominate a wider order and legitimise a G-7-generated view of the world. The second view saw G-20 as a new form of collectivism. There was a perception of systemic vulnerabilities and therefore genuinely collective solutions to international problems were needed. To address this concern, there was a requirement of technical collaboration, consensus formation, information flows, regulatory cooperation, mutual influence, and broader shared vision. Yang also highlighted the legitimacy of G-20, which included transparent procedures, fair and equitable treatment and rules, a sense of inclusiveness, and meaningful participation. The importance of G-20 was the active engagement of key mid-sized economies, which would ensure that the forum's decisions were not just those made by the big countries. G-20 could serve as a broker consensus between the big countries and provided "spaces" in international politics as well.

Yang mentioned that G-20's lack of operational implementation capabilities, limited number of ministerial meetings—only once a year—and the lack of a permanent secretariat were among the group's limitation. Among G-20's strength was its capacity to foster low-key open discussions. It also could deal with more contentious issues

than the G-7. Yang ended its presentation by concluding that G-20 was still evolving. The G-20 future would be determined whether it could find a "space" of international politics for the interaction between the advanced and emerging economies.

Richard Carney outlined that the Basel III proposals would have two clear effects. First, they would strengthen the monopolistic positions of the largest banks. Second, they would globalise the costs of risk-taking activities while granting a competitive advantage to banks that prosper from such activities. Banks in the United States, the United Kingdom and Switzerland would benefit most while banks in France, Germany and Japan would be disadvantaged. Carney explained how banks in the key economies were structured and regulated. Ownership was more diffuse in banks in the United States and the United Kingdom. Managers there focused more heavily on short-term earning benchmarks as the managers' pay there was explicitly tied to the company's share-price performance. Updates of quarterly earnings were delivered to their shareholders, which explained why managers focused their efforts on meeting—or exceeding—these three-monthly benchmarks. Since Goldman Sachs made initial public offering in 1998, the concern had been that financial rewards would be measured in months instead of lifetimes. This condition was different with banks in Germany, France and Japan, where the governments there had large, if not majority stakes, and there were only a few shareholders. The banks in those countries took

broader social goals and hence, managers did not face short-term incentives nor take short-term risks.

In terms of the extent of self-regulation, regulations were heavily informed by the industry sector in the United States. The role of regulatory agencies had been diverted, as financial institutions not only had more influence over rules that are made but also searched for ways to circumvent them. In the United Kingdom, the highly concentrated financial institutions had been able to self-regulate in order to ensure competitiveness with their American counterparts. Financial institutions in Canada, despite not being comparable with those in the United States, were more heavily orientated towards protecting banks and their depositors rather than investors. As a result, Canada had implemented a more stringent leverage ratio, stricter capital requirements, and more conservative lending rules compared to the United States. In his conclusion, Carney mentioned that the Basel III proposals did not address the underlying short-term incentives that bank managers face or the capacity of national regulators to moderate bankers' short-term focus by remaining independent from the industry.



*From left to right: Mr. Kim Youngchae, Professor J. Soedradjad Djiwandono and Professor Yang Kiwoong*

J. Soedradjad Djiwandono began his presentation by giving the reminder that, conceptually, the finance sector existed to provide service to the real sector in an economy. Thus the justification was that monetary or financial policy objectives were helping what should be achieved in the real sector to be achieved. However, there had been a decoupling process for quite some time. Some indicators, like the nominal value of the finance sector, were several times the value of the real sector. It showed that the finance sector had a life of its own, separated from

that of the real sector. Djiwandono outlined similarities between the Asian Financial Crisis (AFC, 1997–1998) and the Global Financial Crisis (GFC, 2008). Both crises resulted from excess liquidity and excess leveraging in corporations (mainly for the AFC) and in households and financial institutions (mainly for the GFC). The AFC was marked by a lack of transparency meanwhile the GFC was characterised by complex financial instruments. Weak supervision (mainly in the AFC) and lax regulators (mainly in the GFC) were also similar components in both crises.

Djiwandono outlined a distinguished difference in both crises, and that was the role of the IMF. During the AFC, the IMF's role was very instrumental while during the GFC, it was starkly different. The “one size fits all” and “bitter pills” of the IMF-based policies of the AFC had been replaced by low interest rates, monetary easing, bailout policies and economic stimuli. Basically, there was a shift from the belief of the effective market hypothesis based on market fundamentalism to a more active government role and intervention in the market. During the GFC, as urged by the United States in G-20, every country had a fiscal stimulus policy. He also noted that the AFC could not have been predictable but the GFC had been predicted in many books.

Meanwhile, Indonesia had been described by a recent World Bank report as undergoing a robust recovery but with rising risks. The report predicted that Indonesia would continue to undergo a robust recovery while at the same time build capability to cope with rising risks. Djiwandono outlined the issues of IMF reform—especially those concerning quota review or governance—that had become classic issues. The effort to make progress in this area had to be continued and even strengthened through G-20. However, to be realistic, not much could be expected here. Quoting Andrew Sheng, Djiwandono said even with G-20, the voting power changes in the IMF and World Bank were only in the order of five per cent. He also explained, with respect to the reform in the Global Financial Safety Net (GFSN) to address the systemic risk, it had to be highlighted that the IMF had kept improving its facilities. However, the stigma of standby arrangements conditionality provided by the IMF in assisting governments coping with the AFC was still traumatic for Indonesia, Thailand and Korea. In the meantime, supporting schemes like bilateral swaps and other measures were available for use when needed.

## DISCUSSION



*The workshop on "The G-20 and Asia"*

Another important difference between the AFC and the GFC was at that time, the Thai baht, the Philippine peso, the Indonesian rupee and the Korean won were not reserved currencies. As the national currency was not a safe haven, they depreciated tremendously. In the recent GFC, the U.S. dollar and gold was seen as a safe haven for the international reserve currency. This explained why there was very little capital outflow from the United States during the GFC. Had the U.S. dollar not been the safe haven, the crises would be exactly as the AFC, where the U.S. dollar would have depreciated worse than it did during the AFC. Currently, the depreciation of the dollar was attributed more to the Federal Reserve Board's quantitative easing. The AFC saw how the IMF opposed the capital control when Malaysian Prime Minister Mahathir imposed the measure. Now, capital control was no longer seen as a taboo. Even the IMF's managing director Dominique Strauss was in the view that capital control could be used in certain cases.

Currently, the market's perception on Indonesia was generally good. But at the same time, it also carried a risk because a capital reversal might occur just as easily. The United States' monetary policy easing mechanism

worked much better than giving loans to banks. There was some concern that banks did not serve as real banks, which was supposedly to give credit to the real sector. Instead, at present, banks were more interested in trading. However, governments and banks in Asia had learnt hard lessons after what they went through during the AFC. Asian economies had currently accumulated reserves and they had facilities to deal with similar crises should they occur again. The banking sectors were currently much stronger than during the time of the AFC. In Indonesia, for example, bank capitals were very good at the moment and they could meet their requirements very well. Safety nets were also in place, unlike in the past where there was no legal basis for such measure. To conclude, Indonesia was currently more prepared than it was during the AFC.

Some in G-20 had a different view on Indonesia's policy, that Indonesia should act as a member of ASEAN and represent ASEAN in G-20. Despite Indonesia not having gone to that stage yet, in terms of formality and the policy of ASEAN, Indonesia would be very disciplined on that matter. However, generally, Asia had not played a prominent role in G-20. G-20 was still a dollar-based system and a reaction to the big guys' call.

## CONCLUDING REMARKS



*Mr. Kwa Chong Guan*

In his concluding remarks, Mr. Kwa Chong Guan said that this seminar had provided an Asian perspective on G-20 and how Asian values could be implemented in G-20. It was viewed that voice of Asia was not sufficiently represented in G-20 at this point in time and that G-20

was G-7's extension and a U.S.-led consensus. There was an implicit assumption that there was a need to embed the Asian voice in G-20. The underlying assumption was that Asia was rising in the world, a happening centre, and therefore, G-20 was a medicine. The upcoming meeting of G-20, where Korea served as chair, would provide an opportunity to register Asian concerns on a long-term basis. Hopefully, Korea's responsibility would be supported by other Asian partners such as Indonesia. Nonetheless, he emphasised that continued reforming efforts are vital, considering the fact that the G-20 meeting is an ongoing process and not a project. Mr. Kwa summarised that this workshop had established two approaches on how to register the Asian voices: first, through Korea, as there were opportunities for Korea to assert more Asian voices, and second, Asia could play role in the G-20 architecture reform to achieve a similar goal. Mr. Kwa reiterated that the Asian agenda and the ongoing reforms were the two issues to be explored further. As mentioned by Rana in his presentation, decentralisation could be chosen as one option in order to give a greater role to the Asian economies within the organisation.

## PROGRAMME – “THE G-20 AND ASIA”

12:45 pm – 1: 15 pm	Registration	Non-traditional Security Issues and G-20
1:15 pm – 1:30 pm	<p><b>Welcoming Remarks</b> Ambassador Barry Desker Dean S. Rajaratnam School of International Studies Nanyang Technological University, Singapore</p>	<p>Dr. Alistair Cook Post-doctoral Fellow S. Rajaratnam School of International Studies Nanyang Technological University, Singapore</p>
	<p><b>Opening Remarks</b> Ambassador Oh Joon The Embassy of the Republic of Korea in Singapore</p>	<p>3:00 pm – 3:30 pm      Break</p>
1:30 pm – 3:00 pm	<p><b>Session 1: Agenda Briefing and Asian Perspective on G20</b></p> <p><b>Chairperson:</b> Professor Tan See Seng S. Rajaratnam School of International Studies Nanyang Technological University, Singapore</p> <p><b>Speakers:</b> Korea’s Agenda Setting and Expectation Mr. Changho Kim Director of G-20 Affairs Office Bank of Korea Korea</p> <p>Strengthening the G-20 process Dr. Pradumna B. Rana S. Rajaratnam School of International Studies Nanyang Technological University, Singapore</p>	<p><b>Session 2: Global Governance and Assessment</b></p> <p><b>Chairperson:</b> Dr. Chang Youngho Adjunct Senior Fellow S. Rajaratnam School of International Studies Nanyang Technological University, Singapore</p> <p><b>Speakers:</b> Korea’s Perspective on Global Governance Issues Professor Kiwoong Yang Department of Politics and Public Administration, Hallym University in Korea.</p> <p>Bank regulations: How to Avert a Recurrence of the Recent Global financial crisis Dr. Richard Carney Assistant Professor S. Rajaratnam School of International Studies Nanyang Technological University, Singapore</p>

Challenges of Global governance:  
Indonesian Perspective  
Dr. J. Soedradjad Djiwandono  
Professor  
S. Rajaratnam School of  
International Studies  
Nanyang Technological University,  
Singapore

5:00 pm – 5:10pm

**Closing Remarks**  
Mr. Kwa Chong Guan  
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## ABOUT RSIS

The S. Rajaratnam School of International Studies (RSIS) was officially inaugurated on 1 January 2007. Before that, it was known as the Institute of Defence and Strategic Studies (IDSS), which was established ten years earlier on 30 July 1996. Like its predecessor, RSIS was established as an autonomous entity within the Nanyang Technological University (NTU).

The School exists to develop a community of scholars and policy analysts at the forefront of Asia-Pacific security studies and international affairs. Its three core functions are research, graduate teaching and networking activities

in the Asia-Pacific region. It produces cutting-edge security related research in Asia-Pacific Security, Conflict and Non-Traditional Security, International Political Economy, and Country and Area Studies.

The School's activities are aimed at assisting policymakers to develop comprehensive approaches to strategic thinking on issues related to security and stability in the Asia-Pacific and their implications for Singapore.

For more information about RSIS, please visit <http://www.rsis.edu.sg/>.

## ABOUT NTU

Nanyang Technological University (NTU) is a research-intensive university with globally acknowledged strengths in science and engineering. The university has roots that go back to 1955 when Nanyang University was set up. Today, NTU has four colleges with 12 schools, and four autonomous entities, RSIS, the National Institute of Education, the Earth Observatory of Singapore and the Singapore Centre on Environmental Life Sciences Engineering.

NTU provides a high-quality global education to more than 33,000 undergraduates and postgraduate students. The student body includes top scholars and International Olympiad medallists from the region and beyond.

Hailing from more than 90 countries, the university's 3,100-strong teaching and research staff bring dynamic international perspectives and years of solid industry experience.





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