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- Power Shifts and China's Challenges to Global Financial Governance
- Existing and Emerging Powers in the G20: The Case of East Asia
- Focused Leadership: China's New Role in Global Economic Governance
- Regional Mediator: A New Role for South Korea
- Japan's Role in the New Global Economic Governance: Domestic and international factors

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Begründet von Günter Diehl
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REFERIERTER THEMENSCHWERPUNKT

Sebastian Bersick and Jörn-Carsten Gottwald 5
Introduction
Gerald Chan 9
Power Shifts and China's Challenges to Global Financial Governance
Yves Tiberghien and Niall Duggan 28
Existing and Emerging Powers in the G20: The Case of East Asia
Sebastian Bersick and Jörn-Carsten Gottwald 45
Focused Leadership: China's New Role in Global Economic Governance
Bernadette Andreosso-O'Callaghan 63
Regional Mediator: A New Role for South Korea
Hugo Dobson 78
Japan's Role in the New Global Economic Governance:
Domestic and international factors

KONFERENZBERICHTE

The China Model: A Challenge to the European Varieties of Capitalism, Hamburg, 08.–10. Dezember 2012 (Jari John) 93
Participatory Pop: Audiences, Life Styles and Fan Culture in 20th Century Southeast Asia, KITLV Jakarta, 10.–11. Januar 2013 (Amanda Kovacs) 95
3. Jahrestagung des Arbeitskreises Südasien in der Deutschen Gesellschaft für Geographie, Heidelberg, 25.–26. Januar 2013 (Martin Franz, Mareike Kroll und Thomas Lennartz) 96
Sozialwissenschaftlicher China-Workshop „Iserlohn 2012", Iserlohn, 02.–03. Februar 2013 (Max D. Zellmer) 97
Regional Order and Regionalism in Asia, Peking, 16.–17. März 2013 (Nicola Nymalm) 99
10th Annual Conference of the European Association of Taiwan Studies, École Normale Supérieure de Lyon, and European Association of Taiwan Studies, Lyon, 02.–04. May 2013 (Ann Heylen and Jens Damm) 101
Interdisciplinary Aspects of Well-Being in Changing Societies, Bad Homburg, 21.–23. Mai 2013 (Jeanette Ziehm) 103
Erinnerungskulturen post-imperialer Nationen, Konferenz im Internationalen Wissenschaftsforum Heidelberg, 27.–29. Mai 2013 (Dietmar Rothermund) 105
Leadership and Authority in Asia: Politische Führung und Führungsstile in Asien, Wissenschaftliche Tagung der DGA, Berlin, 20.–21. Juni 2013 (Miriam Franz) 107

REZENSIONEN

Dirk Bronger, Lutz Trettin (Hgg.): Megastädte. Global Cities Heute. Das Zeitalter Asiens? (Wolfgang-Peter Zingel) 109
Enrico Fels, Jan Frederik-Kremer, Katharina Kronenberg (Hgg.): Power in the 21st Century. International Security and International Political Economy in a Changing World (Eva Schwinghammer) 110

Christopher E. Goscha: Historical Dictionary of the Indochina War (1945–1954). An International and Interdisciplinary Approach (Volker Grabowsky) 112
Jonthan Menge: Zivilgesellschaft in Vietnam. Ein westlich-demokratisches Konzept auf dem Prüfstand (David Schnabel) 113
Anthony J. S. Reid: Indonesia Rising. The Repositioning of Asia's Third Giant (Malte Drewes) 114
Gerd R. Zimmermann: Die Besiedlung Madagaskars durch „Indonesier" (Alexandra Kraatz) 115
Benjamin Page, Xie Tao: Living with the Dragon. How the American Public Views the Rise of China (Ekkehard Kleindienst) 117
Jianying Zha: Tide Players. The Movers and Shakers of a Rising China (Lin Hang) 118
Nora Sausmikat, Klaus Fritsche (Hgg.): Civil Society in European-Chinese Relations. Challenges of Cooperation (Elisa Hörhager) 120
Sammelrezension: New Perspectives on Taiwan (André Beckershoff) 121
Graham Allison, Robert D. Blackwill et al.: Lee Kuan Yew. The Grand Master's Insights on China, the United States, and the World (Christoph Unrast) 124
Patricia L. Maclachlan: The People's Post Office. The History and Politics of the Japanese Postal System, 1971–2010 (Albrecht Rothacher) 125
Reinhard Zöllner, Yoshio Nakamura (Hgg.): Culture and Contents. Understanding Contents Business in Japan and the World (Christiane Laumann) 127
Patrick McEachern: Inside the Red Box. North Korea's Post-Totalitarian Politics (Roland Hiemann) 128
Dieter Schuh: Reise in die Geschichte Baltistans. Band 1–4. Expedition in ein immer noch unbekanntes Land. Sonderausgabe der Tibet-Encyclopaedia (Matthias Schmidt) 129

FORSCHUNG – LEHRE – INFORMATIONEN

Konferenzankündigungen: September bis November 2013 131
Martin Wagener 133
Einführung in die Sicherheitspolitik Ostasiens, Teil 2

NEUERE LITERATUR 146

AUTORINNEN UND AUTOREN DIESER AUSGABE 154

ONLINE-BEILAGE AUF WWW.ASIENKUNDE.DE

Links zu asienkundlichen Seminaren und Instituten (überarbeitet von Earenya Guerra)

SONDERTEIL

Tätigkeitsbericht der Geschäftsführung für die Jahre 2011 bis 2013 I
Protokoll der ordentlichen Mitgliederversammlung der DGA XVII

ASIEN 128 (Juli 2013), S. 63–77

Regional Mediator: A New Role for South Korea

Bernadette Andreosso-O'Callaghan

Summary
This article aims at assessing the extent to which the G20 is empowering middle-range countries by analyzing the case of South Korea in the G20 process from an economics perspective. It examines South Korea's ability to play the role of a regional mediator, particularly through its active role in hosting one of the post-GFC summits, and its role in helping to frame an "Asian consensus" around a number of key economic issues. This is done by initially analyzing South Korea's relative economic weight and importance in the G20 (section 1). South Korea's role within the ambit of the G20 is critically reviewed in section 2, whereas the final section focuses on the analysis of the Seoul Summit and Gyeongju Finance Ministers' meeting in November 2010 and their potential consequences.

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Keywords: South Korea, G20, mediation, small states; Asian consensus; financial crises; international financial institutions' reforms

Introduction

Recurrent financial crises since the 1990s can be appraised as representing severe adjustment mechanisms in a particular economic system that is fraught with many dysfunctional features. The increasingly "financialized" system that has been evolving at the global level since the late 1970s is one example of such an economic system. These crises have repeatedly thrown both the *raison d'être* and the functioning of the Western-centered Bretton-Woods institutions — namely the International Monetary Fund (IMF) and the World Bank — into question. It has now become clear that these two international financial institutions (IFIs) have been increasingly incapable of preventing and addressing modern financial and economic crises and that they have been unable to stimulate international economic cooperation and governance in spite of their laudable post-WWII mandates.

Yet, given its origin (in the USA and EU) and its severity, the global financial crisis (GFC) has been nurturing a notable change in the area of financial crisis management at the international level; indeed, the emergence of G20 summits since 2008 has been noted as an important vehicle of global crisis management, as a central piece of global governance, and as the optimal option for the reform of the IFIs (Tiberghien 2011). Moreover, as one of the five Asian countries in the G20, and as a host country of both the November 2010 Summit and the Finance Ministers' meeting, the Republic of Korea (South Korea) has been able to raise its profile, as highlighted by the Seoul Development Consensus, for example. Consequently, G20 summits seem to have enabled South Korea to emerge as a middle power with a clear agenda and novel mediation skills. This is a remarkable outcome for a country that was very much viewed in the recent past as a regional leader "taking a back seat" (Andreosso-O'Callaghan 2010).

This article aims at assessing the extent to which the G20 is empowering middle-range countries by analyzing the case of South Korea in the G20 process from an economics perspective. It examines South Korea's ability to play the role of a regional mediator, particularly through its active role in hosting one of the post-GFC summits, and its role in helping to frame an "Asian consensus" around a number of key economic issues. This is done by initially analyzing South Korea's relative economic weight and importance in the G20 (section 1). South Korea's role within the ambit of the G20 will be critically reviewed in section 2, whereas the final section will focus on the analysis of the Seoul Summit and Gyeongju Finance Ministers' meeting in November 2010 and their potential consequences.

The relative economic importance of South Korea in the G20

Theoretical underpinning

The international relations literature highlights the ability of economically and politically marginal countries to become empowered and to raise their international profile once they join an international forum or grouping, as in the case of Ireland or Denmark when they joined the Common Market in 1973. As argued by Balassa (1973), the loss of sovereignty suffered by small states can be compensated for by their increasing bargaining position within the ambit of a regional grouping and/or an international forum. Regional economic integration allows these small states to acquire political representation in the decision-making process that is far in excess of their economic weight (Katzenstein 1985). Thorhallsson and Wivel (2006) point out the ability of these small states to influence large organizations' policies, for example by forming coalitions with other smaller states.[1] Moreover and as noted by these authors, the end of the Cold War signaled the end of an antagonism between small and large states in Europe and further afield. This has given small states more freedom of maneuver in the area of foreign policy. This in turn has implied that inter-state relations could be more successfully mediated through supra-national institutions, such as the EU institutions in the case of some of the former socialist Central and East European countries (CEECs). In the case of South Korea, the disappearance of the Soviet threat has allowed the country to broaden its cooperation with a number of East European countries. As Jeong (1998) has shown, the end of

1 The CAIRNS group in the framework of the last GATT round is probably one of the best-known examples of successful coalition-building in the area of multilateral economic negotiations.

the Cold War led to fast-growing relations between South Korea and the "transition" CEECs, in particular with Poland, owing to its size.

These positive developments in favor of small states find resonance in the case of South Korea in the G20. This can be understood as the culminating point of an internationalization strategy that has spanned several decades. There are a number of ways in which South Korea has gradually become more embedded in the global economy and in the institutional architecture of global governance. Thanks to fast, export-led growth under the presidency of Park Chung-hee (1961–79) and thanks to democratization — an important juncture — during the 1980s, South Korea was able to join the World Trade Organization in 1995 and the Organization for Economic Cooperation and Development shortly afterwards in 1996. Furthermore, democratization allowed the country to redefine its industrial policy by facilitating the emergence of other important socio-economic non-state actors from independent business organizations and civil society, for example. The 1997 Asian Financial Crisis (AFC) was another critical juncture for South Korea. It led to radical changes by way of reforms, which transformed the economic system into a more market-friendly system. These reforms have been particularly noticeable in the financial and banking sector where corporate restructuring, *managed* financial liberalization, and improved institutional governance all raised South Korea's profile as a suitable locus for capital accumulation.

Seen from the Varieties of Capitalism (VoC) perspective, it can be argued that through political change, economic opening, and post-AFC reforms, South Korea has been converging toward a Western capitalist model, albeit with a great deal of sectoral variation (Ha and Lee 2007).[2] South Korea is now the most open and "liberal" economy in the emerging market group, although it still remains very much a *sui generis* capitalist model. The fact that it is now close to a typical Western capitalist model makes the country more credible as an international economic actor. Consequently, the G20 provided an ideal forum to test South Korea's willingness and ability to actively participate in the process of global economic governance. For the first time in its history, South Korea has been at the center of global rule-making, with effective decisions being made in order to tackle profound and urgent economic problems. Through its active role in the 2010 G20 Summit and more generally through its membership of the G20, South Korea has taken the opportunity to increase its voice on the global stage.

South Korea's economic weight in the G20

South Korea's weight in the G20 is very small in terms of its population and GDP, being around 1 and 2 percent respectively (see Table 1). In fact, the country's

2 Note that Hall and Soskice's VoC approach is silent on the case of transition and emerging economies such as South Korea (for more on this, see Hall and Soskice 2001).

economic status in the G20 is only marginal. Nevertheless, the table highlights the relative status of South Korea as a successful trading nation: its trade balances were positive throughout the first decade of the third millennium and despite the GFC. In 2009, South Korea's trade balance was back to the pre-GFC level, denoting a remarkable resilience to this unprecedented shock.

Table 1: Macroeconomic indicators: South Korea's weight (as a percentage of the G20's overall unless otherwise specified)

	2002	2005	2007	2008	2009	2010	2011
Population	1.14	1.12	1.11	1.11	1.10	1.10	1.10
GDP (based on current prices in bn US$)				1.74	1.65	1.85	1.84
X of goods and services (based on current US$)	2.99	3.30	3.28	3.26	3.41	3.70	3.75
M of goods and services (based on current US$)	2.83	3.02	3.15	3.30	3.17	3.52	3.63
Total reserves (incl. gold) (based on current US$)	6.26	6.04	4.80	3.36	3.86	3.65	3.44
Trade balance (bn in current US$)	15.221	32.839	37.176	5.173	37.862	40.054	31.152

Source: World Bank (2012), World Development Indicators, Washington

In comparative terms, South Korea's total reserves (including gold) are of particular significance. They were estimated at 306.9 billion US dollars in 2011 (or 3.44 percent of the G20 total), compared with 537.2 billion in the case of the USA and 1,295 billion and 3,254 billion in the cases of Japan and China respectively. At first, South Korea sought to protect itself against the volatility of global markets by building foreign-currency reserves, although this has tended to lead to an upward pressure on the won.

With GDP per capita reaching US$23,127 in 2011 (in non-purchasing power parity terms), South Korea is a middle-income economy. A controversy surrounds its classification within the group of developed as opposed to emerging economies. According to the CEPII[3] definition, South Korea is not an emerging country. The CEPII defines an emerging country by two criteria, namely, a per capita GDP of less than half the average of industrialized countries, and a rate of export growth at least ten percent higher than the average for industrialized countries. It is therefore accurate to say that the CEPII dropped South Korea from the list of emerging countries and lists it as an industrialized country. This status further enhances the credibility of South Korea as a mediator at an international forum such as the G20.

3 Centre d'Etudes Prospectives et d'Informations Internationales, Paris. The CEPII definition is also used by international institutions such as the International Trade Center in Geneva.

Why South Korea?

The G20 encompasses a range of economically heterogeneous countries (and one regional grouping, since the EU-28 is represented as a whole). These are all seen as being systemically important economies. Being an intermediate, middle-income, and middle-power economy, South Korea was hit hard by the global financial crisis at first because of the outflow of capital to safe havens in Japan and the US. Given its reliance on credit default swaps, a collapse in asset prices, and a slump in exports, the South Korean economy was one of the economies most affected worldwide in the last quarter of 2008: its GDP shrank by 5.1 percent during the last quarter of 2008 (quarter-on-quarter) according to IMF figures (IMF 2009), and its positive trade balance plummeted to US$5.173 billion in 2008 compared with more than US$37 billion for the previous year (see Table 1). Notwithstanding, South Korea proved to be rather resilient, with positive growth resuming during the first quarter of 2009 (see Table 2).

Table 2: Real GDP (at 2005 prices; percentage change from preceding quarter)

2008 q3	2008 q4	2009 q1	2009 q2	2009 q3	2009 q4	2010 q1	2010 q2	2010 q3	2010 q4
0.20	-4.60	0.10	2.50	3.40	0.20	2.20	1.40	0.70	0.60

2011 q1	2011 q2	2011 q3	2011 q4	2012 q1	2012 q2	2012 q3	2012 q4
1.30	0.80	0.80	0.30	0.90	0.30	0.10	0.40

Source: KOSIS (Korean Statistical Information Service), Seoul.

As Borthwick (2012) has argued, after an initial shock, South Korea was relatively insulated from the GFC. This was because of the combination of fiscal and monetary policies, which restored access to bank loans and stimulated domestic demand as well as being the legacy of structural reforms implemented in the aftermath of the 1997 AFC.

The 70.5 trillion Korean won stimulus package that was implemented between 2008 and 2010 stands out among the main fiscal measures taken as one of the important outcomes of the G20 Summit held in London in April 2009. The package represented some 6.9 percent of South Korean GDP, one of the highest ratios of all stimulus packages at the time. Cuts in income tax and capital gains tax were complemented with other fiscal supply-side measures, such as tax refunds to the benefit of the self-employed. The impact on growth was noticeable, and GDP growth was sustained at relatively high levels in 2009 as well as during the first half of 2010 (see Table 2). A depreciating won vis-à-vis the US dollar boosted competitiveness, resulting in a current-account surplus in the first quarter of 2009, whereas the Bank of Korea's declining base rate allowed small and medium-size enterprises (SMEs) and other firms to access loans. In addition, the deeply restructured post-AFC Korean banking sector was able to withstand the shock of 2008 well. The reasons for this include a relatively high capital adequacy ratio of 12.3 percent in September 2008 (IMF 2010), high foreign-currency reserves as compared to pre-AFC times, low levels of non-performing loans, and the limitation of real-estate loans — in Seoul's case, by a debt-to-income ratio of 40 to 60 percent. Another explanation of the resilience of the Korean banking sector to the GFC is the low level of the sector's "financialization" when compared to EU economies, for example. This limited the exposure of the economy to risky assets as well as to systemic risks. Even though South Korea was also suffering from a real-estate bubble, the effects of it were limited, and the bubble was far less debt-financed than in other economies. This is because of the specific role of South Korea's banks, which are the financial vehicles of industrialization and economic development. They play a direct intermediary role between households and firms without much reliance on shadow banking. Finally, South Korea implemented capital controls. The potential vulnerability of the country arising from short-term capital flows — and the fresh memories of their devastating impact during the AFC — led the Korean authorities to reintroduce control measures which were approved by the IMF (see the Seoul Communiqué of 2010).

It can therefore be inferred that the 1997 AFC made South Korea draw some fruitful lessons in terms of sheltering the economy against sudden external shocks. In addition to these domestic elements, the country also developed regional "safety nets."[4]

The developments and policies discussed above make South Korea a particularly significant case in the management of financial crises. It represents an economy that was able to recover promptly from a severe financial crisis. Since then, the country has gained experience in dealing with acute problems such as non-performing loans. South Korea is therefore one of the few G20 countries with a comparative advantage in dealing with financial crises. That is not to say that the country is totally insulated from a financial crisis through contagion, as the temporary deterioration of macroeconomic indicators in the last quarter of 2008 would indicate. On the contrary, it is potentially vulnerable economically because of its willingness to become increasingly integrated in the global economic system and because of the international monetary system, which is still very much centered on the US dollar. South Korea still follows an export-led growth policy, and its allegedly undervalued currency is leading to a large accumulation of foreign reserves. This, in turn, nurtures risks stemming from global imbalances. However, even with its sound management policies, South Korea could still suffer from a deterioration of its balance of payments. One example of such a scenario is an increase of capital outflows, which could result in a reduction of infrastructure-related investment opportunities in the domestic economy.

4 One such regional safety net is represented by the Chiang Mai Initiative, for which South Korea was one of the important architects (see Moon and Rhee 2012).

The fact that South Korea is an integral part of the systemically important economies of the world (through its G20 membership) implies that global economic stability is in the interest of the country, an issue to which we shall now turn.

South Korea’s positioning and role in the G20

The G20 encompasses a heterogeneous group with often conflicting interests and even radically different views on some key issues. Mediation is therefore a potentially important element of intra-G20 cooperation. This section will start by discussing the role of a country as a mediator in international fora and institutional frameworks such as the G20. South Korea’s own G20 agenda will be analyzed in the second part of this section, while the third part will explore whether these interests can be reconciled in an Asian type of coalition.

The role of a mediator

Mediation or arbitrage between different conflicting views in an international forum implies impartiality as well as specific attributes accruing to the mediator (Bercovitch 1996). These attributes are skill, knowledge, and authority. With reference to the theoretical discussion above, these attributes can be associated with credibility. Although impartiality may be questionable in the case under study here, as we will discuss in the ensuing subsection, South Korea has nevertheless been seen as possessing the necessary standard attributes of a mediator, and, in addition, as being in an ideal position to harmonize the views between advanced (mostly Western) and emerging (mostly Asian) economies because of it being a newly emerged Asian economy. The influence of Confucianism in terms of ensuring harmony allows South Korea — now credible in the eyes of Western powers — to be judged as the ideal mediator between the different views. As argued by Hong and Fang (2012), although the South Korean government did not see itself as a suitable Asian leader in the region in the past, it nevertheless saw its role as a mediator between two highly confrontational groups within the G20. This role was very much enhanced by the strong central leadership provided by President Lee Myung Bak in 2008.

The G20 and South Korea’s interests

At the outset, the expected role of the G20 summits was to instill some long-awaited and much-needed reforms in both the IFIs and the international monetary system (IMS) and to rebuild global economic governance so as to allow global markets to operate more satisfactorily. Inadequate liberalization of global financial markets, coupled with the diminishing role of the state (Strange 1998), the increasing frequency of financial crises, and the inability of the IFIs to avert such crises, has led to a general distrust in the Bretton-Woods institutions in spite of their laudable post-

WWII mandate.[5] Indeed, these institutions were founded shortly after WWII with a mission involving reconstruction: poverty reduction was the priority of the World Bank in the 1960s and up until the late 1970s, whereas the IMF had been conceived primarily to guarantee a zone of global monetary stability. With the advent of economic theories popularized by the Chicago School in the late 1970s, these IFIs changed their spirit and their mission by focusing on deregulation and privatization of all markets — including the financial ones — in the belief that financial markets are indeed "efficient" markets. In the words of the president of the Foreign Relations Committee of the US Senate at that time, the IMF was an "instrument of the foreign policy of the USA."[6] Economic adjustments in vulnerable countries have been made possible by borrowing facilities from the IMF, under the condition that these countries "internalize" these adjustments through domestic austerity measures.

The literature on this issue highlights the fact that globalization of economic activity has emerged in spite of fragmented legal and governance systems, and that the weakening of the nation-state in post-deregulation times has not been compensated for by a strengthening of global governance in Western-centered global institutions, such as the IMF and the World Bank.[7] With the GFC, the IFIs have become widely acknowledged as being ill-equipped to conduct proper surveillance and as being unable to provide early warnings of financial and macroeconomic imbalances and risks; the GFC revealed the inadequacy of these institutions and of the international monetary system in facilitating the adjustment of global imbalances (Cho 2012). Much-needed reforms are supposed to enhance the credibility of the IFIs and allow a review of the international monetary system, which is too centered on the US dollar, rather outdated, and unsustainable. It is interesting to note that the G20 is seen as being a vehicle of such reforms in spite of its weak legal basis.

Some of the broad objectives in terms of the IFIs' reforms have been very much echoed by the South Korean authorities, as can be gathered from a number of basic Korean economic policy documents over the past few years.[8] Three issues in particular lie at the heart of South Korea's international economic policy. First, the South Korean government is keen to curb erratic currency swings and very much sees global financial stability as being in its interest (indeed, it is logically in the interest of any "systemic" economy). As an urgent measure, the idea of reforming the IFIs and the IMS by building up a strong worldwide financial safety net

5 In the case of the Asian countries most affected by the AFC, such as South Korea, skepticism toward the IMF grew after the crisis. Ha and Lee (2007) note the growing South Korean skepticism vis-à-vis this institution after it came in with its November 1997 conditional rescue package in response to the AFC. Reforms in the corporate (non-financial) sector were perceived by South Korean stakeholders as a subtle way to allow hostile takeovers of arguably fragile *chaebols*.

6 As reported by Grunberg (2000: 18).

7 For more on the evolving role of these IFIs and the need for reform, see Andreosso-O'Callaghan (2001) and Cho (2012).

8 See Korea Institute of International Economic Policy (KIEP), http://www.kiep.go.kr/g20/03_02.jsp (accessed on 2013-04-20).

therefore became a new core objective of the South Korean authorities from the outset (Cho 2012). The idea here is to strengthen the lending power of the IFIs so as to provide adequate cushioning mechanisms to crisis-stricken economies. In the medium to long term, the IMS ought to reform more substantially by allowing some space for Asian monetary integration. The legacy of the 1997 AFC and the IMF's resented bailout eroded the trust put in the IFIs by the South Korean authorities.[9]

Several proposals had been put forward as an alternative to these institutions, such as the founding of an Asian Monetary Fund by the Japanese Government, an initiative that could pave the way to further monetary integration in the region. In South Korean and Asian economic circles, much has been said and written about the feasibility of a zone of monetary stability in Asia through the shaping of an Asian currency unit, among other things. Although progress in this respect has been depicted as slow, the multilateralization of the Chiang Mai Initiative (CMIM) currency-swap facility can nevertheless be seen as an important step toward the creation of an Asian Monetary Fund (Moon and Rhee 2012). South Korea and other governments felt that with the GFC, the timing was right for a reform of the structure of the IFIs, particularly in relation to the issue of voting rights.

Second, South Korea is keen to resist protectionism. Yet the acknowledgement of unsustainable current-account imbalances has nurtured protectionist tendencies on the part of a number of countries (CEC 2010). These are harmful for a country such as South Korea, which has chosen and still fosters an export-oriented path dependency and is keen to exploit the global economic system further. The country is therefore actively pursuing the creation of free-trade areas (FTAs), and Seoul has managed to sign FTA agreements with such demanding partners as the EU and the USA.

Third, by becoming an active participant in fora such as the G20, South Korea has been pursuing a policy of *rapprochement* with its neighbors China and Japan, both in economic and political terms. This is very much in line with Vilfredo Pareto's statement voiced at the 1889 Rome Peace Congress, according to which conflicts are less likely to materialize between nations that enter into trade and other economic arrangements, such as customs unions; these are a secure route to better political relations and to pacification (Pareto 1889).

Do South Korea's interests align with other Asian interests and those of other G20 members?

Judging by the core issues put forward by South Korea in its G20 strategy, as discussed above, it would seem that South Korea shares a number of common interests with other Asian G20 countries, in particular China and Japan. Within the

9 The reform of the IFIs and in particular the advent of a "new Bretton-Woods era" with a tax on short-term financial transactions in a reformed global currency system are also supported by some Western countries (France), but there is a divergence of views on this issue among Asian G20 countries.

G20 there might thus be room for the delineation of common Asian interests, for a common positioning in the global economy, and perhaps for an "Asian consensus." As Drysdale et al. (2009) have argued, the Asian G20 countries are all preoccupied with sustainable domestic growth, with political stability, and with large current-account surpluses resulting in large foreign-exchange reserves denominated in US dollars and invested in US Treasury bonds. China, South Korea, and Japan are particularly large creditors. As a consequence, the GFC could not be tackled without the participation of such countries. Asian countries are actually pivotal players for many G20 issues.

This pivotal position means that these Asian countries play a key role in reducing global imbalances. Consequently, one way in which they can seek to speak with a louder voice in the IFIs is to gain more weight in the decision-making process in these institutions, in line with their economic weight. This might be achieved by obtaining more seats on the various boards, gaining senior positions, and pushing for reform of the IMF's lending facilities and surveillance. It therefore follows that South Korea's interests in a forum such as the G20 are very much aligned with those of other Asian G20 countries. On the one hand, the formation of an Asian G20 consensus is given an impetus by the Asia–G6[10] divide on global imbalances. Western countries tend to hold the view that these result from exchange-rate manipulations. On the other hand, such a consensus is jeopardized by the existence of three dominant players within the G20 (the USA, the EU, and China), which allows one Asian country in particular (China) to maximize its own interests at the expense of those of other Asian members of the G20 (such as Japan). Tiberghien (2011) relates several instances of a "clash" between China, Japan, and South Korea at the Seoul Summit, as well as the propensity of China to sideline with the EU on certain issues — against Japan. But what opportunity, if any, has the Seoul Summit represented for South Korea?

The South Korean G20 meetings

Based on the previous discussion relating to South Korea's interests in the G20 and on the potential ability of the country to form a coalition with other Asian nations, the following section will assess whether the G20 summit held in Seoul in November 2010 and the G20 Finance Ministers' meeting in Gyeongju two weeks later generated successful outcomes in the area of global financial governance. First, the objectives of the South Korean authorities prior to the meetings will be analyzed.

10 This divide in the G20 can also be referred to as an "Asia–West divide," with the G6 comprising Canada, France, Germany, Italy, the UK, and the US.

Positive achievements

The press coverage of the two South Korean meetings mostly focused on the difficult mediating role of South Korea, a middle power squashed between China on the one hand and the United States (and other Western economies) on the other.[11] The mediator's role that the host country played between China and the US (and other Western countries) over the exchange-rate issue — a question that was far from resolved in Seoul — was a difficult one given the very antagonistic nature of the major G20 players who opposed it. The problem of global current-account imbalances was widely debated and tended to overshadow the other relatively successful outcomes of the South Korean meetings. Indeed, there are several positive achievements arising from the Korean G20 Summit and ministers' meeting, and these must be weighed against South Korea's interests in the G20, as discussed above (namely, IFI reform including a global safety net, and the curbing of protectionist tendencies) complemented with another priority in terms of closing the development gap between rich and poor countries.

The G20 agenda of the host country emphasized two specific priorities or issues: first, the importance of putting adequate financial safety nets in place (as a medium- to long-term response to the GFC); and second, the necessity to address and close the development gap between rich and poor economies. Indeed, one issue very much highlighted by the South Korean government was the imperative necessity to put an adequate global financial safety net in place as a way to proffer a long-term response to the GFC and to other global financial crises. Interestingly, the few positive achievements at Seoul and Gyeongju do mirror these objectives, and they can be summarized as follows:

First, a timid reform of the IMF was finally set in train. Agreement was reached on an IMF voting rights reform (known as the "Quotas and Voice Reform") so as to make the IMF voting more in line with the new economic reality of an emerging "Global South." As a result of the agreement, the G8 minus Japan would lose four points, whereas the five Asian countries would gain 4.1 points. Although these changes were to be effective from October 2012, reluctance to approve them at the level of the US Congress has been delaying the whole process and implies that at the time of writing, the voting shares are still as they were before the Seoul G20 Summit (also see Chan in this special issue).[12]

The second achievement relates to the strengthening of the global financial safety net. At the Seoul Summit, South Korea took the initiative to push for an improvement in the financing facilities of the IMF (Cho 2012). The changes imply the creation of a new preventative tool (the Precautionary Credit Line) and of better

11 Other participating countries with a potential role as a "mediator" were Japan, India, Russia, Brazil, Canada, and Australia (Tiberghien 2011).

12 The G8-minus-Japan voting shares still represent 39.25% of the votes as opposed to 14.6% for the five Asian G20 countries.

coordination and connections between the IMF and Regional Financial Arrangements (RFAs). Furthermore, the need to agree on the Basel III package of banking reforms (passed in September 2010) was reiterated at these meetings. Basel III promotes improved international banking standards, such as new capital requirement rules with the ratio of tier-1 capital raised to 7 percent by 2013, for example. Interestingly, South Korea's position on this issue is rather ambivalent: On the one hand, it pushed for the creation of such an international financial safety net, but on the other, the country is rather skeptical about the necessity to do much more than that to restore the "Western" financial system. This can be explained by the fact that South Korea was better prepared to counter the GFC than Western economies, because of its relatively resilient financial system. The crisis thus represents an opportunity for South Korea in some ways, and the country intends to take advantage of the situation so as to develop a comparative edge in financial services.[13] Consequently, the "Quotas and Voice Reform," as decided during the Seoul G20 Summit, is a crucial issue for South Korea. It can be understood as a successful achievement of the country's mediator role.

The third major outcome arising from the South Korean Summit and Finance Ministers' meeting relates to the Seoul Development Consensus for Shared Growth. Whilst being connected with the Millennium Development Goals, the Consensus is seen as a green light for more work on this issue in the near future and is, in the words of Tiberghien (2011: 5), a "normative change."

By way of summary, agreements on a reform of the IMF (which are still to be implemented) are nevertheless perceived as incremental changes. The global financial safety net can be seen as a reactive crisis management measure and perhaps as a watered-down version of a true reform of IFIs. The "Quotas and Voice Reform" appears to be more substantial, at least from the viewpoint of Asian G20 countries. Nevertheless, should these measures be implemented, they will be more substantial than anything else achieved so far. These developments demonstrate the successful mediation role that South Korea played as a host country to the G20 meetings.

In spite of these laudable efforts, owed in large part to the foresight of the South Korean government at the time, much more work needs to be done to confer on both the G20 summits and the fringe participating countries such as South Korea the role that was first envisaged by the top-level meetings.

Less positive developments

One criticism that can be made about the South Korean Summit (and equally about the ensuing G20 summits) is the dilution of urgent core issues (such as global

13 It is in this general spirit that the Korean Financial Hub Act of 2008 was created; it was intended to boost South Korea as a financial center.

financial governance) into an array of looser secondary issues such as food and energy security, climate change, and poverty reduction.

The Seoul Development Consensus for Shared Growth is a landmark of the South Korea G20 Summit. Yet it should not diminish and conceal the urgent need to reform the regulatory aspect of the IMS by imposing a tax on short-term capital transactions, for example, the proceeds of which would be reinvested to close the gap between rich and poor countries and households. It is therefore obvious that the Seoul Development Consensus for Shared Growth can only take off in a substantially reformed IMS and that shared growth depends on the IMS reform.

Conclusions

While the primary and immediate aim of the G20 summits since 2008 has been to rebuild the regulatory powers of the IFIs, the meetings signal a power shift at the global level. In this context South Korea's G20 membership and its hosting of the 5th G20 Summit in 2010 show that the country is well able to actively participate in the process of global economic governance. In doing so, South Korea has benefited from indisputable comparative advantages in relation to post-crisis structural banking reform and to financial rescue by the IFIs. Because of the 1997 AFC, the country had gained ample experience in financial crisis management in the short term and in developing (domestic) financial safety nets in the longer term. Consequently, after an initial shock lasting only a few months, South Korea proved to be rather resilient to the GFC. Its know-how in financial crisis management has been extremely useful at the global level, as shown by its ability to put forward a number of key and core issues at the 2010 G20 Summit. This know-how also facilitated South Korea's role as a mediator.

The assessment of South Korea's role in the 2010 G20 Summit shows that the country was able to set in train a number of *incremental* changes in the IFIs (namely, quota reform and the Precautionary Credit Line). Although the agreed changes to the quotas still need to be implemented at the time of writing, the mere agreement on such changes signals a breakthrough for countries such as South Korea, which would then be granted more of a voice in the IFIs.

However, this assessment needs to be qualified with respect to the difficult mediating role that South Korea was fulfilling between China and the USA/EU on the controversial issue of current-account imbalances. These are still a hotly debated issue worldwide and will remain so for quite some time. South Korea's mediating role was made even more difficult by the tendency for China (one of the "big three" in the G20) to follow its own agenda, to the detriment of other Asian G20 countries and in spite of common Asian interests. If an agreement is reached between the three major actors (China, the EU, and the US), this will imply agreement at the G20 level, regardless of the position of other "mediators" such as South Korea. This *état-de-fait* renders the shaping of an "Asian consensus" rather difficult. Theoretically, the three Asian countries China, South Korea, and Japan all have common interests, such as sustainable domestic growth, international financial stability, political stability, and the curbing of protectionist tensions. Yet relatively little has been jointly achieved by the three countries so far, with the CMIM being one of the notable exceptions here.

In light of South Korea's accomplishments as a G20 host, this leads to the question of whether the country can be seen as a future mediator between Western and Asian nations. On the one hand, renewed tensions emanating from the new Japanese administration of Prime Minister Abe and the forceful approach taken by South Korea's President Park Geun-hye might infer that nothing is less certain. On the other hand, though, the beginning of talks aimed at discussing the scope of negotiations relating to a possible free-trade area between the three countries in late March 2013 seems to imply that the territorial and other geo-political disputes involving the three countries might be able to find a tentative economic solution like the one once proffered by Vilfredo Pareto.

Finally, the fact that the G20 is a makeshift group set up to cope with the GFC and is devoid of any legal basis is seen in a positive light by the EU and the United States. The same applies to the fact that the G20's core issues have been diluted into more general issues. This implies that the future of the G20 summits is rather uncertain. It is indeed doubtful whether countries such as South Korea will be eager to use the forum at future summits to address the root causes of the financial crisis, namely, excessive deregulation and an excessive share of uncontrolled shadow banking in Western financial and banking systems.

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