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The emerging economies of East Asia and the G-20 process

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- The group of the 20 most important industrial and emerging economies (G-20) will most likely be the decisive platform for issues of international economic co-operation.
- Three emerging economies in East Asia are members of the G-20, the PR China, South Korea and Indonesia. All three welcomed the elevation of the G-20 to a world economic summit.
- The G-20 is in its composition far more inclusive compared to the G-8, but the question of legitimacy still remains.
- In the G-20 the emerging economies have the opportunity to present their positions on an equal footing. In return, the emerging economies have to accept a common responsibility for the solution of global problems.
- As the emerging economies are more oriented towards long-term issues, and the industrialised countries are more interested in the solution of short-term problems, the question on the future of the G-20 arises.
- If the G-20 should remain active beyond the financial crisis, the emerging economies have to be prepared to enter as well north-south coalitions besides specific south-south alliances.

History

The concept of the ‘group of the twenty most important industrial and emerging economies’ (G-20) has its roots in the so called ‘chimney talks’ at Rambouillet near Paris where the heads of government from West Germany, Italy, Japan, the United Kingdom and the United States met in 1975. A year later also Canada was invited to the club and the G-7 came into existence. The annual summit was considered as an informal meeting, where in a small gathering financial and currency issues could be discussed. However, over the years more and more foreign politics and foreign economic topics came to the fore. All topics were supposed to be elaborated in the spirit of common responsibility and consensus. In 1998 the G-7 was extended by Russia (full member since 2002) resulting in the G-8.

At the G-8 Summit 2005 in Gleneagles, Great Britain it was the request of the Europeans to invite for the first time also the heads of governments from five leading emerging economies (Brazil, India, China, Mexico and South Africa), with that it was expected to achieve a wider and more democratic legitimization as well as a more effective cooperation in global issues, such as the climate protection. The question of climate changes was at Gleneagles for the first time on the agenda. Later, at the G-8 Summit of Heiligendamm in Germany in 2007 a two years dialogue-process was agreed upon with the five emerging economies. Topics were for example to protect innovations, to establish fair investment conditions, as well as questions of energy efficiency and development cooperation.

The group of twenty

Contrary to the G-8 or the G-8+5 the 1999 founded G-20 was, at least in the beginning, not a summit meeting, but an informal gathering of Finance Ministers and

Central Bank Governors from 19 States and the European Union (EU). The G-20 was basically a forum for cooperation and consultation on matters pertaining to the international financial system. For that purpose the existing G-8 was extended by Australia and the EU as well as ten emerging economies: Argentina, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea and Turkey.

From the view point of industrialized countries the economic and political situation in these emerging economies had changed considerably over the years. These countries were not anymore seen as potential cases for problems but more and more as centres of growth in the world economy. Thanks to rising commodity prices and accelerating globalisation especially the larger emerging economies gained increased global importance in a relative short period of time.

This made the G-20 an important meeting, where besides financial issues also topics such as climate change and poverty eradication could be discussed.

The 20 members of the group hold for 90 percent of the global gross national product (GNP), 80% of global trade, and two-thirds of the world's population. With the exception of Switzerland and the Iran all of the 32 largest national economies in the world are included, eleven of them indirectly through the European Union.

The establishment of the G-20 goes back to a recommendation by the G-7 finance ministers at an economic summit in Cologne in June 1999. It was mainly a response to the Asian financial and economic crises of the late 1990s. The inaugural meeting of the G-20 took place in Berlin in December 1999.

But the expansion of the G-8 to a group of twenty can also be linked to the growing dissatisfaction among the civil societies in the G-7 states, but also in the developing countries. The selection of members in the G-20 was supposed to better reflect the different world-regions and civilizations and to provide a balance between the industrialised and the Third World's emerging states.

In order to ensure that all global economic forums and institutions work together, the Director of the International Monetary Fund (IMF) and the President of the World Bank plus the chairs of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate in G-20 meetings on an ex-officio base. Furthermore, the G-20 consults from case to case additional states such as Spain and the Netherlands being the fifths and sixths largest economic powers in Europe, or regional organisations such as NEPAD[1] or ASEAN[2]. Also private sector-institutions or non-governmental-organisations (NGO) are added to make use of synergy effects and to prevent overlapping.

In view of the worldwide financial and economic crises, starting in the year 2007, the United States of America (US) convened in November 2008 for the first time a summit of the G-20 heads of states and governments in Washington. At this Leaders Summit on Financial Markets and the World Economy a common understanding of the root causes of the global crisis was reached and an action plan was launched to address the immediate impact of the crisis on the real economy and to introduce suitable reforms.

The second summit of the G-20 took place in London on April 2009. The G-20 leaders reached an agreement which, in principle, provides 1.1 trillion US Dollars to various programs designed to improve international finance, credit, trade, and overall economic stability and recovery. The Action Plan agreed at the previous meeting was reviewed and additional steps agreed upon.

For the third summit of the G-20, leaders and heads of states met in September 2009 in Pittsburgh/USA. Whereas the focus of the Washington and the London summits was primarily on the prevention of additional economic disasters, the Pitts-

[1] The New Partnership for Africa's Development
[2] The Association of Southeast Asian Nations

burgh meeting went further ahead by discussing measures to safe guard the economic recovery and its transition into a strong sustainable and balanced economic growth.

Above all, the leaders and heads of states decided to raise the G-20 to the decisive forum of international economic cooperation, a kind of global economic government. The G-20 will therefore to a large extend replace the present G-8 summit.

The emerging economies of East Asia unanimously welcomed the renunciation of the G-8 and its extension to a G-20 as a change in the right direction. In future, a far larger part of the world's population will be able to sit at the negotiation table when global economic and financial issues are discussed.

The People's Republic of China and the G-20 process

In 2003 and 2004 China participated at G-7 meetings as an observer. However in 2005 it declined to take part at the summit of the finance ministers from the seven leading industrialised states. Judged by the size of China's GDP at that time, it would already have been entitled for a seat on the G-7 table, as its economic power had surpassed that of Canada.

However China pretended, or at least created the outward impression, to be reluctant towards the concept of G-7. The official argument was that the country still has a rather low per capita income and extreme regional disparities. Therefore it should still be considered as a developing country. Another reason was certainly that China had been confronted at the previous two G-7 meetings with the demand for flexible exchange rates in all important economic world regions – a topic still relevant today.

In line with its perception of a multi-polar world order, China sees in the upgrading of the G-20 into a summit of the most important economic powers in the world also a power-shift from West to East and therefore a more balanced ratio in an US-Europe-Asia triangle.

Compared to the G-7, the G-20 meets with its composition of industrialised and developing countries far more the expectations of China in regard of a representative and inclusive global economic governance. The membership is not one of like-minded, but comprises of countries in various stages of development. Every country has its own interests and agenda.

The inclusion of emerging economies into the international economic policymaking is seen by China as a historic process, which provides those countries with the opportunity to claim their needs and viewpoints at a high-ranking forum of partners, and on an equal footing.

China means to be active in enhancing the role of the G-20 in its agenda to reform the global governance. However, China does not want to transform the G-20 into a supranational organisation, which could replace the Bretton-Woods institutions or even the United Nations as a world government.

As an active member of the G-20, China intends to contribute towards reforming the global economic and financial architecture. The influence of China was already apparent in London where China was significantly involved in raising the IMF's quota. China is also prepared to represent the developing world and to coordinate with other emerging economies ahead of G-20 meetings, for example in the agenda setting. Furthermore, China will enhance Asian regional cooperation for strengthening Asia's influence in the G-20.

South Korea and the G-20 process

The strengthening of Asia's impact on the G-20 is as well on the agenda of South Korea, which will assume the G-20 presidency and the host of the next but one G-20 Summit in November 2010. Korea is together with Great Britain and Brazil part of the so called "G-20 Management Troika" for the years 2009 to 2011.

Korea plans to consult the "excluded" Asian countries, especially in the forefront of the G-20 Korean Summit, with a view to enhance the representativeness of the group. South Korea is a country with many years of experiences in transiting from a developing country to an economic power. Within the G-20, Korea sees itself as a bridging state which can listen to both, advanced and emerging economies and can serve as a model. It is only 50 years that Korea has changed from one of the world's poorest agrarian states to a developed country which could well in November 2010 stand in the centre of a new world order.

For Korea the idea of a bridging-function is not new at all. Considering the security situation on the Korean peninsula, the previous government already attempted to act as an intermediary between mayor powers active in the region. However for a small and depending state the playing field is rather limited and this is even more the case for the global agenda of the G-20.

At the Pittsburgh summit, Asia's fourth largest economy presented itself as an advocate of free trade and a deregulator of labour markets. But Korea was also active in the monitoring and the realization of the Washington and London commitments. Among others, South Korea mediated between the necessities of long term oriented macro-economic policies and essential short term regulations to solve the current financial crisis. This included issues such as the coordination of economic stimulus packages, the prevention of additional protectionism and the support for developing countries by extending IMF-Programs. South Korea itself promised to provide the IMF with an additional 10 Billion US Dollars.

Indonesia and the G-20 process

Also the Indonesian President Susilo Bambang Yudhoyono praised the decision of the Pittsburgh Summit to further integrate the club of the eight largest economies into the G-20: "It is in line with Indonesia's expectation that the G-20 becomes a permanent institution and it is good. Because if only G-7, or G-8, then this only represents industrialized countries, which are mostly from Europe. Only one is from Asia, which is Japan."

In his speech at Harvard University immediately after the summit in Pittsburgh, President Yudhoyono mentioned: To me, the G-20 is one manifestation of the change taking place in global politics. … The G-20 "is not just an economic powerhouse - it is also a civilization powerhouse", and he underlined Indonesia's entitlement for a place in the G-20, if not as an economic but as a civilization heavyweight. After all, Indonesia is the world's largest Islamic state.

While the question of legitimacy and representativeness of other non-G-20 countries is not finally solved, Indonesia sees the G-20 as the most well-placed and prestigious forum to advance the discussion of internationally coordinated action in an efficient, effective and timely manner and to present its own political positions at a summit of the most important countries in the world.

However, in order to improve the level of inclusiveness, it is crucial that the G-20 advance an outreach program with other non-G20 economies. A positive example is the decision of the heads of states and governments of the ten ASEAN member countries at their 15th ASEAN Summit in Thailand in October 2009 to set up a contact group for the coordination of different positions within ASEAN in regard to forthcoming G-20 meetings. The contact group will comprise of the ASEAN Chair, the ASEAN Secretary General, and Indonesia, the only G-20 member from ASEAN.

Indonesia's membership in the G-20 can also be seen as a reflection of the country's growing influence on the world stage. In the last two summits, Indonesia has capitalized on a number of short-term but critically important gains for charting a strategic framework of engagement in the G-20 summit, for example, towards the reform of the International Financial Institutions and their role in supporting emerging economies in overcoming the global economic crisis. Indonesia, together with France, is chairing the G-20 Working Group 4: "The World Bank and other Multilateral Development Banks".

Indonesia is also prepared to contribute to the issue of climate change and wants as the world's third largest emitter of CO_2 be part of the solution. At the Pittsburgh Summit President Yudhoyono was a lead speaker on climate change issues and he reminded the participants not to forget the serious impacts of climate change amid the global economic downturn.

And the President set a good example by announcing the establishment of a "National Climate Change Action Plan" that will reduce Indonesia's emissions in 2020 by 26 percent from BAU (Business As Usual) and he added that with international support, he is confident that Indonesia can reduce emissions even by as much as 41 percent.

This was also Indonesia's position at the "United Nations Climate Change Conference" in December 2009 in Copenhagen. According to the so called "Copenhagen Accord" 30 billion US Dollars were pledged to the developing world over the next three years, rising to 100 billion US Dollars per year by 2020, to help poor countries - Indonesia being one of them – to adapt to the climate change.

First results

From the view-point of East Asia's emerging economies certain achievements can definitely be noted: The importance of the World Bank and the regional development banks in their fight against poverty was stressed in all G-20 summits. The IMF will be reformed. The leaders agreed on a shift in IMF quota share of at least 5 percent from over-represented countries to under-represented emerging markets. Over 500 billion US Dollars were contributed to a renewed and expanded IMF "New Arrangements to Borrow" (NAB) program in favour of those countries most affected by the world financial crises. Furthermore, the G-20 members agreed to an increase of at least 3 percent of voting power for developing and emerging economies, again to the benefit of under-represented countries.

The World Bank will in future play a principal role in solving global problems, such as climate protection and food security. For this purpose the World Bank and other regional development banks should receive sufficient financial recourses. Besides the already mentioned 1.1 trillion US Dollar an additional 850 billion US Dollars of resources will be made available through the global financial institutions to support growth in emerging markets and developing countries to overcome the financial and economic crisis. A decision which could well be seen as a financial generosity vis-à-vis those countries not sitting at the negotiation table of the G-20.

Not quite as promising are the achievements in regard to climate protection, which showed at Pittsburgh a rather sobering current state of affairs. First of all, there is hardly a chance for an early ratification of a US climate protection law, and secondly the emerging economies – especially China – were not prepared to provide additional funding for the climate protection in their own countries. First signs of a failing forthcoming "UN Climate Change Conference" were already visible.

In Copenhagen the international community failed to adopt a binding follow-up agreement to the Kyoto Protocol, nor were they able to negotiate a bonding reduction of CO_2 emissions or to agree on a limitation of the global warming. The final document, the "Copenhagen Accord" is a consensus of a small number of states, the majority of them industrialised and emerging economies. It is based on a painfully reached compromise between the PR China and the US. However, most of the developing countries were not willing to accept the text. The representative of Nicaragua spoke about a "highjack attempt" of a G-22, the group of leading states, against the G-192, the United Nations.

Still, China and Indonesia hailed the Copenhagen UN climate summit outcome. Beijing's foreign minister spoke about a new beginning, and Indonesia's President said he was pleased with the result.

Challenges

The emerging economies of East Asia - and this applies also to all other emerging states in the G-20 - will face the challenge of moving beyond their traditional role of the "excluded" and "representatives of the South". They have to accept common responsibility for the solving of global problems and for the creating of effective global governance institutions, meaning, they have to move beyond issue-specific South-South coalitions and enter also North-South coalitions. This applies for the reforms of international financial institutions the same way as it does for the final completion of the Doha Round.

The G-20 has the potential for multiple, overlapping and shifting alliances between emerging and industrialised economies. Only on the base of such North-South alliances opportunities will emerge for building trust, trade-offs and cross-issue compromises, that are essential for the future of the G-20. Agricultural trade policies could be one example, where a temporary coalition of Argentina, Australia, Brazil, Japan and the US would be thinkable. Or in the area of energy, a coalition of energy producing states, such as Indonesia, Mexico, Russia and Saudi Arabia could discuss questions of supply and demand with an alliance of energy users, such as China, Europe, Japan, South Africa and the US.

Despite the fact that developing countries have in the past frequently contributed to the global political agenda, their impact was rather limited. According to a briefing paper of the "Global Economic Governance Programme" the G-20 meetings of finance ministers and central bank governors in the years 1999 to 2007 served mainly for the purpose of mobilizing support for the G-7 policy.

Europe is still over-represented in the G-20. Other continents, such as Africa, from where only South Africa is participating, are comparatively disadvantaged. This is even more surprising as the G-8 accepted a certain responsibility for the future development of Africa, since its 2002 Summit in Kananaskis/Canada.

Therefore, the emerging economies have to ensure that the agenda of the G-20 summits will reflect not just the interests of the US and Europe, but of the entire world. How difficult this is and how suspicious the G-20 is watched by developing countries became obvious at Copenhagen. The question of legitimacy, frequently raised in regard to the G-8, will also remain with the G-20.

In the run-up to the Pittsburgh Summit, several emerging economies had come up with quite ambitious proposals, e.g. on poverty eradication, the reform of the Bretton-Woods institutions or on protectionism. All these issues were more or less long term oriented. In contrast, the industrial countries seemed to be more interested in short term solutions to overcome the current financial crises, for example by stronger regulating the financial markets. These two opposing emphases on short and long term objectives raise the question about the future of the G-20, once the financial and economic crises have been resolved.

The taking-over of the presidency as well as the summit's chair by South Korea will be a critical test for finding-out to what extend emerging economies are in a position to organise such a forum and to keep its momentum. For the future of the G-20, much depends on a successful facilitation and chairing of the November Summit at Incheon in the Republic of Korea. [i]

[i] This paper is based on contributions made in an Expert Meeting on "Indonesia and the G-20", organised by the Jakarta Office of the Friedrich-Ebert-Stiftung on 17th November 2009 in Bandung, Indonesia.