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Time to take over

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The global financial crisis (GFC) has once again made it apparent that sound macroeconomic and financial fundamentals are necessary but not sufficient conditions for a country to remain immune from capital account shocks. Openness to trade and financial flows offers significant benefits in terms of enhancement of product competition, productivity improvements, variety in goods and services, risk diversification, etc, but it also leaves a country vulnerable to external shocks of various types. The challenge for policymakers is to put in place adequate and effective financial safeguards against such shocks. This is especially important for highly open economies in Asia with limited domestic social safety nets.

The Group of 20 (G20), which was created in response to the spate of financial crises in the late 1990s as well as in recognition of the shifting world power to the fast-growing emerging market economies, would be a useful forum for the discussion of some of the ongoing monetary, financial and governance related concerns that are relevant to emerging economies in Asia and elsewhere. With the latest summit being held in South Korea, Asia has a unique opportunity to ensure that the G20's agenda is more focused on emerging economies rather than being driven largely by the interests of the industrialised group of countries (G7).

The G20 has taken some significant initiatives, including the coordination of a massive global fiscal expansion to combat the GFC as well as the establishment of the Financial Stability Board (FSB) as a step towards enhancing financial stability. In other instances, however, while the G20 has made wide-ranging proclamations since 1999, these have not always translated into actions. Since the world is gripped by an international currency war (through foreign exchange interventions or quantitative money supply expansions), it is crucial that the G20 places this high on its agenda. Tackling head-on rather than ignoring important issues facing the global economy will raise the credibility of the G20, though concrete measures also need to be taken to devise a clear roadmap and design supporting institutions (like a secretariat, for example) to operationalise pending decisions made during the earlier summits.

Given that the G20 is essentially an informal inter-governmental coordination body with no executive power, it is imperative that it gains broad-based legitimacy for global governance at the highest political level. It is, therefore, crucial that the interests and needs of the non-G20 countries are sufficiently represented and included in the discussions.

While emerging markets are represented, thus far they appear to have allowed the advanced countries to drive the G20 process. This is largely due to the failure of the emerging economies within the G20 to assume/arrive at unified positions and appropriate steps will need to be taken to ensure that their interests and stakes are not marginalised in the process. (A cynical view is that some of the emerging economies are just content that they have been invited to the table and have given little thought to what they actually want to achieve at the forum, let alone take a leadership position). It is in this context that the G20 summit in Korea assumes special significance.

Korea itself has pushed for the creation of an 'East Asian caucus' of the G20 that would comprise six members from the region—Australia, China, India, Indonesia, Japan and Korea.

While six of the G20 countries are from the Asia-Pacific region, the region has just over 20% of IMF voting shares and this obvious anomaly needs to be tackled with greater conviction at the forthcoming summit. Appropriate IMF reforms—which were initiated by the G20 under Chinese chairmanship in 2006—are needed to ensure that Asia's voting shares and its overall representation in and governance of the IMF adequately match Asia's contribution to world economy.

According to recent IMF estimates, while Asian countries' current share of world's GDP is a little above 20% (as of 2010), given their relatively rapid growth, this share is likely to increase to 30% by 2020. In addition, it is expected that the output of the Asian economies would exceed that of the G7 industrialised countries by 2030. It is essential that reforms of global economic governance be supplemented by fortifying regional institutions. And Asia, having undergone significant financial sector restructuring following the Asian financial crisis of 1997-98, should play a much more proactive role in the area of reforming the financial regulatory system, including creating a new global regime for bank capital, liquidity and accounting.

To enhance the G20's legitimacy, Korea has invited five countries to attend the upcoming Seoul meeting—Ethiopia (chair of the New Partnership for African

Development), Malawi (chair of the African Union), Singapore (chair of the Global Governance Group), Vietnam (chair of Asean) and Spain (seemingly by default as it has been invited to previous meetings).

Back in 2002, the G20 members created “five notional groups of countries” from whom the G20 chair for that particular year would be selected. The current year’s chairmanship was drawn from the Group 5 set of countries consisting of four East Asian economies—Korea, Japan, Indonesia and China. India belongs to the Group 2 of emerging economies along with Russia, South Africa and Turkey. India, Brazil and South Africa (IBSA) are also members of the IBSA Dialogue Forum whose aim is to promote international cooperation among the three countries and three continents of Asia, Africa and Latin America. India can, therefore, play an important bridging role between the Asian countries (East Asian caucus) and the non-Asian emerging economies but it first needs to be much more constructively proactive in the G20 process.

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